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ECONOMICS

An Introduction to Consumer Education

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New Second Edition

This new basic text on consumer problems brings to 9th and 10th grade students clear understanding of all the basic problems faced by consumers. It provides a new approach to consumer education, emphasizing the development of *right attitudes*—a background of understanding that will enable the student to handle both his immediate consumer problems and those he will meet later in life. The book treats the choice of a right vocation; getting and holding a job; budgeting; saving; good shopping techniques; using banks and credit; intelligent buying and spending; buying insurance; investing; and renting or owning a home. It presents an entire section dealing with protection for consumers.

YOUR PERSONAL ECONOMICS is particularly easy to read, understandable, and interesting. Ample teaching aids are included—thought-provoking questions, tested applications, and problems for each chapter. A list of correlated visual aids—motion pictures and filmstrips—is given. Numerous well-selected illustrations are provided. A

Your Personal Economics

AN INTRODUCTION TO CONSUMER EDUCATION

YOUR PERSONAL ECONOMICS

AN INTRODUCTION TO CONSUMER EDUCATION

Drawings by Drayton Haff

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Second Edition

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YOUR PERSONAL ECONOMICS

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Dedicated to
the young men and women of
America who are seeking practical information
and guidance that will help them meet successfully economic
and consumer problems of everyday life

PREFACE

All students are consumers; they will be as long as they live. If education is to equip them for intelligent living after they leave school, it must include instruction in everyday economics and, more particularly, in meeting their responsibilities as citizens and consumers.

In the past, courses in consumer education have been too frequently offered only in the last years of high school. In such cases, those students who dropped out of school earlier did not have the opportunity to study vital economic and consumer problems. The excuse most commonly given for delaying the course has been the theory that consumer education is too highly specialized for the younger student to grasp. That excuse no longer holds. This edition of *Your Personal Economics* provides a simple, yet comprehensive, course for the earlier years of the secondary school period when all students can be reached.

Actually consumer education is a simple thing, because it deals extensively with the common-sense problems of everyday living. Boys and girls of thirteen or fourteen live face to face with these problems. Therefore it is easy to make consumer education real and absorbing simply by treating it in terms of students' actual experiences, as this book does.

The basis of this approach is the fundamental definition that good consumership is merely the art of making wise choices and using one's money and other resources toward the achievement of a happy, healthy, and fruitful life. By the time boys and girls have reached high school, they have begun to consider

the all-important problem of what they want most out of life. As this question comes to claim more of their attention, they should gain an appreciation of the knowledge and planning that go into the achievement of their goals. Only by acquiring pertinent information and a clear understanding of economic and consumer problems can they realize their goals. To equip the student with such information and understanding is the purpose of *Your Personal Economics.*

It is a fundamental belief of the authors that real consumer education is constructive in purpose and character. It is no place for negativism, cynicism, and defeatism. It is a place to inspire young people with high life goals and to provide them with tools to achieve these goals.

AUGUSTUS H. SMITH
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TO THE STUDENT

For years now, you have been a consumer. In fact, by the time you were given a nickel to buy an ice-cream cone you had begun in earnest the exciting career of a consumer. For the rest of your life you will be deciding economic and consumer questions and problems; you will be shopping, choosing, and buying goods and services. It is just as important to learn about this vital career as it is to learn how to be an airplane mechanic or a teacher. Because you are already an almost full-time consumer, it is not too soon to begin learning how to be good at it.

Do you think learning about your personal economics sounds hard? Well, it is no harder than trying to decide how to make your fifty-cent allowance spread over movies, candy, church, and carfare. In fact, that is what this book begins with and discusses throughout—how to use your income and other financial resources to achieve a happy, healthy, and satisfying life.

Everyone has at some time decided to put all his effort, thought, and money into a giant purchase: a bicycle, a pair of skis, or perhaps a dog. Wants such as these change, but all the way through life there will be things that take their place—big investments like houses, vacations, and children. In deciding what you want and how to get it, you will find this book a friendly adviser, helping you with practical suggestions to plan and choose the right course.

The shopping you do is always an adventure in which you meet different kinds of people and use your experience and judgment. In like manner, planning a budget, getting a job,

and buying a house are adventures. What will happen to you when you embark on them no one can tell, but this book will give you information and guidance that will help you make the most of them. Then, your career as a consumer will be rewarding and satisfying, and it will be fun.

As you study this book, you will see that by intelligently meeting your responsibilities as a consumer you can increase your own satisfactions in life and also help others to live successfully as consumers. The interests and standards of consumers have a vital influence on the kinds and qualities of goods and services that are made available to the consuming public. Through knowledge and a positive approach, much can be done to improve the economic satisfactions of everyone.

PART 1

Looking Forward

CHAPTER 1: YOUR ECONOMIC CAREER

If you are like most of us, there is a picture in the back of your head—a picture of the kind of person you are going to be and of the kind of life you are going to live. Now and then, as you are strolling along, or lolling lazily around home, don't you like to take that picture out and look at it awhile? Don't you dream some favorite dream of the years that are to come?

We are not going to pry into your private dream. You have a right to make it what you like. But no one of us should assume that a dream will come true all by itself, without our doing anything about it. And—even more important—we should not let ourselves think that it's "just a dream" and that nothing can be done about it.

For we are lucky people. We live in a free country, where young men and women who know what they want have the world's best chance to get it. And we live in a time when new

opportunities keep coming along one after another. Maybe nobody's dream ever comes completely true; but each one of us can go a long way up the road toward turning ours into reality.

To do the job we need two things. We need ambition—to know what we want and to have the vigor to work for it. And we need know-how—the plain, practical ability to handle our problems as they come along.

The ambition is something each one will have to furnish for himself; no one else can give it to you for it is something deep down inside you. But this book can help you. While reading the pages that lie ahead, keep in mind that our purpose is to help you achieve what you want. Let's look together at some of the problems you are likely to bump into and see what you can do about them.

Chapter 1. YOUR ECONOMIC CAREER

What did you think when you first saw the title of this book, *Your Personal Economics*? Were you a little surprised to learn that you had personal economics? Did you wonder what the word *"economics"* means?

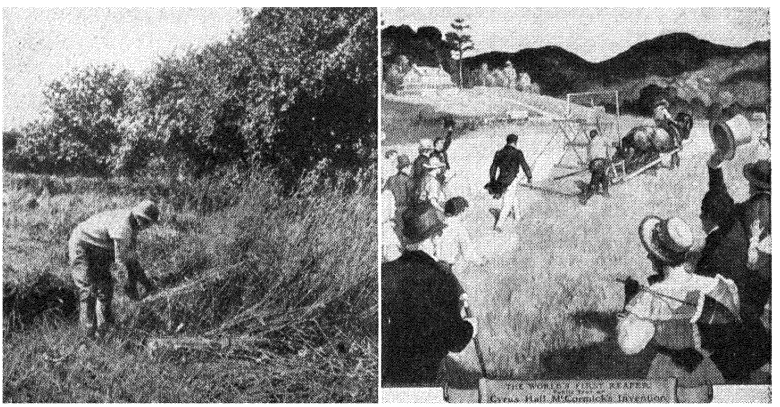
One dictionary defines economics as "the science concerning the production, distribution, and consumption of wealth, or the material means of satisfying human desires." But we do not need such an elaborate definition. When we talk about your personal economics, we simply mean whatever you do to meet your needs and satisfy your wants. If we were going to define personal economics as a science, we would say it was "the science of getting the greatest possible satisfaction and enjoyment out of life."

Everybody wants to do that, of course. And for every family it always involves two things: earning a good income and using that income in the best possible way.

We can put that in another way. We can say that every young person who wants to learn to manage his personal economics well must learn two things: He must learn to *produce efficiently,* and he must learn to *consume wisely.*

Earning an income. Back in "the good old days" every family produced just about everything it was going to consume. Most people lived on farms, and therefore they raised their own

food. They also spun and wove their cloth and sewed their clothing. They did not sell much of what they produced, and they seldom worked for wages; therefore very few people had much money income.



Courtesy International Harvester Company

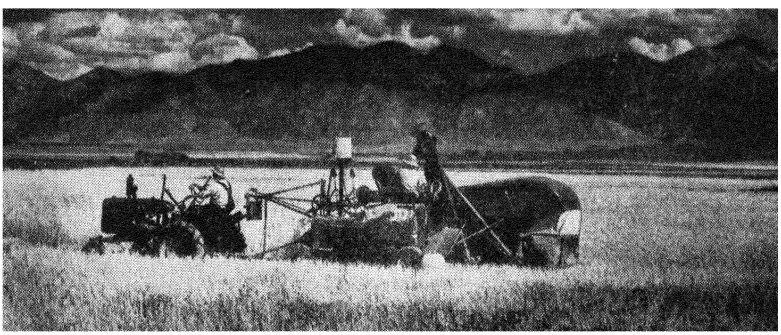
On this page and the page opposite are pictures that illustrate our changing economic life: the cutting of grain by hand, then Cyrus McCormick's first reaper. . . .

Times have changed. Although farmers still raise much of their own food and housewives still do quite a bit of sewing and still make the cakes and pies you like so much, people, in general, do their producing by working at some specialized job. They run a store or a filling station; they work in a factory; they teach school or practice law; etc. In each case they get a money income. They use that money to buy the things they want.

The fact that people now work for money and buy what they need is the biggest single difference between our life today and life in the past centuries. It means, insofar as you are concerned,

that learning to produce takes the form of learning to do some one job very well. You need to be a specialist—an expert—in some one line.

The amount of your income will depend partly on what sort of job you prepare yourself for, and partly on how well you do the job after you have finished your preparation. Naturally, then, it is important for you to be thinking about what you



Courtesy International Harvester Company

Above is the big efficient machine of today that has taken the place of the man with the scythe.

want to do and to be getting ready to do it very well. You can get training for it in high school, and also in a vocational school, a junior college, or a university.

In this book we are going to consider briefly your work—the producer side of your life. We are then going to consider the other side of your life—the consumer side.

Using your income. Have you noticed that the way families live is not entirely a matter of how much money they have? From one of our windows, we can see two homes that are a perfect example of this fact. The Browns live in one; the Jenkins live in the other. Mr. Brown and Mr. Jenkins each make about the same rather modest income. Mrs. Brown and Mrs. Jenkins

each spend full time at home as homemakers. Each family has three children.

But there the resemblance ends. The Jenkins are always wor-



Courtesy Stromberg-Carlson

Each one has his dream of what the future holds in store. Can you make yours come true?

ried, always on the ragged edge. Their mail is always full of bills, and now and then a bill collector comes to call. Yet they never seem to have the things they want. Their place looks a little shabbier year by year.

The Brown home is one of those places where you love to drop in at any excuse. The moment you walk through the front gate you have a feeling of well-being. If you stay for a meal, you come out as contented as a kitten. If you talk to them about what they have done in the past year, you begin to wonder how they do it. For they always manage to have a pleasant vacation. They've had their share of sickness and other troubles, but they always seem to be able to reach into some reserve to meet each emergency. They improve their home steadily, cooperate with each other, and work together as a team. They have good books and magazines around, and the youngsters go in for music as well as for a variety of sports.

But maybe you don't need to look so far away to see the difference that comes from good management. Right in your school group, there are students who illustrate it. Do you know of some who are always broke and who never seem to get ahead, even though they have a good allowance and earn some money for themselves? Are there others in about the same financial situation who always seem able to take care of any sudden expense, who have good sports equipment, etc.? Has it occurred to you that the latter aren't necessarily misers and that in fact they don't seem to worry a great deal about saving money? Isn't the important thing the fact that they spend and manage well, rather than that they refuse to spend?

If you aren't that kind of manager already, of course you want to be, because it is so much more fun, so satisfying. Well, how do people like the Browns go about it? How can you become a good manager? Mostly it will depend upon you, but we can outline a few necessary steps here. Then, as we go along through this book, we can take each one up in more detail.

Intelligent choices are the foundation. Have you ever thought about the choices that were made by Indians in America after the discovery of the New World by Columbus, when the

explorers and early settlers came in? These visitors from Europe could have supplied the Indians with a host of things that would have made life easier and better for them—agricultural implements, household goods, etc.—things the savages had never had.



Ewing Galloway

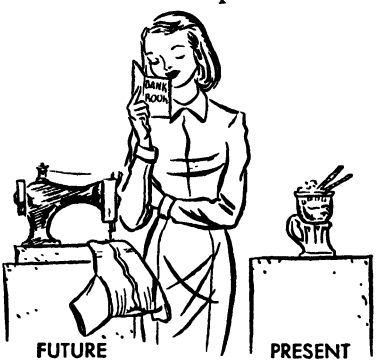
The Brown family finds an evening at home an inexpensive and enjoyable form of entertainment.

But what did they choose when they traded with the whites? They chose gaudy trinkets, mostly; and they traded off the whole of Manhattan Island for a few quarts of firewater!

In a way we are in something of the same situation as those Indians were. We too, are living almost in a new world. Modern industry offers us thousands of things that nobody ever had before. We can have better health care, finer recreation,

more worth-while music and literature, and more entertainment than any other people ever dreamed of. Moreover, in the stores all around us are well-made clothing and the makings of comfortable, livable homes.

We have, however, to be careful of our choices. There is so much to be had that even if it were free no one person could use it all. But it is not free, and the money with which to buy it is limited. If we make good choices, our money will get us the basis of a very pleasant life. If we don't, we may wind up with little except a headache.



Whether to buy the soda today or to put away the money for some larger purchase later on is the kind of problem that we all face frequently.

Therefore each of us has to take time out now and then to decide what it is that he really wants most. What are the things that will give you so much satisfaction that you are willing to do without other things to have them? Your ideas need not be the same as those of your neighbors. People are different; what is precious to one may not be worth much to another. If you are going to move toward achieving that dream of yours, you will have to disregard a great deal of advertising and sales pressure; you will have to do without some of the things that others have and without some that don't mean so much to you.

Let's make it specific. If you want that new pair of shoe skates, you may have to cut down on movies for a while. Is it worth it, or isn't it? You are the one who has to make the choice.

Smart buying is the cornerstone. If you had a ten-dollar bill to spend today on clothes, could you pick out things that

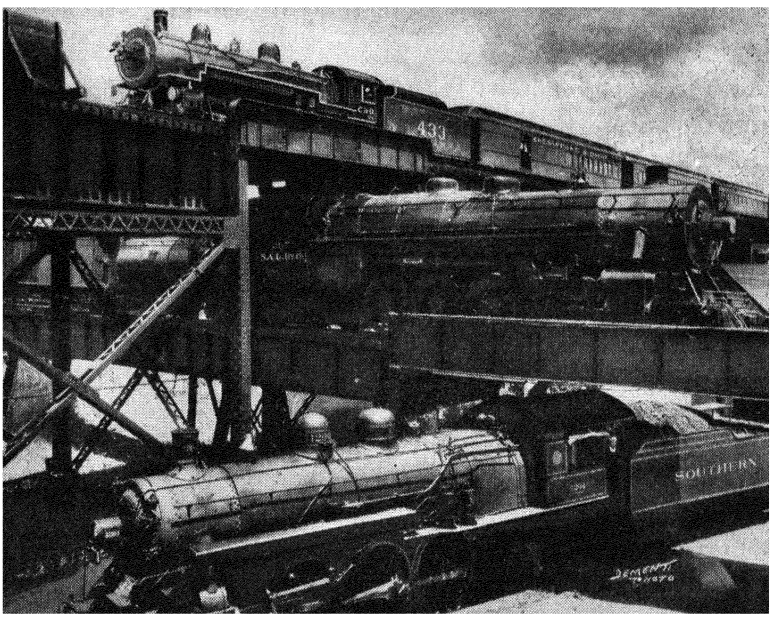
would wear well and make you feel pleased everytime you saw them for a long while? Or would you have to spend a few uncomfortable months living down your buying errors?

In a few years you will be purchasing on a large scale. You will need to have a backlog of information about dozens of kinds of goods. Some of them will be things, such as food, that are bought every few days. Some will be big, "special" purchases, such as a radio, a bicycle, or even a new home. Every mistake will cost you money—maybe a good bit more than you can afford to lose. Every real bargain you find will be like an addition to your income.

In some respects being a smart buyer has grown harder. One reason why it has grown harder to be a clever shopper is that we have to buy so many things that it is almost impossible to have information about all of them. Department stores have many expert buyers, each of whom specializes in a few lines of goods. But the person who does the buying for your household needs adequate information about goods in every department of the store.

Another reason for the modern difficulty in judging what to buy is that we do not know as much about some common goods as our ancestors did. A modern housewife, for instance, who has never woven textiles as perhaps her great-grandmother did, may not know much about their quality and workmanship. Still another factor that makes it hard for us to be good choosers is that many of the goods we buy have become more complex. A few generations ago, almost anyone could judge whether a wheelbarrow was well built or not. But now it takes an expert to judge whether an automobile or a camera or a vacuum cleaner is well constructed of high-grade materials. Furthermore, many goods that are simple enough to judge in themselves are packaged so that it is not possible to inspect them before we buy. Canned vegetables are an excellent example.

Therefore, it has grown harder in many ways, to be a smart buyer. This has happened at the very time when buying has become more important than ever before, because we buy so much more of what we eat and wear and use.



Dementi Studio

Several companies offering apparently equal services presents a buying problem to you as a consumer. The choosing of one of these services has become more and more difficult with the increased competition in modern life.

In some respects accurate buying has grown easier. The situation is by no means hopeless. Many factors help the modern consumer. For one thing, business practices are more honest now than they used to be. There are, however, enough "gypsters" so that a buyer must be careful. But most established

business firms have learned that it pays to serve their customers as well as they can. They realize that shady business dealings make customers distrust even the most reliable firms. For this reason they police themselves by means of the trade associations, the Better Business Bureaus, etc. Also many government agencies have been established to protect consumers.

For another thing, in most lines the number of good varieties from which to choose has grown. Competition is so keen that quality is constantly being improved.

Finally, a whole new set of techniques of informative merchandising are being developed. If it is impossible to see inside the can of tomatoes or to give it a taste test, we can learn a great deal from the description and informative label on the wrapper. We can get information from advertisements and also from salesclerks, as well as from a variety of tags and seals and guarantees. All we need to do is to learn how to use the new system of giving us correct information and we shall be in a favored position.

Managing money well is a key to happiness. Smartness in buying is not everything. Even if you are clever about stretching a dollar bill, you may not be successful in the long run. It is easy to find examples in almost any community to prove this—people who live frugally and buy carefully and yet fail to get ahead. Maybe they fail to insure their property and then see the savings of years go up in smoke. Maybe they fall for the smooth line of some promoter. Anyway their failure is caused by lack of skill in long-range financial management, not by lack of skill in buying.

You see, nowadays, money is the consumer's most important weapon. You must learn to use it well, to take care of it. This is not difficult if you will pay regular attention to a few basic principles and acquire a few businesslike habits. If you master money management, you may very soon have spare funds *at*

work for you, earning you extra income through good investments.

Ability to deal with people is essential. Have you ever stopped to think how much you depend upon others for the goods and services you want? People who lived a 100 or even 50 years ago depended to such a large extent on their own efforts that they were not so very dependent on others outside their family.

Let us suppose that you—a twentieth-century consumer—don't know how to get along with people and that you can't keep your business relationships friendly and open. If you are so suspicious and demanding when you go to the grocery that the storekeeper is insulted and grows angry, your relations with the storekeeper will be unpleasant.

If you go to the other extreme and are so meek and so timid and so eager to please everybody that you will let almost anything happen without a murmur, you may have a miserable time. What sort of goods or services will you get for your money?

Do you see the point? It is no fun to be forever carrying on a feud with someone over a business deal that went wrong. Also, it is no fun to be too meek and to accept poor goods or services. It is far more pleasant to carry on business affairs correctly in the first place and to enjoy the respect and admiration of the other fellow.

We also need to control the economic situation. Even if we are able to handle our own affairs expertly, we may not get along very well, because there are so many things that can be done by *group action.* Take the matter of depressions as an example. In a great depression, millions of people lose their jobs. Millions of others—farmers, merchants, etc.—suffer large cuts in their income; frequently they can just barely get along.

Now, at a time like that, people of high ability generally get

along somewhat better than those who are less able. They may hold their jobs longer, or succeed better in the face of severe competition. But the important point is that practically everybody loses when we have a depression. Therefore the thing to



Courtesy Arsenal Technical Schools, Indianapolis, Indiana

The ability to get along with others is a cornerstone of everyone's economic career. You can start building that ability right now in the study hall, in the classroom, and at home.

do is for people as a whole to get their heads together and do some intelligent planning so that we won't have another depression, or at least so that it won't be so severe. Thus we all need to know a certain amount about economics. We need to know what sort of conditions make for long-lasting prosperity and what it is that causes economic storms. We need to know how

business operates, so that we can judge what will be good for it. We need to know, too, about the needs of factory workers and office clerks and farmers and everybody else, so that everybody will get a square deal.

Now you may be thinking that other people—experts or big shots—will do this planning for you, and that you will not really have anything to do with it. But you can't help having a great deal to do with it. Some experts will argue one way; some will argue another. Politicians will take each side. Soon, at election time, you and a lot of other folks like you will have to make the decision. Whether or not you like it, you simply cannot help being a practicing economist. For all our sakes you should learn to be good at it.

Summary

Does all the above look like a big order? In a way it is. Yet, like almost everything else that we need to do, it is easy enough if we take it one step at a time. In the chapters that follow, we shall try to divide the job up into pieces that we all can handle easily, one at a time.

Before we go on, let's remind ourselves once more of what it is that we are trying to do. Our starting point is your dream of what you want to be and do—your set of goals for your lifetime. If you are going to come even reasonably close to reaching those goals, you must become *economically competent.* And that boils down to two things: your ability to make a good income and your knowledge of how to use your income to get the greatest possible value from it.

In Part 2, we shall concentrate on the first of these two factors, on how to go about getting a job and making an income. The rest of the book will be devoted to the second feature, the "consumer side" of your life. But all the way through the book

we shall really be talking about only one thing: How you can get the most benefit out of the years that are ahead of you.

Questions for Discussion

1. Which quality do you think is more important to having a happy life: the ability to make a good income or the knowledge of how to use it once you have it?

2. What do you think are the biggest mistakes adults make in the way they use their money? How about people of your own age? Do they make the same mistakes as older people or other sorts of errors?

3. What are some of the things which you need to know as a consumer which your grandparents did not need to know when they were your age?

4. What are some of the things your grandparents needed to know as producers when they were your age which you do not need to learn?

5. Can you give some examples to show that the ability to manage money well is more important to most of us nowadays than it was to most people a hundred years ago?

6. What do you think are the biggest difficulties that stand in our way when we try to get the greatest value we can for the money we have to spend? How can these difficulties be overcome?

Problem: Defining Your Standard of Living

As we said at the start, just about everyone has some sort of picture in the back of his head of the kind of life he wants to live. Still, sometimes the picture is pretty hazy. Many people fail to get what they want largely because they do not know what they want.

How well can you define what you want? Now don't write down everything you have ever thought you might like to have—like a

small child writing to Santa Claus. On the other hand, don't limit yourself to the things you see a possibility of having very soon. Let's put it this way: What are the things you think so important that you are willing to work hard and to do without some other things in order to have them?

But let's not look at this problem too much in terms of the *things* you want to have. Let's think more about the kind of person you want to be and the kind of life you want to live.

In short, what is the standard of living you really plan to achieve? Describe it in specific terms as clearly as you can.

PART 2

Earning an Income

CHAPTER 2: CHOOSING THE RIGHT VOCATION

CHAPTER 3: GETTING AND HOLDING THE JOB

Pessimists often shake their heads and complain about what a shame it is that people have to make the two most important choices of their whole lives—the job they settle down to and the person they marry—before they know their way around the world.

Well, perhaps they are right; but we doubt it. One of the fondest memories you'll have is how you got started at your job. It isn't just the first pay check that is a thrill. There is the whole adventure of being on your own. There is the fascination of breaking into the new world of an office, of a store, or of a factory, and of finding out how things are done. Then as the feeling grows inside you that you are making good, you will experience the thrill of success. There are not many things more exciting than that. This trying-out process is just the thing for a young, enthusiastic person, who still has the courage to try

anything once and who still has time to shop around for the right job.

The pessimists *are* right about one thing when they point out that few of us give enough time or thought to picking our lifework and getting ready to do it. Any experienced school teacher knows that thousands of youngsters leave school every year with no clear idea of what they want. They really know nothing about the work they may choose or their fitness for it.

However, we don't need to argue the case. You know as well as anyone does that the job at which you are going to spend years and years—the job that is going to determine your income and influence your happiness throughout your life—is worth thinking about.

Chapter 2: CHOOSING THE RIGHT VOCATION

What sort of work will you choose when you leave school? Since about eight hours of your day will be spent at work and since your job will have an effect on your relationship to people as a whole, on your friends, and, most important of all, on your happiness, you will want to think carefully about it before you make such an important decision.

Consider Yourself

Do you have the necessary ability? You must have certain abilities in order to be a success in any occupation. These are times when a certain amount of specialization is required, but few people have what it takes to succeed in all fields. Think critically about the talents you have and the ones you lack.

If you shine in art courses, you are right to consider a career in such fields as advertising layout or sign painting; but if math is not your long suit, you should pause before thinking about going in for accountancy, engineering, and statistics.

Also remember that all ability isn't developed through studying textbooks in school. You can judge your own skill by things you accomplish at home. What are your interests and hobbies? Perhaps you collect stamps, file them accurately, and understand their value. Or you may sew your own dresses under the guidance of your mother's clever hand. Outdoor work with flowers,

vegetables, or animals may be your specialty. You ought to weigh your hobbies and your duties at home for their value.

Have you worked after school in a grocery store or helped with the cub scouts or run off copies of a church play on a mimeograph? If you have had similar work experiences, you know something about your abilities. Dozens of these little guides exist to aid you. If you do certain things well and enjoy doing them, these are helpful clues to your work possibilities.



Courtesy Girl Scouts—Paul Parker Photo

Whatever your special interest or talent may be, develop it now. Camp may provide you with the perfect opportunity to improve your particular ability.

Fortunate is the boy or girl who has an outstanding talent, but most of us must search for a few less conspicuous abilities and decide on one of them.

Do you have sound personal characteristics? The personal qualities that are required for success are honesty, initiative, loyalty, tact, and industriousness. You have been trying to strengthen these traits all your life; now you can see why it is important to do so.

Robust health is also a great asset. Employers want workers who are seldom absent. Some jobs, of course, need greater physical endurance than others. The traveling salesman who rides trains and buses at all hours to meet appointments with his customers needs more reserve strength for his job than the eight-to-five telephone operator working a short distance from home.

How you look is important. In some jobs, such as that of an

airplane hostess, your height and weight are measured and your general attractiveness is considered; but in most jobs, average appearance gets by if cleanliness, neatness, and conservative dress are evident. Manners need not concern you too much, if your uppermost thought is consideration of others. Little things in mannerisms and speech count, for example, entering a room with poise, keeping hands quiet when talking, or saying "thank you" for favors. Many good traits, even if each one is small, will add much to making a pleasing whole.

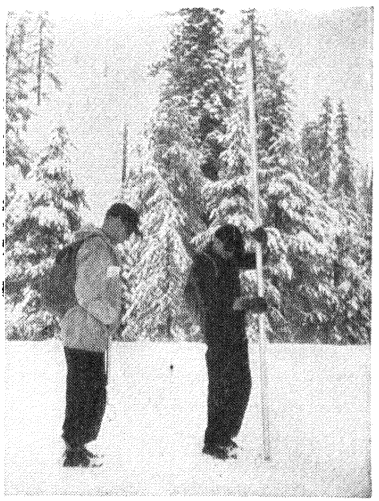


Photo by U. S. Forest Service

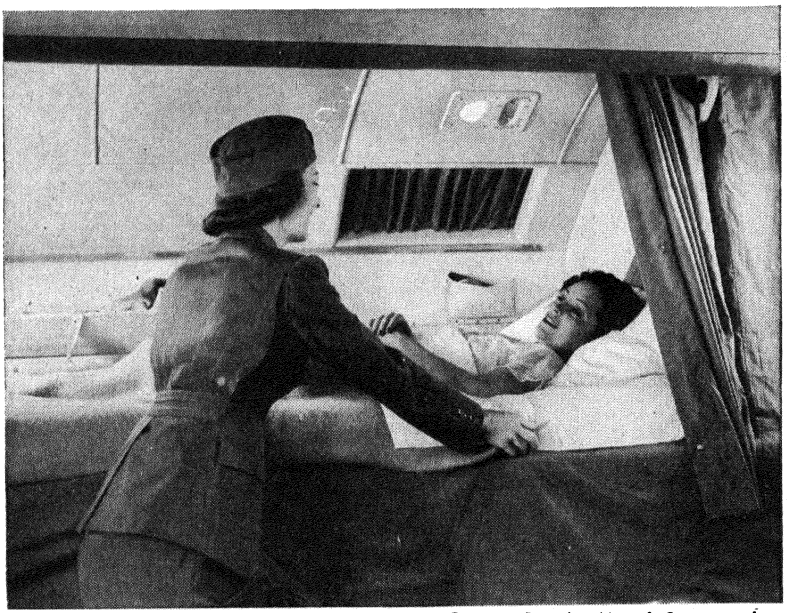
The surveyors above are measuring a course across a high sierra snowfield in the Tahoe National Forest, California. Work like this requires a rugged constitution.

About the greatest acomplishment you can have is the ability to get along with other people. Seventy-five corporations were asked to list, from their own experience, the most common cause for the discharge of office and clerical workers. Ninety per cent were discharged because they were considered deficient in certain character traits. Among those which led in importance were the following: failure to cooperate, carelessness, laziness, lack of ambition, dishonesty, and lack of courtesy.

Do you have your emotions under control? The manager of the training division of a large Chicago bank has said that the second most desirable attribute of the thousands of workers in his bank is emotional control. Honesty is first.

Does your face get red or do you cry when you are corrected

about your work? Do you call your fellow workers names and "fly off the handle" when you get extra jobs to do? You have to control such tendencies in order to succeed. Supervisors, department heads, and managers have a right to criticize, for



Courtesy Douglas Aircraft Company, Inc.

Eligibility for the career of an airline stewardess requires the applicant to have a specified height and weight. In choosing your vocation, be sure you have the necessary characteristics or requirements.

they wish to help you and their business concern. If you cannot take their suggestions gracefully and learn from them, you will have a hard time improving in your work. Learning to accept suggestions and acting on them while you are in school will make it easier to do so when you get on the job.

Haven't you envied the person who is always calm and who goes about his business even though others are greatly disturbed

over little events? The cool and collected person is the one to observe and imitate.

What are your interests? You could consider the various areas of your interests as they are classified in the Kuder Preference Record as computational, clerical, musical, artistic, literary, persuasive, scientific, mechanical, and social service. If you like science courses in school, read radio magazines, and build a crystal set, then you can assure yourself that you will be interested in the great field of radio production, operation, and repair. If you like to be with people, to talk to them, to try to influence them, then you may join the persuasive occupations of salesmanship, teaching, and politics.

Of course you must have the necessary *ability,* too. But, as we said before, if you are interested in a thing, you may be expected to do that thing quite well.

Very few young people really know what they want to do! They do not distinguish between what is merely a passing fancy and what is a deep, abiding interest. Probably many of you already have some job in mind that you would like to do. But perhaps this liking is based only upon the fact that Bob or June has succeeded at this job and you vaguely think you can do so too. Just because you read about some profession in an exciting novel or learned about it in a fascinating movie is only a slight indication of a pull toward it. The best tipoff on your genuine interests is what you prefer to do when you are free to do as you please. Do you go outdoors, or stay inside? Do you join others, or go away by yourself? Do you work with your hands, or take up some thing that requires thought?

How will you get the proper education and training for a job? Haven't you heard a lot of your friends say that to obtain a job and to succeed at it only the vocational subjects need be studied in school? This is true, but only in a limited way. If you know shorthand or can typewrite well, you may be able to get

and hold a stenographic position. But if you wish to advance, you will need to know more than this. Today employers are looking for young people with a good general business education in such subjects as economics, business law, and business administration as well as training in the skill subjects.

A good general education, including mathematics, English, social studies, and science, is also essential for all jobs. In fact, many businessmen prefer to train their employees in a specific field on the job.

If you have one, two, or three more years in high school, plan your course of study right away to line up with your chosen occupation. Also make your plans early for going to a college or a university for professional training. You may prefer to attend special schools for certain fields, such as a school for cosmetology, a business school for accounting, or a trade school for radio or refrigeration repair. Your interests may be better served in a hospital giving nurses' training or in a printing establishment teaching the operation of a typesetting machine. In any case, you should investigate *now* the institutions you want to attend, and write for catalogues or talk to interviewers.

You need not depend entirely on formal education to get knowledge of a special work field. You may get it from reading books in the school library or in the local libraries, from attending lectures, from studying newspapers and magazines at home, and from the radio tuned to informative programs.

Familiarity with or training in a chosen field comes also from work experiences. If a boy learns how to lubricate automobiles while working at a filling station after school, or a girl has a summer job in the mailing department of an office, skills that are generally not attainable in the schoolroom or at home will be acquired.

More will be said later about your income and that of your family, but naturally you must consider your resources and those

of your family when planning your training and education.

What is your attitude toward life? Do you have a goal in life? Do you think principally of money, of happiness, or of a particular kind of work, or is helping others your aim? Are



Courtesy U. S. Office of Education

Actual experience in your chosen field is one of the best ways to determine whether you are suited for the work. The boys above are trying their hands at butchery.

you willing to work and to work hard? Do you have the stick-to-itiveness which is so essential for success? These are questions that you must answer for yourself. Employers recognize that an industrious and enthusiastic attitude on the part of a worker will determine his personal success, as well as his value to the concern.

Perhaps you have already spent considerable time in analyzing yourself—your ambitions and goals. If so, good! Studying your abilities, personal traits, interests, emotions, training, and attitudes is a never-ending process. To know yourself is all-important.

Know Your Job

Next, you should obtain all the facts about jobs. Knowing yourself is not enough.

Investigate occupations in your community. Since most of you will probably go to work in your own community or in a near-by city, you should start your study at home. The following plan is suggested for your use. It has been tried successfully, and it should aid you.

First, have a committee of pupils make a list of the possibilities for positions in your own community. Begin by listing all the industries, businesses, and professions. You may be able to obtain such a list from the local chamber of commerce, from the classified telephone directory, or from advertisements in newspapers. Place beside each name the type of work performed by the concern together with as many occupations as you can think of that might exist within it. After the committee has prepared this information for all to use, go through it, and select those occupations you are interested in. Then strike out those for which you know you do not have the necessary qualifications. The list will then be of a size that you can handle.

Read about the occupation. The next step is to find out all you can about the vocations and occupations that you have on your list. Begin by reading all that you can find in books and pamphlets in your local or school library. The librarian will be glad to help you. Read also about the lives of men and women who have made successes in these fields. If your school has a placement officer or vocational counselor, consult him, for he will tell you where to find other useful information.

Seek an interview. After you have learned all you can from from your reading, seek an interview with one or more persons engaged in the occupation. They will tell you about its requirements as well as its advantages and disadvantages. Get as complete a picture of the occupations as you can. People engaged in



Find an opportunity to talk with someone now working in your chosen field. Ask him what he likes about the job, what he dislikes about it, what his duties are, and what training he found most helpful.

the occupation will be glad to answer your questions, because they are interested in young people who are serious in their attempts to succeed.

Answer these questions. You may find the answers to the questions below in books or from people working in your area. A long list of questions might be added here, but you will have time now to find answers to only the most essential.

1. How does this occupation compare in number of workers engaged in it with other occupations?

2. Is it a growing or a declining line of work?
3. How does a person get a start in the occupation?
4. What specialized training and personal qualifications are required in order to be successful?
5. Is it possible to enter the occupation directly from school, or must one have some experience first?
6. What are the chances for advancement?
7. What is the beginning salary or wage? the average income? the lifetime income?
8. What are the desirable features of this occupation? the objectionable ones?
9. Does the field offer steady work or is it seasonal?
10. What are the hours? the working conditions? the health factors?

You may not be able to get satisfactory answers to all these questions in each occupation studied, because conditions are not the same in all. But you should obtain enough information to help you decide on your own work interests.

Does this sound like a big task? Remember you are seeking information about the occupation you may carry on for the rest of your life. You need to choose wisely; mistakes are costly. A few hours of study and effort now may bring years of happiness and success later. This effort may also save you from entering a vocation for which you are not fitted and in which you cannot succeed.

Why Is the First Job Important?

What excitement you will get out of your first job! Some of you will step right into a place for which you are fitted because you have prepared yourself for it. But many of you will take the first opportunity offered when leaving high school just because you want to earn money.

You should look upon the first job as something more than a

chance to earn a few dollars. Use this opportunity to gain necessary experience and to develop your abilities. Decide whether it is the kind of task you wish to perform continuously or whether the job requires more ability than you have. Work experience will also give you a chance to get acquainted with employers and to learn what they expect of their employees. Best of all, you will learn how to get along with people and how to adapt yourself to conditions about you.

Many people stay in the field that they first enter. If they have chosen wisely, they are indeed fortunate; but if they have not, they will be the "square peg in the round hole" and will be unhappy in their work, associates, and aim and position in life. It is not desirable to flit constantly from one thing to another; however, while you are young is the time to be courageous about finding work that satisfies you.

How Do Some Choose Their Occupations?

Have you wondered how some people happened to be doing the work they are engaged in? Why did your father choose his particular trade or profession? Why did your teacher choose education as his field of work? Ask a few of your employed relatives and friends to tell you why they chose their particular jobs. You may be surprised at their answers. A few of them thought a lot about the kind of work they would like to do and decided after investigation and study. But the reasons a large number give you will fall into one of the following groups:

Economic necessity. This means that they had to go to work to help the family finances or to support themselves, and they therefore took the first job that came along. If, for economic reasons, you have to take the first job that is offered you, remember that you do not have to remain in it too long if you do not like it or if it has no future. In such a case, the first job is a steppingstone to something better.

Their parents selected the job for them. They entered occupations because their parents decided in advance that they should do so. You probably know a lawyer, druggist, salesman, bookkeeper, machinist, or farmer who is in his occupation because his parents thought it suitable. In some cases following the advice of parents turns out happily, but in other cases boys and girls are not qualified for the type of work the parents select, and they end in a "blind-alley" job or make only a moderate success. Parents want to do the right thing, but too often they do not give enough thought to the interests and abilities of their children.



Although the man at the desk is nearsighted and obviously unfit for the work of a bookkeeper, he is doggedly pursuing this career because his father and grandfather were bookkeepers — a poor reason for choosing a lifework.

Consider the advice of your parents; get opinions also from your teachers, counselors, church and social workers, and older friends who know your interests and abilities well. If you consider advice from various sources in relation to a study of yourself and the occupation you have chosen, you will have a greater chance of entering the right vocation than if you follow only one person's advice.

They followed their parents' occupations. When 50 per cent of the workers of our country were engaged in agriculture, most of their sons continued life on the farm. As opportunities have become more varied, following in the footsteps of the parents may or may not be wise. The fact that a parent was

successful in his chosen field does not mean that the son or daughter will be. Abilities differ, and likes and dislikes differ also. If you are thinking of duplicating your parents' work, make certain that you have the qualifications, training, and interest needed for success before you make a final decision.

Good salaries were paid. They were lured by the big pay some of the men at the top were getting. Beginners do not stop to realize that these successful men did not obtain the high salaries at the start. They worked long hours for many years and developed experience and skill before they received promotions to the top. Out of the many who start only a few reach the heights. Remember that the salary is not the most important consideration in starting one's lifework.

Social standing of the occupation was good. Some of your friends may have chosen their occupation because it gave them good social standing in the community. Many boys and girls select positions as teachers, private secretaries, bank clerks, or lawyers because they are white-collar jobs. The work is generally pleasant, the associates are congenial, and the hours are relatively short. Although these advantages are real ones, a number have selected these occupations who would have done better and been happier in a manual occupation. Today the social standing of skilled mechanical occupations is as high as the white-collar group. Often the income is greater in a manual occupation than it is in the clerical or professional field. It is unwise to choose your lifework for no better reason than the relative social standing of the occupation.

If you analyze the reasons given above, you will find that in most cases the persons concerned just drifted into a job. When they accepted the first thing that was offered, they sought a job rather than an opportunity. An unsatisfactory job means that the holder will be unhappy, dissatisfied, restless, and inefficient and that he may frequently change his work. If this condition continues for any length of time, the individual is unable to

hold a responsible position and no employer wants him except for a minor job or for poorly paid work.

You ought not to have such a dismal future, for you have studied yourself and the occupation in which you are interested.

Summary

The selection of your lifework is a very important matter. In order to prepare yourself well you should take advantage of every opportunity for training and information while in school. You cannot afford to drift into an occupation if you wish to make progress. A wise choice as early as possible will enable you to obtain the required training.

Your choice should be made only after you have given much thought to the opportunities open to you, to your own personal qualifications, to your education and training, and to the requirements of the work. You should not be afraid to get acquainted with your weaknesses as well as your good qualities. A wise young person will seek advice from those best fitted to give it, and he will make his first job a laboratory for finding out all he can about himself and his employers.

Questions for Discussion

1. Why do you need to give careful attention to the selection of your lifework?

2. How can you determine whether you have the necessary ability for the job?

3. List the personal characteristics required for success in what you think is the order of their importance.

4. Why should your interest play such an important part in your selection of your lifework?

5. Where can you get the proper training and education for your occupation?

6. Why is a general education essential to real success?

7. What does your attitude toward life have to do with the choice of a vocation?

8. What is the advantage of having an interview with persons engaged in the occupation you are considering?

9. What are some of the important questions about the job you should seek to have answered?

10. Give two or three reasons why your first job is important.

11. What is a blind-alley job? a white-collar job?

Practical Applications

1. How do you rate? A list of the qualities that a certain employer uses to rate applicants is given on pages 36 and 37. The applicant is asked to take time enough to rate himself on each of the qualities listed. Assume that you are applying for a position with this employer, and grade yourself on each quality. In deciding your grade, compare yourself with other young people of your age. Be frank and honest with yourself; ask yourself the question listed under each quality, and then decide upon your grade. Use *A* for outstanding possession of the quality, *B* for above average, *C* for average, and *E* for poor. Giving yourself 10 points for every *A*, 5 points for every *B*, 3 points for every *C*, and 1 point for every *E*, find out what your grade is, or, in other words, how you rate as a desirable employee. Since there are 15 qualities listed a perfect score (15 *A*'s) would be 150. However, if you are being completely honest, you will probably not achieve a score of 150. When you have determined your score, look over the chart again, and see how you can improve your score. In what qualities are you weak? How can you change yourself or your attitude to improve those qualities? It may be a good idea, too, to get a couple of other pupils who know you well to rate you. This will not only give you your rating but also give you an interesting idea of how you appear to others.

2. Prepare a list of all the opportunities available in the community or near by where proper training and education for vocations can be obtained. Include schools of all kinds, colleges, libraries, museums,

Quality	A	B	C	E
Accuracy Do you check up even on yourself?				
Adaptability Do you make friends easily?				
Appearance Are you well-groomed?				
Attention Do you hear instructions the first time?				
Dependability Will someone have to check your work?				
Getting along with people Do you work well with others?				
Health Are you energetic and ready for work?				
Initiative Are you alive enough to take advantage of the opportunities of your job?				
Intelligence Will you think before you act?				
Judgment Can you size up a situation and choose the right course?				

Quality	*A*	*B*	*C*	*E*
Loyalty Can you keep confidential matters confidential?				
Manners Are you courteous in all matters?				
Patience Will you work steadily until a task is completed?				
Personal Habits Are you neat and clean at all times?				
Truthfulness Are you honest even in small matters?				

and other institutions in the list. With each, indicate the kind of training given, the length of the course, the cost, and the value.

3. Set up your "My Future File," placing in it all the information acquired when studying the occupation in which you are interested. Keep this file active, adding to it from time to time.

Problem

We are not going to suggest that you decide upon your lifework at this moment. That is a choice which should mature slowly, as you get new understanding of yourself and of possible jobs. But there is something you can do right now.

Try to "add up the evidence" you have about yourself, and see what it means in terms of your future work. Make the most honest summing up you can of your abilities, as you know them. Analyze your interests. Then write a brief size-up of what you have to offer in the world of work. You can do this and still keep your mind open about a final choice.

Chapter 3: GETTING AND HOLDING THE JOB

Now you ask hopefully, "How do I plan a campaign for getting a job? What do I need to know in order to keep my job after I get it?" This chapter will aid you in answering these questions.

How Can You Find Out About Vacancies in Jobs?

There are a number of ways to help you find that coveted thing—a job you'll like and are suited to.

Consult relatives and friends. Surely, you have several friends and relatives who are employed. Tell them you are looking for a position, and they may scout around for you where they work or keep an ear cocked for other openings. Perhaps they will be delighted to say a good word for you where it will count.

Some concerns won't employ members of the same family. In that case, the good word about a vacancy can be passed on to Norma or Bill who are also on a job hunt.

Use the school employment office. If your school maintains an employment office that finds work for graduates of the school, you should register with it months before you leave and make known your desires and qualifications. One call to the employment office is generally enough. Have a friendly chat with the counselor again to remind him of you, for he may have several hundred pupils to remember. If no position

is available at your first call, an opportunity may come later. Some schools keep in touch with their graduates; if yours does, contact it for a year or so after leaving.



Courtesy Los Angeles City Board of Education

The counselor in your school is ready, willing, and able to help you to decide upon a vocation. Thrash out your problems now while help is available.

Try help-wanted advertisements. Consult your local newspaper for help-wanted advertisements every day. These are classified according to type of work, which makes it easy for you to tell whether or not the position interests you.

In the classified ad section of the *Cincinnati Sunday Enquirer* on Feb. 24, 1946, 361 ads offered jobs to women. In the office work area, there were 135, including calls for 40 stenographers, 29 typists, 17 clerical workers, and 10 bookkeepers.

If you find an advertisement of a position that appeals to you, get busy at once on your application for the job, for you may be sure that many others will be trying for the same position.

Place an advertisement in the newspaper. Also put a situations-wanted notice in the paper. In the *Chicago Sunday Tribune,* June 30, 1946, almost 200 ads were in the three columns headed Situations Wanted. Some occupations listed were the following: clerk, timekeeper, artist, dental student, painter and decorator, plumber, chef, laundress, beautician, receptionist, and salesman, in addition to the usual office jobs. A small fee is charged for such notices. A short effective statement of the fact that you are seeking a position may bring results, when other means have failed, because employers often read these advertisements when seeking someone to work for them. Make your ad clear and convincing. State your qualifications as briefly as possible, but make your statement effective. Here is an example.

> YOUNG man, able correspond several languages, sales ability, expd. bookkeeping, seeks position. Y 218 Herald Tribune

Apply to an employment agency. In almost every city and town of any size, private agencies make it a business to obtain positions. An agency charges a small fee for registering, and, in addition, asks you to sign a contract which provides that if the agency gets a job for you, you will pay it your first week's salary or a percentage of your month's or year's pay. If you obtain a good position through a reputable agency, it may be worth what it will cost you. Some private employment agencies are careful about the service they render, but others are more interested in earning a fee than in finding you a good position. The sensible thing to do as an intelligent consumer is to investigate an agency thoroughly before you fill out an application.

Every state maintains a public employment service in most of the principal towns of the state. This service is free to both

workers and employers. These agencies often give special attention to young people just out of school who are looking for their first job. Register with this office as soon as you are ready to look for a job, even if it is just for a temporary one or for a summer vacation.

Call on a list of prospects. When you studied the occupations in your community, you made a list of the concerns in which they were found. Now you can call personally on these prospective employers, talk about your qualifications to the proper official, and request that you be considered for any present or future opening. You may be disappointed several times, but, on the other hand, you may find a job!

You will probably have to use one or more of the methods outlined. Your success will depend on your own interest and on your ability to hammer away at a good lead. Positions seldom seek out the person to fill them; you must seek them.

How Do You Apply for a Position?

The two ways you can apply for a job are by letter and in person. Some employers insist that you write a letter of application even though you apply for the position in person.

Application by letter. Let's remember that words are powerful agents. The few all-important statements you make in your letter are all that the prospective employer has to judge you by. He has not seen you, and he will form his opinion of you by what you say. He assumes that the letter is your best effort and will judge you accordingly.

Appearance. You don't want to write a sloppy letter, do you? Erasures, lack of order, and untidiness will be black marks against you. Suitable margins help frame the letter, which should be written on white paper 8½- by 11-inch size. Typed letters can be read more easily, and are given more attention than handwritten ones.

86 Westford Avenue
Atlantic, Illinois
November 27, 1947

Mr. James C. Roper
Atlantic Paper Company
Atlantic, Illinois

Dear Sir:

Mr. Charles Johnson has informed me that there is to be a vacancy in the bookkeeping department of your firm, and I wish to apply for this position.

Last June I was graduated from the commercial department of the Atlantic High School. My course included two years of bookkeeping, one year of accounting, one year of commercial law, two years of typewriting, and one year of work on calculating machines. During this present semester I have been reviewing these courses as a postgraduate.

Aside from the regular school studies, I have had some experience in practical lines. I served as treasurer of the school athletic association for one year and as secretary of my class for a similar period. During my senior year I was cashier in the school lunch room and manager of the football team.

Mr. Roger Downs, principal of the high school, has permitted me to use his name as a reference. He will be glad to give you information about my school record.

If you will grant me an interview I shall be glad to come to your office at any time you state. My telephone number is 6-1514.

Very truly yours,

Martin Hamilton

Your letter of application should contain suitable facts about your qualifications for the position. Since it often serves to introduce you to a possible employer, put your best foot forward.

Contents. The average application letter contains four or five paragraphs, depending on the job and the individual. They are

1. Statement of how you learned about the vacancy and that you wish to be considered an applicant.
2. A detailed account of your education and experience.
3. Facts to prove that you believe you are suited for the job.
4. A list of references.
5. Information so that the employer may reach you if he wishes to do so. Give an address and telephone number where you may be located.

Brevity is a virtue in a letter of application. A single page is enough. If your qualifications are many, it is advisable to list them on a separate sheet called "Business History," "Information," or "Data Sheet." In that case, the letter serves more as an introduction to yourself.

Rules of English Composition. Because many people believe that a knowledge of English grammar, punctuation, and spelling is necessary for many jobs and also that it indicates general ability, you will want your letter to be well written. If you are not sure that you have succeeded in this, have your first draft checked by someone who writes well.

Attitude. Your letter should sound pleasing and positive not negative. Tell what you can do, but don't make a feature of your shortcomings until you are definitely asked about them in a return letter or a personal interview. It is all right to convey confidence, but remember that braggarts are never wanted. Make it clear that you are willing to learn. Don't harp on hours of work or salary, for the beginner who watches the clock or works only for his pay check is not wanted in the economic world of today.

Make the letter *your* letter. It is your only way of impressing the prospective employer with your fitness for the job. He

receives many letters; therefore you want yours to be the most attractive in the mail. Make such a good impression that he will ask you to call for a personal interview. Write several trial letters until you have one that seems effective.

A businessman who employs many high school graduates says: "Write your own individual letter. Write to a specific individual in the firm, if possible, and ask for a definite job, not just anything."

Application in person. If your letter of application has been a success, you will receive a request to call for a personal interview. The prospective employer can find out many things that he wants to know by talking to you. Your letter has told him some things, but he may wish to know more about you before he employs you. If your personal interview is to produce the results you wish, you will want to observe the following points:

Prepare Carefully for the Interview. The first consideration in an interview must be personal appearance and dress. It is possible really to glow with neatness and cleanliness. More specifically, check for the following items: polished shoes, clean nails, washed hair, plenty of sleep the night before the interview, conservative make-up for girls, and a haircut for the boys. Avoid an overdressed appearance. Select a business outfit, not party clothes and their accessories. You should also be alert and interested.

Be Prompt and Courteous. Being on time and being polite are two important qualities. If your appointment is scheduled for ten o'clock, plan to appear at exactly five minutes of ten. If you must wait, be patient. When your turn comes to meet the interviewer, be courteous, standing quietly by until the personnel manager asks you to sit down. He should begin the interview by asking questions, which you should answer frankly, without hesitation and in good English. Even though you will probably be a bit nervous, you will want to conceal this feeling if at all possible.

What to Say about Yourself. Some qualities to remember while talking about yourself are sincerity, loyalty, and cooperation, if you feel that you possess them.

Talking unfavorably about former employers or your teachers



When your interview is over and you have filled out and handed in the desired application forms, make a graceful exit.

will make the interviewer think that you will talk about him and his concern in the same way. He may call or write these people and learn the other side of the story of your experiences with them. Speak well, if you can, of others and thus show your loyalty. If you cannot do this, silence is golden.

Closing the Interview. Some definite signs will indicate to you that the interview is over. If the interviewer says that he cannot give you a definite answer until he has seen other candidates for the job, or some other official of his business, or if he

APPLICATION FOR EMPLOYMENT

Date _____

Name _____ Social Security Number _____

Address _____ Telephone Number _____

(Underline correct word)

Date of Birth _____ Single Married Widowed Divorced

Position Applied For _____ Salary Expected _____

LIST YOUR PREVIOUS EMPLOYERS, BEGINNING WITH THE MOST RECENT

Present or Last Employer _____ Dates Worked From _____

Address _____ To _____

Position Held _____ Name of Direct Superior _____ Salary _____

Previous Employer _____ Dates Worked From _____

Address _____ To _____

Position Held _____ Name of Direct Superior _____ Salary _____

Previous Employer _____ Dates Worked From _____

Address _____ To _____

Position Held _____ Name of Direct Superior _____ Salary _____

EDUCATION

	Name and Location	Years Attended
Elementary School		
High School		
College or University		
Business or Vocational School		

LIST NAMES AND ADDRESSES OF TWO ADULTS WHO ARE FAMILIAR WITH YOUR CHARACTER AND HABITS. DO NOT LIST RELATIVES.

Name _____ Occupation _____

Address _____ Years Known _____

Name _____ Occupation _____

Address _____ Years Known _____

From Beckley and Logan: *The Retail Salesperson at Work*, McGraw-Hill

Many firms require the applicant to give a certain amount of personal information on forms such as this one.

asks you to fill out certain blanks, you may assume that the interview is ended. You should then take a courteous leave. Lingering may prove embarrassing.

If the employer wishes to hire you, he will say so. Then you will want to thank him for his confidence in you and for offering you the job. Then you can ask him some of the details about your new job.

Filling Out the Application Blank. You will probably be asked in any case to fill out an application blank for filing in the office. These blanks vary from simple ones to rather complicated affairs. The one on page 46 will give you an idea of the information that you may be asked to give. The blank should be filled out honestly and completely. Any false statements will count heavily against you when the employer checks your statements.

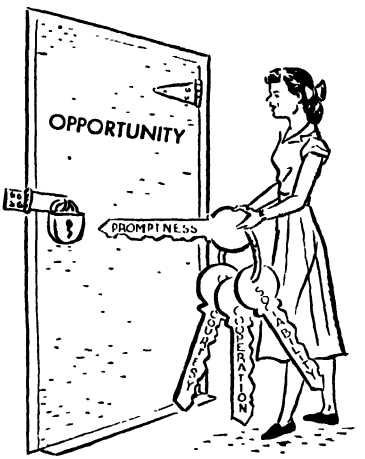
Following Up Prospects

If the interviewer tells you that there is no definite job open at the present time, you will naturally have to start looking for other prospects. There are no rules for following up prospects that will ensure success, but you must not consider the first refusal as final. Sometimes a vacancy occurs unexpectedly, or more employees are needed when a department is enlarged. It is often desirable to call again at places where you have applied. Your persistence, if tactful and courteous, may impress the employer favorably, and you may be offered just the job you want.

Holding the Job

Let us suppose that you have a job you are enthusiastic about. You want very much to hold it, don't you? The table on page 50 shows why more than 4,000 employees in office and clerical work of 76 corporations have been discharged or failed to

receive promotions. The causes for the failure are divided into two groups: (1) lack of specific skills and (2) poor character traits. Study this table carefully. Examination will show that about 90 per cent of the jobs were lost because of poor character traits, while only 10 per cent of the workers lacked efficiency in skills.



Everyone holds the keys to opportunity, but each one must learn to use them to open the door for himself.

Why are there so many more successes than failures? The chart proves that certain qualities mean failure; other qualities mean success. These desirable qualities are already known to you. They are largely the ones upon which teachers rate you in school, chiefly because they are the qualities which businessmen also consider important. Some businessmen use as many as 30 different characteristics, while others use only a few. We shall read and talk about and examine a few of the qualities that are most common as evidenced by the chart.

Ability to get along with people. No matter where you work, you will find yourself next to people with assorted dispositions and peculiarities. You will warm up to some of them right away and become friends; others will repel you. Whatever your feelings about them, you will have to get along with them somehow.

You can judge your possible success with them by your ability to get along with your school associates. Are you friendly with your teachers or do you complain to them about the amount

of homework or the grade on your report card? Do you do your part on the school entertainment committee? Do you act as if you were superior to your schoolmates in regard to brains and beauty? If you think you get along well in school, you will probably get along on the job. If not, you will have time to improve before you go to work.

Tact and courtesy are helpful in getting along with others. A tactful person is one who says and does the right thing at the right time. A courteous person is one who considers the rights and privileges of others and who never seeks to intrude upon their affairs; he is a person who respects the confidence imposed in him and quietly performs his duties without interfering with others.

Accuracy. Most employers are ready to further the interests of those who are neat and careful in their work, who complete the job that is given them without any errors, and who are able to follows instructions as they are given. The same situation exists in school.

Jean, for example, while working on the school paper, would do odd jobs; but when given a task that demanded accuracy, such as sending out bills, arranging the display ads for the printer, or compiling statistics on subscriptions, she would either do incorrect work or talk someone else into doing it for her. As a result, she was not chosen as business, advertising, or circulation manager.

Practice accuracy at school and at home because thorough and painstaking work will pay dividends later. If you take pride in your work, employers will probably recognize your ability and promote you.

Honesty. Honesty in money matters is especially important when you are an employee. But honesty can apply to other things, such as time, merchandise, and knowledge. When you are tardy, waste time, use supplies for your own interests, or

WHY THEY COULD NOT HOLD THEIR JOBS*

Skills and Character Traits	*Most common causes for discharge in per cent*	*Deficiencies preventing promotion in per cent*
1. Lack of specific skills		
In shorthand	2.2	3.2
In typewriting	1.6	2.4
In English	1.6	5.2
In dictaphone	1.3	1.6
In arithmetic	1.3	3.0
In office machines	.9	2.2
In bookkeeping	.6	1.4
In spelling	.6	2.7
In penmanship	.0	1.8
Total	10.1	23.5
2. Character traits		
Carelessness	14.1	7.9
Noncooperation	10.7	6.7
Laziness	10.3	6.4
Absence other than illness	8.5	3.7
Dishonesty	8.1	1.2
Attention to outside things	7.9	5.6
Lack of initiative	7.6	10.9
Lack of ambition	7.2	9.7
Tardiness	6.7	4.6
Lack of loyalty	3.5	4.6
Lack of courtesy	2.2	3.3
Improper clothing; insufficient care	1.6	3.0
Self-satisfaction	.9	4.4
Irresponsibility	.3	.8
Unadaptability	.3	1.4
Absence due to illness	.0	2.4
Total	89.9	76.5

*American Management Association, New York.

permit the work of a fellow worker to pass as your own, you are being dishonest. When you accept your pay check without giving your best to the job, you are really being dishonest. The same thing is true in school. Even though you would not take money from a classmate's purse, you may have borrowed his homework, glanced at his test paper, or arrived late to class.

Loyalty. Two of the character traits related to loyalty, which lost people their jobs, were absence other than illness, 8.5 per cent, and attention to outside interests, 7.9 per cent. You should be loyal to the firm that employs and pays you. If you stay home just because you feel like shopping or read the sport page or chat with the boy next to you when you should be working, you are being disloyal.

Also, if you notice some practices of the concern of which you do not approve, it would be better to resign than to "knock" your employer or his product. So long as you remain in a firm's employ, you should try to "boost" the business at every opportunity.

Dependability. The table states that more than 10 per cent lose their jobs because of laziness, while 14 per cent lose their jobs because of lack of initiative and lack of ambition.

An employer wants someone who can be depended on to arrive on time, to attend strictly to his work, to meet all appointments without failure, and to produce results that stand the tests of good workmanship. If you are dependable, you do not wait to be told what to do, but know what to do and do it whether or not the boss is around. You do your best at all times and are not always looking for praise.

Knowledge. In addition to these five essential qualities, the employer expects you to have a background of knowledge. He expects that you will have enough understanding of English, mathematics, science, and social studies to be able to learn the details of your job quickly. If you have been employed because

of some special training, he expects you to have skill in that field.

All this is not such a big order. Countless thousands of people fit the requirements every day. There is no reason why you shouldn't, with careful preparation, do the same.

Summary

Locating a position is not always easy; however, there are several methods you may use to lessen the difficulty. You may ask relatives and friends for help; you may make use of help-wanted and situations-wanted advertisements in the local papers; you may use the school placement department or apply to an employment agency; finally, you may plan a campaign to call upon all the prospects in your community.

Applications for positions may be made in writing or in person or in both ways. The letter of application is very important and should be composed and written with the greatest care and neatness. The personal interview should call for careful preparation. Consider your dress and your manners; be courteous and frank, but not too talkative; allow the interviewer to conduct the interview, and, after thanking him for his time, leave quietly.

If you wish to succeed and to gain promotion, you should cultivate those qualities which employers rate highest. Chief among these are ability to get along with people, knowledge, dependability, tact and courtesy, accuracy, loyalty, and honesty. Your future success or failure will depend on you alone. Average ability will not handicap you so much as a lack of certain personal qualities. With these qualities added to your ability and education, success should be ensured.

Questions for Discussion

1. What methods may be used to locate a possible position? Which of these looks most promising to you?

2. To what extent can your school help you in finding a position?

3. What should you do as soon as you see a help-wanted advertisement of a position that appeals to you?

4. How can an employment agency help you to find a job? Why is it advisable to use public employment services as much as possible?

5. Name some other ways by which you may learn of a vacancy which you may fill.

6. Why are frankness and honesty so essential in a personal interview?

7. What are some of the things to remember about personal interviews with prospective employers?

8. Why is ability to get along with people considered such an important factor in successful living?

9. Explain why tact and courtesy are so necessary if you are to succeed in your lifework.

10. How can you develop the quality of dependability if you do not already have it?

11. Why is loyalty rated so high by employers?

Practical Applications

1. The class often wishes to know some facts which would mean a duplication of time and effort if everyone collected them. One pupil, or a committee, should report to the class the findings on

a. The school employment office, and how to use it.

b. The cost of placing a situation-wanted ad in the local newspaper.

c. The public employment office or other employment agencies in the community, and how to use them.

2. Find an advertisement in the newspaper that advertises the kind of job you would like to have now or when you leave school. Write your letter of application for this job.

3. If a personnel manager of a local concern comes to your class and interviews members of the class, make a report on it. You will profit by watching the procedure. Perhaps he will give some of his experiences and will tell you his opinion of applicants he has employed and of their success or failure in later years.

4. Write a situation-wanted ad in 50 words or less.

5. List three points to use in determining whether or not to use a certain private employment agency.

Problem

Develop a case history of some young man or woman who graduated from your school a few years ago. Find out how your case decided on what kind of work he would seek. Did he have adequate information about the work? If so, how did he get this information? Had he studied other work, too? Had he made an analysis of his own interests and abilities?

How did he get his first job?

Since he has been at work, has he stayed in the same work? Has he been promoted? If so, why? If he changed jobs, why did he do so? Has he learned more about what he really wants to do and can do? When he looks back on his own career, what advice has he for you?

Be prepared to use his story as an example in class. If each of you brings in one case, you can compare various procedures and decide what seems to work best.

PART 3

Managing Your Income

CHAPTER 4: ANALYZING YOUR WANTS AND NEEDS

CHAPTER 5: BUDGETING YOUR INCOME

CHAPTER 6: IMPORTANCE OF SAVING

Everyone wants to "get ahead." We all like to feel at the end of a year that we have advanced, that we are further along than we were a year ago.

Sometimes we dream of some big change that will miraculously make us suddenly rich and cultured and beautiful—everything we wish to be. But we know life isn't like that. If we wish to get ahead, we must do it little by little.

That is where good management comes in. It isn't enough to earn a good income. It isn't even enough to shop carefully for food, clothing, and other things we need. The record of Carl and Laura proves that. Carl always had a good job, and Laura always shopped carefully. And yet, when Carl, at the age of thirty, suddenly became very ill, they had no reserve to tide them over. They had not planned well enough. They had not looked ahead. They had just been efficient at the moment.

It is chiefly by budgeting our income and saving our money that all of us, including Carl and Laura, plan for the future. Did you know that doing both of these could be fun? Anticipating your needs in terms of the things you want to do in life and earmarking your money to cover them are exciting activities for anyone. Surely we all like to plan for a college education, a long vacation trip, or furnishings for our own room. We even enjoy figuring out how we are going to get that new outfit for the school dance next week or those fine books on photography we'd like to read right away. Budgeting and saving our money will help us to get all these things faster and more easily.

In Part 3, we are going to look in some detail at what it takes to get ahead.

Chapter 4. ANALYZING YOUR WANTS AND NEEDS

While you are in school, you are continually wishing that you had more money. You say, "Wait until I have a job and earn a lot of money; then I can have this or that." Strange as it may seem, when you have left school and are working full time, you will say, "If only I had more money."

Your wants. You are wishing for things; so are your pals, your parents, and everybody else. It seems as though our wants are never satisfied. You may want a new suit only, but realize that the desire is a big one, while a well-to-do man may wish for a yacht as an unattainable dream. Of course, you would like a yacht too, but you have learned not to wish for the impossible. Why? You have learned that you must be practical although you may want a great many things and may never get through wanting. Or have you? At least you will agree that man's wants are innumerable.

Analyze your wants. What are the things you really want? Make a list of them. You may want a bicycle, a party dress, a camera, a pair of new shoes, a tennis racket, a permanent, the latest record, a camping trip or many other things; indeed the list is endless. Now place a check after those items which seem the most desirable. You will have to make some selections and eliminate others, for you cannot have them all. Did you make the right decisions? You say that you don't know. How can

anyone tell? Maybe no one can, but at least you can make your choices agree with your aims in life.

Your aim in life. Your purpose in life may be stated partly in terms of your future job. You may want to be a doctor or a nurse so that you can help the sick; you may want to be the successful businessman who makes some useful product; or you may plan



Library of Congress

The man on the yacht has chosen a very expensive form of amusement. Since we all can't own yachts, most of us must find less costly amusement.

to be an efficient secretary or newspaper reporter. You may state your purpose in life in terms of home life; you want to be an attractive mother of several children, or a swell dad who takes his son to the baseball games. You may state your aim in terms of recreation; you want to be a crack golfer or a fast swimmer. What are your aims? In what terms are you stating them? Aims in life tie in closely with vocations, as we discussed in Chapter 2, but you may have additional ones. Studying your *reason for living* takes some serious thinking.

Joining aims and wants. Probably the smartest thing to do would be to choose what you want to own in terms of what you want to be. Why buy a tennis racket just because your pal got one, when you know that flunking gym last semester was due to



Library of Congress

Instead of a yacht, try a bicycle. This exercise will fit the budget of almost anyone and will build strong muscles, too.

absence because you hated gym? You might only be annoyed by getting so many freckles playing tennis in the sun; or you might merely put the racket away in the closet after a few games, just as you did the badminton set, which was a "must," three years ago. On the other hand, maybe you are really interested in writing. The school paper has printed several of your interviews with celebrities who were in your town. Last week on the bulletin board in the newspaper office, you read a notice about a journalism conference at a near-by university for high school

pupils. The lodging and tuition would be $12, and if you didn't buy the tennis racket you could save for that week with the newspaper people. It would be so exciting to go. Maybe you could be on the staff next year and eventually be a columnist on a big



Charles Phelps Cushing

A hobby can grow into a career. Those who find work early that is both interesting and fun are fortunate indeed.

paper. Will it be a tennis racket or the newspaper conference?

Have you had a similar problem? Almost every day or so you must decide whether to buy a sweater or a book, whether to go to the movies or to give some money to the church. You are constantly making choices. Are these choices in line with your purpose in life? Will you be a happier, more successful person in years to come because you make the right choices now? One

friend of yours makes a decision in favor of a swimming suit, while another friend decides to spend his money for a butterfly collection. Do their purchases tie in with their aims?

Your needs. Everyone needs food, clothing, shelter, recreation, household services, and many other things. You probably insist that certain needs are vital. Wants are desires, often for unnecessary things, while needs just can't be ignored. You will find your needs are affected by many things. Customs in your home will affect even the kind of lunches you buy. Religion may determine your clothes, while the amount of education greatly affects your purchase of books or tools and your participation in certain activities. If you wish for group approval when you become a householder, you will probably buy things like a car or new furniture, for you will soon get apologetic about your old car or the dilapidated davenport. One person is quite satisfied with a cot in a narrow hall bedroom, while another must have an imposing four poster in a large bedroom.



In analyzing your wants and needs, select the basic needs first and then add such wants as you can fit into your budget.

You say that you need bread as the staff of life. Some families are content with bread or an occasional biscuit, while in others the mother uses her time and energy in baking muffins and waffles to please fancy tastes. Even the necessities can be made of great or small importance.

The Joneses next door may find that money for the upkeep

of their automobile can be eliminated and the sum spent on a college education for John. The Warrens pay lower rent so that Jessie and Bill can spend the summer far away. You can see that the needs of a family or a person vary so greatly that no one can say just what is essential. Each must decide for himself.

Family conference. You probably realize that we have been talking about family needs a great deal. The family is the established unit of society; it is the unit through which most of our needs are filled. Therefore it is only natural to study the wants and needs of that group.

A family gathering to discuss needs will do much to clarify the ideas of each member of the family and will thus make it possible to get the most out of the family income. You are a part of the unit and can get a lot out of such a discussion. Conferences of this nature should be confidential. Often parents do not include the children in financial planning because the younger set sometimes forget to keep such matters to themselves.

Your father will give the facts about his income at the beginning of your talk. Anyone else who earns money in the family and contributes all or part of his earnings will also tell about it, so that the total income is known.

You will want to discuss your special goal for the present term. Would an upstairs radio solve a lot of family problems and bring enjoyment too? Maybe Junior is going to take a college course that will add a new item of expense. Whether the goal costs a great deal of money or very little, there should be one upon which the entire family agrees.

Then you will want to help the family list the items that are definite and fixed. They include such items as rent, or interest on the mortgage and taxes on the house, telephone expense, fire insurance on the home and furniture, life-insurance premiums, church pledges, and club dues. If your family owns an auto-

mobile, you will have fixed charges such as registration and license fees and insurance.

Other groups of items cannot be so definitely fixed, but the following items can be estimated: groceries, meat, lunches, carfare, clothes, fuel, gas and electricity, laundry, gifts, amuse-



Courtesy Household Finance Corporation

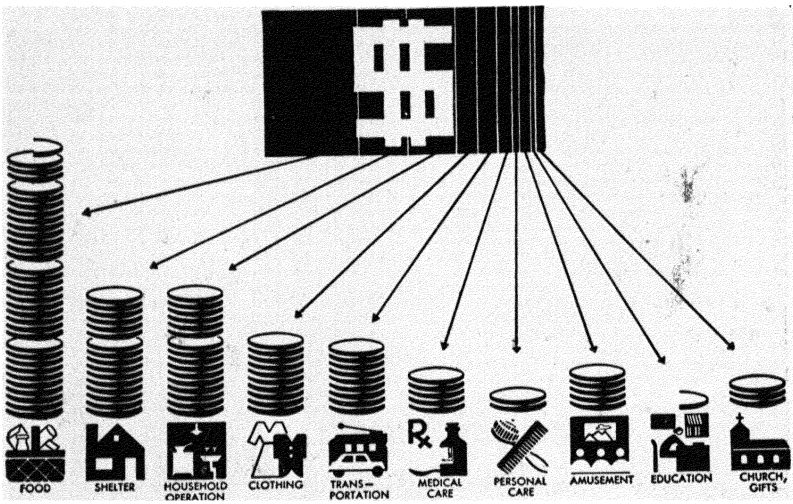
Talking financial problems over with the family is the best way to get them ironed out. Then, too, perhaps you can help to solve some of the larger problems that confront the family as a whole.

ments, school expenses, and on and on. Because of this endless list, it is much better to follow the common practice of grouping the expenditures under a few rather general headings. They may be the following:

Food. This covers not only the money spent for meals inside the home but also the money spent outside the home—for your school lunch or your father's lunch at the factory or office.

Housing. If you do not own your home, your shelter cost will be rent. If you do, this item will include taxes, insurance, repairs and improvements, and interest and payments on the mortgage.

WHERE A TYPICAL FAMILY DOLLAR GOES



Each coin represents one penny

PICTORIAL STATISTICS, INC

From *How We Spend Our Money*, Public Affairs Committee, Inc.

Household Operation. This covers the cost of fuel, light, water, refrigeration, laundry, cleaning, telephone, household servants, and repair and replacement of household furnishings and equipment.

Clothing. This includes not only the cost of ready-made clothes but also the cost of materials for those made at home and of repairing and cleaning.

Advancement. Here we have expenses for education, travel, recreation, health, automobile, church and charity, and many other things that make for a better standard of living for the family.

Savings. Included in this group are all the amounts set aside to provide for emergencies, for old age, or for the present or

future purchases of articles for family use, such as automobiles, furniture, and real estate. Money paid for endowments, annuities, or life insurance, for savings accounts, bonds, or investments in building and loan associations should be included here.

Your personal wants and needs. As a school pupil, what do you need in addition to those things supplied by your family? What was decided about your personal budget at the family conference? What do you need while away from home? Maybe you can classify them into these groups: (1) carfare, (2) lunches, (3) school supplies, (4) personal items, including gifts, (5) recreational, (6) church, and (7) savings.

How much you will spend for these various items will depend on your aim in life as well as on the amount of your allowance or earnings. If perhaps you are interested in a career in music, you will spend less, say, for movies or sports because your lessons and practice hours take up so much time that you do not need a great deal of money for amusements.

Do you see why we have spent so much time in this chapter thinking about the things you need and want? It is because we wish to take up next budgeting and managing your money. No one can budget or manage his money well until he knows what he wishes it to secure for him.

Summary

Before you can begin the task of managing your income, you must learn to distinguish between wants and needs. Wants are merely desires for things and they are numberless and varied. While they are ever-present and necessary, your wants are not always for things you really need. Needs consist of clothing, food, shelter, recreation, and many other things that make it possible for you to exist and to enjoy a good standard of living.

Needs vary with individuals and with families. Moreover, they are affected by many things, such as custom, tradition, social standing, and surroundings. Before you make a final

decision about your needs, you should try to determine your aim in life — what you wish to be and what you wish to accomplish. When you have analyzed your wants, needs, and aims, you will be ready to make plans for the wise management of your income.

Questions for Discussion

1. What are wants? needs? How do they differ?

2. What are the major factors that cause you to want certain things?

3. What factors help to determine your needs? What needs have you that are due to custom? to social standing? to your home surroundings?

4. What family charges may be considered fixed? Have these always been considered as needs?

5. What personal needs do you have that differ from family needs?

6. Why should you consider your aims in life before you attempt to determine your needs?

Practical Applications

1. Make a list of your present wants. Place a single check mark against those which you want more than others. In what order should you list your wants? Begin with the one you consider most important, and end with the least important.

2. How many of the wants listed in the first question would you consider as needs that are absolutely essential? What particular need would each serve?

3. Have you made your plans for this school year? Are you spending your money for the things that will carry out these plans? It is advisable to look even farther ahead than the next few months. What do you plan to do when you leave school? What do you

desire to be? What are your special interests? Write a short account stating the type of person you think you will be 10 years from now. Does your spending conform to that vision of yourself? If not, how will it have to be changed to conform?

4. What makes you want certain things? List the items that you have bought during the last month. What factors, for example, desire for social approval, religion, or advertising, caused you to make each purchase? Summarize your spending. What percentage of your ready money goes for each class of goods or services?

5. Dramatize a family conference on financial problems. If certain classmates are designated to be the members of a typical family and each person has a list of the money troubles which may arise, an informal discussion can be presented which will prove helpful and interesting to the other members of the class.

Problem

There is a growing feeling among many American families that all members of a family who are old enough to understand money matters should take part in planning the use of the family's income. A generation or two ago this idea was not very popular. The head of the house in those days usually ran the family's financial affairs by himself. The new trend probably is the result of our desire for democracy in all matters.

What do you think of the idea that people of your age should know about money matters and help with the planning? If you are in favor of it, just what do you thing the young people should contribute? How much of a voice should they have in the family conference? If they are given some authority, what responsibilities must they also accept? If they attend a family conference, should they think only of their own interests? Or must they help plan for the family as a whole?

Chapter 5. BUDGETING YOUR INCOME

Now you are ready to consider the problem of managing your income so that you may be able to get things you want in life. Think for a while about all those dreams of yours—of the work you want to do, the clothes you want to buy, the fun you'd like to have. If you wish, as you undoubtedly do, to realize your ambitions and to get the most out of life, you should learn early how to plan the systematic use of money. You will have to choose the things you want most and then plan your income so that you may be able to obtain them. Unless you have some plan for managing your money, you will find your money managing you. This means that you should adopt some plan by which a balance may be kept between income and expenditures. This is called "budgeting."

What is a budget? *A budget is a plan for managing money.* It is an estimate of your income and outgo for a definite period of time. If the plan is to be effective, it must fit your personal needs. You will have to keep records if you are to operate it successfully. The simpler the records, the better. Budgeting is a game or a hobby that you must practice if it is to be of any use to you. There is only one way for you to learn money management, and that is by faithful, systematic practice.

Budget keeping can be divided into five steps:

1. Estimating your income.

2. Analyzing your needs and wants, and deciding which is most important.
3. Dividing the income according to your wants and needs.



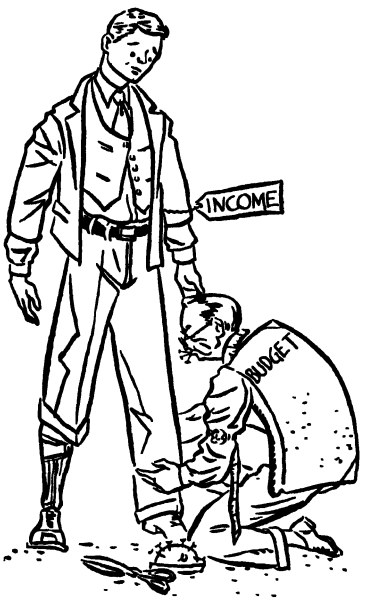
Charles Phelps Cushing

If you're a boy, sometimes the quarter you planned to spend on a soda turns out to be fifty cents for two sodas. Incidental expenses pile up and before you know it your pocket is empty.

4. Recording your expenditures to see if they conform to your plan.
5. Revising your budget from time to time so that you may reach your goals.

What can a budget do for you? A well-planned budget, including the necessary records of income and outgo, can do the following for you:

It Can Help You to Achieve Your Goal in Life. As long as you have a limited income, whether it is $1 a week allowance or $100 a week salary, you will want to spend it in accordance with your life goals. When you spend your money thoughtlessly, you may be buying too many things that are out of line with your aims.



A budget helps you to live within your income. Often you feel that your income, like the suit of clothes on this boy, is too small. A budget will help to spread the income more efficiently.

It Helps You to Live within Your Income. We all know people who get into debt because they have not planned the spending of money wisely. The income is spent, but somehow there are bills that are still unpaid. When you keep a budget, you have a record of your expenditures, and you know that the total must not exceed your income.

Many of the small loan companies and some banks require all borrowers to keep a budget, at least until the loan is paid. If these institutions believe a budget is valuable in such cases, surely it can be of much help to you in trying to live according to your financial plan.

It Helps You to Save. If you keep a place for savings in your budget, you will have a better chance of saving that amount. This amount may not be large, but any sum saved is worth while. If you save only 15 cents each day, you will have $1,095 in 20 years! If you put this amount in a savings bank at compound interest, the sum will be even greater.

It Tells You Where Your Money Goes. The budget records make it possible to see exactly where your money goes. Some people refuse to keep a budget because they dislike to see the amount they have spent foolishly. Perhaps it is better to take a long look at the facts and then change your spending habits. If, however, you must keep on in the same way, at least you will know exactly where the money went.

You may be influenced to stop careless and unnecessary spending. Before you realize it, your frequent stopping at the corner store for sodas and popular records has piled up into quite a sum. You do not realize how large such expenditures become until you are face to face with the telltale figures in your budget. Perhaps now you will divert money for "extras" into better channels.

It Will Furnish Records for Future Reference. It often happens that people wish to compare the costs of one year with the costs of another year. A family may wish to know how much was paid for fuel last winter or what it cost to operate the automobile last season. If you wish to sell some article, your records of its cost will help you decide how much you should obtain for it. Budgetary records will also be very useful when the time comes for you to make out income-tax forms. Much of the information you need will be found in your budget record.

Most important of all, the record gives you a plan for future spending. You cannot improve the value received from your income unless you carefully examine your expenditures of the previous year or month.

Why is budgeting unpopular with some people? If budgets can do all these things, why is it that so many people do not maintain them? Why doesn't every one start budgeting at once? All types of governments maintain budgets, and businessmen prepare a plan showing estimated income and expenditures for the coming year. Yet, in spite of these examples, many individuals and families, though they may start a budget, soon give

it up? Why? Here are some of the reasons that have been given.

Budgeting Takes the Joy out of Living. It is a common failing to love to spend money and wish to report such spendings to no one. Is there any real joy in spending money carelessly only to worry later about debts? People who refuse to keep a budget because it spoils their lives will frequently be found to be in debt or to have financial worries. Money manages them. They have not even tried to keep a budget and therefore do not appreciate the fact that a carefully kept budget reduces worry about finances and makes for more joy in life.

Budgeting can be fun. Budgeting is planning. You know that planning can be exciting. You may have heard that anticipation is greater than realization or that it is more stimulating to plan a party than to go to one. Perhaps it is not quite as much fun, but planning can be very amusing and very interesting.

Budgeting Is Too Much Work. Don't get the idea that keeping a budget means a lot of complicated figuring. While some figuring is necessary in budgeting, and records must be kept, the record keeping can be overdone. For instance, a small account book can be kept in a purse or pocket. While waiting for a friend or movie time, a few expenditures can be recorded. Once a month a half hour's work on expenditures will be necessary, but that brief period can hardly be burdensome.

Budgeting should remain simple because, if too many details are involved, the budgeteers become confused, discouraged, and finally abandon the budget altogether. Adopt only enough items to cover essentials; if experience shows that more items are needed, they can always be added. If you develop a habit of always recording your expenditures, keeping records will be easy.

Income Is Too Small to Make Budgeting Worth While. Many people are obliged to spend all their incomes for necessities. They claim that there is not enough left to make budgeting worth the time it requires. While it is true that people with low incomes can save very little or nothing at all, the main purpose

of the budget is not saving but spending to attain goals in life. Everyone can carry out this purpose.

Your personal budget. In the last chapter we discussed the needs and wants of a family as well as those of an individual, particularly the school boy or girl. In the same relation, a budget can be planned for the family or for the individual.

A family budget can be planned around the family conference table — the income estimated, the needs and desires discussed, decisions made as to the amount to be spent now and later, the person designated who will record the expenditures, and plans made to confer again in perhaps a month to study the accomplishment of the goals. At the second meeting, it may be necessary to change certain expenditures for the following month in order to carry out the original purposes.

Although you wish to do your part on the family budget, perhaps at the present time you are more interested in your own personal one. If the family budget seems complicated, you will find it wise to keep your own simple one first. To help you with your own budget, let us return to the five essential steps of a budget mentioned on the first page of this chapter.

Estimating Your Income. Are you earning money by working after school? Do you get an allowance? Can you plan on an occasional gift? You will want to list these items in your little budget book by the week or by the month. Why not use this form?

MY INCOME

Left from last week	$1.00
Allowance	1.50
Earnings	5.00
Total income	$7.50

Analyzing Your Needs and Wants and Deciding Which Is Most Important to You. You analyzed your needs while studying the previous chapter. Did you save the list you made? Perhaps your needs are similar to these of a typical high school

boy. Rex says: "I promised Mother I'd *save* a dollar every week for my education in music. My trip to school each day and down town on Wednesday when I take my sax lesson makes my *carfare* for the week 70 cents. My *school lunch* averages 25 cents a day—at least if I eat more than that one day, I cut down the amount the next day. Of course, I must have a candy bar after school, just before I go to work, so eats will be $1.50 for the week. I need a math tablet every week, I buy the school paper, and this week I need some theme paper. That's 25 cents for *school supplies.* Saturday night BOX is giving a *dance* which will set me back $2.20, and if I don't get a haircut before I call for Jane, she'll ask me if I've brought my violin. *Haircuts* are 75 cents. On Sunday, I need 50 cents for *church* and Sunday school. Then I better add 50 cents for extras."



Ewing Galloway

The school dance is an expense that should be listed in your budget. Plan for it ahead of time and you'll have the necessary cash when the tickets go on sale.

If you have been making mental note of the amounts of money Rex is planning to spend, you will find that it totals $7.40. He forgot his Saturday lunch, for he doesn't go home at noon when he works. However, he has at least analyzed his needs, and you will need to do the same.

Dividing the Income According to Your Wants and Needs. Rex is fulfilling his aim in life. He knows he must finish high school before he can continue studying music at the conserva-

tory. Because he works after school, he needs his evenings for studying his school subjects and his music. He really has time for relaxation only on Saturday evening and part of Sunday. He divides his income of $7.50 into certain definite amounts, as planned in the previous step in the budgeting process.

ESTIMATED EXPENSES AND SAVINGS

Savings	$1.00
Carfare	.70
Lunches	1.50
School supplies	.25
Recreation	2.20
Personal items	.75
Church	.50
Emergency and extras	.60
Total	$7.50

You can estimate your expenses in the same way.

Recording Your Expenditures to See if They Conform to Your Plan. Rex keeps his expenditures in a tiny note book some concern gave away as an advertisement. It's a narrow book and therefore he uses the double page and rules off seven columns every week. It looks like this

FINANCIAL RECORD FROM OCT. 19 TO 26

Savings and expenses	S	M	T	W	T	F	S
Saving		$1.00					
Carfare		.10	$.10	$.20	$.10	$.10	
Lunches		.25	.30	.35	.25	.25	$ .20
School supplies		.10		.15		.20	
Recreation							2.20
Church	$.50						
Personal items						(Hair cut)	.75
Balance							.40
Daily totals	$.50	$1.45	$.40	$.70	$.35	$.55	$3.55
					Weekly total		$7.50

Now, if you check Rex's expenditures against his plan, you will see that he spent only 60 cents instead of 70 cents for carfare, $1.60 instead of the estimated $1.50 for lunches, and that school supplies were 45 cents instead of 25 cents. Otherwise, his actual expenditures were in accordance with his plan. He had left over from his emergency and extra fund 40 cents, which he can carry over to next week. Since his earnings, $5, and his allowance for lunches, $1.50, will be the same, he will have $7.10 to budget instead of $7.50 as he had this week.

Although it is necessary to record your expenditures, remember that a well-kept record book, which you can show to relatives and friends to prove that you have recorded every penny, is not the purpose of the budget. Excellent record keeping is commendable, but the purpose of the budget is to have a plan for managing your money well, and only part of that consists in keeping track of what you spend. Rex could just as well enter his total carfare once a week. Perhaps he could do the same for his lunches.

You may record your expenditures on slips of paper or cards, but these papers can easily be lost, leaving an incomplete record. As already suggested, a small 10-cent book can be kept by an individual for his records or by the housewife for her family budget in a purse or pocket; items can be recorded, when convenient, during a shopping expedition or while on the bus or streetcar or while waiting a minute or two for a friend. The book may be ruled in 10 or 12 columns, which are generally sufficient. Most of these small books have fourteen or more lines and a page will serve for a 2-week period. Budget books may be bought for a small sum, but a school tablet for less money will be satisfactory. You may rule a notebook in any way you wish. If these books have more than 30 lines, a line serves for each day's expenditures for the current month.

Revising Your Budget for the Next Term in Order to Come Nearer to Your Goals. Larry is one of those fortunate individ-

uals whose income covers his expenses while he is accomplishing his aim. Don't for a minute think that he is doing it easily. Remember that he works every afternoon after school and can't loaf with the gang. On Wednesday, when the store is closed,



Courtesy Liberty Mutual Insurance Co.

Accidents happen to almost everyone and there are some expenses for which you cannot plan. If the bicycle rider has to pay for the lady's groceries, his budget will probably feel the strain for months to come.

he has some free time, but that is the day he has arranged for his clarinet lesson. He may be overworking, and if he becomes ill and is advised by his doctor not to work after school, his income will be less and he will be required to make some adjustments.

The importance of budgeting is emphasized in this last step. While Dan throws away his budget because he cannot live up to his plan, Larry thoughtfully analyzes his errors in spending. He sees that a few of his expenditures are not as they should be. Then he tries to change his habits for the next week or month.

Again he looks at the records and finds them slightly improved, but he knows he ought to do even better. Habits cannot be changed overnight. If Larry slowly reaches his goal, he will have accomplished his long-sought-for wish and he will also have developed a stronger character.

Will you be one of those who will want to analyze your budget and gradually fit your income and expenditures to your goals?

Summary

The process of estimating and planning your expenditures in accordance with your income is called "budgeting." A well-kept budget can do much to help you achieve your goals in life and to live within your income. But budgets are not popular with some people because they think they take too much time and require too much detail in figuring. These objections can be overcome by anyone who wishes seriously to know where his money goes and what he is getting for it.

Budgets are more needed today than ever before because of the increased importance of buying and spending in our economic world. They are not difficult to prepare, but they should be kept as simple as possible. The fewer the items, the less chance there is that the budget will become a burden and soon be given up. Make your own budget in accordance with your own situation; revise it from time to time as conditions require; be sure to balance it at regular intervals.

Questions for Discussion

1. Give some illustrations showing how money may manage a person.

2. Why do all large business firms and government agencies make a budget? Do these same reasons also apply in your personal life?

3. State the five steps into which budget keeping may be divided.

4. If you consistently keep a budget, what five things shall you expect it to do for you?

5. Why is it relatively meaningless to make a budget but not keep financial records?

6. Why is it that many people do not keep budgets? Do you have any tendency to agree with their reasons?

7. Why should budget records be simple?

8. If after you have made a budget for a month, it "doesn't come out right," what should you do about it?

9. What items would appear in your personal budget? Would the six major classifications suggested in this chapter fit your needs? If not, what set of headings would be better?

10. Why should you revise your budget from time to time?

Practical Applications

1. Set up a budget of your personal finances for the coming week. How much will you receive? How much will you spend? Follow the five essential steps of budgeting. Set up a simple record system and check upon your figures. Perhaps, right now, your class should decide upon a date—say, one month from now—when all of you can bring in your records and discuss what you have learned.

2. Does your family keep a budget? What can you do to interest them in budgeting? Perhaps if you sent for the *Budget Calendar* from the Household Finance Corporation, your family might find the record book helpful in their financial plans. This book is free. Other banks and loan companies also furnish similar forms. If your family takes to budgeting, you will want to report the results to the class, orally or written as your teacher suggests.

3. "People who can save a regular part of their incomes anyway do not need to keep budgets." Do you agree with this statement? Discuss it.

4. Explain why savings should be deducted before other items are budgeted.

5. Name some of the economic conditions that make the keeping of budgets more essential than ever before.

Problem

Do you know any people—either single individuals or families—who regularly budget and keep records? Surely some members of your class must know such people. Of course you will not wish to pry into their affairs. But you could find out why they think budgeting is worth while, what advantages it brings them. Perhaps you could also learn what kind of system they use, what record forms they set up, how much time the record keeping takes, etc. Possibly you could even bring some sample forms to class.

Be prepared to report to the class whatever you find. Perhaps some members of the class will report on very simple systems, while other members will have found rather elaborate ones. By looking over several different ways of doing the job, you can learn something about how to set up your own plans.

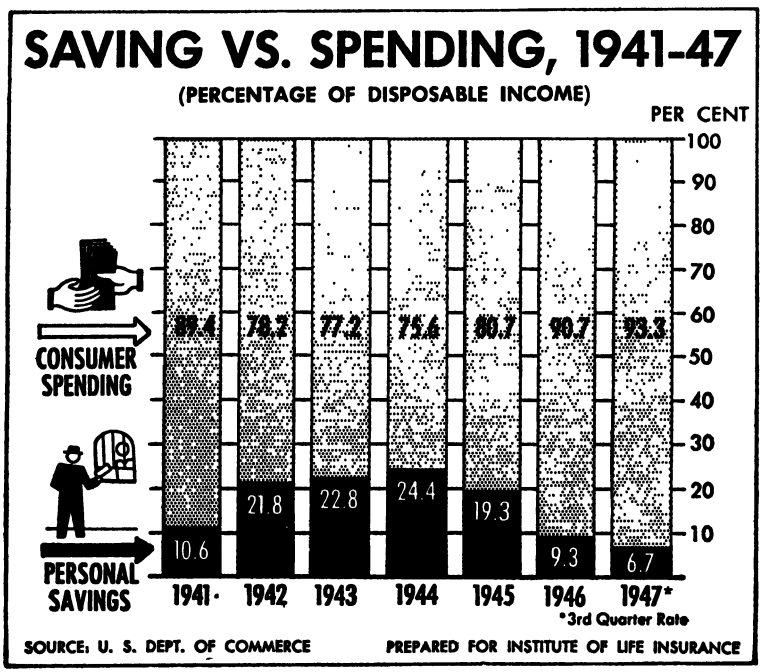
Chapter 6: IMPORTANCE OF SAVING

The successful man in this world is the one with the ability to save money and to invest it wisely after it has been saved. Of course we all know of people who inherit so much money or who earn so much that they do not have to be concerned with saving. But that is not the way it is with most of us. We *need* to save. Where you stand 10 years from now—how you stack up as a person and as a member of the community—will depend largely on how consistently you have held on to your money. In this chapter we shall discuss the value of saving and suggest a plan for saving part of our income. In later chapters we shall consider the matter of putting our savings to work in other ways (see Part 9, Chapters 24 and 25).

What is meant by saving? Many people think of saving as a joykiller because it implies sacrifice. They are wrong about it. Saving does not mean hoarding, being miserly, or putting money away never to be used again. It would be better if saving were spoken of as "delayed spending" or "spending for the future," for that is what it really is. Little children are rarely thoughtful enough to give up a small pleasure now for a larger one later, say, a toy for a winter coat. Likewise, savage peoples have almost no ability to look ahead. They eat all the game they kill today; then they may nearly starve before they find more. The ability to look ahead—to put off something

now for the sake of something better in the future—is the mark of the real grownup and of civilized man.

Are saving and thrift the same? There is a great difference between mere saving and thrift. A person may save a large part



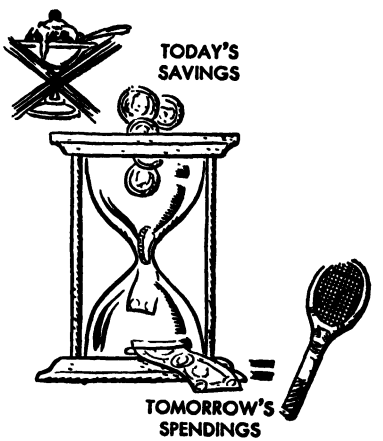
Courtesy Institute of Life Insurance

of his income and yet not be thrifty. The miser certainly spends very little, but no one would ever make the mistake of calling a miser thrifty. Hence, we use the word "miserly." He does not make a wise use of his belongings, nor does he benefit society. The thrifty person is the opposite. When he saves, he does it for a good purpose, and he puts his savings to work so that society as well as he himself may benefit. The thrifty person manages to save a little out of his small income while having

what he needs to live comfortably. Moreover, the thrifty person makes a wise use of all he possesses, whether it is time, physical energy, or money.

Why should you save? You save because it helps you and helps business. You save for the following purposes:

Emergencies. When you become a wage earner, if you do not have work because of a depression or an industrial change, you will not have money for necessities unless you save. Suppose that you needed a new suit. If you didn't buy it and saved the money, wouldn't you need the money more when rent and food had to be paid for and there was no weekly pay check? The great depression of the 1930's brought disaster to millions of people. Many saw their jobs disappear together with their earning power. If an illness should strike your home or an accident happen, when you become the head of a family, there will be no money for a doctor, hospital bill, or perhaps even the necessities of the home if you do not save. Everyone must expect a few such unforeseen events.



By going without a sundae today (and of course a few more sundaes in the weeks ahead) you'll be able to buy that tennis racket that you want.

Wants at a Later Date. In the future you may want an automobile or a phonograph. You will wish to get married, and will want to buy furniture, a home, and electric appliances. All these items cost large sums of money and you will need to save for them. Thriftless persons often spend all their money for little things: gadgets, movies, candy, etc. It is only the thrifty

who can get the larger ones that make a big difference for a long while.

Buying without Borrowing. If you have the money on hand, you can pay cash for goods. This saves the cost of interest and other credit charges on installment-plan buying. Thus it adds to your buying power.

Feeling of Confidence. One important reason for saving is that it makes you "feel good." If you have money in the bank, you do not worry so much about unemployment and other possible troubles. You express that feeling of confidence in your work and in the community. An air of confidence expressed in everyday life often brings success, because people are attracted by it.

Old Age. A study has been made of the financial dependency of 20,000 adults beyond the age of twenty-five. The results of this study show that in this group 7 per cent are dependent at the age of thirty-five, 9 per cent at the age of forty-five, 18 per cent at fifty-five, and 38 per cent of the group are dependent at the age of sixty-five. It was also found that 86 per cent of those who were living at the age of sixty-five did not have enough income to enable them to live without working or getting help from others. Old age may seem a long way off, but being dependent on others in years to come is not an admirable thing to contemplate. You want to avoid it, don't you? But this is only half the story. Surely you have seen how happy older people are when they have accumulated enough money to retire from work and enjoy their leisure. They take pleasure, too, in being able to help their children and grandchildren. Don't you want to "shoot for" such serene sunset years?

Saving for your business. If you have savings on hand, sometime in the future you may have an opportunity to invest in a business of your own that will bring you good returns. You do not know when such a chance may come, and if you have a nest egg you can seize the advantage. For many a young per-

son, having—or not having—a few hundred dollars when the big chance came along has made all the difference.

Saving for businesses operated by others. Have you ever wondered how big industries, such as General Motors, American Telephone and Telegraph, or some large corporation in your city, were made possible? They exist today because thousands of people like you saved some money and invested it in these industries or placed it in savings banks and insurance companies, which in turn loaned it to industries.

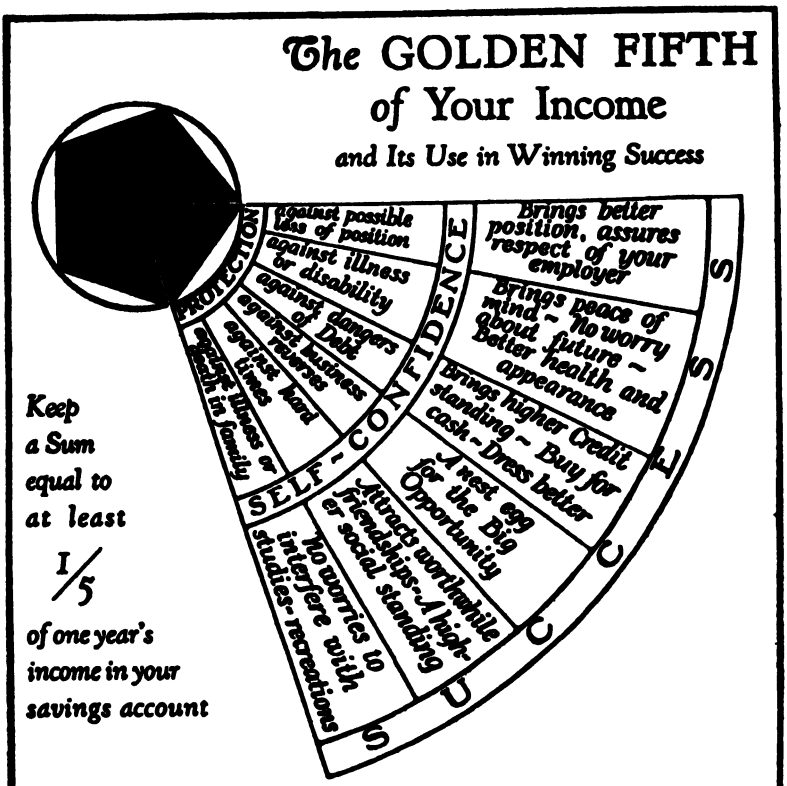
With the accumulation of the savings of many individuals, factories can be built, expensive machinery installed, and workers paid before any money is really received from the product produced. Our country was developed by the savings of its citizens, who loaned money for railroads, communication lines, ships, stores, and factories. Not only is the industry developed, but jobs are provided for more workers who in turn can buy more goods.

Savings help our government. If you lend your savings to the city, state, or nation, these governments are able to build schools, roads, hospitals, and national parks and to undertake other useful projects immediately. Actually the taxes you pay are used for these improvements also. But this year's taxes may not cover the cost of things we desire to have immediately; therefore people lend their money to get the improvements immediately.

An outstanding example of what savings can do for a nation was shown in the last war. With the savings of the people, warships, bombers, and tanks were built, millions of soldiers were equipped, many hungry people in foreign lands were fed, and the war was won. When the bonds are paid for in 10 years after purchase, the owners will have savings to spend for whatever purpose they think necessary.

The golden fifth. The chart on page 86 was sent out by a

savings bank to encourage thrift. It develops the reasons for saving to a greater degree than we have done and also suggests how much of your income to save. Twenty per cent may sound



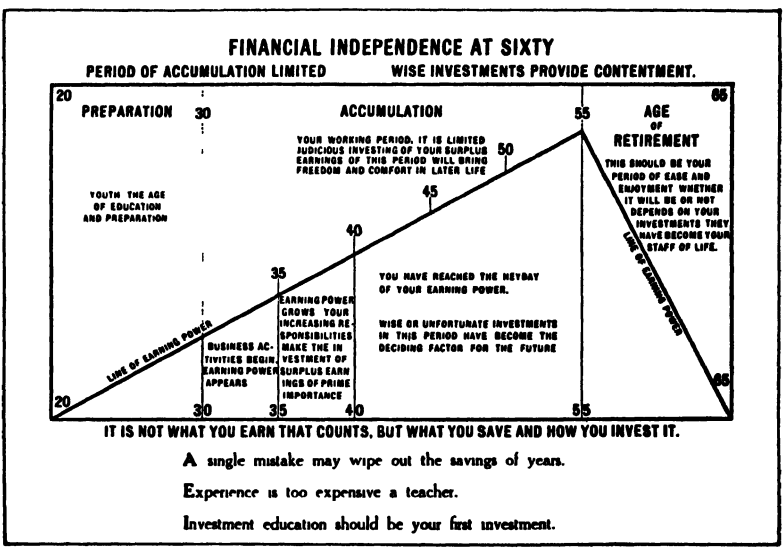
Courtesy Harris Trust and Savings Chart

This savings plan suggests that a fifth of the yearly income should be set aside for the purposes listed.

like a large share, and it may be too much in some cases, but you will remember that you are saving the money to spend at a later date. A fifth of your income saved means golden days ahead.

When should you begin your savings program? The time to begin saving is as early in life as possible.

Your grandparents probably began work at about the age of fourteen and continued until the age of sixty or seventy. In those 50 years or more, savings could amount to a great deal. Our working period is shorter now, from sixteen, eighteen, or even



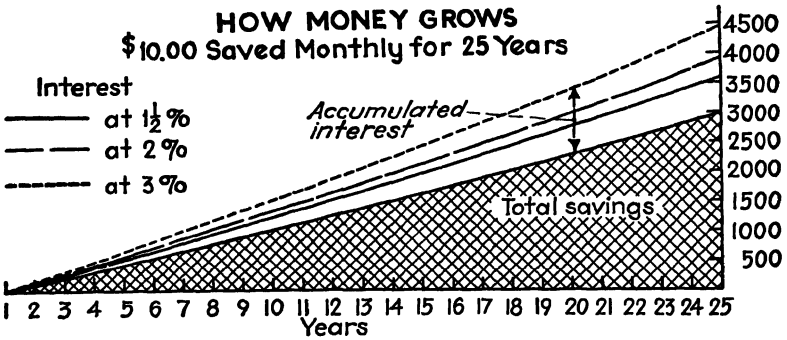
Courtesy Babson's Reports, Inc.

twenty-two years of age to fifty-five, sixty, or sixty-five, reducing the working span to about 40 years. You need to save more each year if your total earning years are shorter. Also, we are more dependent on money savings than our ancestors were.

Examine the chart on this page. You will notice that up to the age of thirty is the time for education and preparation of your lifework. From thirty to fifty-five is the working period when your earnings are at their peak and you should accumulate savings. After fifty-five you move toward the age of retirement, and whether you have ease and enjoyment will depend

on your previous savings. If you study this chart, you will see the wisdom and necessity of laying aside a part of your earnings while your earning power is greatest.

Compound interest. Another good reason for beginning to save at an early age is that the longer money is allowed to remain in a savings bank, or in any good investment, the greater the final total. Savings banks pay compound interest on your account. If you have $1 in the bank drawing interest at the



rate of 2 per cent a year, you will have a little more than 2 cents added to your dollar, if your dollar remains in the bank a year; the next year the entire sum draws interest, and thus it goes, as long as you leave money undisturbed in the bank. Two cents may not seem like a large sum, but the constant piling up of pennies makes a larger sum. As the sum increases, the interest increases faster.

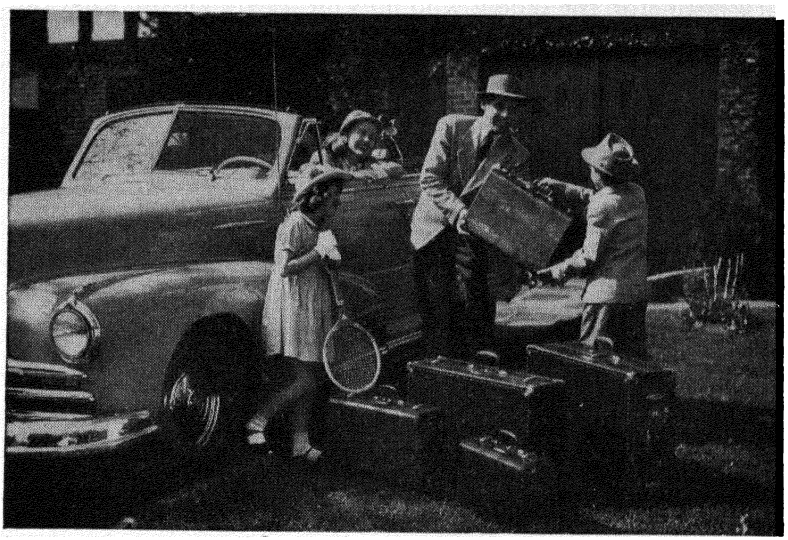
The same thing is true of any good investment. Even though you do not receive compound interest on a bond or stock, you can reinvest each year's earnings, which amounts to the same thing.

Saving does not amount to much unless it is continued for a long period. Examine the above diagram, and observe what can be accumulated if $10 is saved monthly for 25 years. Why not set your first goal at $3,000?

How should you save? If saving is so important and you

have been convinced that it is the thing to do, how should you go about it? You should do the following things:

Set Up a Goal. It is so much easier to save for something than just to hoard. A freshman boy started caddying at the golf course one summer. Although he had never worked before,



Courtesy Shwayder Brothers, Inc., makers of Samsonite luggage

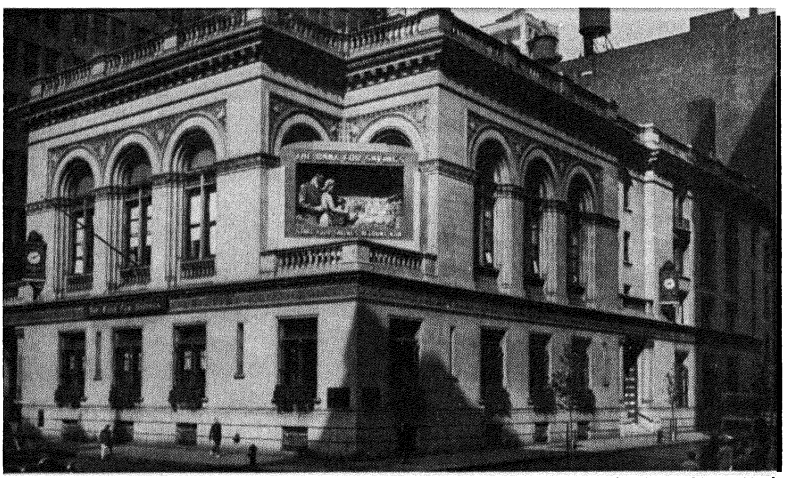
It's much easier to save money when you have a goal. A family trip is the goal of many a family's saving.

he now arose early and worked late. Why? He had a goal—to take his girl to an amusement park. He saved his money.

They spent it all on one visit, for pleasure can be a short-lived goal. Soon he began working again, this time for a bicycle. This more lasting goal he was able to accomplish in a reasonable time. As he grew older, his goals expanded and changed.

Generally speaking, you will find saving irksome, if you are "just hoarding," without a purpose. But saving for something you really want is pleasant.

Save Right Now. You ought not to delay. Even though you complain that you have little money, not enough for your needs, you can save a few pennies, a quarter, or a few dollars. Maybe the savings will be so small that they will get you little except the habit. O.K., it is a valuable habit. Maybe you are a procrastinator, the fellow who puts off for tomorrow what can



Courtesy The Bank for Savings in the City of New York

A bank is a good place to put your savings not only because it is a safe place but also because it will pay you interest on your money.

be done today. Though the long name may fascinate you, you won't be very popular in your dealings with your fellowmen. With savings, don't be a procrastinator.

Decide on a Definite Amount. If you set up a certain amount for saving, your goal will probably be reached sooner. Suppose you say, "I'll save a dollar a week." You will save more than if you say, "I'll save as much as I can." Better still, if each week you can buy something such as a savings stamp, you will establish a definite sum habit. Maybe a school bank lends itself to fixed savings. Don't set the amount so high that you cannot

stick to it. Small, steady savings amount to more than occasional big ones.

Save Regularly. Set a regular time. Every Monday morning is probably a perfect time to put money in the school bank, if you get your allowance on that day. Put it away before you spend it for other things. Your father may belong to a savings and loan association which demands $5 before the last Tuesday of the month as part payment of his shares. Regular payments force him to save just as they will force you.

Invest Your Savings. After you have saved money and accumulated quite a bit, you will want to invest it where you think it will be safe and also give you a good return. This is where the big "pay-off" comes in any savings program. Previously you were working single-handed. Now you have a silent partner—money—working shoulder to shoulder with you. Investing your money in financial institutions, mortgages, and securities is discussed in Chapters 24 and 25 in Part 9, Making Money Work for You.

Are you beginning now to save regularly a definite amount for a worthy goal?

Summary

Saving has become a very important matter for the person who desires to lay aside something for the future. In order to save you should be thrifty in the use of your possessions, striking a balance between being miserly and extravagant, so that you may enjoy the good things of life in reason. If you wish to accumulate funds for future use, you must begin to form the saving habit as early in life as possible and stick to it for many years.

Questions for Discussion

1. What is meant by saving? Why do you think it is important to you as an individual? to society?

2. What are the factors that keep people from saving very much?

3. Why is it necessary to take one's savings out first, rather than first to buy what he needs and then save what is left over?

4. Give several reasons why savings programs begun early in life are especially successful.

5. Why are so many aged people dependent upon others for their support?

6. In what sense may saving be called spending for the future? Give examples.

7. How much should a person or a family save? How would you decide?

8. Does the fact that a person saves $1 or $2 a week prove that he is thrifty? Why or why not?

9. Write the reasons why *you* ought to save money. What are your reasons for delaying your spending? Does it seem a wise policy?

Practical Applications

1. At what period in one's life can he reasonably expect to make his greatest savings? Why?

2. How should you expect a person's goals in saving to change as he grows older? For example, consider the different goals of a high school student who wants to go to college, of a young man about to be married, and of a man of forty-five whose children are all grown up.

3. What do you think of the principle that one of the first things a family should save toward is a home of its own? Would this be true of all families?

4. At some time in your life you have probably saved up for something you wanted very badly. Was this a pleasant or an unpleasant experience? How did your feeling in holding back this money compare to the way you feel when you simply tuck away

money with no purpose in mind? What does this indicate about the way to organize a successful savings program?

5. From one or two farmers or businessmen, find out how important savings were in getting capital to run their business? Did they wait until they had enough savings of their own? Or did they also borrow other people's savings?

Problem

The chart on page 87 introduced the idea of a family's *financial life cycle*. Can you talk this over with some older person and get the figures on an actual case.

Perhaps your own parents or your grandparents can give you the facts in such a case. Find out at what age they went to work, how much income they had, and how their income grew. Learn as nearly as you can what they saved at each period, and what they did with their savings.

Find out a little, too, about their expenses. Was there a period when these were high? Perhaps expenses were high when the children were growing up. Was there a later period when expenses were lower?

Then, with whatever data you have, try to chart their financial life cycle so far. Be prepared to discuss this with your class.

What ideas does all this give you about a financial life cycle for yourself? Can you draw an expectancy chart for your own future?

PART 4

Buying What You Need

CHAPTER 7: GOOD SHOPPING

CHAPTER 8: USING ADVERTISEMENTS

CHAPTER 9: USING LABELS

You have often heard about good salesmanship. Now we are going to move across to the other side of the store counter and talk about good "buymanship."

You need not ponder very long to see how important this is. Your mother has only a certain amount of money to spend for food. If she is a smart, careful buyer, you can eat meals that are well balanced and appetizing. If she isn't, you simply don't eat so well. You and she shop together, let's say, for your clothing. You know, at least roughly, how much you can spend. If you shop wisely, you'll have suits and coats and shoes that you are proud of. If not, you'll just have to worry along.

You see, this matter of buying is one where bluffing and talking and spinning out elaborate theories simply make no difference. Either you can buy competently or you can't, and the difference determines what you get for the dollars you've worked so hard to earn. When a young consumer goes down to

the market with his money in his pocket, that is his final examination.

What we are trying to say is that there just isn't any substitute for genuine competency in shopping. You will have to acquire most of that competence the hard way, that is, by years of experience. But by studying this unit, you can avoid the deepest pitfalls.

The first chapter in this unit will be on *shopping*. Then, because in shopping you must depend on *information* about goods, the next two chapters will deal with how to use labels and advertisements.

Chapter 7: GOOD SHOPPING

Learning by doing. You cannot learn to swim without getting in the water. You cannot learn to shop without doing some of it in the stores.

In order to get some practice along with theory, as you study this unit, we suggest that you apply everything you learn here to some one commodity you are interested in buying quite soon. It can be anything you wish. Select it now. If several of your classmates select the same thing, or something similar to it, perhaps you could form a small committee. It may even be that your whole class can agree upon some one thing for study.

Whatever you select, follow through on it actively at each stage in this unit. We will give you occasional suggestions. We recommend that you take plenty of time for this practical application.

When you think of all the things your parents have bought for your home, or buy during any one year, you can easily see that they could not become experts about each one. It's no wonder if they make an occasional mistake that they later regret. And yet they do rather well most of the time, don't they? And they generally seem to do it rather easily.

When your mother decides to buy even a rather expensive article, like a table for the living room, it often seems that she does it quickly and with little effort. How does she do it? Well,

probably she has been thinking about it for a good while, talking to people about it, reading advertisements, and pricing tables in various stores. All you see is the end product—something beautiful and satisfying.

It's hardly likely that she ever studied a big buyer's guide, with hundreds of articles listed alphabetically and described. Such a book would have to be huge, and it would go out of date quickly. Certainly we cannot spare space in this book to describe in detail even a few products and tell you how to buy them.

What your mother has learned—and you can swiftly learn—is a general, systematic way of going about this whole business of shopping. Let's see what it will involve.

Shopping demands thinking and planning. To many people shopping means walking the sidewalks from store to store and looking at one thing after another until their nerves are frayed out like the end of a rope and their feet are killing them. Unfortunately, that cannot be avoided entirely, because finding the right thing at the right price often calls for some hunting, but is worth it. The process can be greatly speeded up by advance planning, done while one is sitting comfortably at home.

Good Shoppers Know What They Want. Alert buyers who start out with a well-organized list have a big advantage. Take Mrs. Wilkins for example. She can develop it during the week. She notices that she is almost out of pepper, and she jots down a note to buy some. She decides she wants a beef roast for Sunday, and makes a note of that. Then, just before she is ready to start her shopping trip, she assembles her notes in orderly form.

Frequently, Mrs. Wilkins also carries with her a little notebook with lists of facts; for example, that sister wears a 32 slip and that dad takes a size 16 shirt with 35-inch sleeves. This saves a great deal of confusion, the return of incorrect purchases, etc.

Good Shoppers Organize Their Trips. By looking at the ads, good shoppers learn what is available here or there. If they are in doubt whether Store *A* carries electric trains, they telephone in advance, in order to avoid wasting time. Therefore, when they start their actual shopping trip, they know pretty well where they are going and in what order.



Ewing Galloway

With list in hand, this shopper is confident that she will not reach home without that very essential bag of flour or pound of butter.

Good Shoppers Define Their Wants Clearly. This is most important. When Therese, let's say, goes downtown, she does not merely think that she is going to buy a dress. She knows that she wants a sports dress, that she prefers cotton, that she wants a color that will go well with her coat, etc. She knows her size. She has studied her budget and decided about what she can pay. When she gets to the store, she still has some decisions to make, in terms of what she finds there. But at least she does not need to wander aimlessly all over town, wasting her time

and that of salespeople, coming to decisions she should have made before she started.

Clerks like Therese very much, and serve her well. For she steps right up and lets them know what she wants. She asks intelligently thought-out questions, too.

Sometimes this matter of deciding on the quality characteristics you want is the hardest thing about shopping. Suppose that you are going to buy a rifle. What do want it for—target shooting or hunting game? In one case you want very fine sights above all else. In the other case you want coarser sights, but perhaps greater power and speed in reloading.

You see, you do not really know what qualities to look for until you have made up your mind about the use you will put the thing to. Mrs. Johnson who prepares meals regularly may buy fancy, nicely matched tomatoes for salads, but buy cheaper ones for cooking purposes.

Oftentimes, two or more desirable qualities conflict with each other. Mary likes sheer hose for certain occasions, but she also likes hose to wear a long time because they are expensive. Sheerness and durability do not tend to go together, and therefore she must choose one or the other or make some compromise. In cases like this it is especially necessary to have your mind made up as to which quality you are going after.

Choosing the time. Timing is as important in buying as in hitting a golf ball. It makes a tremendous difference whether you shop at the height of the rush hour, when clerks must push you along as fast as they can, or whether you shop when clerks are free to help you as much as they can. In the latter case you can take time to think. You are much likelier to get what you want; and the whole process is infinitely less wearying and more pleasant.

Rush hours come at different times in different stores and communities. In many stores the hours before 10 A.M. and from

1 to 3 P.M. are the least rushed. The lunch hour and late afternoon period may be busy because working people can get off to shop then. The late morning hours are fairly busy because many housewives first get the children off to school and do their morning tasks before they go to market.



In shopping, the item desired, the time to shop for it, the place to buy it, and the specifications of the item are factors to be considered.

The day of the week counts, too. Food stores are usually busiest on Friday and Saturday. Laundries on Monday and Tuesday. You can easily watch to see which are the best shopping times in any case.

Furthermore, timing has an important bearing on price and quality. The first melons of the season, brought long distances, are very expensive and at the same time are not very good.

Many foods similarly have seasons when quality is high and price is low. Clothing and textiles are seasonal products also. Many stores have "white-goods" sales in January, shoe sales in July, fur sales in August, etc. Generally, the same garments can be bought for much less at the end of the season than at the beginning. Of course the selection is smaller, and the styles may be out of date. One has to decide whether the saving of money is worth these disadvantages. A fur coat bought in August may be old-fashioned at the first snowfall in December.

Choosing the place. Many stores, such as the "independents," chain stores, "co-ops," department stores, super markets, etc., stand ready to serve us. Where you shop can make a great difference in the quality you get and in the price you pay.

First of all you need to find the stores that handle the kinds of goods you want. Partly this is a matter of general quality level or price class. If you buy your suits in the $30 class, there is no use in your going to the store that handles nothing cheaper than $50.

Generally speaking, prices are higher where more services are furnished. The credit-and-delivery grocer is usually forced to charge your family more than the cash-and-carry grocer, because he does more for them. Then it is up to them to decide whether they like the more luxurious service well enough to pay for it. It is pleasant to shop in the showy, rich-looking stores where clerks are always ready to serve you. It is sometimes pretty disagreeable to wait to be served in the less attractive type of stores. But one often earns quite a bit of saving that way.

One important factor in choosing a store is reliability and character. Shrewd, calculating merchants can make you think for a while that they are helping you. But in the long run it pays to deal only with ethical firms. This is particularly true when you are buying long-lasting equipment. For example, when you become a homeowner and want to buy an electric

refrigerator, you will want to be sure that you can get prompt service and repairs for it even ten years from then. It will be no time to be dealing with fly-by-nights.

Besides, you must consider your social responsibility as a consumer. Do you wish to encourage shyster practices by



Courtesy H. J. Heinz Co.

The old village store was the scene of all kinds of activities in addition to selling.

patronizing shysters? Don't you prefer to cast your "economic votes" for good businessmen by trading with them? This last consideration may also make you stop and think about the type of organization that you wish to support. Do you have any preference for dealing with local, independent merchants, with chain stores, or with cooperatives? Should you try to buy near home rather than drive to a near-by city to save a little?

Can you figure quantity and price? You say that you were never good at figures, but you must be alert in regard to a few calculations: 12 for a dollar is 8⅓ cents a piece; 16 for a dollar

is 6¼ cents a piece. Even a slightly more difficult mental arithmetic process must be figured in comparing prices. However, if one article costs 19 cents, three of them should not cost 62 cents as advertised. You may buy 2 ounces of lotion at 18 cents or 6½ ounces at 45 cents. Many cosmetics are cheaper when bought



Courtesy Marshall Field & Co.

Marshall Field and Company is a far cry from the village store. In spite of its size it is efficiently operated and information booths and store directories enable the shopper to find the desired item quickly and easily.

in the small size as an introductory offer, while canned goods generally are cheaper bought in large containers.

Shopping is fun. If you observe, read, and study before shopping, if you are well informed, you will enjoy shopping. You will like to talk to salespeople and to make friends with them. If they have new information for you, you will be thankful for

it, but if on the other hand you find it necessary to inform them, you can do so politely and pleasantly.

Be courteous. If every buyer could be a salesclerk early in his life, he would be more appreciative of the problems that the salesclerk encounters. In many stores salespersons are trained to handle all types of people. They will be considerate if you are.



Courtesy Cooperative News Service

This co-op store allows customers to examine and select groceries at leisure.

Many people like to establish a friendly relationship with one clerk in each store in which they shop. As the clerk becomes familiar with the customer's likes and dislikes, he can be a great help.

It pays to cultivate good relations with the best clerks and merchants. If you are always suspicious and grouchy, they may not care to go out of their way to help you. But if you prove yourself an honest, considerate person, interested and intelligent about their goods, they are likely to help you all they can.

And that is a great deal. Remember, compared to you, they are experts at the things they sell. We often talk about how necessary it is for salesmen to develop an attractive personality. Isn't it about time to recognize that we as buyers need to do the same thing?

Handle and examine products carefully. You want to save your time as well as the time of the salespeople. If you have worked out a plan for shopping, you will have conserved your time. You will not want to waste the time of the salesclerk by silly questions, frivolous talk, or gossiping about your personal interests and happenings. Look at the merchandise carefully, get as much information as you can, and then make your decision quickly.

Examining goods to see whether they are what you want is called "inspection." It has its limits. You cannot very well inspect the contents of a can of baked beans before you buy, although you should read the label carefully. Nevertheless, skillful inspection is very important in buying some goods. For instance, in buying a dress or suit, one can tell a great deal by inspecting the closeness of weave, the strength of the seams, the matching of parts, etc. Fresh fruits and vegetables can be judged very well by inspection. Consumers who know what to look for can tell a great deal about the workmanship in a piece of furniture.

To make inspection a valuable aid, one must know just what to look for and then check item by item.

Summary

Shopping is a big job that takes an important part of the time of some person in every household. It is important because it determines how much we can get for our incomes. It should be organized on a planned basis in order to save wear and tear on nerves and shoe soles. Well-prepared shoppings lists help.

And one should know rather precisely the qualities he wants, before he starts.

Timing one's buying and selecting good market places contribute greatly to what one gets for his money. The actual shopping should be a pleasant experience, carried on in a courteous, considerate manner.

Questions for Discussion

1. What is meant by the timing of buying? What are some important factors to observe in it?

2. What is "inspection"? Why is it sometimes limited in usefulness?

3. How can a shopper get maximum helpfulness from those who serve him?

4. What factors determine where one should shop?

5. How can one plan a shopping trip to save time and energy?

6. What is meant by "deciding upon quality characteristics"?

7. What are the most common rush hours in stores of various kinds in your community?

8. What has a consumer's sense of social responsibility to do with where he buys?

Practical Applications

1. Watch shoppers at one or more stores. See what they do that you think is good. Also see if they make what you think to be mistakes. Do you see any habits or techniques you would like to develop in yourself? Are there any you would prefer to avoid?

2. Talk over "shopping" with your mother or some member of your family. Ask her how she buys, whether she reads advertise-

ments, whether she favors certain stores and why, whether she prefers a certain day or time of year for buying certain goods, etc.

3. What do you consider important in choosing a store to buy a certain product? List the qualifications or services you desire in a store. For example, note the following items: price, value, location, services, such as delivery, wide variety, self-service, car parking, informed salespeople, interesting displays, credit, installment, goods on approval, adjustments, air conditioning, rest rooms, cleanliness, etc. Score each factor (1) if it is of great importance, (2) if it deserves some consideration, and (3) if it is not to be considered at all in buying the product.

4. Prepare a list called "A Salesclerk Looks at the Customer." Record the things that you think customers do which annoy a salesperson and which reflect a bad shopping attitude on the part of the customer.

Problem

Let's apply what you read in this chapter to the one commodity you selected at the start.

1. What quality characteristics are most important in it? Do these differ with different purposes to which you might put the article? If you were going to buy it right now, what characteristics would you especially try to get?

2. What are the best times of the day, week, or year to shop for this article? When are those who sell it least rushed? If the prices vary by the season, what is the best season? If quality varies with the season, when is it at its best? Are there any regular specials or sales on it? If so, when do they come? Would it be a good idea to wait for them?

3. At what different kinds of stores can this article be bought? Do prices vary much from store to store? Does the quality vary too? What kinds of stores would help you most in getting a good selection?

4. If you were setting out to buy the article right now, what questions should you be prepared to ask the clerk? What should you plan to pay?

5. With respect to your article, how important is "inspection"? Precisely what should you look for? Can you demonstrate to the class how one should inspect this article before buying? If inspection will not reveal enough about this article, how shall you get the added information you need?

Chapter 8: USING ADVERTISEMENTS

As you studied the buying of the commodity that you selected in Chapter 7, you must have noticed that the greatest need of shoppers is for accurate information which will enable them to make wise choices. We all need to know what is offered on the market, what it is good for, when we can get it, and how much it costs. We need to learn about new inventions—perhaps about a miracle sponge that we could clean the car with on Sundays, or some novel ready-to-serve foods that we could offer to our party guests. We want to hear about improvements in old products, say, the latest development in electric toasters. We need to learn about sales when unusual values are offered, for example, is the store really going to sell its best coats in that clearance sale?

Advertising is one of the sources of such information. That is why we buyers need to learn to use it well. As a matter of fact, everyone does depend on advertising a good deal. Your family uses ads every day. By reading an ad, your mother learns that her favorite department store sells frozen foods. Now she can pick up a couple of cartons after her other shopping in the store is finished. Your father learns that a branch bank has opened near your home. He, too, saw an advertisement. And you thumb through the advertisements to find out what movies

are in town and which theater is showing the one you wish to see.

Informative advertising. If advertisements are to be really helpful, they must tell us about many things: new inventions, latest styles, prices, quality, additional uses, places to purchase, opportunities to save money, methods of payment, and services of all kinds. Not all this information can be put into every ad,



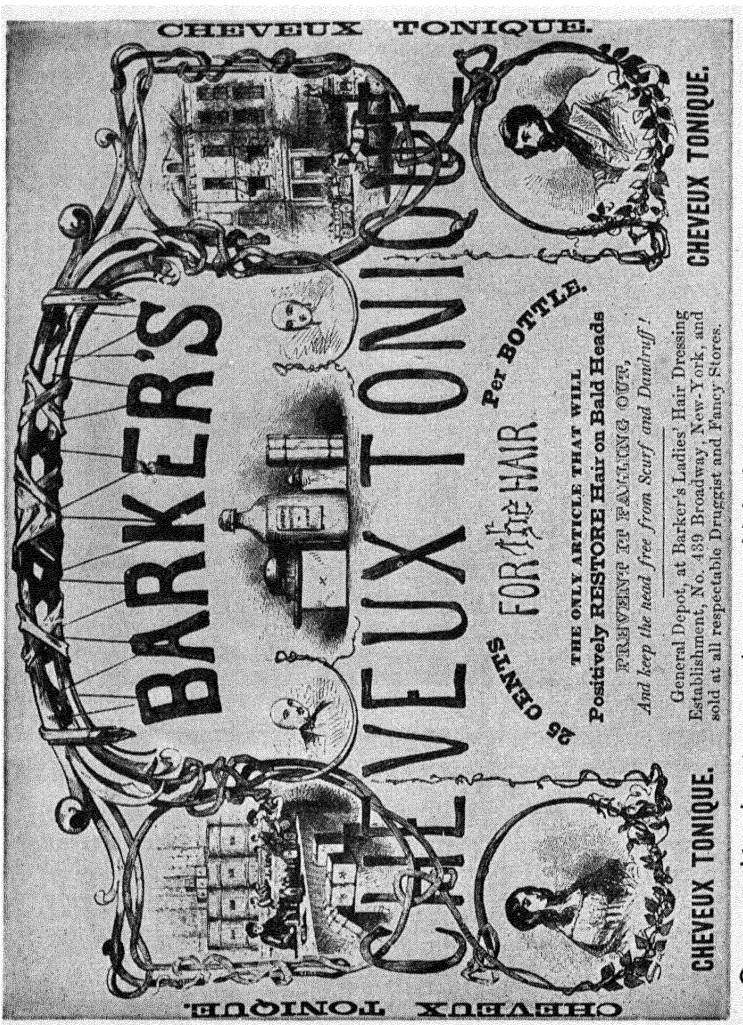
Courtesy New York Central System

This large advertisement showing the various pleasures offered by travel in New England appeared in Grand Central Station, New York City.

because space is limited. Anyway, we do not always need so many facts about common goods. Yet, to be really helpful to shoppers, advertising altogether must give many facts, and the facts must be stated honestly and accurately.

Ads are everywhere. It has been said, "All the world's a signboard," and it is almost true.

Advertisements are found in the newspaper, in magazines, in the mail that comes to your home, and on the radio. Then

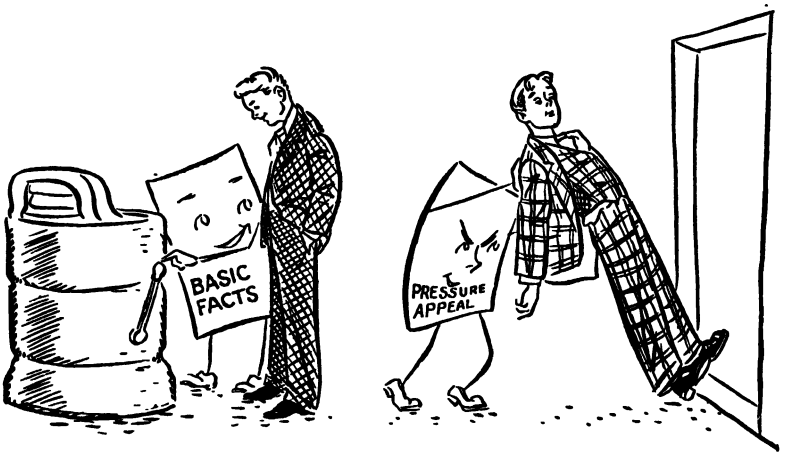


Compare this advertisement that was published in 1854 with a number of modern ones.

as you walk in a shopping district you see signs everywhere, large ones and small ones, brilliant signs painted red and green or flashed off and on by an electrical device.

Around your home you find a blotter with an ad on it. Other common articles that tell about a product or services are pencils, labels, cartons, match covers, and the like.

You glance upward and you see an airplane writing the



INFORMATIVE ADVERTISING **EMOTIONAL ADVERTISING**

In reading advertisements, do you look for facts, or do you allow the appeal of the picture or copy to push you into an impractical purchase?

brand name of some product in the sky. Advertising is pretty nearly everywhere, isn't it?

The advertising bill. It costs money to advertise. To place ads everywhere means spending a deal of money. In 1946, *Life,* the weekly magazine, received approximately a million dollars for each issue from its advertisers. A colored page of advertising in *The Saturday Evening Post* costs $12,000 while a page of advertising in the Sunday edition of *The New York Times* costs more than $3,000. Advertisers spend the largest sum for adver-



Courtesy Aluminum Cooking Utensil Company

This advertisement, although it has plenty of appeal, also gives all the pertinent facts about the item being advertised. In other words, it is informative.

tising in newspapers. The next largest amount is spent on direct mail (letters, small folders, etc., sent by mail). Radio and magazine advertising cost the advertisers the third and fourth largest amounts of their advertising budget.

Mass information. When the village tailor of yesteryear sold his products to the other merchants and professional folks in the neighborhood, he did not need to do much advertising, for his fine seams and good fittings were quickly reported around town and people came to him freely. But when the big, modern, ready-made clothing factory located in New York wishes to sell its latest styles to the families in the forty-eight states, it must do many things to tell them about its products. It must show its wares in the national fashion magazines, send out catalogues far and wide, and advertise in a variety of ways.

The methods of getting information from producers and sellers to their customers had to change because our economic system had changed from the handicraft stage to the industrial stage of mass production. As soon as we developed mass production and mass distribution, we also had to develop a means of giving mass information, and that means advertising.

Mass persuasion. Unfortunately, not all advertising is highly informative, because the merchant does not use advertising chiefly to inform you. He designs it to persuade you to buy. While you are looking at an ad for information, the merchant wants you to become thoroughly familiar with brand names, slogans, and trade-marks. He wants you to think his product is distinctively different and better than anything else for the price on the market. In order to do this, his advertising has to carry you through several steps.

Getting Your Attention. You see a magazine ad that pictures kittens hanging on the wash line. You look at the ad a second time. Something is moving in the jewelry-shop window as you pass by. You stop and look, and you see a purple-covered turntable on which lies a gold-plated compact. You listen to the

same program tomorrow because the hero of today's serial loses control of an airplane as the 15-minute program comes to an end. Advertisers use color, action, comical devices, and many other tricks to catch your attention.

Building Up Pleasant Associations. You like a certain movie star, and when you see his or her picture in an ad, you think a bit more kindly about the product the star is advertising. While you are waiting for your favorite dance-band leader to play his next number over the radio, you hear the persuasion of the commercial in a fairly receptive mood, even though you may be slightly provoked at the delay. The advertiser wants you to be lulled into pleasant dreams.

Stressing Quality. We all want to think we are buying the best. You like to say that your casuals are wearing forever, that your shirt is just like new after dozens of washings, and that you just finished eating a bar of candy that was the best ever. The advertiser knows that adults are particularly interested in quality, and he appeals to them by stressing such attributes as strength, reliability, taste, perfect fit, comfort, and honesty of production.

Emphasizing Economy. A penny sale (a second article for another penny), dollar day (articles that sold for $1.25 or $1.15 are now a dollar—or was the original price 85 cents?), or a new product introduced by coupling it with a well-known one at only a slight increase in cost over the price of the established product are all methods of appealing to our economy streak.

Sometimes advertisements tell you how to save such items as electricity or leftover foods or how to repair clothes, but often this can be accomplished only by buying an additional product. Perhaps it is an economical move, but frequently the advertiser will try to make you buy his product by the appeal to save money even if it is not a money saver.

Stimulating Our Emotions. All of us have the emotion fear



Courtesy Prudential Insurance Company of America

The attraction of this advertisement is an emotional one. You will stop and read the copy because you are drawn to the page by the picture.

—fear of bodily harm, fear of losing our loved ones, fear of "getting fired." Insurance companies urge us to buy policies payable at the time of a fire, an accident, or death. Manufacturers of drugs warn us against colds, pneumonia, heart trouble, and other diseases. This advertising can be helpful, because most of us need to spend more money on protective things. Some insurance protection is advisable; and we should take care of our health. But the doctor can give us a prescription that will be more beneficial than a patent medicine of a doubtful character.

Other advertisements induce us to buy things we could very well do without, such as vitamins (unless the doctor prescribes them), reducing tablets, or hair restorers. A frightened person can be made to do many things.

Making You Popular, Especially with the Opposite Sex. Do you want a lot of dates? According to the advertisements, you must use "Marvelous" shampoo and "Sweet" soap, eat "Crusty" bread, drink "Chok" milk, and what not. No appeal is quite so common as the "alluring one." These ads seem to insist that if you wear a certain tie, you will "send" your date, while a certain nail polish will put your boy friend into a state of ecstasy. The "before and after" pictures are typical of this type of ad used by many producers and distributors.

Pushing You into Action. Finally you must be made to do something, for example, "call your grocer now," "send in the box top today," "mail a check immediately," or "don't delay." Many advertisements have coupons to be cut out and sent in with the money, enabling you to place an order with very little effort. You have been awakened, attracted, reasoned with, and frightened by advertisements in order to make you buy, and finally, you must be almost forced into doing something about the purchase.

All these elements creep into advertising because the advertiser

is trying to persuade you to buy his product. If advertising does not bring in a good many customers, the businessman cannot afford to keep on paying for it.

Using advertising as a medium of persuasion is perfectly all right, as long as the seller does it himself and fairly. If you and I were merchants, we would use advertising to promote sales, too. But the fact remains that being pushed into action is not always helpful to a consumer. In some cases it may be very bad for him. Even if it does not make him buy products that are useless or harmful to him, it may still make him spend his money for things he does not need as badly as he needs other things. For instance, advertisements of alcoholic drinks may push a man into wasting money his family needs for food.

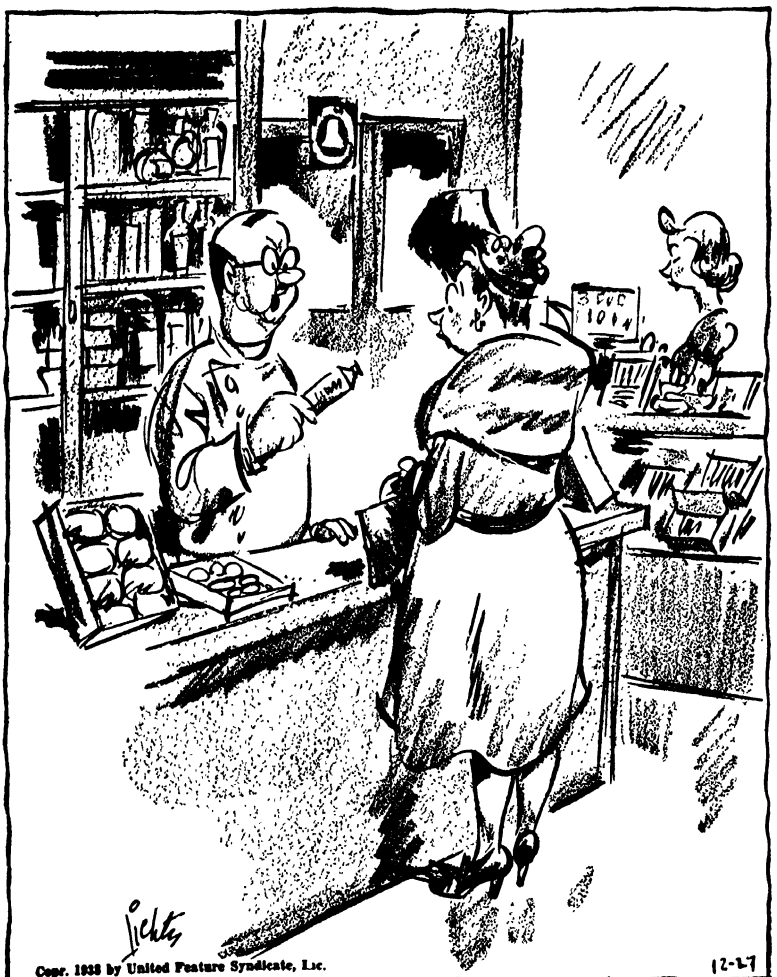
And yet, as we said at the start, we cannot afford to ignore the advertisements, because we need the information they contain. Don't the smartest shoppers you know "shop the ads" regularly? Therefore a consumer must learn to do two things at the same time:

1. Get the facts from the ads.
2. Be wary of misinformation and overemotional appeals.

Now let's go on to see how we can do that.

Advertising as a buying guide. Make a collection of advertisements about the product you chose to study in Chapter 7 or about some other product in which you are interested. Get the ads from newspapers, magazines, leaflets, etc. You may wish also to copy a few radio commercials. Bring your samples to class. Perhaps you can make an interesting scrapbook of them. Then put them through the following tests:

What Information Do These Advertisements Contain? Mark in red on the advertisement each specific statement of fact. What does the ad tell you about who made the goods, where they are sold, what they are like, what they cost, how they can



Courtesy Lichty and United Features Syndicate, Inc.

"Now don't expect too much of this toothpaste. About all it does is clean the teeth!"

be used, how they should be cared for, etc.? Assemble this information into summary form.

Is the Information Correct and Accurate? Get the best information you can about the product, from other sources. Home-economics textbooks, science books, the reports of consumer organizations and other research groups, etc., will help you. Perhaps you can also discuss the product with adults in your community who know about it. A garageman, for instance, could give you advice on cars; a grocer could help you on foods. Your parents and older friends know a good deal from experience. Match what the advertisements say against what others say. Try to see whether there is anything inaccurate or dishonest in the ads.

How Much of the Advertisement Is Mere Trade Puff? Legally, sellers are permitted to "puff" their goods, so long as they do not actually misrepresent the facts. This is ethical, so far as the merchant is concerned. But it is not helpful to the consumer. When the merchant says that his stuff is noblest of them all, or simply superb, you do not know any more than you did before. To get at the real facts, you must brush aside such puffery.

How Is the Seller Seeking to Appeal to You? Is he playing on your emotions, your fears, or your desire for popularity? How does he do it? Are his appeals to your desire for economy genuine? Look at, not merely one ad, but the entire advertising campaign of some producer or seller. What theme does he keep hammering on? Is he scaring you? What pleasant associations is he trying to build up in your mind?

If you understand just how the advertiser is trying to manipulate you, you can offset his every move, just as a good checker player sees what his opponent is trying to do and keeps him from it.

What Information Is Not Given That You Should Like to Have? List the facts that would make the advertisements as informative as you would like to see them. Could all these facts be given in one advertisement? in a series of ads? Would most of us pay attention to them? Is the seller forced to exaggerate and puff his goods to get buyers to notice them?

Discuss in class what you have found, and listen to the reports of others. Perhaps you should make an exhibit before you do so. You could prepare a three-column chart to show how much space in an ad is devoted to facts, trade puffs, and attention-getting devices. Try to form some conclusions about how much help you can get from advertising, as well as how to avoid being "taken for a ride" by it.

The advertising of tomorrow. If you have not been satisfied with the advertising you find today, you may wonder whether it will be better or worse next year. Many people are working hard to improve the quality of advertising.

Businessmen, operating chiefly through various advertising clubs and the Better Business Bureaus, do a great deal to clean up their own practices. Good businessmen are hurt financially when a crooked competitor lures unwary customers away from them. Therefore they contribute funds to support a Better Business Bureau, and they use their influence to keep all advertisers in bounds. If there is a Better Business Bureau in your locality you ought to become acquainted with its work.

The government supervises advertising to a considerable degree, for example, the Federal Trade Commission keeps a constant check on advertising in newspapers and magazines and on the radio. It investigates doubtful items and prosecutes offenders. Any businessman who feels that his competitors are using unfair practices can make a complaint. A customer who has been victimized also can make a complaint. The Commission has power to stop any bad advertising with a cease and

desist order. Under special laws the Federal Trade Commission has direct supervision over the labeling and advertising of foods, drugs, and cosmetics, wool products, and some others.

The United States Post Office Department checks on false advertising that goes through the mails. It can deny the use of the mail to fraudulent operators, and it can also have them prosecuted and sent to prison. The Securities and Exchange Commission supervises the advertising of stocks and bonds. Thus, through a number of laws and agencies, the Federal government does a good deal to clean up advertising. Some states and cities also take positive action along these lines.

As *consumers* we can do most of all to improve advertising. We can do it by simply ignoring businessmen who advertise dishonestly and giving our trade to those who supply factual information. Up to now we have not done this very well. We have often made it more profitable to advertise sensationally, and this puts pressure on even the most honest sellers. If consumers will learn to demand informative advertising, we shall soon have a great deal more of it.

Summary

Advertising is essential in our kind of economic organization. It is essential to producers and merchants so that they can sell more goods. It is essential to consumers because they need the information it can give them. Because merchants use advertising mainly as a way of persuading us to buy, advertisements are not always as informative as we would like to have them.

A shopper needs to learn to get facts from advertising, and at the same time to keep from being influenced too much by overemotional appeals.

Advertising can be made better in the future. Honest businessmen are working to improve it. Government contributes quite a bit by regulation. But we can do most of all to bring

about improvements in advertising by giving our trade to people who advertise honestly and helpfully.

Questions for Discussion

1. What difference does it make in practice whether advertising is thought of as a medium of information or a medium of persuasion? Do you think it should be both?

2. Can you show that advertising is a necessity for both producers and sellers and consumers? In what ways do their needs for it differ?

3. Why do advertisers sometimes appeal to our emotions rather than to our intelligence?

4. What organizations can hinder or prevent the dishonest use of advertising?

5. What can you as a buyer do to assist in the improvement of advertising?

6. Why is advertising more of a necessity nowadays than it was 50 or 100 years ago?

Practical Applications

1. Bring to class evidence of how much you are "advertised at." How many forms of advertising can you find in your community? How do you think all this advertising affects your buying?

2. Find out what one or more adults whom you think to be smart shoppers do about advertising. Learn whether they ignore it or purposely consult it. Also learn what they do to keep from being deceived or unduly influenced by it.

3. Observe the details of any advertising campaign about a product in which you are interested. A good way to present the details is in the form of a small notebook or project. Collect ads from the usual media, and then see if you can find how the slogans, pictures, and testimonials are carried out in the more unexpected places. You may

find a breakfast-food slogan on the carton, in a carton, on a free toy, and on the radio. You will have to copy the ad from a neon display as well as the ones on the radio.

What facts, attention-getting devices and trade puffs were similar in all the ads? Which were different? Which media tried to make you buy immediately while others only reminded you of the brand name or a specific quality?

4. Perhaps you or your family have bought an article recently because an advertisement influenced you. Were you satisfied with the article? Acting for your family or for yourself, tell or write the advertiser your opinion of the advertisement.

Problem

You have been looking at a good many ads now, and have been thinking about what they should be like. Can you now draw up a set of specifications that advertisements should meet in order to be good ones for both the producer and the consumer?

Can you go one step further and actually produce a good ad to illustrate what you mean? Remember, it must be informative; it must tell the prospective buyer as much as possible. And it must also have sales pull.

Chapter 9. USING LABELS

We have been seeing how much shoppers need information before they can make good choices when they buy. Advertising is an important source of good information, which you get before you actually go shopping. When you arrive at the store and are looking at the goods, there are two more sources of information: one source is the salesclerk, who may be able to answer your questions and give you advice; the other is the label or tag on the article.

Labels

A label is not only the attractive paper around a can of peaches but it is also the tag on your new shirt, the seal pasted on the toe of recently purchased socks, the carton that holds the bottle or jar, or the cellophane folder protecting a semiperishable article. Labels are of a great variety.

Some labels, like some advertisements, do not tell very much. The label may have a beautiful, striking picture to catch our attention. The brand name may be played up in a prominent way, and a few vague trade puffs may be added in an effort to make the article seem to be wonderful. You have undoubtedly seen many examples of such labels. They may be useful to the producer because they help sell the product but they are not useful to the buyer.

In fact, we can go further and say that smart shoppers are suspicious of such vague, trade-puffing labels. If a manufacturer makes a really good shirt, he is likely to wish to give you the

facts that prove it is good. If he chooses not to put the facts on the label, shouldn't we wonder whether he is trying to hide something?

In this chapter we shall not bother with those vague, flowing labels that don't really tell a buyer much. Our purpose is to learn to look for good, informative labels and *use* them. These are of three basic types: descriptive labels, grade labels, and certification labels. Some labels carry a combination of two types.

Descriptive labels. Labels that give quite a bit of information often tell these facts:

1. What the product will do. (Performance)
2. What it is made of. (Composition)
3. How it is made. (Construction)
4. How to care for it. (Conservation)
5. Recommended uses. (Utility)
6. Name of manufacturer or distributor and his address.



The label is an accurate source of information. This label indicates, among other things, that the dress is color fast—an important factor to the young lady about to make a purchase.

Some groups advocate a label that describes the goods in detail. In describing a shirt, the label may say that the shirt is made of strong cotton broadcloth, with finished thread count of 140 by 60, full cut for comfort, fast to washing, and Sanforized, with a residual fabric shrinkage of less than 1 per cent. It will ask you to launder it in the normal manner for cotton

goods, avoiding strong soaps, alkalis, bleaches, and to press it with a not-too-hot iron.

A descriptive label does not compare one article to another, or rank them as "Good," "Better," "Best." It simply describes each article and allows the consumer to do the comparing.

To make a good descriptive label, the manufacturer must first decide what characteristics of his product are most important. Then a way must be found of describing each characteristic pre-



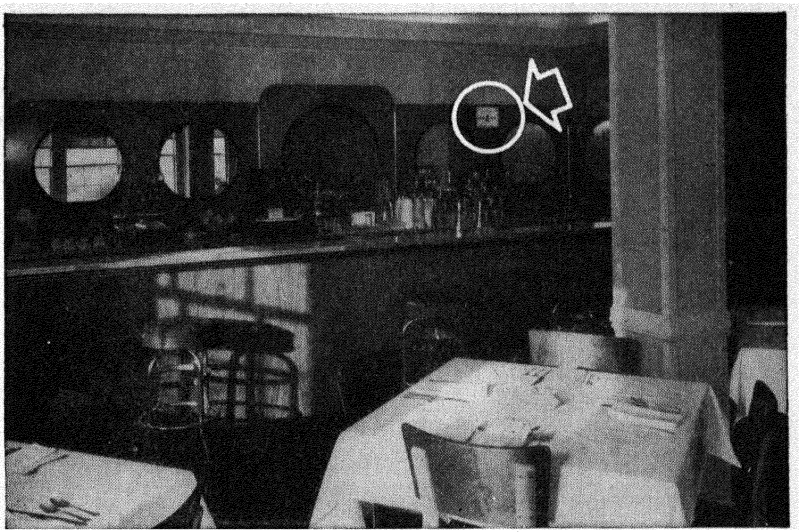
Courtesy Francis H. Leggett and Company

This is a descriptive label listing the size of the peas, the size of the can, the maturity of the peas, the number of persons that the contents of the can will serve. All this information is helpful to the buyer.

cisely, in a word or phrase that the buyer will understand. For instance, the most important quality of canned peas is their tenderness; therefore the canner labels them "Very Young," "Young," or "Nearly Mature." Other details that show the variety of peas, their size, the seasoning used, etc., must be added. Directions for cooking and serving supply inspiration to the unimaginative, and thus are often included.

Grade labels. Other people prefer the grade label of the United States government or a grade by private business concerns. A grade label is one which does not describe details but which simply gives an over-all rating. Grade labeling may be

by letter or number or by some word. Canned goods may be Grades A, B, C, and "Substandard." The words "Fancy," "Choice," and "Standard" correspond to the letters and mean the same thing. Cheese is graded 1, 2, and 3. Butter is scored, a score of 93 being top grade.



Courtesy North Carolina State Board of Health

In certain states, restaurants are graded and labeled. The prospective diner can be assured of a good dinner prepared in a clean kitchen when the label reads "A" as it does in this photograph.

Several kinds of meat are graded. Beef, for instance, was traditionally divided into "Prime," "Choice," "Good," and several lower grades, generally not sold directly to shoppers. During the war, when the government required grading of all beef, the designations AA, A, and B became established.

The prefix "U. S." accompanying any grade statement may be used only on merchandise that has been packed under the continuous inspection of the United States Department of Agri-

culture. This is a service that the packer can secure upon application, by paying a fee. The grade designations without the letters "U. S." are by firms that do not employ continuous inspection.

You see, the essential difference between grade labels and descriptive labels is that grade labels give one summary judgment while descriptive labels list the details. Grade labels rank an article as "Good," "Better," "Best," while descriptive labels



Courtesy Bercut Richards Packing Co.

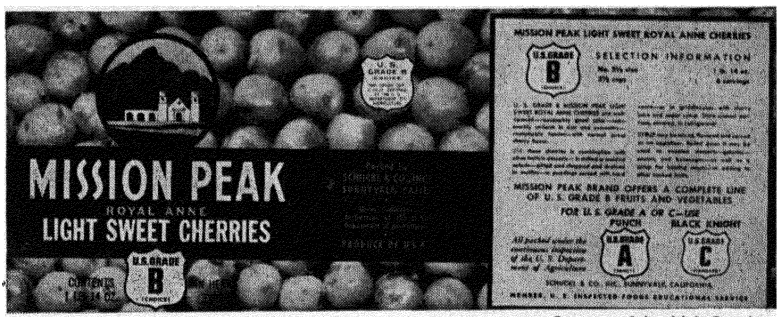
This is a grade label. The buyer sees the large "A" on the can and is assured that this is a very fine tomato juice. However, he cannot read a description of the juice because the label does not carry one.

make no comparison. There is considerable argument about which is more helpful to the buyer. It is often argued that grade labels are easier to read quickly. But people on the other side point out that descriptive labels give consumers the facts and let them make up their own minds.

Mainly the argument is over the labeling of canned foods. For no one thinks that grade labels could be applied to complicated things like automobiles or radios. And on the other hand no one seems to object to the grading of products like eggs and butter.

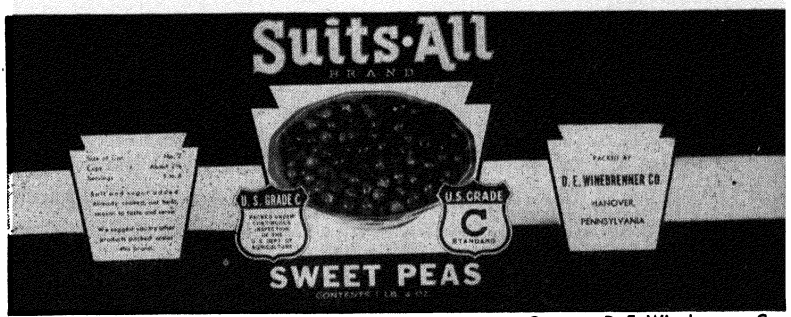
Combination of grade and descriptive labels. The United

States Inspected Foods Educational Service advocates a combination of grade and description. This is, of course, quite possible for certain goods.



Courtesy Schuckl & Co., Inc.

A combination of descriptive and grade labels is highly desirable. Note the grade and the description on this label.

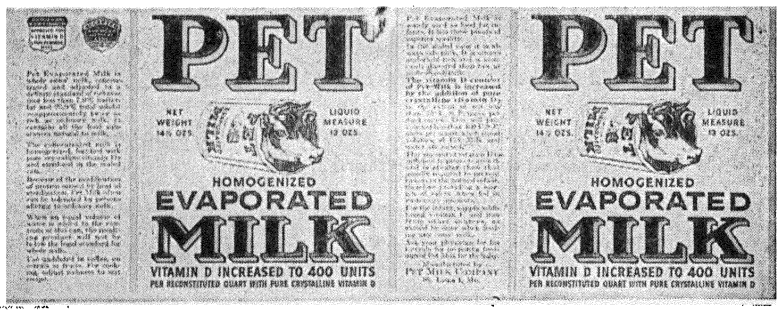


Courtesy D. E. Winebrenner Co.

Another example of a combination label is shown above. Note the term "U. S. Grade" which indicates that the can has been packed under the supervision of the United States Department of Agriculture.

Certification label. This type of label states that some group has "approved," "guaranteed," "tested," or "certified" the article. This statement is generally in the form of a seal, as shown in the accompanying examples.

This sort of label can have great advantages for buyers in connection with certain kinds of goods. For instance, if the manufacturer of a gas stove told your family every fact about how a stove was made, the materials used, etc., they still would have little basis for a good judgment. They simply do not know enough about gas stoves to use the facts well. But if they see the blue star of the American Gas Association on the stove, they know that it has been tested and found to be safe and efficient. They can buy with confidence.



Courtesy Pet Milk Company

The two seals at the upper left of this label indicate that the content of the can has been approved by the Wisconsin Alumni Research Foundation and by the American Medical Association. This is an example of a certification label.

Similarly the Underwriters Laboratories test electrical appliances to see that they are free from shock hazards and are well constructed. The American Dental Association tests tooth pastes and powders. The American Medical Association tests certain health products.

Some of the most important certification labels are under government supervision. When you see "U.S.P." or "N.F." on a bottle of medicine, this means that the preparation meets standards set up under the Food and Drug Administration's

program by the United States Pharmacopoeia or the National Formulary.

There are also private testing companies that check on the quality of goods and grant the use of a seal to good ones.

Such seals are a great convenience and a good guide to shoppers *if shoppers know what they mean and if the certifications are reliable.* Almost anyone can put words like "certified" or "approved" on his product. Dummy testing organizations with fine-sounding names can be set up in order to get some product an imposing seal of approval. Every consumer should learn the significance of a few really meaningful certification programs and ignore most of the rest.

Setting Standards

What we have just been saying puts the spotlight on one of the big problems in labeling (and in advertising, too). Whether we use a descriptive label, a grade label, or a certification, it means almost nothing until the words used are defined exactly.

Let's take a simple example: You see a can of peas labeled "Young." You think, "Fine, I like very tender peas. I'll take that." But when you open the peas, you find them only fairly tender. Why? Because "Young" is the official designation for the middle stage of maturity. The peas you wanted are labeled "Very Young." It is up to you to know that. A label cannot carry a great many words; each one must carry an exact meaning that all parties understand.

Similarly, a grade or a certification does not mean much until there is general agreement on what each grade means or what tests an article must pass before it will be certified. This means that definite standards must be set for each kind of goods and that each term used must have a carefully defined meaning.

A standard is simply a means of measuring. Some measurements have been standardized for a long time; for instance, everyone knows the meaning of inch, quart, pound, etc. Not

everyone is so sure of such measurements as No. 1 can. Some standards are measures of quantity; others are measures of quality. Measures of size and quantity are relatively easy to standardize.

To measure quantity or size. When you are hungry after school and rush to buy a bag of potato chips at the near-by delicatessen, you probably judge the quantity of the food by the size of the cellophane bag. It would be better if you stopped a minute to read the printing on the bag or box and find out the exact quantity. If all the gang wanted potato chips, pooling your finances and buying a larger box might give you more food for the money.

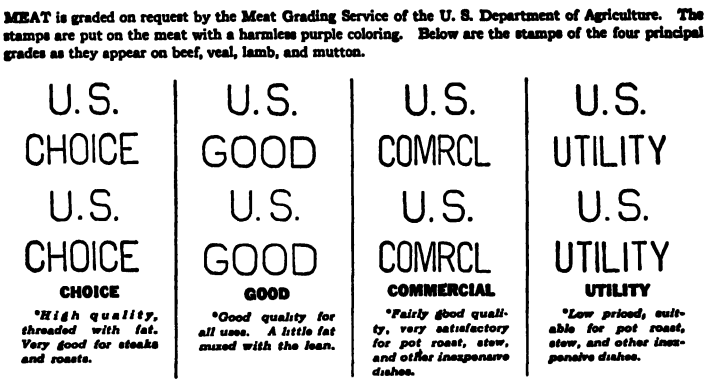
Years and years ago, measurements were set up for the use of the businessman and the consumer. Down through the ages, man has set standards of quantity for his use. He has needed to know the exact length of a yard, the weight of an ounce, and the time of day. These and many other measurements are taken for granted because they have been with us for such a long time.

In addition to such units of measurement as the bushel, pint, or dozen, we need other measurements, or at least more accurate ones, for standardizing many products. The size 16 dress varies from manufacturer to manufacturer. Asking for a can of tomatoes may mean a score of different-sized cans for your consideration. In recent years, beds have been standardized as to size and with this standardization came regulations as to the size of sheets and blankets.

To measure quality. Potato chips have quality too. You want them crisp, with sufficient salt, and with a taste that is just right. Describing quality is difficult. If, for instance, you are talking about a can of peaches, you will try to state the exact shade of their color, choosing the many intensities of yellows and reds. You will need to state the thickness of the juice and the texture of the pulp. You will want to say how sweet, how flavorful,

and how delicious they are, and the degrees of these qualities are very hard to measure.

Years ago when the sewing, and even some of the weaving, was done in the home, the quality of the cotton or wool dress was well known. Today an examination will give you some of the qualities, but only laboratory tests can determine how strong the material is, how many hours in the sun it will stand before fading, and if perspiration will weaken its fibers.



★ U. S. MEAT GRADE STAMPS ★

Courtesy U. S. Department of Agriculture

Measurements of quantity and quality. Every one of us is constantly measuring quantity and quality, but we are especially interested in the measurements made by government, science, and industry, which have measures of sufficient accuracy and authority to set up standards to print labels.

By Government. Several agencies set up standards. As a help to the buyer, the Food and Drug Administration supplies a reasonable definition, standard of identity, reasonable standard of quality, and fill of container.

For preserves and jam, by way of illustration, 45 per cent of the quantity must be fruit, while 55 per cent is sugar or some form of it, such as sirup or honey. It may also contain spice, something to make up for the natural acidity of the fruit or for the lack of pectin, or something to serve as a preservative. The Food and Drug Administration does this for milk, cheese, canned peas, eggs, and thousands of other food products.

The Bureau of Animal Industry sets standards of meat. It generally has two stamps. One shows that the meat was federally inspected and passed as a wholesome food while the other one indicates that the meat was federally graded. Besides meat, the United States Department of Agriculture grades poultry, eggs, butter, processed and fresh fruits and vegetables, and other products.

The National Bureau of Standards has set many standards. The ones that have been especially helpful through the years have been the standards of length, mass, and time. It has been useful in its division of simplified practices, as for example, trying to reduce the number of tin cans.

Before the government purchases anything for its own use, the National Bureau of Standards sets measurements for the product to be used. Then the contract for the manufacture of the product is given to the concern that furnishes the article to the government at the lowest price. Because of this method of buying, the government has set up thousands of standards that may be obtained from the Superintendent of Documents. Some firms have been willing to obtain these specifications from the government and to make the product, which, if it satisfies the government, ought to please us as buyers. If willing-to-certify manufacturers do this, they will wish to tell their customers on the label of the goods that they are making the product according to government specifications.

The Federal Trade Commission, too, has organized trade

conferences and adopted definitions and practices for the trade. In the fur industry, the rabbit must be called rabbit and not Beaverette or Sealine. If the manufacturer fails to conform, he will be given a cease and desist order.

By Industry and Science. Without the help of the government, some concerns or groups of concerns have set their own standards and prepared their own labels.

Of the many trade associations, The American Gas Association has been one of the most successful. The manufacturer sends his product to the laboratories of the association, and if it passes the tests for safety, durability, and efficiency a seal of approval is placed on the gas-operated appliance.

A *standard* is a measuring stick; a *grade* is a means of identifying the standard; a *label* gives the information to the reader about the grade and standard.

Using Labels as a Guide to Buying

We have been talking about the kinds of labels and the way labels are developed. Now let us see what you can and should do to make informative labels a useful tool when you are shopping.

Read labels carefully. Read the label of the product you are planning to buy very carefully. It will generally tell you more than the clerk who is serving you. Read for exact details. If it is important for those who write the label to use words with precision, it is important for you to read them with the same precision.

To do this, you need to know what a considerable number of trade terms mean. If you use the term "sanforized" on a pair of slacks or on a slip cover for furniture, do you know its significance? Do you know how "showerproof" on rainwear differs from "waterproof"? If you see a piece of beef labeled "U.S. Good," do you know how good it is?

Save the labels from such things as clothes and the family's household appliances. They can be filed in a partitioned folder, a scrapbook, or even an old box fixed for that purpose. You may wish to refer to the file when washing a dress or pullover for the first time, for an informative label may tell you to soak the fabric in salt water.

Buy goods with satisfactory labels. If you occasionally check on this file of labels, then you can repeat the purchase of satisfactory goods. Ask for the products by the information on the label. Tell the salesclerks that you are pleased with the labeling service which their store gives. Occasionally you may wish to write a letter to a manager or the president of a firm to show that you purchase goods at his store because his labels have been very helpful.

Only a demand for better and more labels will produce more and better labels on the market.

Urge others to insist on better labeling. Although your efforts to use and appreciate good labels will help labeling in general, only if your family, friends, and consumer groups do the same, so that the number interested becomes larger, will the producers and distributors heed the call to help the buyer identify the merchandise in this manner.

Summary

Shoppers need adequate, reliable information in order to make wise choices in buying. One source of such information is labels.

Labels on consumer goods vary in size, shape, color, and in value to the buyer. Helpful, informative labels are of three basic types: descriptive, grade, and certification. A good descriptive label tells what the product will do, what it is made of, how it is made, its uses, the care it should get, and the name of the manufacturer or distributor and his address. Grade labels give

the buyer a quick, summary judgment of a product. They are ordinarily used for nondurable goods, such as foods—eggs, butter, and canned goods. Certification labels are generally in the form of a seal stating that some group has placed its stamp of approval on the product. Certification labels are a convenience and a good guide if the shopper knows what the certification means and if the certification is reliable.

For labels to be a useful tool in shopping they must be read carefully and should be saved for future reference. Labels will become more general and reliable as shoppers request producers and distributors to place good labels on their merchandise, particularly labels based on established standards.

Questions for Discussion

1. What are the chief differences between a grade label and a descriptive label? Which do you think will help you more?

2. Why is it important to have as many goods as possible informatively labeled?

3. What is meant by a standard? Give examples of standards you regularly use in your everyday life.

4. Why are standards of quality so much harder to set than standards of quantity?

5. Why must standards be developed before good labels can be written?

6. What is meant by a certification label? What common examples can you think of?

Practical Applications

1. Pick one commodity in which you are interested, perhaps the same one you used in Chapters 7 and 8. Assemble a collection of labels and tags found on this commodity. Organize them into an

exhibit, perhaps mounting them on a large sheet of cardboard. Analyze what each label or tag tells you. Classify them as to their informativeness. If possible, find examples of certifications, grade labeling, and descriptive labels. All of these will not be available for every product.

Be prepared to demonstrate to the class how to use labels in shopping for this article. Show them which terms are important and what each term means. If there are some words that are tricky or meaningless, warn the class about these.

2. If each member of the class makes such a report, perhaps the class as a whole can assemble a short "Dictionary of Trade Terms That Every Shopper Should Know." It could be mimeographed and made available to all members for future use.

3. Find out from older members of your family or your adult friends how much they depend on labels and the kinds of labels they prefer. Are they satisfied with the labels they find? If not, what improvements would they like to see? Do they save labels for future reference? Do they prefer to buy by grade or by description? What do they think the government should do about labeling?

4. Make a collection of certifications, seals of approval, etc. Try to determine which are worthy of the attention of consumers and which are merely an elaborate form of trade puffing.

5. Tell some unhappy experience that you or a member of your family or a friend may have had because of excessive shrinkage of clothes, poor quality of food, faulty electrical equipment, etc. Explain how the experience might have been avoided if the customer had bought a product which was similar but which contained a helpful label.

6. Select a small committee to write to the following concerns to obtain information on labels as well as illustrations of good descriptive, informative, and grade labels.

a. U. S. Inspected Foods Educational Service
745 Fifth Avenue
New York, New York

b. National Consumer-Retailer Council, Inc.
8 West Fortieth Street
New York, New York

c. "A Guide to Informative Grade Labeling"
The Great Atlantic and Pacific Tea Co.
370 Lexington Avenue
New York, New York

d. Merchandise Research Laboratories
Philadelphia, Pennsylvania

e. National Canners Association
1725 H Street, N.W.
Washington, D. C.

Problem

You have now studied the process of getting information about goods, of comparing values, and of making your decision. Can you write down a set of specifications for a sheet called "The Shopping Habits Every Consumer Should Have"? Show clearly the whole picture of the procedures one must follow in getting the facts and making his choice.

Perhaps you will also wish to attach a list called "Things to Avoid, in Order to Be a Good Shopper."

PART 5

Protections For Consumers

CHAPTER 10: SCHEMES THAT CHEAT YOU

CHAPTER 11: PROTECTION BY GOVERNMENT AGENCIES

CHAPTER 12: PROTECTION BY PRIVATE AGENCIES

Most of the established businessmen who sell to us are fair and honest in their dealings. But there is always a shady fringe of racketeers, swindlers, and quacks for you to guard against. A few of them flourish for a while on bold, clever schemes; many of them grub out a cheap sort of living preying on decent believing people with old, worn-out tricks that really should not fool anyone over the age of ten.

Sometimes, as in the case of the young men who are forever "working their way through college" by selling magazines but forgetting to deliver them, their cheating tricks cost us only a dollar or two. Sometimes, as when confidence men unload beautifully engraved, worthless stocks, they get some family's — possibly your neighbor's — whole life savings. Altogether the money losses pile up into the billions every year.

But not all of the damage they do is to our finance. There

are men who sink so low that they are willing to trade upon the desperation of sick people. They will sell "medicines" that are worthless or even harmful. By bragging about their "cures" they delay many from seeking real medical care until it is too late. The procession of these fake cures and frauds is never-ending. As one is exposed, another pops up to take its place.

There is no real reason for you as intelligent, careful persons to be taken in by such schemes now or in the future. You can avoid them by using good sense and following a few simple rules. And you can get help against them from many kinds of organizations. Let us look briefly at a few typical kinds of fraudulent dealings, and then see how to get protection against them.

Chapter 10. SCHEMES THAT CHEAT YOU

The Federal Trade Commission recently estimated that we lose annually about 3 billion dollars through fraudulent advertising. It is also estimated that there are at least one thousand newspapers and magazine advertisers of fraudulent schemes operating in the United States. It is unfortunate that while many newspapers and magazines take great pains to print only honest advertisements, many others are willing to print certain ones without any regard for the truth or falsity of the statements made or the harmful effects upon you and others. They do this because these advertisers will pay the rates set by the publisher.

Beware of swindlers! Swindlers are often brilliant people. They find opportunities in almost every line of business to promote fraudulent schemes. Part of the swindler's method is to make his game look so much like legitimate business that the fraud will not be discovered until it is too late.

To counteract the swindler, you must be alert and informed. Frauds would not persist for long if there were not so many of us who are willing to believe anything we are told. Such people become the "easy marks" of the unscrupulous promoters. If they would take time to analyze the proposition offered them, they would see the deception in it and be able to avoid it. However, instead of thinking, they let their emotions control their actions.

They are usually looking for something for nothing and realize too late that they are getting nothing for something.

It would take a huge volume to describe all the present-day schemes, for the variations are endless. In the consumer credit field alone, the loan sharks have over a hundred schemes to ex-



The old, the young, and the middle aged are all susceptible to this type of advertising. Save yourself time, money, and sorrow by investigating the reliability of such ads before taking action.

tract high rates of interest from their victims. Yet many of the new tricks are really based upon old ones. And they tend to follow certain general "patterns" that are not too hard to spot. Let's look at a few examples.

"Earn Money in Your Spare Time." Have you ever seen an ad like this?

Women-Men. Earn $45 weekly addressing cards at home in spare time; experience unnecessary; easy, steady work. Write immediately.

If you answered this advertisement, you might receive a form letter stating that you could earn the money by operating a clipping bureau in your home. You would be asked to send $1 for the "particulars" that would aid you in your work. If you sent the dollar, you might receive about 10 printed cards which you would be asked to mail to people who have recently been in the news telling them that you have a newspaper item in which they will be interested. You would have to clip personal items, such as weddings, births, and anniversaries, from several newspapers. The card states that the newspaper item will be sent upon receipt of a small fee, ranging from 25 to 50 cents.

You can then see that if you convince a few people each day that they must have your newspaper clipping about them, you may earn a few dollars a week, but only by means of much trouble. The advertiser has received your dollar and he is no longer interested in you.

Chances to earn money in spare time take many other forms. Men and women are invited to spend money for materials to be worked into lamp shades, rugs, towels, and other articles. When connected with legitimate concerns, some people do earn extra money sewing at home. But before you enter into any such project, make sure that behind it there is not an unscrupulous promoter of a homework scheme to sell a plan, pattern, outfit, or material for which he demands payment in advance.

The Education Racket. Another scheme which nets its promoters millions of dollars are schools which claim to get you sure entry into highly paid jobs. For instance, one type of such a school gives you the impression that it is a civil service school which has "connections" with the government. In the case of Will, for example, who has just finished high school and is

anxious to pass the necessary examinations, these schools inform him, and hundreds of others like him, that he must pay a certain sum as a bond required by the government; that he must take this course in order to obtain a government job; that he will receive a government appointment as soon as he has completed the course; that the cost of the course must be paid in advance.

The United States Civil Service Commission has been fighting this racket and says that no civil service school has any connection with any branch of the government; no agents of the Commission solicit applications or sell civil service courses; it is not necessary to take any course to compete in any examinations; no school can guarantee government employment.

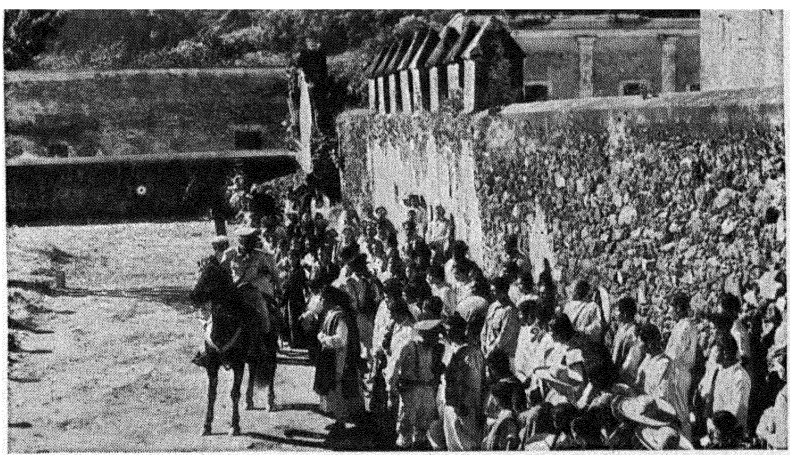
You will also find schools that promise to whirl you miraculously into positions as radio announcers, beauty experts, and accountants, or into highly paid work in almost every known field of occupation. Their salesmen will call upon you about the time you graduate from high school. They will make you exciting "special offers" that are always going to close tomorrow evening. They will push you hard for a quick decision. Once you sign up, they insist on a tuition fee for the entire course of lessons in advance. In addition, you are generally forced to buy a high-priced set of books or drawing or musical instruments.

After spending a good sum of money (many of the correspondence courses run into hundreds of dollars), you will find that your homework is corrected unfairly. Many students do not complete their assignments because it is difficult to work by themselves with little instruction and no encouragement. Then later the job that was promised does not materialize, even though you have doggedly completed the courses.

To be sure, there are excellent private correspondence schools and trade schools. Most universities have accredited correspondence courses, which are handled by the professors, given per-

sonal attention, and afforded the usual college credit. The fee, too, is much less than the ones advertised in pulp magazines and tabloid newspapers.

Talent Racket. The movie industry and the various artistic fields furnish a fertile field for the wily promoter who is out to



Courtesy Motion Picture Association

The above scene from a Hollywood movie shows the large number of extras used in mob scenes. Most Hollywood hopefuls end up as extras or at best as bit players, seldom as stars. Don't fall for the talent racket.

get you. Here is an advertisement that appeared in a magazine popular among high school pupils:

> Send for free copy of booklet revealing Secrets of Successful Song Writing, free Rhyming Dictionary, and market information. If you write poems or melodies and wish to make money in moving-picture writing, send for our offer today. MM Publishers.

If you followed up this advertisement, you would probably receive a 15- or 25-cent booklet for the price of a dollar. If you

sent in your poems or songs, you would be told that before you could become famous, you would be required to pay $25 to cover the copyright and printing preliminaries; or you might be told that your poem needed slight revisions to make it adaptable for movieland, again at an additional fee.

Your chances of becoming a movie star, celebrated musician, or talented popular opera star by paying a few dollars here and there are slim. The promoter of the scheme who gets $5 here and $20 there is the one who really benefits.

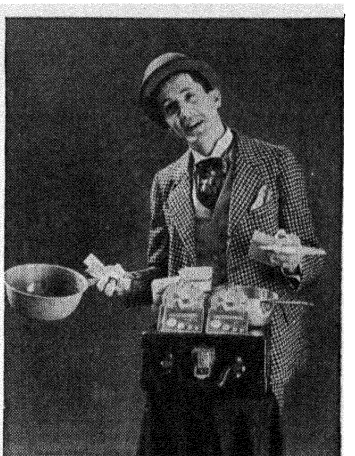
The Health Racket. Although the Food and Drug Administration and other agencies are constantly on the alert trying to get our nation better food and medical care, millions of people — sometimes ourselves included — are looking for a quick and easy method of getting better health. You have seen the advertisements which promise to cure arthritis if you will buy a certain medicine; and you have heard the commercials on the air which insist that so-and-so's nosedrops will cure your cold.

We all know that good health comes from eating simple, nourishing meals, getting to bed on time, not worrying, and joining freely in outdoor sports and relaxation. Good health is not contained in magic pills and bottles, especially when they are not prescribed by a physician. When we are really ill, it is just common sense to use the expert assistance of a reliable doctor, not the expensive nostrums or secret mixtures of some quack.

Along with fine health we all like to cultivate good appearance and attractiveness. Haven't you seen people so eager to achieve these assets that they will grasp at any straw? This makes them perfect prospects for the advertiser.

Think, for instance, about mouthwashes as an aid to attractiveness. These are among the most useless of all products, except as a pleasant means of getting a fresh taste in one's mouth. If they are strong enough to destroy germs, as the advertise-

ments tell us, they will also destroy delicate tissues of the mouth. As we are consuming food at frequent intervals, which adds fresh bacteria in the mouth, the antiseptic properties of any mouthwash can be effective for only a short time. "Pure water will fulfill the most important requirements as a mouthwash" is a statement from the *Journal of the American Dental Association.* One widely advertised product is composed chiefly of alcohol and water with a little boric acid. The actual ingredients of another brand cost less than 1 cent; yet this preparation, which is about as effective as a solution of common salt and which doesn't add to your lure, sells for 85 cents a pint.



H. Armstrong Roberts

The peddler of cheap wares is often seen on the street corner. Don't be deceived by his promises to "double your money," etc.

Get-rich-quick Schemes. Another group of schemes to avoid are the ones that promise to make money for you. Some of these are very simple. There is, for example, the slot machine. It is not always easy to resist the temptation to play slot machines. These, the marble games, and punch boards are well-known gambling devices in which the odds are decidedly against the player. Most operators change the sprocket in the mechanism to regulate the percentage of return the machine will make. The machines may pay the player only 10 per cent of the total intake, while the owner of the machine will receive 90 per cent. In a test of one of these machines made recently, it was found that the chances for winning were one in 4,000.

Ever so often, the missing-heir racket shows up. Letters may come from abroad stating that if your father contributes $5 or more to a fund, attorneys will be able to clear the title to a large estate. He is told that he is undoubtedly one of the heirs who will benefit by the investigation. If he pays the fee, you and other relatives will never be the heirs, for the instigator of the plot is off to distant spots spending the initial payment.

Auctions are sometimes used as bait. Furniture salesmen know, for instance, how much many people, perhaps like your mother, admire antique furniture, which they hope to buy in auctions of old homes. So they bring in "new antiques" each day from factories which have reproduced the antiques with such accuracy that only the expert can tell the difference. When your mother wishes to sell her bargain, she will find that her plan to get rich quick by buying old furniture and selling it at twice its cost has failed.

If a financial advisor treats your older brother to a dinner at a popular restaurant, calls him long distance from Canada, wears diamond rings, or presses him for a quick decision because the offer is about to be closed, you can be sure that these are indications that the stock and bond salesman is not sincere. Giving his money to the slick salesman for "doubling your money" will probably mean that your brother will never see his savings or inheritance again.

When you consider that the Better Business Bureau has listed 500 other frauds besides those discussed here, you can understand that this chapter might be endless. But even from the few schemes described here you can see how necessary it is for you to become informed and to be alert if you do not wish to lose your money now or in the future and have nothing left but a feeling of chagrin.

Protect yourself! How can you be prepared to avoid these schemes to get your money?

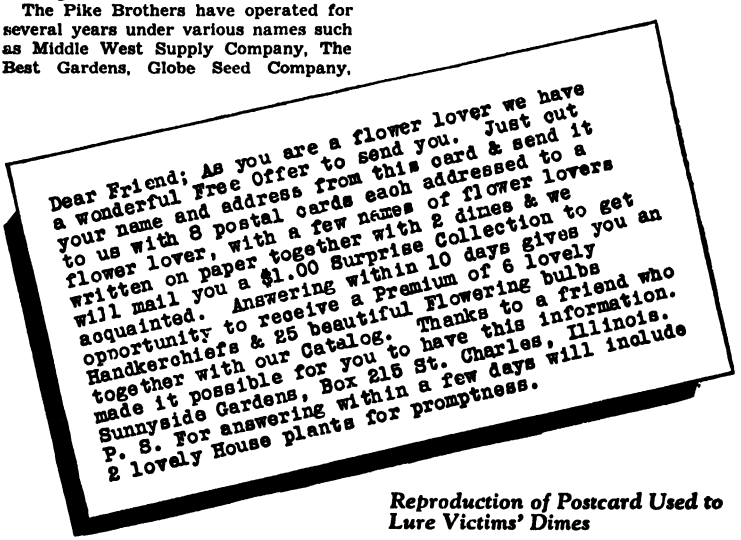
Two Pike Brothers of St. Charles, Illinois Found Guilty of Mail Fraud

Silas Pike, 53 years old, and Ernest Pike, 56, were found guilty of using the mails to defraud in the sale of seeds and plants, in Chicago on January 10th. Charles Pike, the third and youngest of the three brothers tried, was found not guilty. On January 14th the two convicted brothers were sentenced to five years imprisonment and $7000 fine, each. They were charged with mailing cards promising to forward seeds, house plants and handerchiefs upon receipt of 31 cents. Witnesses testified the seeds produced nothing and the house plants and handkerchiefs were not received.

The judge stated, in passing sentence, that 387,000 persons had lost 31c each in the scheme involved in the charges, making a total of $119,970

The Pike Brothers have operated for several years under various names such as Middle West Supply Company, The Best Gardens, Globe Seed Company, Sunnyside Gardens, Pike Brothers Growers, Pike's Seeds, etc. Their operations are said to have brought them more than $300,000 in dimes from a million flower growers throughout the Nation. Every time the Post Office Department denied them the use of the mails they started similar operations under a different name.

The Better Business Bureau of St. Louis first started telling people about the Pike schemes in 1937. Our Bulletin of January 5, 1945, contained almost a full page of the latest information about the brothers. The wheels of justice, like the mills of the gods, too often grind too slowly although they finally do succeed in doing an exceedingly fine job.



Dear Friend; As you are a flower lover we have a wonderful Free Offer to send you. Just cut your name and address from this card & send it to us with 8 postal cards each addressed to a flower lover, with a few names of flower lovers written on paper together with 2 dimes & we will mail you a $1.00 Surprise Collection to get acquainted. Answering within 10 days gives you an opportunity to receive a Premium of 6 lovely Handkerchiefs & 25 beautiful Flowering bulbs together with our Catalog. Thanks to a friend who made it possible for you to have this information. Sunnyside Gardens, Box 215 St. Charles, Illinois. P. S. For answering within a few days will include 2 lovely House plants for promptness.

Reproduction of Postcard Used to Lure Victims' Dimes

Courtesy National Better Business Bureau, Inc.

Fraud is generally discovered and the perpetrators brought to justice. The above clipping gives a typical example.

Deal with Reputable People. If you wish to buy furniture, purchase it from a concern which has been in business in your community for a number of years and which has established a reputation for square dealing. The dentists and doctors in your town will give you sound advice about health, obesity, teeth, and foods. Your banker knows a great deal about investments and real estate. Although these business and professional men may make mistakes in judgment, they are at least doing the best they can for you. You don't need to turn to shifty, smooth-talking strangers for help.

Be Informed. When you plan to buy merchandise, invest your savings, or rent or build a house, get information about the matter. In the next two chapters you will learn where to get some of that information. Talk the proposition over with reliable friends and relatives. Ask for books on the subject at the free public library. If it is worth working hard for weeks or months to accumulate some money, it is worth a few hours' work to see that you get good value for it.

Be Alert. You will want to be wide awake when you are concerned with important decisions as a buyer. Ask for identification and guarantees, especially if you are not sure of the seller and his establishment. Examine the goods. Examine the labels; ask questions; check the answers. If you have any doubt about a scheme, call or write the Better Business Bureau. They will know if the man who comes to the door to measure your windows for Venetian blinds will really deliver them. They will know whether the merchandise of the seller of Irish-lace tablecloths is from abroad and is handmade or whether it was produced in a local factory. Avoid signing papers until you have read all the print — especially the small type. What the big type gives to you, the little type may take away. Even so, don't depend too much on your shrewdness. Play safe by dealing with people with whom you don't have to be shrewd.

Be Satisfied with Reasonable Pleasures and Profits. Here is the key to the whole thing. You can't expect miracles to happen. If you are looking for a bargain, if you expect something for nothing, if you think the world owes you great riches, then you will be gullible and ready for any scheme that is presented to you. Honest merchants, professional folks, and bankers and financiers will do their job well and only expect a fair return.

Isn't it silly to assume that if expert doctors cannot cure a cancer, some traveling medicine man with bottles of "snake oil" can do it? Isn't it unreasonable to think that if a financial proposition is really going to yield tremendous profits, the professional financiers would not back it? If a thing truly has great merit, it does not have to be sold through a sort of black market.

If Tricked, Inform Authorities. Even though you hate to admit that you are a victim of a fraud, that you were negligent and gullible, it is advisable to tell others about it, so that they will not be victimized.

In certain cases it would be well to tell the Better Business Bureau. If you should invest some money in real-estate subdivision and the promises made by the dealer were not fulfilled, the Better Business Bureau on learning about it would give it publicity in the newspapers. They would also inform their other bureaus so that the swindler could not repeat his tricks in another vicinity.

Then again it would be wise to tell the district attorney. Even though you could not afford a lawyer to prosecute the case, the Legal Aid Society might help you.

You might wish to report it to the local or state board of health or to write the newspaper or magazine which carried the advertisement which resulted in a loss, asking it to refrain from carrying ads which defraud. At any rate you would get the affair out in the open. Shady dealers depend on secrecy. Nothing puts a quicker end to their crimes than publicity.

Summary

Although most businessmen are honest, there are some who deliberately offer to the public fraudulent opportunities to buy a product or a service, or to invest money. Businessmen who are responsible for these fraudulent schemes are commonly known as swindlers. They try to sell their schemes in person, through the mail, and through advertising.

The business schemes of swindlers are of several different types. Some promise you a highly paid job if you will take a course of training in a particular school. Other schemes lead you to believe that you can become a movie star or some other celebrity. Others offer a quick method of improving your health or appearance, and still others promise to make money for you through some easy means.

To protect yourself against the dishonest schemes of swindlers, you should deal with reputable people. You should inform yourself of the facts about a questionable product, service, or investment opportunity. You should be on the alert at all times in making important decisions as a buyer, and you should be satisfied with reasonable pleasures and profits.

If you are tricked, tell others about your misfortune so that they will be informed. Also, you should inform such agencies as the Better Business Bureau about your misfortune so that they can take steps to put a stop to the swindler's scheme. Nothing kills swindles more quickly than publicity.

Questions for Discussion

1. What are some of the signs that should warn you that a transaction is not honest?

2. How much is a guarantee worth if the guarantor will no longer be around when the time comes?

3. Sellers who make up "sucker lists" to whom to mail advertise-

ments of certain kinds of goods value especially the names of persons who have previously been taken in. Apparently, then, some people must be very easy to victimize over and over. What characteristics or habits or attitudes do you think would make a person an easy victim?

4. Why is the person who wants something for nothing the likeliest one to get nothing for something?

5. Do you think it is worth while to train yourself to be so shrewd that you can deal even with sharpsters and come out all right? Or is it more sensible simply to learn to avoid sharpsters altogether?

Practical Applications

1. If possible, obtain a copy of *Gyps and Swindles,* Public Affairs Pamphlet No. 109, and one of *Facts You Should Know about Schemes,* published by the Better Business Bureau. Each pamphlet tells about dozens of schemes not mentioned in this textbook. Get acquainted with the common ones so that you will not "bite" on them.

2. Collect advertisements which appeal to you somewhat but which you suspect are not honest. Perhaps various members of the class, or committees of two or three each, could each specialize on some one type, such as

a. Get-rich-quick schemes.
b. Job opportunities.
c. Patent medicines and health devices.
d. Reducing products.
e. Products to improve complexions.

It might be interesting to follow up on one or two in each class and see what happens. Try also to see whether there are any ways to tell in advance which offers are trustworthy and which are not.

3. Do newspapers or radio stations in your vicinity run advertisements that you believe to be fraudulent? Find out what they do to

keep fraudulent advertisements out. Do they have a set of rules about ads that they will not accept?

Problem

Collect as many cases as you can from your own community in which people have been cheated by fraudulent schemes. Your older friends and relatives may know of some. A banker, a lawyer, or the representative of a Better Business Bureau may know of more.

In each case, find out just how the scheme worked.

Then it might be fun to model a class session in the "Can You Top This?" radio-program idea? Let each one tell a story, and measure the reaction on a "sucker meter."

Chapter 11. PROTECTION BY GOVERNMENT AGENCIES

Even if you were alert and well informed, you probably could not protect yourself from all schemes and frauds. Furthermore, there are many less fortunate ones who are not so well informed. Since they, as well as you, deserve protection, local, state, and Federal government agencies steadily carry on a great deal of work to aid everyone. Your taxes pay for these services, and you should learn to take advantage of them. Let us consider some of these agencies and their services.

Federal Government Agencies for the Protection of the Consumer

Food and Drug Administration. If a manufacturer of popcorn uses mineral oil instead of butter in making his product, as one did when butter fat was hard to get, the Food and Drug Administration will order him to stop making and shipping his product. If black walnuts contain filth when the inspector picks them up at the retail store, the food must be removed from the market and investigations follow. If goods are found to be adulterated or misbranded in any way, the Food and Drug Administration has a case for legal action. A court case which lasted more than 40 days was against the "spectrochrome," a machine costing hundreds of dollars which was supposed to cure many diseases, but which contained only colored lights.

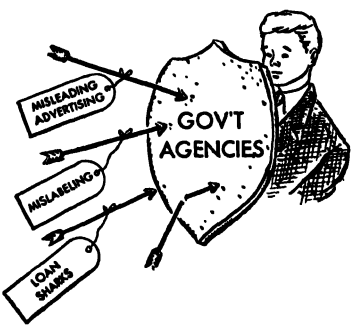
Most of the legal power for the Food and Drug Administration comes from the Food, Drug, and Cosmetic Act of 1938. Its value to us can be shown by some of the provisions it enforces:

A food must not be injurious to health.
Candy must not contain alcohol or any "prizes" or other inedible substance.
Food containers must be free from any substance which may cause the contents to be harmful.
A food must not be filthy, putrid, decomposed, or otherwise unfit.
Food labels must not be false or misleading in any particular.
Food containers must not be so made, formed, or filled as to be deceiving.
Before a new drug is placed on the market an application must be filed.
A drug must not differ in strength, purity, or quality from that claimed in its labeling.
Drugs must not be dangerous to health when used in accordance with printed directions.
The labeling of a cosmetic must not be false or misleading in any particular.
A cosmetic container must not be so made, formed, or filled as to be misleading.

Take the case of five boxes of pecan brittle that were shipped from Georgia to Florida. The one-half-pound boxes were so filled as to be misleading since only half the space in the box was filled. When the Food and Drug Administration brought the matter to court, no one appeared to defend the case; therefore the product was ordered distributed to hospitals. The manufacturer could not sell his product at a loss continually. In Montana, a dairyman was not so lucky. His butter, ice-cream mix, and ice cream contained vegetable fibers, unidentified animal hairs, insect parts, rodent hairs, plant tissues, cat or dog hairs,

and nondescript dirt. The dairyman pleaded guilty, and a fine of $150 was imposed and the defendant was placed on probation (or on trial) for three years.

The Food and Drug Administration employs almost a thousand chemists, physicians, inspectors, bacteriologists, clerks, and helpers to protect us as buyers, but they are unable to cover all the products and industries within the jurisdiction of the act. They give their first attention to public-health menaces, such as worthless drugs offered for serious diseases. Next, they aim to reduce adulterations, that is, the partial substitution of one product for another without acknowledgement. Finally, they give consideration to economic cheats who use deceptively packaged containers and who mislabel food as to quality or identity.



Government agencies are formed to protect you, so be informed and take advantage of their services.

If you find food or drugs which are not labeled correctly, if you find food which contains foreign matter or which is somewhat decomposed, if the box, bottle, or jar is only partly filled, you may write the Food and Drug Administration and tell them about it.

Federal Trade Commission. One general theme runs through all the work of this agency—to protect the public and business from unwholesome conditions in business and trade. On one hand, it is working toward the elimination of monopolistic, unfair, and unscrupulous business practices and, on the other hand, toward encouraging the conduct of business upon a high ethical plane. In June, 1947, Robert E. Freer, commissioner, Federal Trade Commission, said:

"Our work ranges from matters involving the entire Portland cement industry on a charge of restraining trade and suppressing competition to a case against an individual marketing what he called 'Oriental Love Drops,' a perfume guaranteed to make a man irresistible to his lady love."

Cease and Desist Orders. When unfair or deceptive business practices are employed, the Commission has power to hold hearings and to order those involved to cease and desist from their practices. For example, a cosmetic firm in Minnesota was stopped from advertising its line of cosmetic products when it claimed that the products kept the complexion young, that they were discovered by the greatest specialists in Europe, that the most beautiful women in every group were users, and that these products were shipped all over America and could be purchased at all the local stores. None of these claims were true. There was the case of a yarn company in New York, which was stopped from misrepresenting the place of origin of hand-knitting yarns. They were forbidden to use the word "Shetland" in describing the yarn when the wool did not come from the sheep on the Shetland Islands or the word "Saxony" when the product was not imported from the province of Saxony. A dozen or more of these cease and desist orders handled each week by the FTC will eliminate much false advertising.

Radio and Periodical Division. A search for false and deceptive advertising appearing in magazines, newspapers, radio broadcasts, and mail-order catalogues is constantly going on. In the fiscal year 1945-1946, 1,667 editions of newspapers, 1,033 editions of magazines, 82 mail-order catalogues, and the commercial portions of 518,161 radio-broadcast continuities were scrutinized. The FTC is continually on the look-out for deceptive advertising in order to protect us.

Trade Practice Conferences. In an informal way, members

of an industry are brought together to agree upon fair-trade practices simultaneously. In May, 1947, the Household Fabric Dye Industry defined such expressions as "all fabric," "all purpose," "fadeproof," and "sunfast." By the development of such terms, the honest merchant and the consumer are informed as to the meaning of terms that they use in their dealing with each other. About one hundred and fifty industries have drawn up Fair Trade Practice Codes. Some of the items of the code the Commission has power to enforce actively; others it also approves but has no power to enforce. The representatives of the industry must do what they can to help each other, themselves, and the consuming public.

The Wool Products Labeling Act of 1940. This "Truth in Fabrics Law" requires that a label, tag, or other means of identification be attached to each product containing wool and that the tag disclose the kind and percentage of each different fiber contained, including the respective percentages of virgin wool, reprocessed wool, and reused wool. It applies to yarns, clothing, and blankets, but not to upholsteries, rugs, and carpets. Examples of tags are

50% Wool 25% Reused wool 25% Cotton

35% Reused llama 35% Reprocessed vicuña 30% Cotton

The Wheeler-Lea Amendment. This amendment passed in 1938 gives the Federal Trade Commission power to protect us, by taking action against misleading advertising of food, drugs, therapeutic devices, and cosmetics. When necessary, an injunction can be obtained against the advertiser, so that while his case is being tried other buyers cannot be harmed by the product. The amendment not only defines false advertising as that

which is misleading in a definite way but also as that which fails to tell important facts and thus gives the purchaser a false impression about the article.

Many of the complaints that the Commission receives come from businessmen who are hurt by unfair competition. But we as consumers also have a right to report to the Commission cases of deceptive advertising and merchandising.

United States Post Office Department. The use of the mail is often important to promoters of fraudulent, get-rich-quick schemes and lotteries. They send out circular letters and other advertising by mail and get their returns in the same way. Upon investigation the United States Post Office Department can effectively put such schemesters out of business by denying them the use of the mails. It can also turn its evidence over to the United States Department of Justice and have the case prosecuted. This process is slow, but is rather sure. The penalties are heavy—a large fine, a term in federal prison, or both.

Securities and Exchange Commission. Because the Postal Frauds Law is too slow and unwieldy, the Securities and Exchange Commission was established in 1934 to regulate the offerings of those who sell stocks and bonds. Before securities may be offered to the public for sale, the company that is issuing the stocks or bonds must give an accurate description to the SEC. If the statements are inaccurate or incomplete, the SEC can refuse to register the securities. The SEC does not guarantee that the securities are a good investment; it only sees to it that prospective buyers can get correct information when these facts are stated in advertising or on a "prospectus." This has caused a great decrease in the marketing of worthless securities, which used to be a very important racket.

United States Department of Agriculture. This department of our government has various divisions that collect information of value to you and your family. Some of these divisions

are the Bureau of Agricultural Economics, the Bureau of Human Nutrition and Home Economics, the Production and Marketing Administration, and others.

One valuable service which the United States Department of



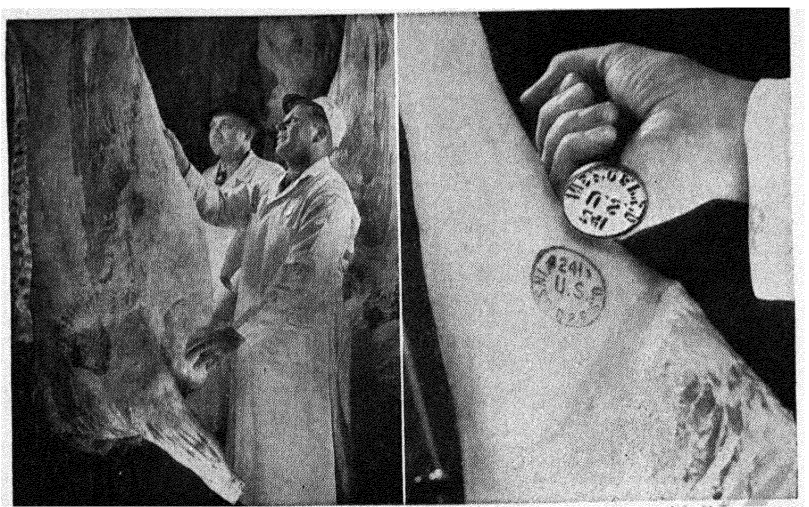
Courtesy Production Marketing Administration

Canned foods are among the products tested in the laboratories of the U. S. Bureau of Agricultural Economics.

Agriculture gives to us is the United States grading of meat, milk, eggs, butter, canned fruits and vegetables, dried and frozen vegetables and fruits, and other products. You will recall that if processed fruits and vegetables are labeled "U. S. Grade A (Fancy)," "U. S. Grade B (Choice)" or "U. S. Grade

C (Standard)" they have been packed under the continuous inspection of the United States Department of Agriculture. They can also be packed under continuous inspection and so labeled, but not graded.

Meat may show the label of the United States Department of Agriculture too. All meat sold in interstate commerce must bear the purple stamp, "U. S. Inspected and Passed." This indi-



Courtesy Swift & Company

The stamp indicates that the meat has been inspected and graded.

cates that it is wholesome food. In addition it may also be state graded. The United States official grades of beef are "Prime," "Choice," "Good," "Commercial," "Utility," and "Cutter and Canner." You have all often seen the first three sold in retail meat shops.

Some of the better publications distributed by the Department of Agriculture and which can be obtained free or for a nominal charge, and should be read by every buyer are *Consumer's Guide,* a monthly magazine, which discusses general

and specific consumer problems, and *A Fruit and Vegetable Buying Guide for Consumers,* which tells you how and when to buy everything from apples to watermelons.

Dozens of other pamphlets are published. The following list was picked at random: *Cotton Shirts for Men and Boys, The Inspection Stamp as a Guide to Wholesome Meat, Home-made Jellies, Jams, and Preserves, Egg Dishes for Any Meal, How*



Ewing Galloway

The United States Public Health Service warns the public by this notice that some person within the house has a contagious disease.

to Make Your Electric Cords Last Longer, Simple Plumbing Repairs in the Home, Roses for the Home, Eat a Good Breakfast to Start a Good Day, Mending Men's Suits, etc. You can see the interest taken by the United States Department of Agriculture in the consumer.

United States Public Health Service. You probably know that the health of the nation is closely guarded by the United

States Public Health Service. It tests the drinking water in cities; it warns us of epidemics; it advises us about our food.

Your State Regulations

In addition to the Federal government agencies, every state has agencies to protect the buyer through the supervision of milk, meat, eggs, and other food products. States have set up standards for measures so that the customer may not be cheated when he buys. In the "Ohio Weights and Measures Laws and Regulations," 1946 edition, you may find the laws for the state, county, and city sealers, for standards, for food adulteration, and for labeling of packaged goods; it also contains regulations for linear measures, fabric-measuring devices, and many other measuring devices. It defines in great detail, for example, the terms relative to taximeters. You will want to find out how your state departments of agriculture and other departments also aid you.

Your City

Maybe the mayor of your town appoints a sealer of weights and measures who will test the correctness of weight or quantity of all weighing and measuring devices in the markets of your city. You will find a city health department that is concerned with the cleanliness of restaurants and barber and beauty shops and with many other considerations for the buyer. Find out about these departments of your city government.

Your Cooperation

These agencies of the Federal, state, and local government will aid you as a consumer only if you cooperate. It is true that these commissions and administrations have definite tasks, but

they can do a better job if you read their reports and pamphlets, follow their instructions, and report to them if conditions are not as they should be.

Summary

Agencies set up by local, state, and Federal governments are constantly at work to help protect you from unfair and unwholesome business and trade practices. These agencies are maintained by taxes. From the viewpoints of consumer and taxpayer, you should be informed about the activities and services of these agencies.

One of the Federal agencies is the Food and Drug Administration, which helps protect your health by inspecting and testting various food and drug products on the market and verifying the accuracy of information on the labels of such products. The Federal Trade Commission is another Federal agency that works in the interests of the consumer by investigating unfair practices and dishonest claims in advertising and merchandising.

The United States Post Office Department, the Securities and Exchange Commission, the United States Department of Agriculture, and the United States Public Health Service are Federal agencies whose activities, in part at least, are concerned with the protection of consumers.

In addition to Federal agencies, every state and many local communities have agencies established to protect the buyer through supervision of various products and services, particularly foods. The effectiveness of all agencies that work in the interests of the consumer is dependent upon the cooperation of the consumer. You should, therefore, read the materials and instructions released by such agencies and report to them unfair and unwholesome practices in business and trade.

Questions for Discussion

1. Do you see any reason why laws for the protection of the consumer have especially centered around foods and drugs?

2. Protecting buyers generally is achieved by regulating producers and sellers. Some people object to this. Do you think that pure food and drug laws have hurt the business of those who sell these things? Or have they been helped?

3. How do the activities of the Federal Trade Commission help honest businessmen?

4. Before a new drug can be marketed, an application must be approved by the Food and Drug Administration. When standard remedies are sold, they must be made up according to a standard formula specified by the Administration. Does this give you added confidence in the products you buy?

5. How are shoppers helped by the "Truth in Fabrics Law"?

6. Why is it necessary for certain kinds of consumer-protective laws to be federal laws, rather than state or local? On the other hand what can be done better by state or local governments than by the Federal government?

7. We have a United States Department of Labor to protect laboring men and a United States Department of Commerce to help businessmen. Do you think we should also have a United States Department of the Consumer?

Practical Applications

1. If they are available in your library, run through some copies of *Weekly Releases* of the Federal Trade Commission and *Notices of Judgment Under the Federal Food, Drug and Cosmetic Act* of the Food and Drug Administration. Both of these show the kinds of cases that are constantly being handled by these agencies. If your school does not have them, it can be placed on the mailing list on request.

2. Collect a few labels from clothing to show the influence of the law in regard to "truth in fabrics." Should all fabrics be labeled as woolen goods are?

3. Study the labels of canned fruits and vegetables. Do you find any evidence that consumers are being protected by government supervision?

4. Learn to identify the purple stamps on meat and to tell exactly what each means. Do you find any meat being sold that is not stamped? If so, what is the explanation? Examine some cans of meat products to see whether they, too, are inspected.

5. Find out from a banker or someone else who has had some financial experience whether the selling of worthless securities is as common as it used to be. If not, what has effected the change? How much is the change worth to the community?

Problem

Make a survey in your own neighborhood to see in how many ways consumers are being protected by governmental action. Think, for example, of milk and water supplies, testing of scales, sanitation in food stores, restaurants, barber shops, etc., licensing of doctors, dentists, beauticians, etc. How does the protective process work in each case? Is it well enforced? Does the agency have enough funds to do a good job?

Chapter 12. PROTECTION BY PRIVATE AGENCIES

In addition to the governmental agencies that protect and help the shopper, private agencies exist that also do their share. Not all of them can be discussed here; but we can look briefly at some of those which all young consumers should know about.

Better Business Bureau. Eighty-two cities in the United States have Better Business Bureaus. These nonprofit organizations, to which we have already referred, are maintained through the support of business concerns and combat and eliminate misrepresentations, deception, and fraud in advertising and selling practices. The bureaus also give wide publicity to ethical standards and selling practices for the guidance of business. They operate with a free hand, and are entirely independent from the companies that contribute to them.

The bureaus encourage purchasers to call on them for impartial information or facts about any company or offering that is questioned. There is no charge to the public for this service. If, for instance, an agent of a linen concern comes to your door offering your mother tablecloths, napkins, and the like, she may doubt his statements that the goods are pure linen or that the credit terms he states are satisfactory, and therefore she may tell him that she will give him her order the following day. Before he comes again, she may call the Better Business Bureau in her community, giving it the names of the concern and the sales-

man and the nature of the proposition. The bureau will tell her if it has any information about this particular business. If the information indicates something suspicious, she can refuse to buy. The record of the business may be so deceptive that the bureau will even have the local police on hand to make an arrest. Then again, the offer may be legitimate and you will want to take advantage of it.

Two of the rules that the BBB insist you should know are "Before you invest, investigate" and "Read before you sign." In their "Facts" booklets, available to anyone who will ask for them before risking their money, you can read a great deal about schemes to trick unsuspecting patrons. Some of the titles of these series are "Facts You Should Know About:"

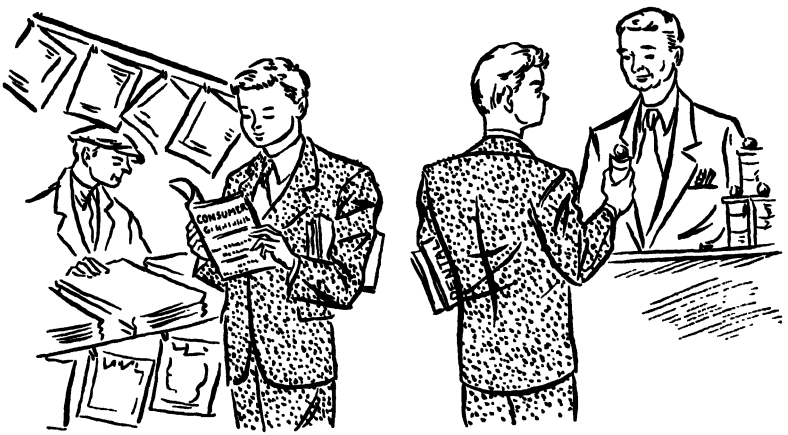
Advertising	Jewelry
Borrowing	Life insurance
Buying or building a home	Schemes
	Oil royalties
Buying used cars	Health cures
Furs	Your eyesight

They also have leaflets and other publications available to help the consumer obtain impartial information about the use and value of many ordinary products and services required in daily living. If there is no Better Business Bureau in your community, write to the National Better Business Bureau.

If you have been gypped by a local concern or an outsider, tell the Better Business Bureau about it. In some cases, the bureau can get your money refunded; in any case, your experience will serve as a record to help other folks.

The Better Business Bureaus employ shoppers who check on the advertisements in the daily newspapers. If an ad says that shirts will not shrink when washed or that they will not fade, the shopper will investigate to see that the label, the guarantee, or the quality make these statements true.

Through advertisements in the newspapers, the citizens of the town are warned about frauds to which they might be susceptible.



There are various publications that will help the consumer buy safely. Read such publications before shopping.

American Medical Association. This is an association made up of thousands of doctors and surgeons throughout the United States. It performs services of great value to us in its investigation of food products, patent medicines, and apparatus for diseases not treated with medicines.

Within the Association there are three councils which make investigations and permit their seals to be placed upon articles which are approved. The use of the seal, however, does not imply that the council in question recommends the product, but only that the product has met the standards set up by the council.

The Council on Pharmacy and Chemistry investigates and sets standards for the safety and usefulness of "any chemical, drug, or similar preparation used in the treatment of diseases."

The Council aims to protect the medical profession and the public against "objectionable advertising, undesirable secrecy, and fraud."

The primary purpose of the Council on Foods is to prevent or discourage "unwarranted, incorrect, or false advertising claims in the promotion and merchandising of food products." It grants permission to use its seal only on foods that have satisfied the Council's standards for wholesomeness and whose advertising claims are considered truthful. When a food is accepted, the Council gives an analysis of the food and brief description of how it is produced. If it rejects a food, the Council states why it was rejected. This is most helpful to all of us.



Courtesy American Medical Association

What does this seal indicate?

The Council on Physical Therapy aims to "protect the medical profession and the public against fraud, misrepresentation, inefficiency, undesirable secrecy, and objectionable advertising in connection with apparatus and methods" employed in treating diseases by various means other than medicines.

The American Medical Association is anxious to expose at all times the strange things quacks try to sell us for our health. In a 1947 exhibit, it showed a vibrator for deafness which cost a few pennies to make and which sold for $15—and which would not restore hearing. Flashlight batteries made a "mechanical heart," which was merely a buzzer. But when you put that particular buzzer on your body, things were guaranteed to happen to earaches, deafness, sore eyes, broken noses, and heart troubles. You could buy two metal plates, one of copper and one of zinc, to put in the soles of your shoes, and then say good-by to diabetes, paralysis, asthma, eczema, and both high and low blood pressure. The AMA exposes these devices so that you will not be a sucker and invest many dollars which

will not cure you, but which will only delay your visit to a licensed physician who could give you experienced medical advice. *Hygeia* is published by the American Medical Association; it is a health magazine, publishing articles on diets, what to do for first aid, and many helps for spending your health dollar well.

American Dental Association. The "Official Rules of the Council on Dental Therapeutics," established in 1930 by the American Dental Association, say that "the Council encourages and promotes those enterprises which are designed to increase our knowledge of dental materia medica and therapeutics." Products that appear to conform to the rules are accepted. Their essential features are described in the book, *Accepted Dental Remedies.*

On the cover of a little pamphlet called *What Dentrifice Shall I Use?* the Council says, "The dentrifices listed inside have been accepted by the Council on Dental Therapeutics of the American Dental Association. They are safe, known composition, are advertised honestly, and are effective in cleaning the teeth. Remember that the cleansing power of a paste or powder is not as important as the type of brush you use and the way you use it. Look for the Seal of Acceptance—it indicates that the product may be used with safety and confidence."

In reprints from *The Journal of the American Dental Association,* one finds the oft-repeated statement: "Water may serve as acceptably as any other mouthwash. With regard to germicidal values, there is no evidence that mouthwashes as commonly used do anything more than cause a temporary decrease in the number of bacteria in the mouth. This decrease is both temporary and of no proved significance."

American Home Economics Association and others. The American Home Economics Association tries to have textile manufacturers and the makers of household equipment stand-

ardize their products and place upon them labels which will give the buyer some idea of the quality of the goods. The Association also publishes a magazine called the *Journal of Home Economics,* which contains many articles and much information of value to homemakers.

In addition to this association other groups of a civic and educational nature help shoppers to some degree. They are American Association of University Women, General Federation of Women's Clubs, National Consumers' League, National League of Women Voters, Cooperative League of the U. S. A., National Safety Council, and others. These groups, in the main, have consumer committees which discuss the consumer and legislation which will help him. Some of these associations publish valuable pamphlets on subjects closely allied to our problems.



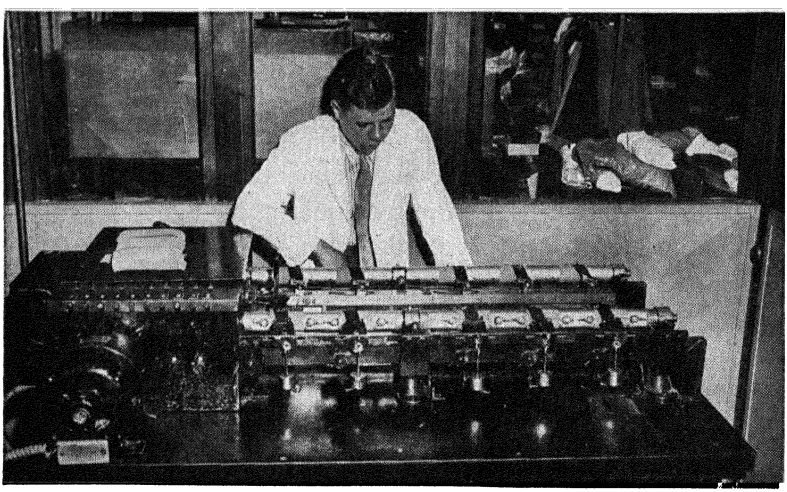
HEALTH DEPARTMENT
Courtesy U. S. Public Health Service

Display placard for milk dealers.

American Standards Association. This organization is a combination of trade associations, technical societies, and Federal government agencies that acts as a clearing house for standards of goods. Although more than 750 standards have been approved by this association for all types of products, most of them are for the industrial field. Although the buyer has little direct contact with this organization, the Association does perform valuable background work in his interests. The American Standards Association says that commodities should have qualities which are mutually satisfactory to the buyer and the seller. It has organized an Advisory Committee for Ultimate Consumer Goods, which is especially interested in the consumer.

Protection on appliances. A few organizations see to it that housekeepers are protected when purchasing household appliances. The American Gas Association is one of the best, for most of the gas-operated equipment is now given the seal of

the American Gas Association. The manufacturer prefers to send his product to the laboratories of the AGA to have them tested for safety, durability, and efficiency so that he is allowed to place this seal of approval on his merchandise. Your mother and father as an example certainly would not want to purchase a gas stove without this seal because only about 5 per cent of those for sale do not have it.



Courtesy Macy's Bureau of Standards

This boy is testing a fabric for durability. The machine contains rollers covered with an abrasive that contacts the material during the wearing test.

Another label designed to protect householders is the one from the Underwriters' Laboratories, the testing bureau of the National Board of Fire Underwriters. Its particular interest in safety means that it approves electrical or automotive appliances and fire-protection equipment, as well as gas and oil appliances which can be used safely. Look for the label as a separate tag

or stamped on the article. When you have a home of your own, you will want to buy household articles with the seal of approval of the Underwriters' Laboratories on them.

Associations especially interested in labeling. Two associations that devote most of their time to informing us about labeling are the National Consumer-Retailer Council, Inc., and the U. S. Inspected Foods Educational Service. The NCRC is maintained, as its name would indicate, by retail associations and consumer organizations. Although this council is concerned with cooperation between stores and consumers, it is particularly interested in seeing that the customer gets informative labeling on his products as well as informative advertising and salesmanship. On request you may obtain such material as *How Informative Labels Help You Stretch Your Dollars, Federal and State Laws Affecting Labeling*, and others. The U. S. Inspected Foods Educational Service is, on the other hand, especially interested in grade labeling. It urges food canners, especially, to adopt the U. S. Inspected labels of Grades A, B, and C. It, too, will send you information, labels, and a list of the U. S. grade-labeled brands of processed fruits and vegetables packed under United States continuous factory inspection. You will be much more label conscious after reading the material of these two organizations.

Testing and rating agencies. One of these agencies is the Consumers' Research, Inc. It is a "nonprofit, noncommercial research and educational organization which studies and reports on goods and services from the point of view of their selection, purchase, and use by the ultimate consumer, and solely for the ultimate consumer's use and benefit." It analyzes materials and goods and prints the conclusions in bulletins, listing the items as "recommended" and "not recommended," with some listed as "intermediate." You may look for a copy of the *Consumers'*

Research Bulletin in your school or local library. In this monthly magazine of the organization there is much helpful material for consumers about consumer problems.

Another private agency of this kind is Consumers' Union, Inc. It, too, publishes bulletins and reports about commodities and services for the benefit of its members. The annual subscription fee covers 12 monthly reports and an annual buying guide. It classifies products as best buys, acceptable, or not acceptable. This organization is particularly interested in labor problems which you will realize if you read the *Consumer Reports of Consumers' Union.*

The National Association of Consumers. This organization, with headquarters in Washington, D. C., was formed in 1947. It has members throughout the nation and ties together the work of many organizations interested in consumer problems. Its main function is to guard consumer interests, for example, it keeps an eye on proposed federal laws, promotes those that would be good for consumers, and opposes those which would be harmful. It publishes a newsletter called *Consumers on the March.*

Summary

Even though many private as well as government agencies aid the consumer, they really do not exist for you unless you help yourself. If you do not read the many pamphlets suggested in this chapter you will not be an informed consumer. If you do not look for the labels and seals of approval when you shop, you will not buy the best merchandise for the money. If you do not follow the advice given by professional organizations of doctors and dentists, you will waste your money on unnecessary articles and quacks. The wise consumer is informed, acts on this information, and gradually improves buying techniques.

Questions for Discussion

1. Why do you suppose the businessmen in a city are willing to contribute money to support a Better Business Bureau, which works largely on behalf of consumers?

2. What can consumers do to make it more profitable for good businessmen to regulate themselves so that bad business practices will be weeded out?

3. In the long run, what is good for customers is also good for businessmen. Can you prove or disprove this statement?

Practical Applications

1. If you live in a community that has a Better Business Bureau, ask the manager of the bureau to come to speak to the class to tell about its activities. You will not only learn a great deal but will also feel free to call the bureau at a later date when you need information.

2. If the publications of either or both of the testing and rating agencies are available, look through them. Do you think a subscription to one of these would be worth the price to your family?

3. Look for the insignia of various organizations on different kinds of goods. For example, you might look for

a. The American Gas Association blue star on gas appliances.

b. The Underwriters' Laboratories insignia on electrical equipment.

c. *Parents Magazine's* or *Good Housekeeping Magazine's* seals on labels and advertisements of many products.

d. The American Dental Association's seal of acceptance on dentrifices.

There are a number of others. See how many you can find.

In each case find out exactly what the seal or sticker means. What proof is there that it is really a valuable guide to a consumer?

Would it be possible to put on a fancy seal that meant nothing at all, just as a sales device?

4. Find out from adult shoppers whether they pay any attention to various seals or know what they mean. For example, do they give preference to dentrifices approved by the American Dental Association?

Problem

By way of a summary and review, list all the agencies you know about, public or private, that work to protect consumers. You might make a large chart form (or perhaps the class could develop it as a group). List each agency on this chart, and tell whether it is public or private. If it has one or more important publications for consumers, list them. If it has some kind of seal of approval or grade mark, try to include a copy. In the last column of the form, summarize the main services that the agency offers to consumers.

PART 6

How to Use Banks

CHAPTER 13: BANKS AND BANKING SERVICES

CHAPTER 14: HOW TO OPEN A BANK ACCOUNT

CHAPTER 15: HOW TO USE CHECKS

A person's living can hardly be divided up into compartments like the drawers of a desk. And yet to a certain extent it is divided into various phases. We must eat, for instance, and nowadays that means shopping at food stores. We must guard our health and that involves consulting with doctors and dentists. We need religion and this we associate with going to church.

Just so there is a strand running through all our lives that we may call the financial strand. This we associate with our dealings with a bank.

Banks are the foundation of the financial system of our communities and our nation. We also must learn to base our individual financial careers solidly on this foundation. Banks can give us certain services: keep our money safe, cash our checks, and furnish us credit. More than all this, an association with a bank gives character to our financial management as a whole.

Therefore we all need to learn to use the services of a good bank. In this part, you will have that opportunity.

Chapter 13. BANKS AND BANKING SERVICES

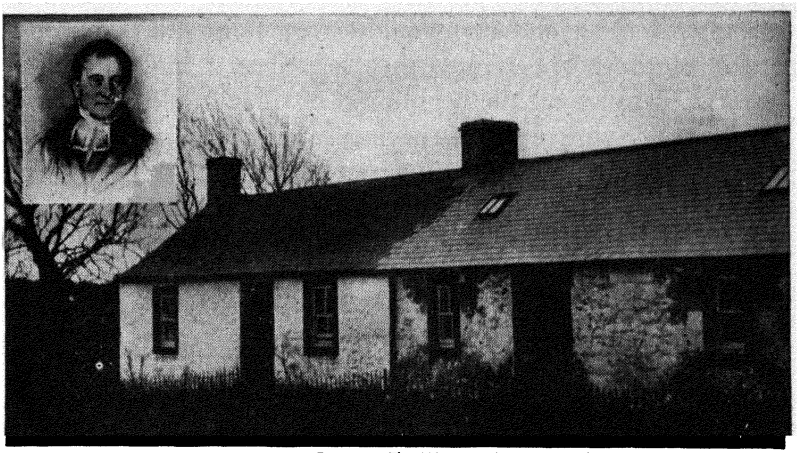
Let us go back into history to learn something about how banks originated and how they gradually came to offer their present services. There have not always been so many kinds of banks as exist today, nor have they all given so many services. In this chapter we shall learn how banks are supposed to have started, what the commonest types are, and what services will be of use to you.

When did banking originate? The origin of banks is somewhat of a mystery. No one knows for a certainty just when they began but there have been many guesses. There are a few facts that we do know about their origin.

For one thing, we know that traces of banking services were found many years before the birth of Christ. You may recall from the reading of the Bible that in early days certain men called "money-changers" sat on benches near the temples where people came to worship and carried on the business of changing the money of one community into the money of another community. They charged high fees for their services and had a monopoly of the business. Naturally they became rich; and they also became very unpopular and at times were driven away from the temples. But they were necessary if business was to be carried on. When you travel or trade in another country, you must change your money into its money. That is just what

these money-changers did. They served as the agents who made it possible for people to travel and do business elsewhere. Today this service is performed for you by the modern bank for a fee.

These money-changers collected many coins and much gold in the course of their business dealings. They kept this treasure in a safe place in their homes, so that it could not be stolen. At



Courtesy The Western Saving Fund Society of Philadelphia

In the cottage on the right the first savings bank was founded by the Rev. Dr. Duncan in 1810.

times they would be asked to keep the money of people who had no safe places of their own, and they gave a receipt for the sum received. When the owner presented his receipt, he received the exact coins and other money that he had deposited. The money-changers simply acted as guardians of funds and received a small fee. This was probably the beginning of the safe-deposit-box service carried on by our banks today.

As time passed, the owners of these deposits began to transfer their ownership by handing the receipts to another person who could then claim the deposit. This is possibly the begin-

ning of the check system now so commonly used by modern banks.

The money-changers, who had become known as goldsmiths, noticed that much of the money left with them for safe keeping was not called for over a long period of time. They began to lend this money to others, charging interest for the loan. The goldsmiths found this a profitable business, and they offered to pay interest to anyone who would leave a sum with them for a period of time. These sums they loaned at a higher rate of interest. Here we see the beginnings of three modern banking services: receiving deposits, paying interest on such deposits, and making loans for which interest is charged.

This brief sketch will give you an idea of how banking services may have started and will indicate that in one form or another they have been performed for a long, long time, even though they may have been rather crude at the start.

Are all banks alike? You should not infer that the services mentioned above are necessarily now carried on by all banks. While many of them can be found in all banks, it is not true to say that every type of bank performs *all* of them. That is the reason why you may find several different kinds of banks in a community of any size. You, however, are not interested in a catalogue of these and their special services. You want to know about the banks that you will use from time to time and these will now be described briefly.

In order to do business, all banks must receive a charter, or permit. These charters come from the Federal government and from the states. Thus there are state banks and national banks. Most savings banks and trust companies are state banks, examined regularly by state banking authorities. Banks that are chartered and supervised by the Federal government are easy to recognize as they have the term "national" in their title, for instance, the Second National Bank. As far as your dealings with banks are concerned, this distinction will make very little

difference as nearly all of our banks are now protected either by the Federal government or by the states, so that your chances of losing your money are much reduced.

Banks you will use. The five banks which perform the general services which you will use the most as time goes on, are



Courtesy Bank Building and Equipment Corporation of America

The new interior of the State National Bank of Texarkana, Arkansas, which was recently modernized.

The Savings Bank. This is probably the first bank with which you will deal, if you don't already have an account in one of them. So far as you are concerned a savings bank has two purposes: (1) to receive your deposits in small amounts and pay interest on them, and (2) to encourage you to be thrifty through the regular savings of small amounts. In addition, it will make loans to you in the future on the security of your bankbook, to aid you when you buy that store on Main Street or go into partnership with Bill. It will help you to buy your home on the hill.

The Commercial Bank. When you start work on the *Daily*

Post or take on household responsibilities, you may want to pay some of your bills by check. The thing to do is to deposit a sum of money in a commercial bank, found in all fair-sized communities, and draw against it as you need. In small communities, these banks deal in all kinds of services needed by individuals or businessmen, including those of the savings bank. In the cities, these banks are more specialized. While the commercial bank exists primarily to aid the business activities of, say, Mr. Crandall as a businessman, making loans for short periods of time and collecting checks drawn on banks at a distance, it also serves Mrs. Crandall by permitting her to open a checking account.

Commercial banks perform many useful services. They receive deposits, which can be withdrawn upon demand (payment made immediately on request) at any time; they lend money on suitable security; they maintain safe-deposit vaults for the safekeeping of valuable papers and jewelry; and they serve the community in many other ways. You may have occasion to use such a bank some day and will do well to open a checking account in one now.

The Trust Company. Does your community have a bank with the words "trust company" in its title? You may have wondered about this name. When they were first operated, these banks were chartered by the state to perform certain special services. They got their name from their chief function — the holding in trust of funds for minors, widows, estates, churches, and other institutions. They now perform all banking services that are of help to members of your community. In fact, except for the source of the charter, there is no real difference between trust companies and national banks. Both are commercial banks, both hold funds in trust, both receive deposits and cash checks, and both perform other services.

The Credit Union. While a credit union is not a bank in the

real sense of the term, it does receive deposits, pay interest, and make loans. But it cannot be used by everybody. You must belong to a credit union to receive its benefits, since it serves only members. However, you probably will have a chance to join one as there are so many connected with large industries, professions, labor unions, and other groups for which you may work. You will find a credit union a worth-while medium for accumulating a sum of money, perhaps toward professional courses you'd like to take, and for borrowing money at a low rate and convenient terms for, let's say, making improvements on your farm. Credit unions are supervised and examined regularly by state and federal banking authorities and are operated at low cost.

Building and Loan Associations or Cooperative Banks. These are not strictly banks. They are organized for the purpose of encouraging the building and financing of homes and are chartered by the states where they exist. You can save your money in them, however, whether or not you expect to buy a home. Since they are described in more detail in other sections of this text (see pages 277 and 415), we shall say no more about them here.

What services do banks perform? Banks perform many services, but this discussion is limited to the more important of these services.

Banks Make Loans. An important service of banks is the lending of money to businessmen and individuals. When it comes time for you to take on financial responsibilities, for security, you will be able to obtain a loan from your bank to buy equipment for a garage or beauty shop, to acquire a home and car, or to purchase a washing machine or refrigerator. These loans will usually be for small amounts, and must be repaid at a certain time and will cost you a small sum that is called "interest" or "discount."

Banks Permit Checking Accounts. One of the commonest services performed by commercial banks is giving you the use of a checking account by which the banks pay out to other parties your funds upon your demand. You deposit a sum of money and can withdraw it in varying amounts or in full by means of the checks. Of course, there is a limit to this power of yours to sign your name to checks, for you will not be permitted to withdraw more than you have on deposit. How to open an account and to draw checks will be described in the following chapters.



H. Armstrong Roberts

A checking account will enable you to pay bills by check. However, your bankbook should be closely watched so that your withdrawals never exceed your deposits.

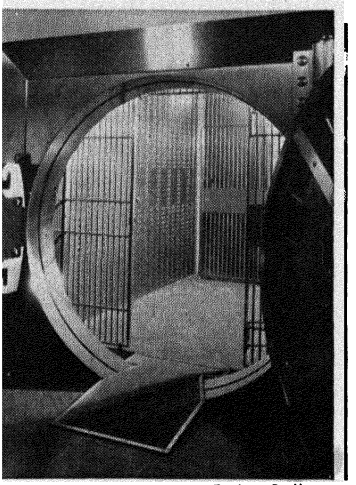
Banks Keep Your Valuables Safe. Some day you may have some valuable papers and documents, such as insurance policies, deeds, wills, leases, bonds, stock certificates, and the like. You may also have some valuable jewelry or keepsakes that you do not wish to keep in your home because of possible loss through theft or fire. Banks are prepared to guard these articles for you at small cost.

In order to keep your valuables safely, banks maintain strong vaults that are proof against fire and burglars. These vaults are lined with tiers of boxes and drawers and are rented to you for a small sum.

On renting a safe-deposit box, you will be asked to identify yourself, to give your name and address, and to sign a card with the signature you use. Then you pay your rental for the box. You are given a key and the bank has another which is a master

key, or one that fits all boxes. However, the bank cannot open your box unless you are present.

Whenever you visit the vault to open your safe-deposit box in order to examine the contents or to add or take out papers, a bank official will fill out a card stating that you opened your box and stamp on it the time you entered the vault. In some banks you may be asked to sign the card to show that you were actually the one who did the opening. This is done for your protection as well as that of the bank. If a question even arises about what happened, the record is there to show the facts. After the slip is signed, the officer accompanies you to the box and either he opens it or both of you assist in the unlocking. You then take your box to a private booth where you examine the contents and do what you want with them. When you are through, the box is locked. The time when you leave the vault is then stamped on the slip. Any member of your family may have access to the box if you authorize it and their signatures are placed on file.

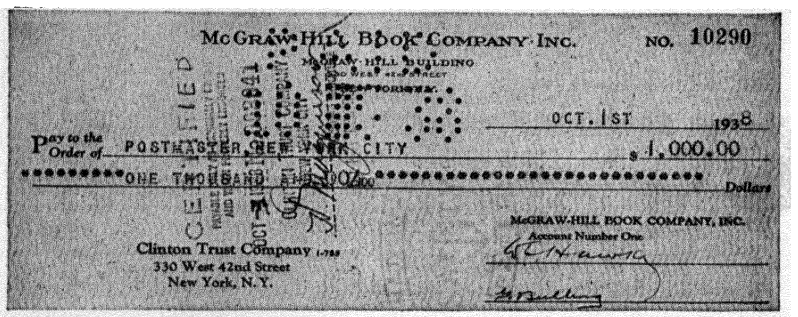


Ewing Galloway

Safe-deposit boxes line the walls of this bank vault and provide a safe place to store money and other valuables.

Banks Collect Checks That You Deposit. This is a very important service. Suppose you are carrying on a business in which you receive checks from outside your community. You may receive a check drawn on a bank in your own city and one drawn on a bank in a distant city. Naturally if you want to get the money you take them to the bank and cash them. But how does the bank get the money it has paid to you? Your bank is

a member of an association, called a "clearing house." You deposit or cash your check at your bank. The bank then sorts out all the checks it has received. It collects each day the money due on those checks drawn on local banks. It sends to the Federal reserve banks of its district or to a correspondent bank in other cities those checks drawn on banks outside the local community. In this way you are saved the bother of collecting personally the sums due you and have the use of the money in


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McGRAW-HILL BOOK COMPANY, INC.

Account Number One

Clinton Trust Company

330 West 42nd Street

New York, N.Y.

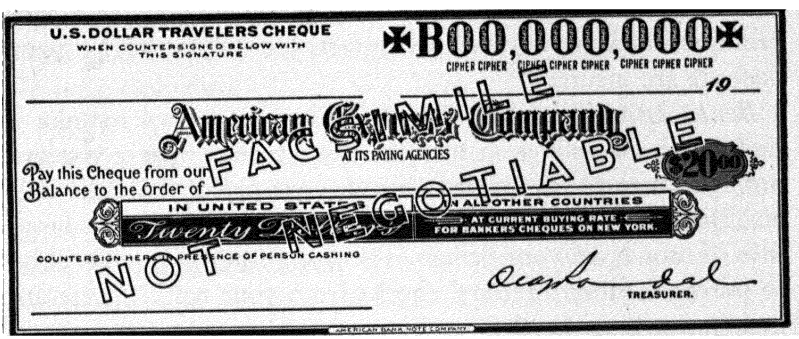
A certified check. Note the signature of the bank cashier below the certification stamp.

the meantime, subject to the bank's collecting the check. If one of the checks should prove to be worthless, you must make it good to the bank.

Banks Certify Checks. If someone does not know you, they may ask you to pay them for goods or services with a certified check. What is a certified check and how is it obtained?

Let us say you are a homeowner and your family is planning to move to a distant city and the mover does not expect to collect until the furniture is delivered at the new home. He will ask you to pay the agent with a certified check. You make out a check in the usual manner and then take it to your bank and ask to have it certified. The teller looks up your account to see that you have this amount on deposit; the matter is then re-

ferred to another bank official. If your account is O.K., the official stamps on the face of the check "Certified" with the date and the name of the bank. He then signs it and returns the check to you. The bank deducts the amount of the check from your account, and it becomes responsible for the payment of the check. In other words, the bank has guaranteed that funds are available to pay this particular check. The canceled certified check is returned to you.



Courtesy American Express Company

Many banks and other organizations issue travelers' checks like the one above which was issued by the American Express Company.

A cashier's or treasurer's check serves the same purpose as a certified check. It is signed by the cashier or treasurer of the bank. You pay the cash or it is deducted from your balance. Then the bank issues the check and is therefore responsible for the payment. Some savings banks will issue a limited number of these checks to their depositors without charge. Other banks will charge 10 cents for each check. When the check is canceled, it is returned to the bank which issued it, rather than to you. However, under certain circumstances banks will give you a receipt for the check or a photostatic copy of it.

You can see that such checks would be useful in many business transactions.

Banks Insure Deposits against Loss. During the depression of the 1930's, many persons lost money because banks failed and were unable to repay the money in full. Banks carry insurance against robbery and embezzlement, but depositors' funds have not always been protected. In 1935, the Federal government established the Federal Deposit Insurance Corporation which guarantees depositors against loss of their deposits up to the sum of $5,000 in case a bank fails. Most banks now belong to the Federal Deposit Insurance Corporation. If you see a sign prominently displayed stating this fact, you will know that your deposits are insured.

Banks Issue Travelers' Checks. When you plan to take a motor trip on your own to some distant place where you are not known or to take a trip abroad, your personal checks will be of little use to you. Naturally you won't want to carry a large sum of money on your person. The thing for you to do will be to purchase some travelers' checks from your bank. These are good anywhere in the world, and you may purchase any amount of them in convenient denominations. The bank charges a small fee for the service, usually 75 cents for each $100 worth of checks.

When you purchase the checks, you will be required to sign your name on each check in the presence of a bank official. Whenever you wish to cash one you will be asked to sign your name again in the presence of the person who cashes the check. The two signatures are compared; if they are the same, this is all the identification you need and you will receive your money. These checks are issued by many banks and by the American Express Company.

Banks Give Advice on Certain Matters. Bank officials will be willing to give you advice on many financial matters that may bother you and they may save you from making unwise deals in the future. They can advise you about the wisdom of pur-

chasing or selling real estate, the financing of a restaurant or other business, the purchase of a furnace or other equipment, and the making of wills. You should establish relations with a good bank as soon as desirable so that you may use these worthwhile services.

How do banks earn their money? All the services rendered by banks cost them money and they must charge for them if they are to continue in business. Banks make most of their income from loans of the money that depositors leave with them; some of it comes from charges made for the various services we have described.

Suppose you have have deposited $100 in your bank. Since you will probably not call for all this money at once, the bank can lend part of it to someone else and charge interest. As hundreds of other depositors do the same, the bank has a fairly sizeable sum which it may loan and from which it may earn something. Out of these earnings it must pay the salaries of officials and other employees, rent, taxes, insurance, cost of supplies, and other expenses. If there is anything left, it is profit.

Banks earn money in several other ways. Some comes from the rent of safe-deposit boxes or charging a service fee for the use of checks, selling travelers' checks, or other fees. The bulk of their earnings comes from loans to merchants and others and from investments in bonds.

Summary

Banks are institutions that originated in early times. At first they were crude instruments of exchange. Gradually the functions of accepting deposits, making loans, and safeguarding funds were developed until we now have the modern bank, which performs about every service any individual or community can desire.

In the United States banks are chartered by the states and by the Federal government. They are of many kinds intended to provide for the needs of varying groups of people. There are savings banks for those who wish to have their savings cared for and to receive interest on them; there are commercial banks and trust companies for the businessman and the individual; there are cooperative banks to encourage thrift and home owning. There is a bank for almost every need.

Without banks it would be difficult, if not impossible, to carry on business in the community today. Likewise, the individual would find it inconvenient to carry on his daily affairs if banks did not exist. Bankers provide services of a personal nature as well as bringing borrower and lender together for the benefit of all. Banks perform many services that will help you to avoid pitfalls and mistakes in later life.

Questions for Discussion

1. In what ways do the services of commercial banks, savings banks, and credit unions differ? In what ways are they the same? Under what circumstances would each best meet your needs?

2. Show how your bank can safeguard valuables from loss. What valuables do you think a family should store at the bank?

3. Explain the process of obtaining and using a safe-deposit box. Is it worth the cost?

4. Explain how a bank collects the money due on a check that you have cashed.

5. Explain the procedure of having a check certified. When would you be likely to use a certified check?

6. Under what circumstances are travelers' checks useful? How are they obtained and used?

7. How do banks earn their money?

8. Explain why it is safer to keep money in a bank than in your home.

9. How do banks make it possible for you to pay your bills without carrying much money about with you? Should this service be free or charged to you?

10. Show in detail how a commercial bank aids the community in conducting its daily affairs.

11. Discuss the advantages of the Federal Deposit Insurance Corporation. Do you think of any disadvantages in the law?

12. Of all the services rendered by banks, which do you consider the most essential to you? Give your reasons.

Practical Applications

1. If there is a clearing house in your community, your class may wish to visit it or to send a committee who will bring back a report. Even if there is no local clearing house, your banker can describe one to you.

2. What types of banks are to be found in your community? What kinds of business does each one do? Are there any credit unions?

3. Find out how older members of your family or adults among your friends chose the banks at which they do business. What factors led them to prefer one bank to others?

4. If you do not already have some connection with a bank, how soon do you think you should establish one? What are your reasons?

Problem

You will gain a better idea of how banks function and of the services they perform if you visit one of these banks. Have your teacher arrange for the class to visit the local commercial bank, or if you live in a city, one of the large trust companies or national banks. A bank official will be glad to take the class through the

bank, if arrangements have been made in advance and if the class arrives after banking hours. Observe carefully the various departments, and keep in mind what has been said in this chapter. Be prepared to give a report covering answers to the following questions:

1. From what source did the bank get its charter?

2. Is it protected by the Federal Deposit Insurance Corporation?

3. What departments are there in this bank? What services does each render?

4. Did you visit the safe-deposit vault? Were its functions explained?

5. What else of interest did you notice about this bank? Perhaps while you are there one or two members of the class can open an account or at least "go through the motions."

Chapter 14: HOW TO OPEN A BANK ACCOUNT

The next step in getting acquainted with banks is for you to open an account in the bank. Since the savings bank will probably be the first bank you will use, we will describe the procedure of opening a savings account first. Then we will take up the manner of opening a checking account in a commercial bank. You will note several similarities, the main differences being in the amount required to start the account and the forms used. The method of maintaining an account, of withdrawing funds, and of meeting service charges will also be discussed.



Courtesy Coronet Instructional Films

In opening a savings account you will usually be required to give references.

How do you open a savings account? Before opening an account in any bank you will usually be required to identify yourself (or be introduced by someone known to the bank), give references, or show by some other means that you are a proper person to have an account. The opening of a bank account is really quite simple, but there is a certain procedure that you must follow.

You Must Sign a Signature Card. You will be handed a small card, known as the signature card, to fill out. This should be filled out with care and in your own handwriting. On it you will give certain information: (1) your full name and address; (2) your age, birthplace, and occupation; (3) the name of your father and mother or guardian; (4) if married, the name of your husband or wife; (5) the signature you will use in dealing

I hereby agree to the By-laws of the
SPRINGFIELD INSTITUTION FOR SAVINGS

Sign here David L Cooper.

Age 22

Residence 41 Cypress St. Birthplace Jamaica, N.Y.

Occupation Clerk

Father's Name Wm. L. Cooper Mother's Name Josephine

Name of Husband or Wife None Date March 5, 1948

Deposited by Myself

Courtesy Springfield Institution for Savings

The names of parents are usually required on the signature card that must be filled out when you open a savings account.

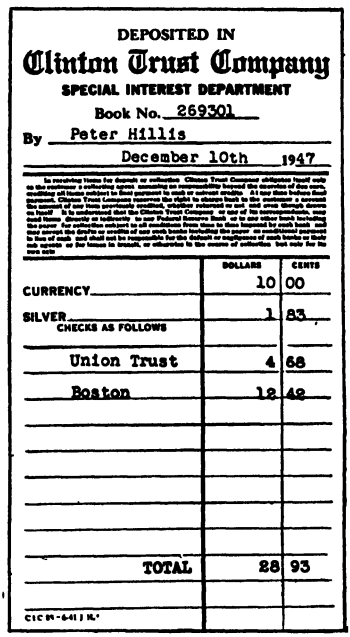
with the bank. There may be variations to this in some banks, but, in general, this is what the signature card contains.

This card is kept on file by the bank for further reference. Some banks require fingerprints of their depositors for positive identification. This is an added protection to you.

You Fill Out a Deposit Slip. After you have filled out the signature card, you are ready to make your first deposit. You will fill out a deposit slip, which contains the number of your passbook, your signature, and the amount of money you wish

to deposit. One dollar is sufficient to start the account, but any amount above this may be deposited. Every time you make a deposit you fill out one of these slips. It is better for you to get in the habit of doing this yourself, although in some banks the teller will do it for you.

You Will Be Given a Passbook. When you have completed your signature card, you will be given a passbook, which is made out in your name and bears the number which you must use each time you deposit or withdraw money from the bank. This passbook contains the bylaws of the bank and your acceptance of it means that you agree to abide by these regulations. It also contains the names of the officers of the bank and the banking hours. It is a record of your deposits, interest paid on your account, withdrawals, and the balance of your account.



DEPOSITED IN

Clinton Trust Company

SPECIAL INTEREST DEPARTMENT

Book No. 269301

By Peter Hillis

December 10th 1947

	DOLLARS	CENTS
CURRENCY	10	00
SILVER	1	83
CHECKS AS FOLLOWS		
Union Trust	4	68
Boston	12	42
TOTAL	28	93

Courtesy Clinton Trust Co.

This is one of several forms commonly used for deposits in a savings bank.

The passbook is important because it gives the complete record of your account and is really a contract between you and the bank. If you lose it, you should notify the bank at once. The bank will then advertise the loss in the papers for a certain length of time. If at the end of the time the book has not been found, you will be given a new book and the old one will be canceled.

You May Deposit Funds by Mail. If you live at a distance from the bank or if it is not convenient for you to make deposits

IN ACCT. WITH SAMPLE SAMPLE SAMPLE SAMPLE SAMPLE

	DATE	WITHDRAWAL	DEPOSIT	BALANCE	TRANS
1	12-23-46		*1,000.00	**1,000.00	A =#
2	2-12-47		** 500.00	***1,500.00	B =#
3	3-22-47	** 600.00		*** 900.00	=#
4	7-15-47		** *11.25	*** 911.25	=#
5	8-11-47		** *50.00	*** 961.25	A =#
6	9-13-47	** 300.00		*** 661.25	=#
7	10-14-47		*1,000.00	**1,661.25	B =#
8					
9		*NOTICE*			
10		THIS IS A SAMPLE			
11					
12					

NOTIFY BANK OF ANY

CHANGE OF ADDRESS

13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					

IT IS AGREED THAT THIS ACCOUNT IS OPENED SUBJECT TO THE RULES AND REGULATIONS OF

HUDSON CITY SAVINGS BANK

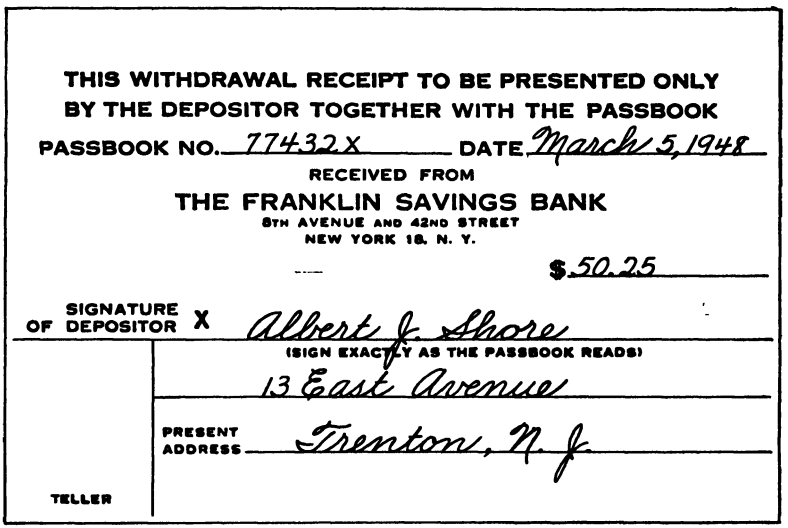
INCORPORATED MARCH 27TH 1868

JERSEY CITY, N.J.

Courtesy Hudson City Savings Bank

This is a sample page from a savings bank passbook.

in person during banking hours, you may make your deposit by mail. You should send your passbook when making such deposits, but be sure to register your letter at the post office before doing so. Generally speaking, it is not a safe thing to send


THIS WITHDRAWAL RECEIPT TO BE PRESENTED ONLY
BY THE DEPOSITOR TOGETHER WITH THE PASSBOOK

PASSBOOK NO. 77432X DATE March 5, 1948

RECEIVED FROM

THE FRANKLIN SAVINGS BANK

8TH AVENUE AND 42ND STREET
NEW YORK 18, N. Y.

$ 50.25

SIGNATURE OF DEPOSITOR X Albert J. Shore

(SIGN EXACTLY AS THE PASSBOOK READS)

13 East Avenue

PRESENT ADDRESS Trenton, N. J.

TELLER

Courtesy The Franklin Savings Bank

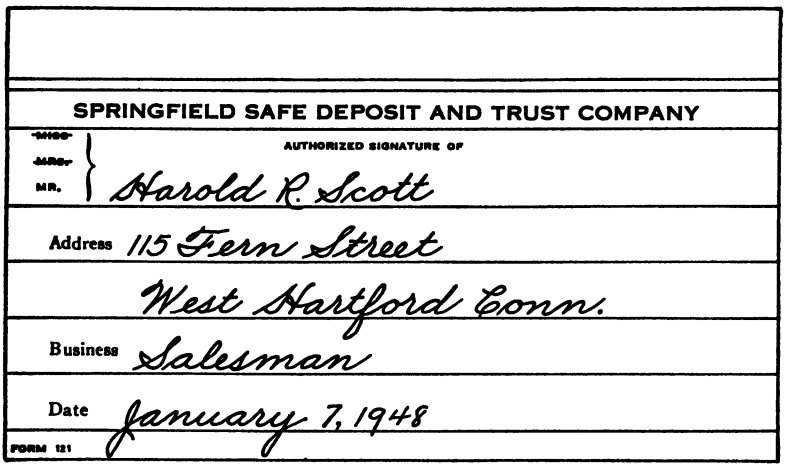
Both a withdrawal slip and the passbook must be presented when you draw money from a savings account.

actual money by mail as it may be lost or stolen. Many savings banks are open one or more evenings a week to receive deposits from those who cannot come in during banking hours. Of course, you may have some member of the family deposit the money for you; but you should fill out the required items and sign the deposit slip yourself.

Interest Is Added from Time to Time. Every six months, as a rule, the bank adds interest to your account. At such times you should present your passbook in order to have the interest added and to have your book compared with the bank's records.

This is called "verification." Some states require that all passbooks be verified at least once in three years.

You May Withdraw Funds. Whenever you wish to withdraw money from your account you must fill out a withdrawal slip, which is really a receipt for the money which is paid you. Each time you withdraw money it is entered in your passbook so that


SPRINGFIELD SAFE DEPOSIT AND TRUST COMPANY

AUTHORIZED SIGNATURE OF

MR. Harold R. Scott

Address 115 Fern Street

West Hartford Conn.

Business Salesman

Date January 7, 1948

FORM 121

Courtesy Springfield Safe Deposit and Trust Company

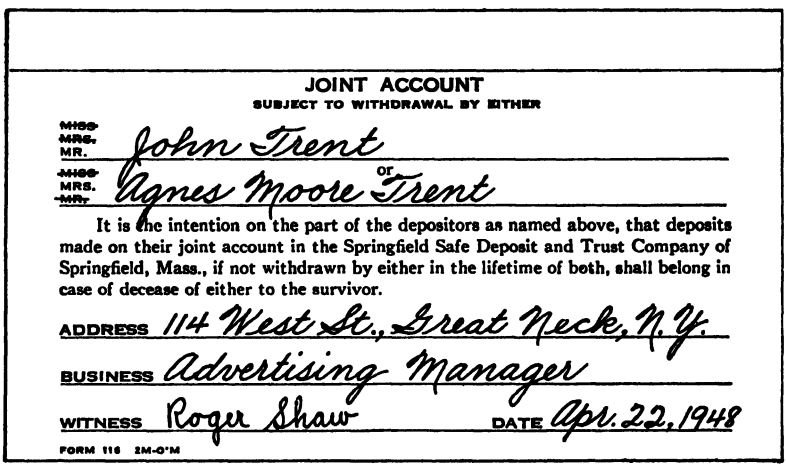
A signature card. The depositor's signature on checks must agree exactly with that on the signature card.

you may know at all times just how your account stands. You may withdraw money any time you wish, although under certain conditions the bank may require you to give them 30 days' notice. This regulation is usually enforced only in case the bank feels that it might be to your advantage to reconsider your decision, but it is rarely insisted upon today.

How does one open a checking account? The savings bank is the place where you will keep your emergency funds; as a rule checks cannot be written on savings deposits although you may withdraw your money in the manner indicated above.

Since you will probably want to pay some of your household or personal bills by check, you will want to open a checking account in some commercial bank which permits you to deposit and withdraw as you wish.

The procedure is much like that for opening a savings account



JOINT ACCOUNT
SUBJECT TO WITHDRAWAL BY EITHER

~~MISS~~ ~~MRS.~~ MR. John Trent

~~MISS~~ MRS. ~~MR.~~ Agnes Moore Trent

It is the intention on the part of the depositors as named above, that deposits made on their joint account in the Springfield Safe Deposit and Trust Company of Springfield, Mass., if not withdrawn by either in the lifetime of both, shall belong in case of decease of either to the survivor.

ADDRESS 114 West St., Great Neck, N. Y.

BUSINESS Advertising Manager

WITNESS Roger Shaw DATE Apr. 22, 1948

FORM 116 2M-O'M

Courtesy Springfield Safe Deposit and Trust Company

Either one of the signatures shown on the signature card for a joint account may be used on checks drawn on that account.

except that the amount required to start a checking account is larger. Some commercial banks require at least $100 to open an account; others require as much as $500. You will need to be identified and to fill out a signature card that is simpler than the one you fill out in a savings bank. It contains the signature you will use in signing your checks. Compare the card reproduced on page 200 with the one shown on page 204.

How does a joint account operate? Frequently two or more persons wish to have a joint checking account, for example, a wife and husband. When a joint account is used, both persons may make deposits, and both may withdraw funds.

The signatures of both parties are required on the card. A sample card of this type is shown on page 205.

Joint accounts have advantages and disadvantages. One advantage is that in some states one party may have the use of the funds without a lot of red tape and delay in case the other dies. This can be important, for sometimes when a family head dies his accounts are tied up for quite a while. The greater advantage is simply the convenience of permitting either party to go ahead with money transactions on his own. The disadvantage is that when two persons write checks neither knows how much the other may have drawn at one time. Also one may forget to enter the amount in the checkbook at the time and the account may become overdrawn. Of course, either may withdraw all the money without the knowledge of the other. But for a sensible husband and wife, who are reasonably careful managers, a joint account may be the very best arrangement.

What you should know about checking accounts. When you deposit money in the checking account, you will be required to fill out a deposit slip. This differs from that used by the savings bank. The items on the deposit slip for a checking account need a little explanation. Opposite the item marked "Bills" you give the total amount of paper money you are depositing; opposite "Coins" you give the total of the silver and other metal. When you list the checks, you are usually asked to give the name of the bank upon which they are drawn, or the name of the city in which the bank is located if other than your own.

Bankbook. After your account has been accepted you will probably be given a bankbook, although this is not always done unless you are a businessman. In this book only deposits are entered as they are made, while both withdrawals and balances are written into a savings-account book.

After you make out your deposit slip, you present it to the

teller with your money and checks, together with your bankbook. He will then enter the amount in your book. This serves as a receipt. If you send your deposit by mail, you will receive a receipt by mail. You should keep this receipt and present it the next time you are at the bank so that the mail deposit may be entered. Do not enter any items in the book yourself.

The loss of a bankbook is not so serious as the loss of a passbook of a savings bank, which contains a complete record of your savings. It is not so essential to have a bankbook now as it once was because banks send you a monthly statement of your account. However, even though you have no bankbook, it is a good plan to make out a duplicate deposit slip each time and have it receipted by the bank. You can use this receipt if you find an error in your monthly statement.

DEPOSITED IN
THE GUILFORD NATIONAL BANK
GREENSBORO, N. C.

By James Rhodes

January 14, 19[illegible]

	DOLLARS	CENTS
Currency	8	00
Silver	3	50
CHECKS AS FOLLOWS		
Union Trust	6	40
Washington	12	35
Baltimore	42	80
40		
ORIGINAL Total $	73	06

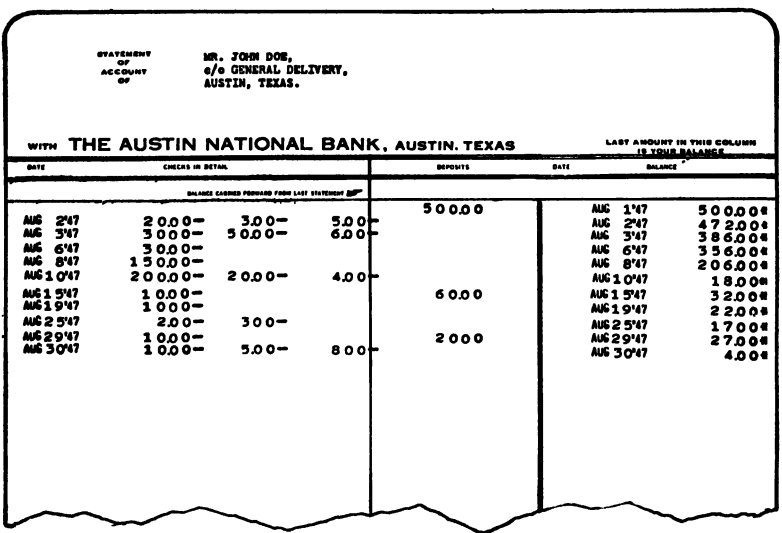
SEE THAT ALL CHECKS AND DRAFTS ARE ENDORSED

Courtesy The Guilford National Bank

This is a deposit slip of the type commonly used by commercial banks.

Monthly Statement. At the end of each month you will receive from the bank on request a complete statement of the condition of your account at that time. In addition, you will receive all the checks that the bank has paid for you during the month. These canceled checks should be kept for a while, since they may be used as proof that you have paid certain bills and that the person to whom they were paid has received the money. His endorsement on the back of the check shows this.

The monthly statement contains the following items: the balance carried forward from the previous month; the separate deposits made by you during the month with date of each deposit; the individual checks paid by the bank and the date each was paid; service charge if any; and the balance left in your account at the end of the month.



STATEMENT OF ACCOUNT OF
MR. JOHN DOE,
c/o GENERAL DELIVERY,
AUSTIN, TEXAS.

WITH THE AUSTIN NATIONAL BANK, AUSTIN, TEXAS

LAST AMOUNT IN THIS COLUMN IS YOUR BALANCE

DATE	CHECKS IN DETAIL			DEPOSITS	DATE	BALANCE
	BALANCE CARRIED FORWARD FROM LAST STATEMENT			500.00		
AUG 2'47	200.00	3.00	5.00		AUG 1'47	500.00
AUG 3'47	300.00	50.00	6.00		AUG 2'47	472.00
AUG 6'47	300.00				AUG 3'47	386.00
AUG 8'47	150.00				AUG 6'47	356.00
AUG 10'47	200.00	20.00	4.00		AUG 8'47	206.00
AUG 15'47	100.00			60.00	AUG 10'47	18.00
AUG 19'47	100.00				AUG 15'47	32.00
AUG 25'47	2.00	3.00			AUG 19'47	22.00
AUG 29'47	100.00			2000	AUG 25'47	17.00
AUG 30'47	100.00	5.00	8.00		AUG 29'47	27.00
					AUG 30'47	4.00

Courtesy The Austin National Bank

The bank statement sent out each month with the canceled checks provides a complete record of receipts and payments.

The form of monthly statements used by banks is not the same in all cases. In general, they all contain the same items arranged to suit the particular bank. Here is a sample of such a statement.

Checkbook. The bank also furnishes you with a book containing blank checks with stubs. The checkbook is for your convenience in drawing money out of the bank or for paying bills. Certain rules should be followed in using the checkbook

and these are explained more fully in the next chapter. Whenever you write a check, you should be sure to make the proper entry on the stub corresponding to what is on the check; the stub is at the left of the perforation. Then tear off the check on the right of the perforation, and mail it or cash it. The stub is your record of the transaction. On page 218 you will find a check with accompanying stub properly filled out.

How Do You Check a Bank Statement? The monthly statement is sent to you so that you may check it against your stubs and your balance as shown in your checkbook. When you compare the bank statement with your own records to see if they agree, you are "reconciling" the bank balance. Many monthly statements contain directions to follow for this process.

It is quite possible that the balance on the bank statement does not agree with the balance in your checkbook. This may be due to the fact that you made a deposit on the last day of the month which did not get entered in the statement or that one or more checks you have drawn have not come back to the bank for payment yet. The balances may not agree because you forgot to enter a check that you drew or because you made a mistake in subtracting the amounts of certain checks from your balance or in adding deposits to your balance. It may, of course, be possible that the bank has made an error. In any event since you want to know just where you stand each month, you should adopt the following method of finding out. The method is quite simple and involves only elementary arithmetic.

When you receive your monthly statement, the first thing to do is to compare the deposits and check items on the statement with the record in your checkbook. If you find that you failed to enter a check on the stub or failed to record a deposit, you should enter it at once and correct your arithmetic.

The next step is to see if there are any checks outstanding, that is, whether you drew checks which the bank has not yet paid.

If there are any, the amount should be added and the total added to your balance in your checkbook. Then subtract any deposits that might have been made after the bank statement was made up. This should make your balance agree with the balance the bank claims you have.

To make this clearer, let us illustrate from the sample statement on page 208. The bank statement shows a balance of $4.00. But the check stubs show a balance of only $2.45 at the end of the month. When the depositor compares the canceled checks with his check stubs, he finds that a check for $1.55 has not been paid. When he subtracts this sum from the bank balance of $4.00, he finds that it equals $2.45, which is the balance shown in his checkbook. Or he could add the $1.55 to his balance of $2.45 and have it equal the $4.00 that the bank statement gives. This is as it should be and shows that the statement of the bank and the checkbook agree.

Is a checking account expensive? There was a time when a checking account cost nothing to maintain. Perhaps someone in your family can tell you about the time when banks urged people to use these accounts for the payment of household and other bills. The banks did this because they assumed that they would be able to earn more than enough by lending this money at interest to make up for the expense incurred in taking care of the account. This did not prove to be the case, and the banks began to make a charge for handling checking accounts. This charge was called a "service charge," which you will see marked with letters "SC" on your monthly statement whenever you incur this expense. The amount the bank charges depends on how many checks you draw, on how much you deposit, and on how much your average monthly balance is.

Many people make one deposit a month and draw many checks against this deposit to pay small bills. It costs the bank as

much to handle a check for $1 as it does a check for 1 million dollars. Likewise, every deposit made means work for several clerks and bookkeepers. If you make many deposits in a month, the expense is increased. If you happen to be a person who makes only one deposit a month and draws few checks, the bank can



Courtesy Von Riegen and *This Week*

"My checks keep coming back marked 'No Funds.' What's the matter? Is the bank broke?"

lend your money and earn something to offset the handling of your account. If it cannot do this, it must charge you for the service since it is handling your account at a loss.

In some banks if your monthly balance remains above $100 and you draw only a few checks during the month, you may not be required to pay a service charge. Other banks require a

larger average balance than $100 and permit fewer checks to be drawn before imposing a charge. The practice varies with different banks. But, in general, it is only when you cause the bank extra cost that you are required to pay the service charge, which is sometimes $1 a month and sometimes more. Banks determine the activity of accounts by analyzing them and then set the charge.

When you consider how much the banks do for you and the fact that they have expenses like any other business, you will be able to see the justice of their charges, even though you may decide at some time that the expense of a checking account is too great for your income. Your bank charges you nothing for checkbooks, deposit slips, passbooks, counter checks, and the monthly statement. On the other hand when you deal with a department store, you know that items similar to these are included in the price of the articles you buy.

What is a metered check system? There came a time, however, when many people felt that a checking account had become too expensive, and they withdrew their accounts from the banks and paid their bills by cash. But this was not always convenient when the person to whom the money was owed lived at a distance. Banks also found that they were losing good customers. Therefore, in order to provide banking facilities for those who could not maintain balances large enough to cover the cost of the account, many banks adopted a new system.

It has been called the "metered check system," although there are many other names given it. Under this system you pay for each bank transaction, just as you pay for money orders at the post office. Some banks make a charge of 10 cents for each check drawn or deposited; others make a small charge for deposits and sell a checkbook with 10 or 20 checks for $1 or more. Under this plan you need not have any balance at the

bank; you may carry any small amount. You pay for what you expect to use.

Some of the names used for plans similar to this are Special Checking Accounts, Thrifty Check Plan, and Registered Checks. The use of the registered check is quite simple. If you wish to pay a bill of $10 in a distant city, you go to a bank that issues this kind of check and pay 10 cents for a check. This check contains a stub. You fill out both the stub and the check just as you would if you had a regular checking account. Then you present the check with the money to the clerk who stamps it with the name of the bank and gives it back to you to mail. You retain the stub for reference later if needed. The check now becomes the obligation of the bank and is returned to the bank when paid. Should there be a dispute about the payment of the bill, you can go to the bank, present the stub, and receive the canceled check as proof that the bill was paid.

Is a checking account worth while? After thinking over the services that banks render and the charges they make, you will have to make up your own mind as to whether you will open a checking account or not. If you compare the cost of a registered or metered check, for example, with the cost of a money order, you will find that you save money by using a check. There is only one charge for a check no matter what the amount. This is not so with a money order.

Your canceled check serves as a receipt for the payment of a bill, while a money order does not come back to you and it is not always easy or convenient to have such an order traced to see if the money was received.

There are other advantages in having some sort of a checking account. It makes it unnecessary for you to carry large sums with you; it is a convenient way to pay bills; and regular savings in a commercial bank help you to maintain a good credit standing in your community.

Summary

Opening an account with a bank is a rather simple procedure and yet it calls for care. Certain forms are used in order to make work simpler for the bank and to protect you and the bank. These forms differ slightly between the savings bank and the commercial bank, because the banks are used for different purposes.

Because banks are under great expense in conducting their affairs and because they furnish essential and convenient services to customers who do not keep balances large enough for the banks to earn money on them, they make charges. These charges depend on how much the account is used during the month, but they are not high when considered according to services rendered.

Banks now have made it possible for persons who are unable to afford a checking account to make use of the service of checks through various plans, such as the Registered Check Plan, the Thrifty Check Plan, and others. These plans are operated at a minimum cost to the users and give the benefits that come from paying bills by check.

Checking accounts are worth while because they enable you to pay bills quite easily and obtain a receipt for the payment of the bill. Checks also make it possible to send money to distant places at a reasonable cost. Checks are used commonly today in almost all transactions. A person who does not avail himself of the opportunity of using checks may be at a disadvantage at times. By using good judgment in making deposits and drawing checks, you can escape some of the service charges and still enjoy all the advantages of a checking account.

Questions for Discussion

1. What information is called for on the signature card of a savings bank? Why is this information so detailed? Why must you be identified before you open an account with a bank?

2. Explain what a passbook is and why a savings-bank passbook is so important. Why is it important to have your savings-bank passbook verified from time to time?

3. Explain the procedure in opening a checking account. How does it differ in the case of a joint account? Under what conditions do you think a joint account is a good thing?

4. What is the purpose of the monthly statement issued by commercial banks? What does it contain, and what should you do with it? Explain by example how a monthly bank statement should be reconciled with your records.

5. What important services do savings bank render you? Do these services cost the bank money? How do the banks earn the money to cover these costs?

6. Why do commercial banks charge for their services while the savings banks do not?

7. Only a short time ago banks were urging small depositors to make more use of checks. Now they make a charge for this service on the ground that many of the accounts are carried at a loss. Do you think the banks are justified in making this charge? Give your reasons.

8. Discuss the conveniences and inconveniences of checking accounts.

9. Explain how the accounts of some depositors mean a loss to the bank while others mean a gain.

Practical Applications

1. Secure samples, from a bank or from families represented in the class, of the forms commonly used in dealing with a bank. Get acquainted with each and learn how to use it correctly.

2. One of the advantages of using a checking account is that the canceled checks serve as receipts. Since this is true, what should you do with canceled checks?

3. Why is it much easier to reconcile a bank statement if you do it promptly than if you wait a week or two?

4. Find out from your family or from friends approximately how much it costs per month to maintain a checking account. How can they hold the cost low?

5. If you know people who maintain checking accounts and others who do not, find out their reasons in each case. Try to evaluate these reasons to see which is better.

Problem

Go down to your local savings bank, and ask for whatever printed literature it has that deals with the things discussed in this chapter. Find out what per cent of interest the bank gives its depositors, their method of opening an account, and how money is withdrawn. Then go on to a local commercial bank and ask for literature on the same issues. Compare its rate of interest and the cost of service charges for a checking account, with the interest rate of the savings bank. Then when you have all the pertinent information about the two banks, study it and write out a list of the advantages of each. Which do you think would be of the most use to the various people you know: your mother, your dentist, the drugstore owner, the school janitor, etc.? Tell why.

Chapter 15: HOW TO USE BANK CHECKS

Don't you find that your need for managing your own financial affairs is increasing quite rapidly? Even if you have no need or desire for a regular checking account and prefer to use one of the plans suggested in the last chapter, you will soon find it helpful to know certain facts about using checks. That is the purpose of this chapter. It should be understood at the outset that banks vary somewhat in their regulations about checks. We shall follow the common practice of the larger banks. From your local bank you can soon learn what changes may be necessary.

What Is a Check?

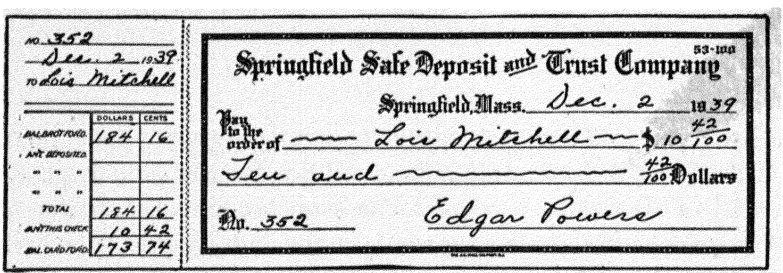
A check is *a written order by a depositor directing his bank to pay a certain sum of money to a third party on his order.* A check may be made out to "bearer," to "cash," to yourself, or to a specific firm or individual. It may also be used to draw money out of the bank for personal use or to pay debts locally or in any part of the country.

It is quite common to speak of checks as money; this is not surprising when we know that a check passes almost everywhere as money. But in the strictest sense checks are not money but a substitute for it. We use them instead of real money when

we pay bills or send money to some distant place. They can be sent safely through the mail and serve most of the purposes of money.

Who Are the Parties to a Check?

There are three parties to every check. These are called the "drawer," "the payee," and the "drawee." The *drawer* is the



Courtesy Springfield Safe Deposit and Trust Company

The check and stub should be filled out at the same time.

person who writes the check ordering the bank to pay money and signs his name to it. The *payee* is the person or firm to whom the check is made payable, the one who is to receive the money. The *drawee* is the one upon whom the check is drawn, the bank. You will recognize these three parties in the illustration on this page.

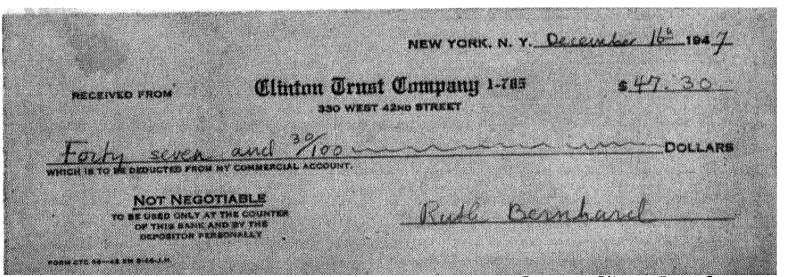
If you examine the check shown in the illustration, you will notice certain things. The drawer of the checks signs his name in the lower right-hand corner; the name of the payee appears after the words "Pay to the order of"; the name of the drawee, or bank, is printed across the top of the check. This is the common form for commercial or personal use.

How Are Counter Checks Used?

It sometimes happens that when you wish to withdraw money you have no checks with you when you go to the bank.

In this case you make use of special forms found in the racks or desks in the bank lobby for your convenience. These are called "counter checks." Such a check is shown on this page.

If you compare this check with the personal check, you will notice some differences. The counter checks are really not checks at all but merely receipts. They are of no value to anyone except the depositor and cannot be used outside the bank.


NEW YORK, N. Y. December 16th 1947

RECEIVED FROM Clinton Trust Company 1-785 $47.30

330 WEST 42nd STREET

Forty seven and 30/100 DOLLARS

WHICH IS TO BE DEDUCTED FROM MY COMMERCIAL ACCOUNT.

NOT NEGOTIABLE

TO BE USED ONLY AT THE COUNTER OF THIS BANK AND BY THE DEPOSITOR PERSONALLY

Ruth Bernhard

Courtesy Clinton Trust Company

Counter checks are provided by banks for the convenience of the depositors who may not have checkbooks with them.

You will note that the sample counter check has printed on it, "To be used only at the counter of this bank and by the depositor personally." Counter checks of other banks carry similar notations.

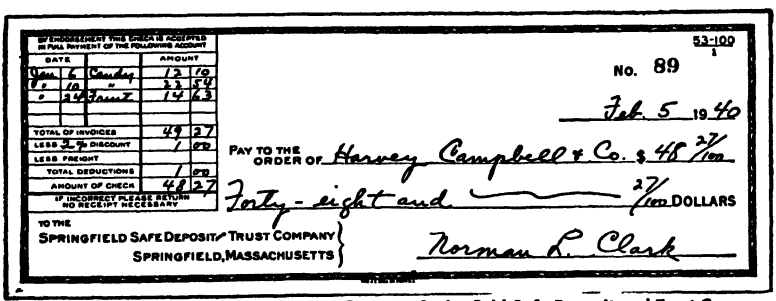
If you should ever use a counter check, you should be sure to make a note of the amount of the check and enter it on the stub of your checkbook as soon as you get home. If you fail to do this, you may overdraw your account and be embarrassed.

How Is the Checkbook Used?

A checkbook contains a number of checks bound together and so printed that you are saved much time in making them out. Checkbooks come in various forms, some having three checks to a page and others only one. As we explained in the

previous chapter, with each check there is a part called the "stub," joined to the check by a perforated line. This perforation makes it easy to tear out the check after you have written it.

Here, for emphasis, we repeat some important facts about stubs. The *stub* is bound into the checkbook in such a way that it remains there. It is essential that it should be filled out



Courtesy Springfield Safe Deposit and Trust Company

Voucher checks that provide for a complete listing of the items covered by the check are widely used by business firms. The firm name is often printed in the space at the top.

before you write the check itself. The stub contains the same information that is on the check and is your record of the transaction. On the stub you carry forward your balances so that at the end of the month the stubs serve as a means of reconciling your records with those shown on the monthly statement.

How Should Checks Be Written?

Bankers report that large numbers of checks come to them daily which are improperly made out in some respect. When you recall that your check directs the bank to pay out of your account a certain sum of money, you will realize why it is important to use care in drawing checks. Here are a few directions to help you write checks properly.

All checks should be written in ink. You can easily see the reason for this. If you write a check in pencil, it can be changed quite easily. If the amount has been changed, the teller will pay whatever amount the check orders him to do. The bank then deducts this amount from your account. You may not learn of this until the end of the month and it may then be too late to do anything about it. Therefore, write your checks in ink and protect yourself. At the same time this may prevent the bank from getting into a difficult position. Writing checks in ink does not guarantee that your check will not be changed by someone. But to aid you the banks have their checks made of a special kind of paper on which erasures and alterations are quickly detected.

Checks should always be dated correctly. If you look at a check, you will see that a special place is provided for the date, which should be written clearly and be the same as the one on the corresponding stub. It includes the month, day of the month, and the year. You should date your check as of the day on which you write it. However, there are some people who choose to date some of their checks ahead, and these are known as "postdated" checks. For example: suppose that you write a check on June 25 and date it June 30. Such a check will not be paid by the bank before June 30. Banks do not like postdated checks, and you should not write such checks if it can be avoided. If it ever becomes necessary for you to post-date a check, make sure that the person to whom it is to be given agrees to it, for he cannot collect the money until that date.

Numbering checks is convenient. A place is provided on each check for a number, and the stub also contains a place for the number. These numbers should correspond. It is not compulsory to number your checks and some people do not do it. But you will find it a convenience to have consecutive numbers

for comparing checks and stubs when your monthly statement is received. It is also useful in case you ever wish to stop payment on a check. The meaning of stop payment is given later in this chapter.

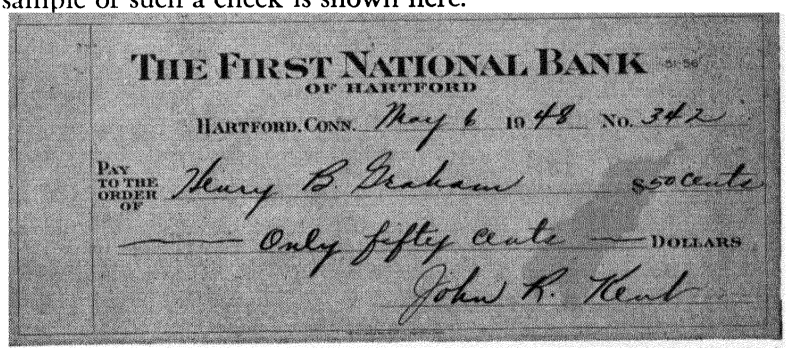
The payee's name is important. The next step is for you to name the payee. Checks are usually made payable to an individual, a firm, to "cash," or to "bearer." Checks made out to cash or bearer can be cashed by anyone who happens to come into possession of them. This is one reason why you should be careful in writing these kinds. The safety of a check lies in the fact that it can be cashed only on the order of the payee. If you intend to cash the check at once, it is safe to make it out to "cash." Sometimes people make checks payable to "the bearer" thinking this will do away with the need to be identified before a check can be cashed. Banks require all strangers to be identified before they cash their checks. It is just as easy to make a check payable to a person and it may save you much trouble and inconvenience.

Write the amount of the check with care. You will note that the amount of the check appears twice. In one place you write the amount of the check in figures and in another in words. The amount in figures should be written as close as possible to the dollar sign in order to prevent it from being altered by the insertion of another figure. The amount in cents should be written in small figures and in the form of a fraction, as $^{36}/_{100}$. If there are no cents, write the fraction no/100.

You should use much care in writing the amount in words. Begin the writing at the extreme left end of the line provided for this purpose. If the words do not fill all the space, draw a wavy line heavily across to the word "dollars." This makes it more difficult for anyone to alter the amount. If the check is for several dollars and a few cents, write the cents as a fraction as close as possible to word "dollars." If the amount of cents

is less than ten, write the fraction with a zero before the numeral, for example, $^{07}/_{100}$.

It is not usual to write checks for less than $1; certainly it is not wise to do so. But if you find that you have to do this, it is well to use the word "only" before the written amount. A sample of such a check is shown here.


THE FIRST NATIONAL BANK
OF HARTFORD
HARTFORD, CONN. May 6 1948 NO. 342
PAY TO THE ORDER OF Henry B. Graham $.50 cents
Only fifty cents DOLLARS
John R. Kent

Courtesy The First National Bank of Hartford

If it is necessary to draw a check for an amount less than one dollar, do it in this manner.

It sometimes happens that the amount in figures does not agree with the amount in words. Legally, the amount in writing is considered the correct amount; in practice, the bank pays the amount in figures. If the difference is great, the bank will not pay the check until it is satisfied which amount is correct.

Your signature is very important. The last thing you do in making a check is to sign it. It is extremely important that you use care in signing your checks. You gave the signature you would use when you opened your account. This is the signature you should always use if you wish to avoid trouble. If you vary your signature, the bank may refuse to pay the check. The bank has authority to pay only those checks that you have signed. If someone else signs your name to a check—a serious

crime called "forgery"—and the bank pays it, the bank must stand the loss. The bank desires to serve you in the best and safest way and asks that you adopt a particular signature and use it always in writing checks.

What happens if a check is altered? A check that has been changed as to amount, or in any other way, is known as an "altered" check. These checks give much trouble to banks and to depositors. Banks are held responsible if they pay out more money than the drawer of the check ordered paid. But if it can be proved that the drawer of the check was careless in writing it so that it became an easy matter to alter it, the law does not hold the bank responsible. Therefore, you can see that it is up to you to make out checks so that they can't be altered or changed.

Endorsement

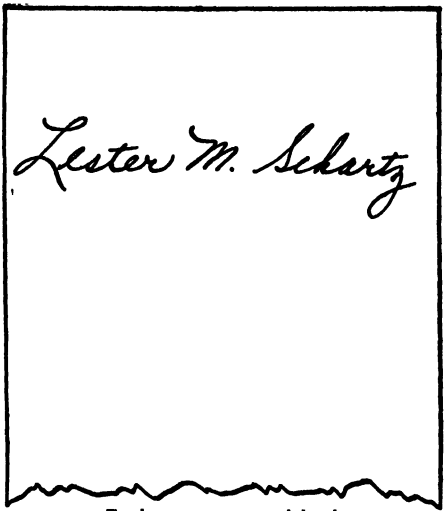
Checks are transferred by endorsement. When a check comes into your possession, there are several things you may do with it. You may deposit it to your account in the bank, you may cash it, or you may pass it on to someone else. Before you may do any of these things you will be required to write your name on the back of the check. This is called "endorsing" and your name on the back is an "endorsement."

Why are endorsements required? Endorsement is required by the bank in order that it may prove, if necessary, to whom the money was paid. Persons who draw checks find endorsements useful, too. All checks are made payable to "the order of" some third party. This means that the bank will not pay out money unless someone has ordered it to do so. It will not pay out money from your account at your oral request, say, by telephone. Only a check will serve this purpose. If the bank paid out money on an oral request, and a dispute arose later, the bank would have no proof that it had paid the right person

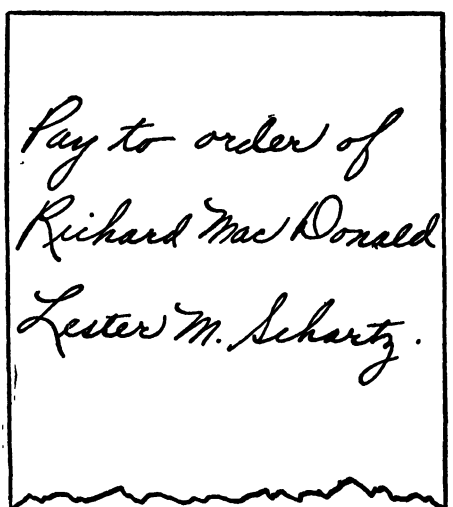
or the right amount. If it has your order to pay $10 to Samuel T. Nelson, for example, Mr. Nelson must endorse the check before he can receive the money. This is proof that the bank has paid the right person—one reason why endorsements are required.

Endorsements aid you as well as the bank. You may have paid a bill by check and mailed it. At the end of the month this check comes back to you endorsed by the merchant you have paid. If the merchant later sends you a bill for the article in question, generally you have only to show his signature on the back of the check to prove that the bill has been paid.

Where should the endorsement be written? Your name written anywhere on the back of a check is an endorsement and is legal. However, it is more convenient for the bank teller if you endorse on the back of the check near the left side.

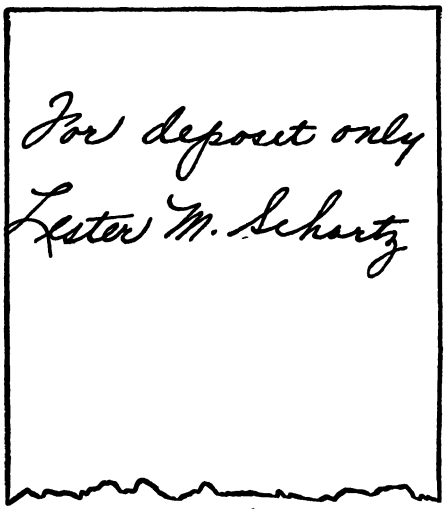


Endorsement in blank.



Endorsement in full.

A simple method is to place the check facing you as you write it; then turn it over and write your signature near the top.



Restrictive endorsement.

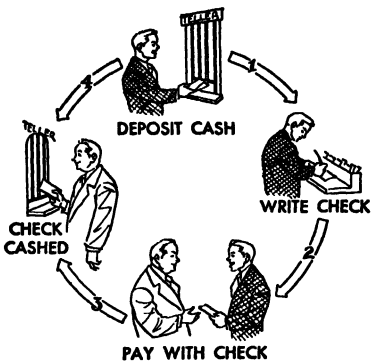
How may checks be endorsed? A check must be endorsed exactly as it was made out by the writer, that is, if Walter H. Martin receives a check made out to W. H. Martin, for example, he should endorse it "W. H. Martin." It would not be sufficient for him to endorse it as "Walter Martin" or even as "Walter H. Martin." If your name is misspelled on the face of the check, you should first endorse the check with the misspelled name and then write your correct name.

What responsibilities does an endorser assume? It may be a serious matter to endorse a check because it means that you guarantee payment. Thus, if you receive a check for $50 and endorse it before you deposit it and if it is later found to be forged, you will be called upon to make good the money to the bank. If you have passed the check on to someone else after endorsing it, the receiver could hold you responsible for paying the $50. The same would be true if you passed the check to someone else by endorsement and it turned out that there were no funds in the bank to cover it. Can you see why you should exercise great care when you endorse checks, especially if you endorse a check to favor a friend?

What kinds of endorsements are there? Endorsements are

of several kinds, many of which you will probably not have occasion to use. There are three forms, however, with which you should be familiar.

Endorsement in Blank. This form is used oftener than any other. You endorse a check in blank when you write your name only on the back of it. The effect of such an endorsement is to make the check payable to any person who receives it afterward.



To trace the route of a check, start at the top and follow the arrows in order.

Endorsement in Full. This is sometimes called a "special" endorsement. The endorsment in full contains the name of the person to whom the check is made payable, called the "endorsee," and cannot be further transferred unless the endorsee himself also endorses it. Such an endorsement contains the words "Pay to the order of," and is safer to send through mail than an endorsement in blank.

Restrictive Endorsement. This form is most often used when you wish to deposit checks by mail. It restricts the use of the check to the purpose indicated by the endorsement. If you write the words "For deposit" above your signature on the back of the check, the check can be used only for deposit. A restrictive endorsement prevents a check from being transferred to anyone else.

When Should Checks Be Cashed?

It is always a good plan for you to deposit or cash checks as soon as possible after receiving them. The general rule in banks is that a check should be cashed at any time during the

business day following that upon which it was drawn. Banks are unable to enforce this rule, but you should follow it for your own benefit. There are several reasons why this is a good practice

If you receive a check and neglect to deposit or cash it for several days and if in the meantime the person who drew the check dies, you may be put to much trouble. According to law, the bank in this case may refuse to cash the check until the court authorizes it to do so. This may mean a long wait for you. Again, if the bank should fail before you cashed the check, you might lose your money. Finally, the person who gave you the check may have overdrawn his account before you presented the check for payment. This will mean more bother and perhaps some loss. Be wise, then, and cash or deposit checks as soon as you can after you receive them. This will aid you as well as the bank.

May You Stop Payment on a Check?

Some time you may make out a check and discover after you have mailed it that you made an error in writing it. You may have put in the incorrect amount or have made it out to the wrong person. You may have changed your mind about paying the bill as called for. Or the check may have been lost in the mail. How can you stop payment on such checks?

The thing for you to do is to notify the bank at once and fill out a stop-payment order furnished by the bank. Banks have different forms for this purpose; the one illustrated is fairly common and will serve to show you what information is called for.

In calling the bank to stop payment, give the number, date, name of payee, and amount of the check. Then go to the bank as soon as possible, and fill out the form or ask the bank to mail it to you. This form is handed to the teller who compares it with checks as they come in so that the check in question may

164-2SM-1-45

New York, December 12, 1947

CORN EXCHANGE BANK TRUST COMPANY

Gentlemen:

Please stop payment on

Draft
Check No. 4 H 27662 for $ 41.75
Note

dated December 10th 1947 drawn by me to the order of Eric Callahan

and I hereby agree to indemnify Corn Exchange Bank Trust Company against any loss resulting from non-payment of the said check Should you pay this check through inadvertency, or oversight, it is expressly understood that you will in no way be held responsible.

Yours respectfully,

Martin Dawes

Authorized Signature

IF ANOTHER CHECK IS TO BE ISSUED,
PLEASE USE DIFFERENT NUMBER
AND DATE

Date Received December 12th

Noted by:
Tellers Peter Norris
James Levine
Clarence Cochran

Time Received 10:40 A.M.

Vouchers and current work checked

Certification Clerk

Adjuster

Bookkeeper Milton Pfeiffer

Signature to above order must correspond to that on file with the Company

Courtesy Corn Exchange Bank Trust Company

A stop-payment order, such as this one, is sometimes necessary.

not be paid. The bank does not guarantee to stop payment. It simply agrees to use its best efforts to avoid payment of the check in question. If the bank has done its best to stop payment and has failed, you cannot hold the bank liable for its payment to you. Sometimes banks may ask you why you wish payment of the check stopped.

Summary

A check is a convenient means for paying bills anywhere. It is a written order by one who has funds on deposit directing his bank to pay money out of his account to a third party. It is important that you observe certain rules for writing and using checks in order to save yourself embarrassment and possible loss of money.

You should write your checks in ink indicating the amount clearly so that there can be no question about it and so that no one may be able to alter the check in any way.

Checks are passed from person to person by endorsement. There are three kinds of endorsement that you should understand. One of these is endorsement in blank, which is a common method but which is sometimes risky because it makes the check payable to anyone getting possession of it; another is endorsement in full, which is less common but safer because it makes the check payable only to the party indicated; finally, the restricted endorsement, which limits the check to specific uses and makes it impossible to pass it from person to person.

You should cash or deposit your checks as soon after receipt as possible in order not to lose money or be put to a lot of trouble. Finally, you should learn how to stop payment on a check should you ever need to do so. All these precautions are for your protection primarily, but if followed they will save the bank a great deal of difficulty and make it possible for it to serve you more efficiently.

Questions for Discussion

1. Would a check written on a piece of wrapping paper be good? Why, or why not?

2. Discuss the usefulness of endorsements both to you and the bank.

3. Discuss the possibilities of risk in making checks to "cash" or to "bearer."

4. Discuss the reason why the bank requires a written order to stop payment on a check. Must the reason be a strong one? Or may you stop payment for any reason whatever? Is the bank obliged to stop payment if you request it?

5. Discuss the advisability of cashing or endorsing checks for strangers.

6. Can you give reasons why you should refuse or consent to endorse checks for friends ?

7. Why should the bank have to make good when it cashes a forged check? Are there any exceptions to this rule?

Practical Applications

1. Suppose that you wish to order an expensive appliance from a distant company and to get prompt delivery. Not knowing you, the firm may hold up shipment until the check has proved good. What can you do to avoid this difficulty?

2. Suppose that you are a businessman and wish to send your secretary to the bank to deposit a group of checks. How should you endorse them for greatest safety?

3. Someone endorses a check and passes it on to you at a time when you cannot promptly go to the bank and cash it. Since you may have to carry it a day or two, what sort of endorsement should you prefer him to use? If he uses a blank endorsement what can you do about it?

4. What can you do when writing a check to make it difficult to alter?

5. What happens if you overdraw your checking account?

Problem: Kinds of Endorsements

The Institute National Bank received a check that bore the endorsement shown below.

1. To whom was the check drawn?

2. What kind of an endorsement did Sam Thomas use?

3. To whom did this endorsement transfer the check?

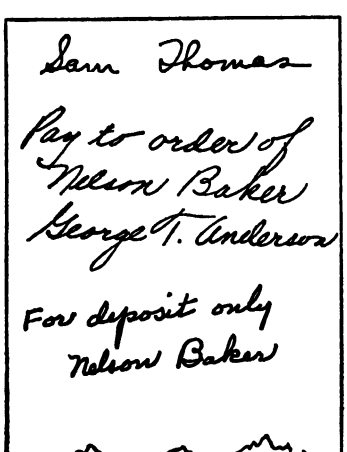
4. What kind of endorsement did George T. Anderson use?

5. What was the effect of this endorsement?

6. What kind of an endorsement did Nelson Baker use?

7. What effect did this endorsement have?

8. Which of the above endorsements made the check nontransferable?



PART 7

Using Personal Credit

CHAPTER 16: CREDIT AND YOUR ATTITUDES TOWARD IT

CHAPTER 17: SALES CREDIT

CHAPTER 18: BORROWING MONEY FOR PERSONAL NEEDS

Sooner or later just about everybody runs into a "personal depression" when he needs money desperately. Your younger brother feels that it is a matter of life or death whether he gets the price of the bicycle he needs for his paper route. Your older sister just has to get the money somewhere to continue in college. There are many unforeseeable events that seem to strike families like lightning out of a clear sky, for example, sudden illnesses or business reverses.

When such times come, the ability to borrow money may be a lifesaver. One needs to know in advance where he can borrow and how to go about it, or he will not do it competently when he is excited or emotional.

Credit, however, is not merely an emergency affair. You will want to use it from choice in certain cases. For example, few people would own their homes if everyone waited until he could

pay cash in full. For students, borrowing to get more special training may be profitable. Sometimes families can seize upon excellent bargains, perhaps in furnishings or electrical equipment, by borrowing or buying on time.

Credit can be a very *useful* instrument. The only trouble is that, like a sharp knife, it is also a *dangerous* instrument if it is not used skillfully. People get into all sorts of trouble by abusing their credit. The girl down the street buys too many clothes because it seems that paying later will be easy. A young man in the neighborhood pays a high rate of interest on musical instruments that takes a good part of his money. A group of ignorant people borrow money and let themselves be victimized by loan sharks. The family next door loses the money they put into installment payments for living-room furniture because they can no longer pay and the furniture is taken back by the seller.

Therefore, in this unit, we need to learn something that all consumers need to know: how to use credit wisely, safely, and economically, and how to keep it from hurting us.

Chapter 16: CREDIT AND YOUR ATTITUDES TOWARD IT

A great deal of business today is conducted on a credit basis. While there are several kinds of credit, we are interested here only in the kind that you as an individual, or as a member of a family, will use at some time during your life. This kind of credit is known as "personal," or "consumer," credit. Just as all businessmen have occasion to use credit every day, so you, too, will make use of it in your daily transactions.

What Is Credit?

Credit means *the ability to obtain something of value now for a promise to pay in the future.* Does your school give you permission to buy a season ticket to football games on some sort of credit plan? Perhaps the entire cost is $1 but if you pay 25 cents you may go to the first game. By credit terms you have obtained something of value and promise to pay for the football ticket in quarterly installments. Another form of credit is a charge account at a store, for instance, you may buy a sweater while shopping with your mother and she may ask the clerk "to charge it." Getting the garment now and promising to pay for it by the tenth of next month is a form of credit.

The need for credit is illustrated in every home. Food, fuel, clothing, and other supplies are needed steadily in all families,

but payday does not come every day and sometimes not every week. To get some of these things when you need them means giving a promise to pay for them later. Frequently, too, it is simpler "to charge" small items and pay for them all at one time, because then you do not have to carry much money with you. If it were not for credit, many individuals and families would suffer great inconveniences and hardships. It is credit that makes it possible for those who do not have ready cash or do not keep much of it around to obtain what they want when they need it.

Upon What Is Credit Based?

Why do you lend your friend Peggy carfare or money for lunch? Why do you work for an employer and wait a week or a month for your pay? Because in both cases you have confidence that Peggy and your employer will pay you what they owe. Without confidence, banks would not lend to businessmen, homes could not be built on borrowed funds, and bonds would not be bought.

In fact when you ask for credit, you will be considered in the light of the "3 C's": capital, capacity, and character. If you lend Bob, a classmate, enough money to buy a necessary school article, you ask yourself these questions: Will Bob pay it back because he always tells the truth (character)? Does he or his family have the money to pay it back (capital)? Or if he can't get the money at home, can he work and earn the money (capacity)? You will be judged in the same way by friends, storekeepers, bankers, and moneylenders.

A Good Credit Rating Is a Valuable Asset

One of the most important things you could do after you begin to earn money is to establish a good credit rating. You have been doing this to some extent in school. You are building

character and inspiring confidence in others daily. If you have paid your club dues or home-room fees promptly, if you have pledged a certain sum to pay at intervals for the support of your church or community chest and have met the obligation on time, you are getting known as a "good guy" who pays his bills.

When you leave school, you will have more and larger responsibilities, and with them will come greater and many more uses for money and credit and a good credit rating.

Employers, too, are more likely to offer a position of responsibility to you if you have a good credit rating. Businessmen feel that if you take your debts seriously you will also work conscientiously for them.

Some people hesitate to ask for credit because they think it is a reflection upon their ability to pay for goods they want. But a man who can obtain credit when he needs it is respected by his fellow men. You will want to guard your high rating carefully as a valuable asset.

Kinds of Personal Credit

Credit for personal use may be divided into two groups: sales credit and cash or money credit. Sales credit can be separated into open-account credit and installment credit. We shall study each of these types in detail in the next two chapters. But first let's look at them briefly to see what they mean.

What Is Sales Credit?

If you wish a tennis racket and are unwilling or unable to pay cash, you may be given the privilege of paying for it later. If you have a credit standing, then you may charge the article, using the *open-account* method. If, however, at some time you buy something of greater value, like a car, and find it impossible to pay for it within the month, you will sign a contract which

provides that part will be paid each month. This monthly payment is called an installment.

In a normal year, of all retail sales, about two-thirds are cash sales and one-third credit. Of all these credit sales, two-thirds are charge sales and one-third installment sales.

What Is Cash or Money Credit?

Suppose that you have finished school and have a steady income and that you wish money to pay for current goods or services, for instance, to buy a musical instrument, to pay a



The installment method of buying permits you to use an item while you are paying for it.

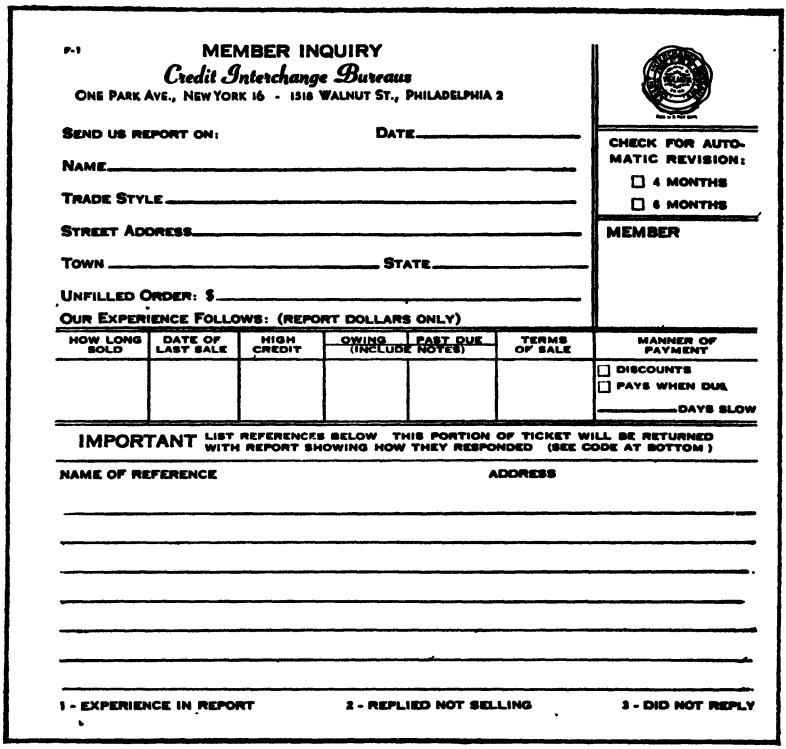
dentist's bill, or to pay off old debts. You may borrow money at moneylending agencies, such as a bank, a credit union, a small loan company, a pawnbroker, or an individual.

The borrowing and lending of money is a big business. In 1933, more than a half billion dollars of consumer installment cash loans were outstanding. In 1941, this amount increased to three-quarters of a billion dollars. About four million people borrowed, with an average loan of $200 each.

Traditions about Credit

Hundreds of years ago, when farmers and merchants borrowed money, they often found it difficult to pay it back because they had so little money income. Most of their business was carried on by barter, that is, an exchange of goods. Somehow they couldn't meet their payments. Because many people defaulted, that is, did not pay their debts when due, laws were

passed to punish them and debtors were imprisoned, sold into slavery, or even put to death. As a result people were afraid to borrow money and did so only when they were desperately in need.



P-1

MEMBER INQUIRY

Credit Interchange Bureaus

ONE PARK AVE., NEW YORK 16 - 1518 WALNUT ST., PHILADELPHIA 2

SEND US REPORT ON: DATE

NAME

TRADE STYLE

STREET ADDRESS

TOWN STATE

UNFILLED ORDER: $

OUR EXPERIENCE FOLLOWS: (REPORT DOLLARS ONLY)

CHECK FOR AUTOMATIC REVISION:
☐ 4 MONTHS
☐ 6 MONTHS

MEMBER

HOW LONG SOLD	DATE OF LAST SALE	HIGH CREDIT	OWING (INCLUDE NOTES)	PAST DUE	TERMS OF SALE	MANNER OF PAYMENT
						☐ DISCOUNTS ☐ PAYS WHEN DUE _____ DAYS SLOW

IMPORTANT LIST REFERENCES BELOW THIS PORTION OF TICKET WILL BE RETURNED WITH REPORT SHOWING HOW THEY RESPONDED (SEE CODE AT BOTTOM)

NAME OF REFERENCE ADDRESS

1 - EXPERIENCE IN REPORT 2 - REPLIED NOT SELLING 3 - DID NOT REPLY

Courtesy Credit Interchange Bureaus

The use of this blank aids the Credit Interchange Bureaus in gathering information about customers.

In the last generation, many people have changed their attitude about credit. While many still adhere to the traditional belief of avoiding debts, others find that a reasonable amount of debt is not likely to lead to disaster. Indeed, Jim Watson

down the street finds that he is able to get ahead faster as head of a family by obligating himself to make small payments against a debt, for example, in buying a life-insurance policy. Having been successful in one credit transaction, he is willing to try again. Gradually, more and more people in our land of abundance and new inventions are using consumer credit. Some do so wisely; others do not.

The mere fact that customs have changed does not mean that all credit transactions work out well. Too many families keep themselves forever worried by reckless charging and borrowing. Irresponsible workers have their entire pay check promised to moneylenders and merchants before it is ever earned. Credit is valuable if used correctly, but, like strong medicine, it is dangerous if it is used carelessly.

Shall It Be Cash or Credit?

Jane hesitates to ask for credit, while Martha uses accounts liberally. Sometimes it is wiser to pay cash and sometimes it is wiser to use credit. We are urged by those who sell for cash to buy only in this manner; those who sell on credit tell us that this is the sensible method for us to use. Can we find out which is the better way?

Paying cash has its advantages. Some people prefer to pay for their purchases right away because of certain advantages claimed for this method. These advantages are

You Will Be a More Careful Buyer. Because you pay cash, you are able to select goods with greater care. You can shop for the best "buy" in sweaters since you do not have to get it on a charge account at a particular store.

You Often Save Money. When you pay cash you often make actual savings. One large New York department store, for instance, advertises that when you buy there for cash you pay 6 per cent less than at other stores that carry charge accounts.

You Can Plan More Easily. If you owe no bills, you know exactly how much cash you have on hand and what is available for other purchases. If you have bought a dress, you know whether you can also get a hat and shoes. You will be less likely to upset your budget, as is frequently done by the person who buys on credit. As discussed previously in Part 3, Managing Your Income, the budget is a plan that could be wrecked easily, if, for example, you saw a winter coat displayed in a shop-window and bought it immediately by the open-account method.

You Will Not Be Worried. You will feel good because you will have no worry about meeting your bills. When you pay cash, you can agree with Longfellow who said about the village blacksmith, he "looks the whole world in the face for he owes not any man."

Sometimes there are disadvantages in paying cash. These are

You May Deprive Yourself of the Use of Some Much-Desired Articles. In the case of articles which cost a relatively large sum, but which are useful, it will take a long time to get the cash for their purchase. These articles may save time and money; for example, a vacuum sweeper does a more efficient job than a broom and saves a lot of time and work, but it costs much more than a broom. Therefore, if Mrs. Pennywise should wait until she had the cash to buy a vacuum cleaner, she might really be unwise and wasteful. Credit is a pay-as-you-use plan.

Cash Customers Do Not Always Obtain Goods at Lower Prices than Are Paid by Credit Customers. If you purchase a suit for cash in a department store that carries charge accounts, you will pay the same price that a charge customer pays. For example, both you and your friend Helen buy suits at the same time at the same store. Your family may insist on paying cash; but her family may charge the purchase, and the store will not

receive her money for several weeks. Your family has not benefited by paying cash. In fact, the charge account may favor Helen's family.

Cash Customers Do Not Get the Benefit of Advance Sales. Many stores notify their charge customers of coming sales,



Ewing Galloway

There are, of course, good reasons for borrowing money. However, when taking out a loan, make plans at once for paying it back.

perhaps of millinery or shoes, and give them the opportunity to make their selections before the sale is thrown open to the general public.

Should You Borrow Money?

You will also want to think about whether or not you should borrow money now and in the future. You ought to do some straight thinking about it first. Before you decide you ought to be able to answer "yes" to the following questions:

Is making this loan a sensible thing to do? Why do I want this money? Is it for a necessity? If not, will I get satisfaction from it that will be lasting?

Should you as an office worker take an expensive vacation and then, when an emergency occurs, borrow money for an operation or something similar? Would it be advisable sometime for you to borrow for your bridal costs or for an education? Your answers to these questions should be considered in the light of whether or not the cost of borrowing will make better living possible for you.

Am I making realistic plans for paying the loan? Credit costs money. Getting money from a moneylending agency is not a gift. The money and the cost of the use of money must be paid back.

Suppose that you borrow money to buy a radio and that you are going to give your family $7 each month to meet the payments. Will you be able to make the monthly quota by doing without luxuries, such as movies, an extra sport coat, or other items, or will you have to sacrifice your health by not going to the dentist? The better plan is to give up luxuries for the radio, which in the long run will give greater satisfaction.

Am I getting it at a reasonable financial cost? Just as in buying anything else, the costs of credit vary. You will want to learn how to select the credit terms best suited to you. Some rates are stated as 6 per cent a year with fees attached, others are quoted as 1 per cent a month, and still others state how much must be paid back each month, so that only the dollar cost is known and not the rate. You will want these terms explained to you, so that you will be able to judge where you stand financially. As each moneylending agency is discussed in Chapter 18, you will learn more about the costs of credit.

Am I avoiding trouble? You have heard of quack doctors whose cure-alls may mean even a worse illness for you. In con-

trast, there are specialists in medicine who are associated with reputable hospitals and who usually cure your aches and pains. With moneylenders, the situation is the same. Loan sharks are the disreputable lenders who can get you into still greater difficulty. You will want to deal only with credit specialists who will lend you money and help you plan well for your personal and financial future.

Summary

Credit is the ability of an individual or a group to obtain something of value now for a promise to pay for it later. It is based upon confidence and character as well as capacity to pay. Character counts heavily in all credit transactions; unless you establish a willingness to pay your bills promptly, you will find it hard to obtain credit.

Ideas about credit have changed much as time has passed. Today many people use consumer credit rather freely, for they no longer feel that a reasonable amount of debt is likely to lead to disaster. However, credit should be used carefully. It is a valuable tool if used correctly, but, like a sharp knife, it is dangerous if used carelessly.

Questions for Discussion

1. What would be the disadvantages of having a poor credit rating?

2. Do you think a person would establish a good credit rating most rapidly by using credit well, or by always paying cash?

3. In what respects is a consumer's use of credit different from a businessman's use of it?

4. What factors have caused credit to be used more nowadays than it used to be?

5. Why is a prospective employer likely to be interested in your credit standing?

6. Does borrowing or using sales credit prove that an individual is careless in his money management?

7. Can you think of cases in which timidity in the use of credit would keep people from getting ahead as much as they could?

8. "A great deal of the use of credit is simply for convenience—not because the buyers could not pay cash at the moment." Can you prove this by illustrations?

Practical Applications

1. Family *A* likes to boast that it never uses credit. Can you show by examples that it probably does without thinking about it?

2. Talk over with a few elderly persons the attitudes and practices with respect to credit that were common when they were your age. Do you find evidence of considerable changes? What factors do you think have produced these changes?

3. How extensive is the use of credit in your community? You can judge this by talking over with your classmates the ways in which your several families make use of credit.

4. Do you know of cases in which individuals or families have been greatly benefited by the use of credit? What did they gain by it?

5. Do you know of cases where the use of credit brought worry and grief and financial loss? What mistakes in judgment or in procedures were responsible for the trouble?

6. If you needed advice about the use of credit, where should you go for it?

Problem

Take a certain area of a business district in your neighborhood, say, two blocks. List all the stores and other business organizations. Then show whether each does business purely for cash or purely on a credit basis or both. What kinds of credits does each institution offer? (Don't overlook such businesses as a filling station with a sign saying that credit cards are honored or a law agency on an upper floor.) What conclusions do you come to as to the extent of credit in your community?

Chapter 17. SALES CREDIT

One form of sales credit you will want to know about for future use is *open-account credit.* This is generally known as a "charge-account credit" and is probably the most commonly used form today. It is likely that some member of your family has a charge account and can tell you his opinion of it. An account of this kind usually operates on the assumption that each month's bills will be paid up by the tenth of the next month, although sometimes more time is given.

How Do You Open a Charge Account?

When you are ready to open a charge account in a large store you will go to the office of the credit manager. The procedure varies little in different stores and in general is quite simple. The credit manager or his assistant may or may not ask you some personal questions similar to the information on the blank suggested by the National Retail Credit Association shown on page 248, but in every case you will find out a form of some kind answering the following questions:

Who are you?	(Name)
Where are you?	(Address)
Can you pay as agreed?	(Capacity)
Will you pay as agreed?	(Character)
Can you be made to pay?	(Capital)

The neighborhood storekeeper or a small-town merchant will only extend you credit when he has assured himself that the

APPLICATION FOR CREDIT

ADOPTED BY AND FOR MEMBERS OF THE

NATIONAL RETAIL CREDIT ASSOCIATION

NUMBER_____ DATE_____

FULL NAME (SURNAME FIRST)	FULL GIVEN NAME	INITIAL	AGE	GIVEN NAME, HUSBAND—WIFE'S MAIDEN NAME

RESIDENCE	MAIL ADDRESS	TELEPHONE	HOW LONG
FORMER ADDRESS			HOW LONG
BUSINESS OR OCCUPATION	BY WHOM EMPLOYED	BUS. ADDRESS	HOW LONG
FORMER BUSINESS OR OCCUPATION	BY WHOM EMPLOYED	BUS. ADDRESS	HOW LONG

WIFE OR HUSBAND EMPLOYED? CAPACITY BY WHOM

OWN REAL ESTATE (GIVE LOCATION) MORTGAGED TO AMOUNT

$

RENT	OWNER	MONTHLY RENTAL	CHILDREN	
			AT HOME	EMPLOYED
FURN. APARTMENT?				
UNFURN. APARTMENT?				
RESIDENCE?				

NAME OF NEAREST RELATIVE AND RELATIONSHIP (OTHER THAN HUSBAND OR WIFE) ADDRESS

PERSONAL REFERENCES

BANK (NAME OF BANK) (CHECKING) (SAVING) BRANCH

LIFE INSURANCE NAME OF INSURANCE CO. APPROX. INCOME

$ $ PER

TRADE REFERENCES

FIRM OR STORE	KIND OF MDSE BOUGHT	ACCOUNT IS NOW	
		OPEN	DATE PAID

LIST ON REVERSE SIDE OF THIS APPLICATION ANY UNPAID BALANCES ON INSTALLMENT ACCOUNTS AND MONTHLY PAYMENTS THEREON.

THE ABOVE INFORMATION IS FOR THE PURPOSE OF OBTAINING CREDIT, AND IS WARRANTED TO BE TRUE. I AGREE TO PAY ALL BILLS UPON RECEIPT OF STATEMENT OR AS OTHERWISE EXPRESSLY AGREED.

SPECIAL TERMS IF ANY.

SIGNATURE_____

AMOUNT CREDIT	APPROVED
$_____	

PRINTED IN U.S.A.

Courtesy National Retail Credit Association

This is a form used by the National Retail Credit Association.

answers to these questions are favorable. If he knows you, he may not question you formally; for he can get most of the information he needs by talking to you when you are in the store, or from neighborhood gossip, or by occasionally asking your employer or your bank.

A brief explanation of some of the items on the application blank will make it clearer to you why they are required. Your name should be given in full for your own protection, since another person with a similar name might have her items charged to your account. It would be embarrassing to be asked to pay the bills of another person. Sometimes you are requested to give your previous address so that the stores can check on whether you are the person you claim to be. If you ever change your residence, you should notify your creditors immediately.

The name of your employer may be used for purposes of investigation; you may be asked the nature of your job, whether it is permanent or temporary, and the amount of your income. The name and address of your bank are requested because they serve as excellent character references. You may be asked to indicate whether or not you own property, because ownership of property usually shows your ability to pay your bills.

Names of friends in business are preferred to social acquaintances and you may be requested to list other stores where you have charge accounts. Your exact signature is necessary for purposes of identification and for legal purposes, if difficulties should arise.

Investigation by merchant. When you do fill out such a form, there is no reason to be irritated and no excuse for being less than honest. The merchant is not seeking to pry into your affairs. You are asking him to take a certain risk on you, and he has a right to adequate information on which to base his decision.

Sometimes you can open an account at once, but more often you will have to wait a few days or possibly a week before you will

be permitted to charge any purchases. This delay is necessary for the store to check the statements made in your application blank and to consult your references.

You have given much information on your application blank. Either the credit department will investigate your statement or turn the matter over to a credit bureau.



Your credit record stands for all to see. It will be examined thoroughly by all your prospective creditors.

What are credit-rating bureaus? These are bureaus maintained by local merchants or by an organized corporation for the purpose of exchanging credit information among its members or those permitted to use its service. Your open-account transactions in your city as well as information regarding charge account usage in other places you may have lived are on file at the credit bureau. When you receive credit from one of the stores, your dealings with it are regularly reported to the credit bureau. Thus the bureau is in a position to give an accurate report on your use of charge accounts and can easily check all the statements in your present application.

If the report of the credit bureau is favorable, you will be notified that a charge account has been opened in your name. You will then be able to make purchases in that store without having to pay for them at the time of purchase. The account may specify a top limit on the amount of credit at any one time.

How Are Purchases Made?

As a charge customer you buy a half-dozen handkerchiefs. A charge slip is filled out by the clerk in duplicate or triplicate,

depending on the particular system. One copy is given you; others are sent to the bookkeeping department of the store. Later you buy a dress, face powder, and gloves. The records there will show the amount of each item purchased on credit by you during the month. At the end of the month, a bill is sent to you showing the total of all your puchases. Recently department stores in some cities have sent out one of the duplicate charge slips with which you may check your bill to see if it is correct. If your store does not send a duplicate, it would be advisable to keep your charge slips for this purpose.

You may be asked to identify yourself before you take goods from the store, sometimes by presenting a "credit card." You will also be asked to sign the charge slip to make sure who charged and received the goods. In order to protect itself and the customers, many stores use what is called a "Charge-a-plate" system. This plate fits into a machine that stamps the name and address on the charge slip. In addition to the assurance of your ability to charge, your name and address will be accurately recorded on the sales slip.

To Charge or Not to Charge

Charge accounts are very convenient because you can telephone your order and have the goods delivered. You will have the use of the goods before you have paid for them. You may buy inexpensive items from time to time and pay for them conveniently in a lump sum. You may get special service as a charge customer, receive prompt service, and special favors.

On the other hand, charge accounts, because of their convenience, may lead you to buy carelessly, too frequently, or emotionally. You will have to decide what is best for you. Can you learn to use charge accounts so as to get all their advantages and none of the disadvantages?

Whether one buys for cash or on time, one has to learn to plan his spending and to stay inside his income. You will have

to analyze your own habits and character. Can you say, "I'm sorry, but I really can't use that article," or "Yes, the sweater is very pretty, but I really can't afford to buy it?" If you can say these things, you can use charge accounts to your advantage.

As a matter of fact, many folks use both cash and credit, paying cash when their good judgment tells them that cash is more advantageous, and using credit when that practice brings better goods and services.

If You Can't Pay Your Bills, What Happens?

If the baby gets sick, Sister breaks her ankle, and Father loses his job all at one time, it may be impossible for the Jones family to pay bills promptly. If you should be involved in a similar situation sometime, you will not want to lose your good credit rating. If you ignore your bills, the merchant will think the worst, and naturally he will take certain steps to get his money, which may make things difficult.

The thing to do is to talk over your problem with the creditor, tell him your financial situation. Generally you can work out some plan by which you can pay a bit each month. Even if the amount is very small, it will be evidence that you are willing to pay your obligation and will do so eventually.

Later when the emergency has passed, be grateful for the consideration shown you when you were in difficulty.

What Is Installment Buying?

In buying on installment, you may purchase merchandise, such as furniture, books, household appliances, clothing or jewelry, by paying part of the price at the time of purchase, the balance to be paid in equal installments over a period of time. Other names are pay-as-you-use plan, budget plan, E-Z-pay plan, and thrift plan.

How does this plan differ from charge accounts? You

will want to know just what the variation is for your guidance in the future.

In Method of Payment. When you have a charge account, you usually pay for your purchases in one lump-sum payment at the end of the month or within 40 days beyond the month of purchase. When you use installment credit, you do not pay within a short time, but in a series of comparatively small payments extending over several weeks, months, or even years.

In Ownership of Articles. If you purchase a fur coat on a charge account, it belongs to you as soon as it is delivered. If you buy it on the installment plan, you may not get title to it. A formal contract is drawn that frequently includes some arrangement for repossession by the seller if the article is not paid for as planned.

In the Charge for Credit. If you meet your charge account bills promptly, you may not be called upon to pay a special charge for credit. In the case of an installment contract, however, you are required to pay a credit charge. Sometimes the amount of extra cost is clearly given, but generally the cost is included in the payment and cannot be easily determined.

In Possession of Contract. Your installment contract may be sold by the merchant and you will make your payments to the purchaser, usually a finance company or bank. Such practice is seldom followed in charge accounts.

Why is installment credit so generous? The "3 C's," character, capital, and capacity, determine how much credit will be allowed on the charge account form. Credit, on the other hand, can be granted more generously under an installment agreement because

1. The amount of credit is limited to the cost of each article.
2. Payments are small and are due on different dates over an extended time.

3. The merchant is earning money on his investment, because the customer is paying him a charge similar to an interest cost.
4. The ownership of the goods bought on the installment plan generally remains in the merchant or finance company until the last payment is made.

For these reasons, people who cannot open a charge account are often allowed to buy goods on the installment plan.

Extent of Installment Buying

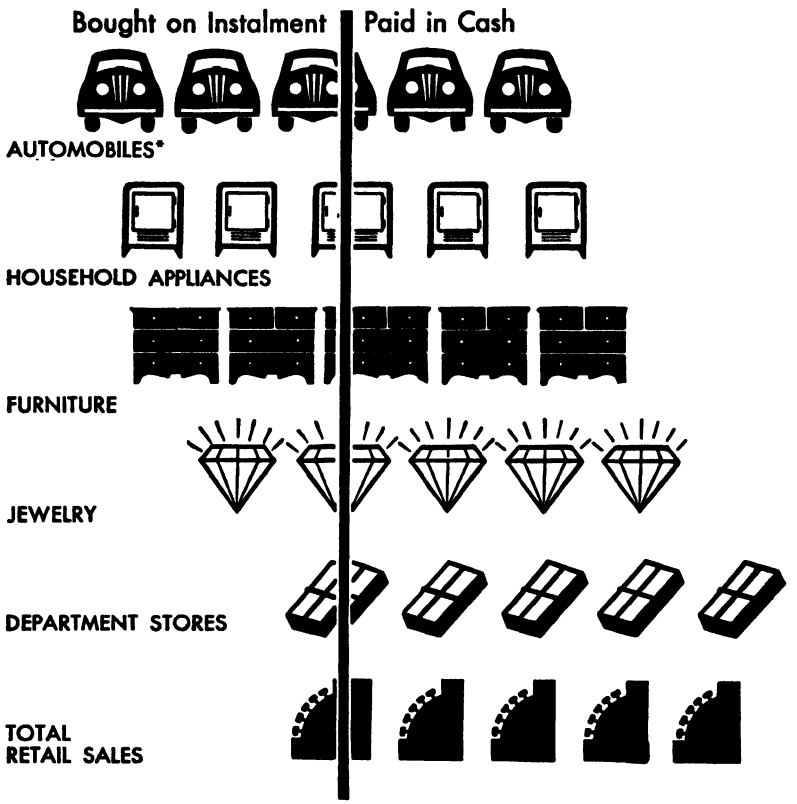
As we have stated, one-third of all charge sales are installment sales. From its modern-day beginning in the 1880's, installment buying was comparatively slight until during and after the First World War. Then this type of sales increased rapidly. Before the Second World War, 7 out of every 10 automobiles, 4 out of 10 refrigerators, and one-half of all household goods were bought on time. One out of every four families at present is believed to be buying on the installment plan.

The scope of merchandise bought on the installment plan has grown wider and wider. Beginning with furniture in the early nineteenth century, it spread to sewing machines, pianos, and other commodities throughout the century, but this plan of paying for purchases did not really develop until the period of the First World War when with mass production of automobiles a method had to be used to promote *mass selling*. For instance, many people could never have paid the expensive price of the first cars if they had not been allowed to pay in installments.

The table on page 255 will give you an idea of the extent of installment purchases in 1940, the latest date for which reliable figures can be obtained.

Before the Second World War there were few things that

HOW MUCH WAS BOUGHT ON THE INSTALMENT PLAN IN 1940?



Each symbol represents 20 per cent of total retail sales

*National Automobile Dealers Association

SOURCE: National Bureau of Economic Research and Department of Commerce

Courtesy Public Affairs Committee, Inc.

PAGE 8 SEARS, ROEBUCK AND CO.

WHEN ORDERING ON EASY PAYMENT TERMS THE HEAD OF HOUSEHOLD SHOULD SIGN BELOW AND ANSWER QUESTIONS

SEARS, ROEBUCK AND CO Enclosed is a deposit of $ which is to be used in part payment of the merchandise shipped.

Beginning thirty days after the shipment is received, I will pay $ each month as required by your terms until the unpaid balance, plus carrying charge to be added as shown in your catalog, has been entirely paid Until full payment is made, I agree that title to and right of possession of the merchandise shall remain in you, that I will not sell, remove, or encumber the same without your written consent, that I assume and shall be responsible for all loss or damage to said goods, and that upon default of any payment or payments you may, at your option, take back the merchandise or affirm the sale and hold me liable for the full unpaid balance

Signature of the Head of Household _____
(First Name) (Middle Initial) (Last Name)

Street Address _____ Rural Route _____ Box No. _____
Please give both your Route and Box Number if on a Rural Route

160

Postoffice _____ State _____

Have you had a previous Easy Payment Acct. with us? _____ What is account no.? _____ Is account paid in full? _____ Date final payment made? _____ At what Sears store? _____

Age? _____ Married? _____ Number Dependents _____ Adults? (Number) _____ Children? (Number) _____ Do you own your home? _____ Rent Board

How much rent do you pay? $ _____ How long at above address? _____ If less than 5 years give former address _____

Are you steadily employed? _____ How long with present employer? _____ Occupation _____ Weekly earnings $ _____

Name of employer _____ Address _____

Name of your bank _____ Address _____

If farmer how large is your farm? _____ Acres. Name and Address of landlord _____

Please show source and amount of ADDITIONAL income _____

Give Below the Names and Addresses of Two Stores With Which You Have Had Credit Dealings or Two Business Men Who Know You

Name _____ Address _____ Business _____

Name _____ Address _____ Business _____

The Spaces Below Are To Be Filled In When You Order Merchandise That Is To Be Attached to Your Property

Street number or other definite location of property on which material is to be installed _____ Cost of Property $ _____ Amount of Mortgage $ _____

Name of person holding legal title _____ Name and address of mortgage holder _____

SHIPPING INFORMATION

PARCEL POST SHIPMENTS On all articles for which you pay shipping charges, the shipping weight is given in the catalog description Enter the total shipping weight for each article in the shipping weight column of the order blank Add the pounds and ounces, then change ounces to full pounds (16 ounces equals 1 pound), and enter total weight in pounds. The postoffice counts fractions of a pound as a full pound and charges postage accordingly For example If your order totals 9 pounds and 34 ounces, allow postage for 12 pounds (34 ounces equals 2 pounds and 2 ounces, therefore 2 pounds 2 ounces plus 9 pounds equals 11 pounds 2 ounces)

Refer to postage chart below If you live in Zone 3 or within 151 to 300 miles from Sears Mail Order House, the amount of postage to allow for 12 pounds is 32c. If you send more money than is actually needed to ship your order, we will refund every penny not used

Complete ordering information can be found on the green pages in the back of Sears big catalog

Total Shipping Weight	Within City where Mail Order House is located	Zones 1 and 2 Up to 150 Miles	Zone 3 150 to 300 Miles	Zone 4 300 to 600 Miles	Zone 8 Over 1,800 Miles
9 ounces to 1 pound	8c	9c	10c	11c	16c
1 pound 1 oz. to 2 pounds	9c.	11c	12c	13c	27c.
2 pounds 1 oz. to 3 pounds	9c	12c	14c	18c.	.38c.
3 pounds 1 oz. to 4 pounds.	10c	13c	16c	22c	.49c.
4 pounds 1 oz. to 5 pounds	10c	14c	18c	25c	.61c
5 pounds 1 oz. to 6 pounds	11c	15c	20c	.29c	72c.
6 pounds 1 oz. to 7 pounds	11c	16c	22c.	32c	83c.
7 pounds 1 oz. to 8 pounds	12c	17c	24c	.36c	95c.
8 pounds 1 oz. to 9 pounds	12c.	18c	26c	39c.	$1.06
9 pounds 1 oz. to 10 pounds	13c.	19c	28c	43c	1 17
For Each Additional Pound, Add	½c.	1c	2c	3½c.	11c

The above rates are subject to change without notice

FREIGHT OR EXPRESS SHIPMENTS It is not necessary to send money to pay for freight and express shipping charges in advance. You pay shipping charges to agent at your freight station when goods are received. However, if there is no agent at your freight or express station, please include additional money with your order to prepay shipping charges. For Freight and Express rates, please refer to the green pages in the back of Sears big catalog

HOW TO SEND MONEY

The best way to send money is by U S. postal notes, by postoffice or express money order, or by bank draft or check. The mail carrier will be glad to buy a postoffice money order for you if you live on a rural route. It is better not to send coins, paper money or postage stamps with orders but should it be necessary, be sure to send your order by registered mail.

SEARS GUARANTEE

We guarantee that every article in our catalogs is honestly described and illustrated. We guarantee that any article purchased from us will give you the service you have a right to expect. If for any reason whatever you are not satisfied with any article purchased from us, we want you to return it to us at our expense We will then exchange it for exactly what you want, or will return your money, including any transportation charges you have paid.

SEARS, ROEBUCK AND CO

Courtesy Sears, Roebuck and Company

A mail-order house requests certain personal information on its time-payment order blanks.

could not be bought on time. In addition to the items listed in the table, many goods and services were sold by the pay-as-you-use plan—vacations, funeral services, etc.

How Does Installment Credit Work?

When it is time for you to sign an installment contract, say, for a radio-phonograph, you will be asked to fill out an application blank. The time-payment order blank for a mail-order house is shown on page 256. Such a paper gives the seller the necessary information to prepare the contract and to establish some degree of your responsibility.

Legal papers. Two forms of legal papers commonly used in installment contracts are

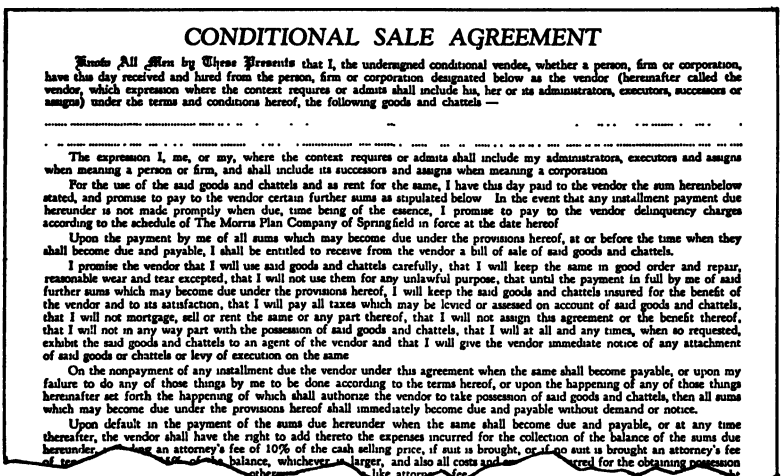
1. *Chattel Mortgage.* This type of paper is a direct claim or lien on property. When you sign a chattel mortgage, you agree to transfer title to the goods—in this case, your radio-phonograph—back to the seller in case you fail to make payments as agreed upon in the contract. This agreement may give the seller the right to repossess or take back the goods if you don't pay but it usually gives him the right to have the merchandise resold and to apply the proceeds toward the payment of a debt. In order to protect himself against any claims that may arise from others, the seller usually files a copy of the chattel mortgage at the office of some public official, such as the county clerk.

2. *Conditional Sales Contract.* When you sign this paper, you agree that *the seller retains title to the goods until they are paid for,* even though you may have the goods and use of them. The bill of sale must be recorded in the office of a public official if the seller wishes to protect himself against any claims others may have against you.

The conditional sales contract is coming to be the most common form of installment contract. Its provisions vary some-

what from state to state, but a uniform sales contract has been drawn up and adopted by a number of states. You will want to compare the sample conditional sales contract with the one used in your state.

One provision that is more likely to appear in the fine print than in the name of the contract is the *wage assignment.*



CONDITIONAL SALE AGREEMENT

Know All Men by These Presents that I, the undersigned conditional vendee, whether a person, firm or corporation, have this day received and hired from the person, firm or corporation designated below as the vendor (hereinafter called the vendor, which expression where the context requires or admits shall include his, her or its administrators, executors, successors or assigns) under the terms and conditions hereof, the following goods and chattels —

The expression I, me, or my, where the context requires or admits shall include my administrators, executors and assigns when meaning a person or firm, and shall include its successors and assigns when meaning a corporation

For the use of the said goods and chattels and as rent for the same, I have this day paid to the vendor the sum hereinbelow stated, and promise to pay to the vendor certain further sums as stipulated below In the event that any installment payment due hereunder is not made promptly when due, time being of the essence, I promise to pay to the vendor delinquency charges according to the schedule of The Morris Plan Company of Springfield in force at the date hereof

Upon the payment by me of all sums which may become due under the provisions hereof, at or before the time when they shall become due and payable, I shall be entitled to receive from the vendor a bill of sale of said goods and chattels.

I promise the vendor that I will use said goods and chattels carefully, that I will keep the same in good order and repair, reasonable wear and tear excepted, that I will not use them for any unlawful purpose, that until the payment in full by me of said further sums which may become due under the provisions hereof, I will keep the said goods and chattels insured for the benefit of the vendor and to its satisfaction, that I will pay all taxes which may be levied or assessed on account of said goods and chattels, that I will not mortgage, sell or rent the same or any part thereof, that I will not assign this agreement or the benefit thereof, that I will not in any way part with the possession of said goods and chattels, that I will at all and any times, when so requested, exhibit the said goods and chattels to an agent of the vendor and that I will give the vendor immediate notice of any attachment of said goods or chattels or levy of execution on the same

On the nonpayment of any installment due the vendor under this agreement when the same shall become payable, or upon my failure to do any of those things by me to be done according to the terms hereof, or upon the happening of any of those things hereinafter set forth the happening of which shall authorize the vendor to take possession of said goods and chattels, then all sums which may become due under the provisions hereof shall immediately become due and payable without demand or notice.

Upon default in the payment of the sums due hereunder when the same shall become due and payable, or at any time thereafter, the vendor shall have the right to add thereto the expenses incurred for the collection of the balance of the sums due hereunder, ... an attorney's fee of 10% of the cash selling price, if suit is brought, or if no suit is brought an attorney's fee of ... balance, whichever is larger, and also all costs and ... incurred for the obtaining possession ... like attorney fee ...

Courtesy Morris Plan Company of Springfield

A conditional sales contract like this one is used by some companies.

Employees sometimes refer to it as "putting a brick on your check," for it permits the seller to notify your employer that some of your wages must be paid to him instead of to you. Employers do not like this kind of contract, and often discharge employees who get tied up in such an agreement; for employers rightly think that you should manage your own business affairs without inconveniencing them.

Payment terms involve two things: down payment and time. In the 1930's, the amount of down payment was very liberal for the buyer. Automobiles could be purchased by giving a down

payment of 10 to 33 per cent with from one to two years to make all payments. Furniture could be obtained by paying 10 or 20 per cent down. The most liberal of all was the "5-5-5" plan, which meant $5 down, $5 a month, and 5 years to pay. During and immediately following the Second World War, payment provisions were not so liberal.

Other terms of the contract may provide penalties for failure to pay or late payment. In some contracts you may find a *repossession clause.* If you fail to live up to your payments as scheduled, the seller has the right to take back the article. In this case you usually forfeit the payments already made. In general, sellers do not like to take back goods any more than buyers like to have them do so. Such a procedure makes the seller unpopular with the buyer and his friends. The seller has to recondition the article and sell it again, which means considerable expense. Most sellers prefer the first sale to be a satisfactory one.

What is a carrying charge? A carrying charge, or service charge, is made for the privilege of buying goods on the installment plan. Often this charge is more than the interest which the seller pays for the money which he relends you in the form of merchandise.

Every dealer who sells on the installment plan incurs certain expenses for investigation of the credit rating of the buyer, for additional bookkeeping, for costs of filing papers, for repossession, and for bad debts.

How shall cost be stated? There are two ways of thinking about the cost of buying on time: the dollar cost and the interest rate.

If you buy a radio for $130 with a down payment of $10, followed by a monthly payment of $10 for a year, what is the cost of installment buying if you did not pay the terms of $120 cash?

The dollar cost is $10 because installment payment costs $10 more than a single cash payment.

To determine the interest rate accurately, you want to understand that

$120 is loaned to you the first month
110 the second month
100 the third month
90 the fourth month
80 the fifth month
70 the sixth month
60 the seventh month
50 the eighth month
40 the ninth month
30 the tenth month
20 the eleventh month
10 the twelfth month

$780

The total, $780, divided by 12 is $65, the average amount borrowed for the year. Interest of $10 on a loan of $65 for a year means $10 divided by $65, or 15.3 per cent, the cost of borrowing in interest-rate terms.

In analyzing this problem, you need to realize that you do not owe the same amount each month but a decreasing amount, so that the actual amount owed on the average is about one-half of the total loan. You can use a simple solution while shopping in stores and buying on the installment plan. In the above example, if $120 is the contract price, then $60 (half of the loan) divided into $10 (interest) equals 16⅔ per cent (the rate of interest). This is not as accurate as the above example, but it is an estimate to show you the rate of buying on time.

The interest rate may mean more to you than the dollar cost.

Percentages have always been a basis of comparison. Installment costs vary greatly among merchants and the kind of goods they offer. The consumer must be able to make some comparisons.

What Are Finance Companies?

The greater part of the financing of installment credit is done today by sales-finance companies. *A sales-finance company is a corporation which buys from dealers the notes which customers sign when they buy goods on the installment plan.* In other words, it is a type of middleman who has come between the buyer and the seller. Dealer is a term used here instead of merchant because three-fourths of the holdings of the sales-finance companies are "automobile paper," that is, contracts from automobile dealers.

Look Before You Sign

These are the questions that you should ask yourself before signing an installment sales contract:

1. To whom will the debt be owed? Will you make your payments to a finance company that has taken over the contract?
2. Is the installment contract fair? The businessman and the consumer both have rights, which should be guarded. The contract should specify
   - *a.* Conditions of the buyer's use of article.
   - *b.* Rights of seller in case of default.
   - *c.* Plan and cost of insurance (if any).
   - *d.* Terms as to notice for repossession.
   - *e.* Provision for proportionate discount if buyer pays balance before it is due.
3. Is the dealer given the power to impose fines, penalties,

and extra charges? If so, are they definitely specified or is the seller practically unrestricted?

4. Are all the dollars and cents figures that appear in the contract correct? (Never sign a blank contract!)
5. Is there a wage-assignment clause?
6. Is a mortgage or other restriction placed on other goods you own in addition to those being bought now?
7. What will the credit cost?

Borax Houses

A few concerns, which are called "borax houses," are known to deal unfairly with their customers. As the cleansing agent borax does a good job of getting rid of dirt and grease, so does the "borax house" clean you of your money or the merchandise you purchased on the installment plan. You will want to watch out for these firms with their "shady" dealings especially when you become a large-scale buyer.

These houses offer you very "easy" terms, but attempt to get you to sign a contract without reading it. If you do this you are in for a tough time. You will find that the interest rates are extremely high, running from fifty to several hundred per cent. If you can't meet the payment on the exact day due, you will have additional fees. These firms repossess the goods on the slightest excuse, a procedure they carry on without consulting you. They will take your car while it is parked at your curb or while you are attending the movies. They sell it immediately, and you will have trouble aplenty to get your money out of it. They are the greatest users of the wage-assignment tactics too. One additional trick is to repossess not only your car on which a payment is due but to take other articles bought at their place, which were paid for months ago.

Enough has been said. Beware of the "borax houses"!

What Are the Advantages of Installment Buying?

You have the use of the article while paying for it. For this reason especially, installment buying is popular. As long as you must save money to purchase a watch, you argue: Why not use the watch while I pay for it?



Courtesy The Maytag Company

The housewife enjoys using her new equipment while still paying for it. Credit makes this possible.

You may raise your standard of living. Many families today have better household furnishings, more laborsaving devices, and more improvements in the home because of installment buying. By buying more, production is increased and prices go down, making the article available to more people. Probably you will look upon installment buying as a means of getting more worth-while furnishings for your home and better equipment for your business. The latter may even enable you to increase your income.

It encourages you to be thrifty. When you know that you will have to make a definite payment each month in order to keep the article you have bought, you plan for it. You learn to save something out of each month's wages.

It helps young people get a start. Nowadays most homes are furnished by the installment plan. Most people who are starting out lack the cash to buy furniture, refrigerator, stove, vacuum cleaner, radio, and washing machine. Imagine yourself getting married while you are under twenty-five years of age. Can't you see why young couples buy these present-day necessities by the pay-as-you-use plan?

What Are the Disadvantages of Installment Buying?

You may overbuy. The lure of easy payments spread over a fairly long period has induced many people to buy everything in sight—goods that they could not afford. If you fall into this error, you will perhaps be unable to meet the payments and will get into financial difficulties. Then you will be a long time getting out of debt, for it is never any fun paying for a "dead horse."

You reduce your buying power. If you buy all articles on the installment plan, you are constantly paying the carrying charges, which on the average amount to 10 or 20 per cent. Therefore you reduce your purchasing power by that percentage. If your income is heavily tied up in innumerable belongings, you may find it impossible to borrow should a real emergency like an illness or loss of work arise.

You are worried. While studying at school, you always have on your mind your assignment for the next day, probably an unfinished notebook or a term paper hanging over your head. What a joy when the course is over and you are free from daily burdens! You are glad, however, that you have knowledge or skill of the particular subject. So it is with installment buying, for meeting the payments is constantly on your mind; but how

grand you feel when you can use the car bought on the installment plan and say, "It's mine!"

When Should the Installment Plan Be Used?

The advantages and disadvantages of this plan have been stated without any attempt to say which are the greater. You will have to make the decision for yourself when the time comes. If you are going to use it, you may find it most desirable to use it for the following:

Necessities rather than luxuries. What is a necessity for one person may be a luxury for another. You may not need a watch, while a nurse can hardly do without one. You may think you need a fur coat when a cheaper cloth coat would serve the purpose. Certainly you should not go greatly in debt for something you scarcely need at all.

High-priced articles rather than small purchases. Though some people buy inexpensive clothing on the installment plan, you will find it wiser to use this method for articles costing hundreds of dollars, such as a fur coat or a piano.

Goods of lasting value. If you buy on the installment plan a set of encyclopedias, you will be buying an article which will improve the whole family's living and which will be a permanent addition to your library.

Some Policies to Observe

Analyze your installment-payment burden. Surely one small payment each month can be easily handled, but, before you sign up for several small payments, add up the possible items due and you will realize what your total financial burden can be.

Make as large a down payment as possible. If you cannot make a reasonable down payment, you will find paying for the whole article rather burdensome. Then too, if you have paid

one-third or one-half down, the interest costs on the balance will be less.

Pay the balance quickly. If you pay the balance promptly, you will reduce the cost and avoid possible financial troubles, and you will feel as "free as a bird" when your debt is settled.

Summary

One form of sales credit is the open-account credit, or charge account. Charge accounts are easy to open but certain definite information must be given on an application blank. This information is thoroughly investigated, frequently through a credit bureau.

After you have opened a charge account, you may purchase goods up to any amount that does not exceed your ability to pay. Charge accounts are convenient and enable you to take advantage of sales; they also allow you to use the goods before you have paid for them. However, charge accounts may lead to careless and needless buying.

Another form of sales credit is called "installment credit." This enables you to purchase articles by making a down payment of part of the price and paying the balance in relatively small installments over a period of time. During this time you have the use of the article, but if you fail to make any of your payments, the seller may take the article back and keep all your previous payments. You may also be required to make extra payments, called "carrying" or "service" charges. These charges are often concealed in the original price of the article, and thus you do not always know the exact cost of the credit to you. You must sign certain legal papers which bind you to a contract which may tie up your wages for a long time. However, if wisely used, this plan has many advantages. You will be wise to use the plan only for the purchase of articles of lasting value that you need. Finally, you should make certain that the con-

ditions of the contract are fair and that you can meet them safely.

Questions for Discussion

1. List some things commonly bought on open-account credit, and in another column list things often bought on the installment plan. How do the goods in the lists differ?

2. What advantages and disadvantages are there in installment buying that are not present in the use of charge accounts?

3. What happens if you do not pay your bills as they come due under the charge-account plan? Under the installment plan?

4. Why can a merchant grant credit more liberally under the installment plan than on an open account?

5. What is the difference between a chattel mortgage and a conditional sales contract? As a buyer, which would you rather sign? Would it make any difference?

6. What are some of the things you should know before entering into an installment contract?

7. If a store makes no carrying charge on open-account credit, does this mean that such credit does not cost anything?

8. Why would careful budgeting make it possible to use credit more safely and wisely?

9. How do you feel about using charge accounts? the installment plan? Why?

Practical Applications

1. Many people who use charge accounts regularly do not care to use the installment plan. Can you see why they feel differently about the two plans?

2. How should you feel about signing a contract that had a wage-assignment clause in it?

3. Do you know of any cases in which an automobile or some other article has been repossessed by the dealer after the buyer has made a number of payments? If so, what about the money the buyer had already paid?

4. If there is a credit bureau in your community, try to find out about its work.

5. You were warned in this chapter about "borax houses," which treat their customers very badly. How could you tell in advance whether a sales-finance company was of this type or an honest, considerate business firm? List some signs that might be taken as warnings?

Problem

Make a study of the costs involved in buying on the installment plan. If each member of the class gets one or two examples for some one type of goods, the class can put all the examples together and come to some general conclusions. Include in the study any goods sold on the installment plan in your vicinity. Probable examples are furniture, automobiles, electrical appliances, farm machinery, jewelry, radios, and clothing.

In each case, first find out the cash price for a particular item. Then take a specific set of terms that the merchant would be willing to offer. Add together the down payment and the total of the weekly or monthly payments. (You may need to subtract the amount charged for insurance.) How much greater is this total than the cash price? By what percentage is the total cost on the installment plan greater than the cash price? (This percentage is not the same as the interest rate; to figure that you would need a rather complicated formula.)

You may be able to get examples from purchases actually made by your family or others.

Chapter 18: BORROWING MONEY FOR PERSONAL NEEDS

There is another side to consumer credit which is no less important than the purchase of goods which we have just discussed. It is borrowing of money, which we will examine in this chapter. As we have stated earlier in this part, there comes a time in everyone's life when he feels that he needs money desperately for some good and necessary purpose. There will be no need for you to feel apologetic because you want cash urgently to pay for an operation, to help you get through college or medical school, or to take a worth-while trip. With family responsibilities, you may want to pay off accumulated debts or to get help in buying a home. The important thing is to know how to borrow money, so that in an emergency you will act calmly and intelligently.

Some Things for First Consideration

No matter from what lending agency you may sometime borrow money, there are a few points which you should understand.

The promise to pay. You will be asked to sign a promissory note. As the name indicates, *a promissory note is an uncondi-*

tional written promise to pay a certain sum of money to the order of a definite person at a given time or on demand. This is a binding obligation that can be enforced in the courts, and you should give it serious thought before you sign.

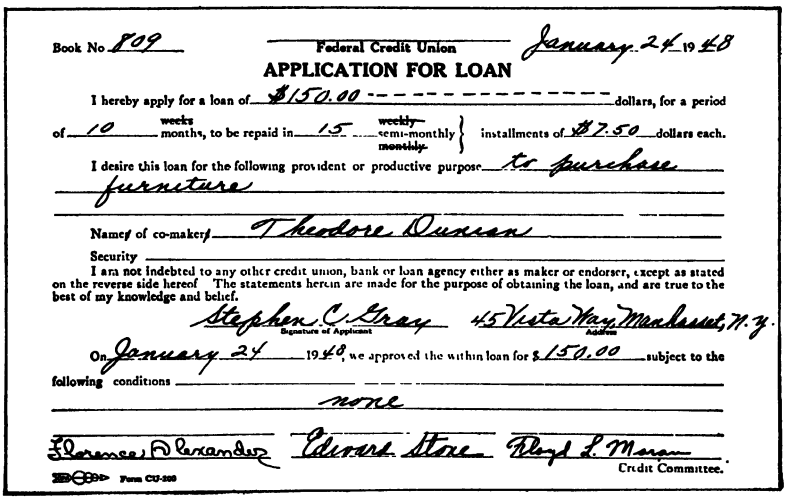
Varied terms. Promissory notes vary as to time of payment. Traditionally notes were paid off in one lump sum. But the installment principle is now applied in many cases and payments are monthly.

The cost. The difficult thing for you to get clear is the cost of the loan. Terms may be stated as in *interest rate on the face of the note.* Now there are two ways by which money is loaned. One of these is a straight loan. In this instance, if you borrow $300, say toward college expenses for one year at an annual rate of 8 per cent you will pay $24 for the loan. You will receive the full $300 but will pay back $324. The other way is through discount. In this case you will find that the lending agency had deducted the interest before it handed you the money. You would receive $276 but would have to pay back $300.

You may be required to pay *fees, investigation costs,* or *service charges,* which are stated in dollar cost, such as $3 for an investigation fee. You may have to pay a *percentage on the unpaid balance.* Thus, if you borrow $300 with the understanding that you will repay $40 each month with interest at 2 per cent monthly on unpaid balances, it will work out something like this. You pay 2 per cent, or $6, on the $300 you owe the first month; then you pay $40 and still owe $260; interest on this sum will be $5.20; the next month you owe $220 and interest of $4.40; and so on until the final payment. You may also be required to pay fines if you do not meet your payments on the date they were due. You will probably find these different methods complicated. You will need to understand them before you borrow money.

Security. The price you pay for your loan will depend a

great deal on the security you can give. The lender will consider your "3 C's": character, capital and capacity. If he is assured of your ability to repay your loan, his risk is less and his charges are less. If, on the other hand, he doubts your ability to meet payments promptly, he will charge more. Since, if you can give



Book No. 809 — Federal Credit Union — January 24 1948

APPLICATION FOR LOAN

I hereby apply for a loan of $150.00 dollars, for a period of 10 ~~weeks~~ months, to be repaid in 15 ~~weekly~~ ~~semi-monthly~~ ~~monthly~~ installments of $7.50 dollars each.

I desire this loan for the following provident or productive purpose to purchase furniture

Name of co-maker Theodore Duncan

Security

I am not indebted to any other credit union, bank or loan agency either as maker or endorser, except as stated on the reverse side hereof. The statements herein are made for the purpose of obtaining the loan, and are true to the best of my knowledge and belief.

Stephen C. Gray (Signature of Applicant) 45 Vista Way Mahasset, N.Y. (Address)

On January 24 1948, we approved the within loan for $150.00 subject to the following conditions none

Florence A Alexander — Edward Stone — Floyd L. Moran — Credit Committee.

Form CU-200

Application for a loan from a federal credit union is made on this standard form.

adequate security his loan is safe, the rate on secured loans is usually relatively low.

A secured loan is one in which the borrower puts up something of greater value than the face of the note which the lender can sell to cover the amount if the loan is not paid. You may have insurance policies, bonds, stocks, automobiles, jewelry, furniture, or real estate that you are willing to assign or pledge to the lender. This is called "collateral."

Character loans. Many people do not have assets on hand to use as collateral. If you belong to this group, your income is never very large. You can save so little that when an emergency

Liability to other credit unions, banks or loan agencies:

NAME OF CREDIT UNION, BANK, OR LOAN AGENCY	ORIGINAL LOAN	BALANCE DUE
None.		

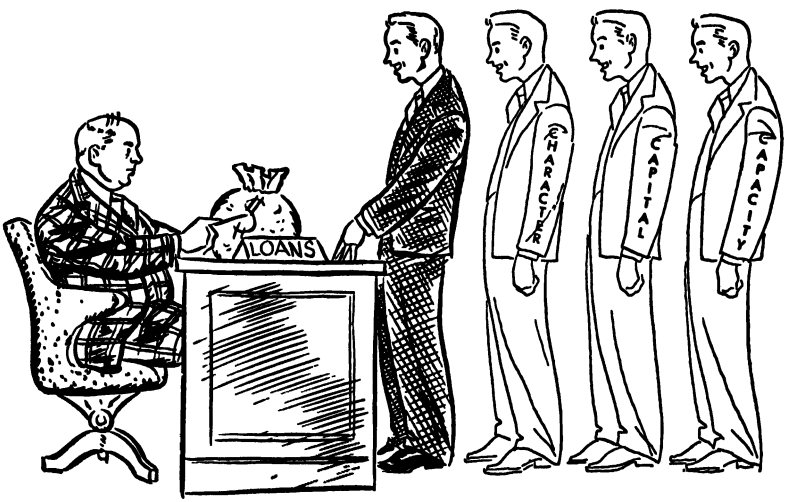
Name of maker Stephen C. Gray.
Address 45 Vista Way, Manhasset, New York
Wife's ~~or husband's~~ name Dread
Employer Green Brothers Address 385 Madison Ave., N.Y.
Position Clerk Salary $1500.00 No. of dependents 1
Reference
Name of your bank Sherman Trust Company.
Location of real estate owned

Name of co-maker Theodore Duncan
Address 16 Garden St, Manhasset, New York
Wife's ~~or husband's~~ name Marjorie
Employer Harris & Wade Address 500 Fifth Ave., N.Y.
Position Treasurer Salary $4800.00 No. of dependents
Reference
Name of your bank Sherman Trust Company
Location of real estate owned 16 Garden St, Manhasset, N.Y.

Name of co-maker
Address
Wife's or husband's name
Employer Address
Position Salary No. of dependents
Reference
Name of your bank
Location of real estate owned

Additional information about the applicant and the comaker must be supplied.

strikes, you have no reserve funds or valuables to fall back on. You must resort to "character loans." Sometimes people who do have some capital or earning power to offer, choose to borrow small amounts without giving security. If you are in this class and you have a good steady job and also have a few other



When you apply for a loan, you will be judged on your character, your capital, and your capacity. Make sure your backing is good before applying for a loan.

money obligations, you may borrow money,—usually not over $50 or $100—on your good name.

Cosigner loans. Some loans are called "cosigner loans." In this case you have another person sign the note with you; he promises to pay it if you do not do so.

What Lending Agencies May You Use?

You will want to become familiar with the several types of agencies who deal in small loans and who will aid you if you need money someday.

Small-loan companies. These companies are lending agencies that are licensed to operate under the small-loan laws of the state. They are also called "personal finance" companies. They are to be found in almost any city, not so often in rural areas. You can probably find the names and locations of these in your city or in a near-by city by looking under "Loans" in the classified telephone directory.

Small-loan companies, altogether, do a large business. In December, 1945, the amount outstanding on small loans from these firms was 445 million dollars. About half of the loans go to borrowers making their second or third request from the same company. The average loan is made for about $150 and is made to a wage earner, such as you will probably be.

History. In 1910, the Russell Sage Foundation conducted a study of personal loans to small wage earners. It proved that there was a great loss of money to illegal lenders by people who could ill afford to lose it. In 1916, the Russell Sage Foundation suggested a model Uniform Small-loan Law. Today most of the states have enacted laws that are based on the law or one of its revisions. By 1945, thirty-one states had effective legislation of the small-loan business.

Uniform Small-loan Law. The law provides that the small-loan company must have a license, give a bond, and meet established standards for licensing. The law also provides for state supervision followed by proper enforcement. It requires a full statement of the contract existing between you as the borrower and the lender, and it specifies that a receipt for payments must be given to you. It permits the lender to charge a rate not to exceed 3½ per cent a month (42 per cent a year) on the actual balance owed.

The Loan. Like other lenders, small-loan companies make several types of loans in which you may be interested. The most common are character loans and secured loans on autos

or furniture. Many loans are family loans, in which case both the husband and wife agree to the arrangements. The loans are made on an installment basis; a portion is paid each month along with the interest for that month.

Rates. The average effective rate of small-loan companies is about 2½ per cent per month (30 per cent a year). This is charged on the actual unpaid balance each month, not on the original total. No additional fees or fines can be charged.

Rates of 2, 2½, or 3 per cent a month may sound high. If compared with commercial loans, the rates are high; but not so if compared with the rates of illegal lenders and loan sharks. The great value of the small-loan laws has been that the honest small lenders put the loan sharks out of business.

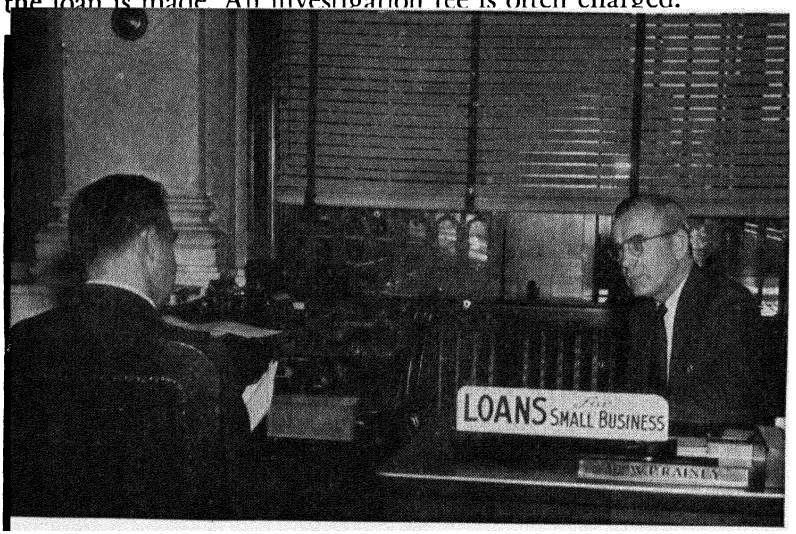
Banks. Banks have always been the center of our credit system. However, in the last century they were not interested in making small loans to individuals, for the rates they charged were too low to permit profitable handling of them. However, the small-town bank always loaned money to those whose credit standing was established. And all banks always accommodated their customers with some personal loans.

In about the last 20 years, banks have become seriously interested in making small loans; now they make more of them than any other type of credit agency. They generally make such loans at considerably lower rates than small-loan companies do. Because making personal loans is in many respects different from the traditional banking business, a new type of bank called the "industrial bank" has arisen and the old commercial banks have often added personal-loan departments.

Industrial Banks. These are not banks for industry, but are banks used by the people who work in industry. The Morris Plan, Winsett, White, and People's Finance and Thrift are some of the banks which come under this classification. They vary so much in size and service that they are difficult to

describe, but some characteristics of most of them can be explained. In December, 1945, outstanding loans were 146 million dollars in all the various forms of this type of lending agency.

These banks generally use the discount method in figuring costs. Discount is interest deducted from the loan at the time the loan is made. An investigation fee is often charged.



Courtesy of *Banking*

When you need a business loan, a bank is an excellent place to investigate the possibilities. Many banks have special small-business loan desks.

If you borrow $100 from the typical industrial bank, to pay a doctor's bill for example, and the charge is 6 per cent, you will sign a note for $100, but you will receive only $94. Then you pay back the loan in regular monthly payments. The interest rate when stated as 6 per cent discount on an installment loan, will be 11 or 12 per cent on the unpaid balance; actually the loan for the average time is $50, which about doubles

the rate. If an investigation fee of 2 per cent of the loan is added, the actual rate on the loan is increased to 15 or more per cent. If your loan is well secured, the rate may be much lower than this. Industrial banks will lend you money on collateral and on character.

Personal Loan Departments of Commercial Banks. Many banks continue to make personal loans without setting up any separate department, but in the past decade thousands of banks have arranged for special departments to handle this type. In December, 1945, commercial banks had amounts outstanding on consumer loans totaling 471 million dollars.

Loans are made on the basis of your character as well as on your collateral. Like industrial banks, commercial banks generally deduct the cost of the loan in the form of discount. They too may have investigation fees. Banks vary as to their methods and terms. Discount rates range from 3 to 10 per cent. The rates vary with the kind of security, so that generally the person who has good backing for a loan finds it possible to borrow at a bank at a very low cost.

Credit unions. A source of borrowing that may prove helpful to you is the credit union. A credit union is a cooperative association, usually composed of a group with some common interest, who pool their savings in order to provide themselves with the opportunity to obtain small loans at a reasonable rate of interest.

In 1909, Edward A. Filene became interested in credit unions and over a period of 15 years spent a million dollars to foster them. By 1945, there were almost 12,000 credit unions scattered through the United States and Hawaii with more than three million members. In December, 1945, credit unions had 228 million dollars in amounts outstanding on loans.

Some credit unions operate under state laws while others are organized under the Federal Credit Union Act passed in 1934.

Two-thirds of the credit unions are founded by members who work together in a factory or store. About one-fourth of the members of credit unions are civic or government workers, such as city school teachers, and librarians. Others have a common organization, such as a church or fraternal one. Persons who work in small stores, live in small towns, or do clerical work in small offices generally do not have access to a credit union.

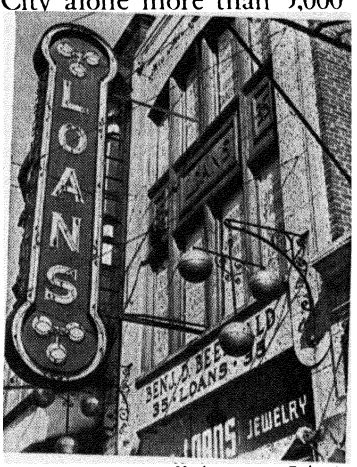
You can join a credit union by buying a share for $5 often at terms of 25 cents down and 25 cents a week. Then you use either or both of two services: (1) savings and (2) loan service. You can borrow as much as $50 without any security in state credit unions, while in federal credit unions, character loans may go as high as $100. In 1942, the average loan was $109. Larger loans are given under similar security as those of small-loan companies and banks.

The charge on a loan in state credit unions is generally 1 per cent a month (12 per cent a year) sometimes less on the unpaid balance. Federal credit union costs for a $100 installment credit loan are stated as follows:

$ 5.50 for 10 months
6.50 for 12 months
10.50 for 20 months
12.50 for 24 months

Costs are low because the cost of operation is small. Credit investigation is negligible because you are known by your fellow members of the credit union. The small office is generally donated by the business firm or by the association. Often the payments on a loan are deducted from your pay check. The treasurer of the credit union may receive a small salary, but generally all the officers work without pay. Advertising costs are low too.

Pawnbrokers. You have seen the sign of the three balls in front of small shops on the side streets of your city. They signify a place where you can pawn such things as jewelry, clothing, silverware, and musical instruments. Some shops are very small and "shady," while a few are as reputable as banks. It is said that every day in New York City alone more than 5,000 watches and 6,000 pieces of jewelry are "hocked."



H. Armstrong Roberts

You should consider carefully whether it really is worth while to borrow money at a pawnshop.

Whatever one choses to pawn, he takes to the pawnbroker's shop. The pawnbroker, who by long experience has become an expert judge of values, appraises it in terms of the price he can expect to get for it and offers the borrower less than the value to give himself a margin of safety and profit if he is forced to sell the article and collect his money.

If his offer is accepted, he gives the customer along with the loan of money a ticket, which identifies the merchandise and which gives the customer the right to reclaim it any time within a certain period by paying the amount loaned with interest.

Pawnbrokers are regulated by state or local laws. Their interest charges vary from 12 to 240 per cent. They can be honest, but, without supervision, a dishonest pawnbroker can serve as a "fence" for thieves.

Most of the time, the typical pawnshop patron is the fellow who barely gets along. He somehow accumulates a wedding ring, a musical instrument, or a camera, but when an emergency strikes he has no cash reserve to meet it and must part

with these few beginnings. He can get a loan on them quickly, with no publicity, and is never bothered by collectors.

Unlicensed lenders. As the name implies, these are the agencies or individuals that lend sums of money without first obtaining a license from the state to do so. They charge extremely high rates of interest and have thus earned the name of "loan sharks."

The lowest rate charged by these unlicensed lenders is about 72 per cent a year, the usual rate is 240 per cent, and the highest rate knows no bounds. This is bad enough, but it is not the worst feature of the business. Unlicensed lenders prefer to get the borrowers into debt and to keep them there. If you ever get into the clutches of one of these unscrupulous lenders, you will be in for some surprises and headaches. If you attempt to make a payment on your loan, you will be told to pay all of it or none, as part payments are not accepted. If you are unable to pay interest on the loan, you will be told that you must refinance the loan. You may then be recommended to another company with a different name, but owned by the one that lent you the money in the first place. Then you will be charged a large refinancing fee in addition to interest. Cases have been known of men and women who have borrowed as little as $50 and who after paying five or ten times that amount have learned that they still owed more than they had originally borrowed.

Loan sharks often refuse to give receipts or copies of agreements. They do not have permanent addresses, moving from place to place, from town to town, or from state to state. They are tricky, knowing you don't want your relatives and friends to find out about your financial difficulty. At the start, they give you very easy terms, but once they have you in their grasp, you are their victim. One cannot paint the vicious loan shark black enough.

Beware if a moneylender should ever ask you to sign papers with the blanks not filled in, if he should refuse to give you a

carbon copy of the paper you have signed and if he has no office and should ask you to meet him on the street. If you should see no evidence of a license, you can guess that he is a loan shark and that you should not deal with him.

If you should ever be so unfortunate as to become entangled with an unlicensed moneylender, you can get help. You can consult a Better Business Bureau if there is one in your community. Respectable lawyers will help you; if you cannot afford their fees, many cities now have a Legal Aid Society that will give you legal advice for 50 cents or $1. Your local district attorney's job is to give you help in cases like this. Social workers and welfare agencies will also help. You should tell any of the above-mentioned people and thus expose the loan shark. He needs to be punished. But then again, why not decide that you will avoid the whole business by getting your loans from the respected, reliable institutions in your community? You won't have to resort to shady, street corner dealings if you do so. Remember that it isn't sensible to use disreputable agencies.

Good Advice

The National Better Business Bureau has drawn up the following group of rules for the guidance of people like ourselves who may need to borrow money:

1. It is no disgrace to have to borrow money, although it is unwise to do so unless it is absolutely necessary. When it is necessary, do not be ashamed of it.
2. Do not be afraid to let your employer know that you need to borrow money. He understands such problems because he has to borrow for his own needs.
3. Be sure that you borrow no more than necessary and that you can repay such an amount in the manner in which you promise.

4. Be sure that the company from whom you borrow is under state supervision.
5. Be sure that you understand everything you promise to do when you receive the loan.
6. Be sure that you understand just what the cost of the loan will be and exactly what amount you promise to pay back.

To these rules we would add this advice: Go to a lender in whom you have confidence. State your case openly and frankly. Don't be apologetic or unduly humble; it's just a business transaction. Get his advice; he handles many cases like yours, and he may have a calmer, more expert judgment than yours, especially when you are upset or excited. You can be sure that he will keep your case confidential.

Summary

People who wish to borrow small sums of money to take care of such needs as sickness, accidents, accumulated bills, education, and other personal needs find difficulty at times in obtaining these loans. Borrowers sometimes do not have savings accounts, insurance policies, or other collateral to offer as security for a loan. In the past, the result was that these people often had to go to questionable sources for their loans and to pay very high rates for the loans.

These conditions have now been changed with the adoption of small-loan laws in most states and with the entrance of banks and credit unions into consumer credit. All these make it possible for the wage earner to borrow small sums in a decent and dignified manner, protected by the laws of the state.

Many types of agencies have been developed to fill the demand for cash loans, each with different rates of interest and different conditions of payment. The consumer who needs to borrow small sums should compare these various agencies and choose the one that best fits his financial condition.

Cash credit is needed by thousands of wage earners but should be used only when there is no other way to finance needs. Do not borrow too much or too little to provide for a particular need; do not ask for too many services, for they add to the cost; select the lowest cost loan if the other terms are satisfactory. Consumer credit is expensive; but it is better to use a legal agency than to obtain the money from an illegal source where you will pay exorbitant rates and may be plunged into permanent debt.

Questions for Discussion

1. Why is it important to know *in advance* where you can borrow money and how to go about it if you need it in an emergency?

2. Borrowers are frequently in an emotional state when they go to ask for a loan that they need badly. Why does this make it especially important that they go to a reliable and expert lender who will give good advice?

3. Considering that the borrower pays interest on a loan, is he asking a favor when he requests a loan? Is there any reason why he should not shop for good terms just as he shops for good values in clothing?

4. Small-loan-company rates are considerably higher than those of banks and credit unions. Why do you suppose so many people who could borrow from a bank go to them?

5. How can you tell which lenders are "loan sharks," so that you can avoid them?

6. When one is considering asking for a loan, should he reexamine his budget? Why?

7. Some people seem to be needing loans all the time; others with about the same income rarely do. What do you suppose makes the difference?

8. Is getting loans when they need them easier for people who have long-standing connections with a bank or credit union?

Practical Applications

1. Where do most of the people of your circle of friends go when they need a cash loan? Why have they chosen this lender? Do you think they have made a wise choice?

2. Consult one or more adults who have good financial judgment. Find out their views on when it is sensible to seek a loan? What cautions do they set up?

3. Many notes are made with a cosigner, who will have to pay if the original borrower does not. How should you feel about asking a friend or relation to sign a note for you? How should you feel about signing one for someone else? Should you be any less careful about this than you are about borrowing for yourself?

4. Get samples of promissory notes or any other forms used when you borrow money, and make yourself familiar with their meaning and use.

Problem

Make a survey of the agencies that lend money in your community. Try to find examples of commercial banks, industrial banks, credit unions, small-loan companies and pawnshops. You might inquire, too, whether any loan sharks are operating.

Then assign individuals and committees to find out about the personal loans made by each kind of business. Use a $100 loan, paid in 12 monthly installments, as an example. Find out

1. What the rates would be.

2. How much the loan would cost altogether, including any special fees.

3. What provisions are made or required, as to character loans, cosigners, and security.

Bring back the reports to class, and compare what the various lenders offer.

PART 8

How Insurance Protects You

CHAPTER 19: SOME KINDS OF INSURANCE

CHAPTER 20: LIFE INSURANCE

CHAPTER 21: LIFE-INSURANCE POLICIES AND HOW TO BUY THEM

CHAPTER 22: OLD-AGE AND SOCIAL INSURANCE

Life is filled with risks of all kinds and varieties both in our homes and outside. Many of these we cannot avoid; in fact, in some cases we gladly take risks in order to make a possible gain. For example, you might give up a job that paid well to go into business on your own. But when the risk results in a financial loss or death, there may be hardships for those who must stand the loss. Many of these losses are too great for any one individual to bear alone. While it is not always possible for a person to protect himself against these solely through his own efforts, there is a method by which he may reduce them. This method is through insurance.

Insurance is a method that enables large groups of people to pool their risks through the regular payment of small sums of money over a period of time. These sums are paid to an insurance company, which invests the money thus received and

pays out whatever is necessary to cover the loss of an individual. Thus no one individual suffers the whole burden. When your home burns or is damaged by fire, when your automobile causes damage or harm to another, when illness or accidents cause you to lose some of your wages, when you are obliged to spend some time in a hospital, or when you or some member of your family dies, the insurance provides the money to cover all or part of the losses and to enable those who must carry on to have the means with which to do so.

This part of your study is devoted to a detailed study of the various kinds of insurance that will help you to reduce or avoid losses. It also explains how you may build a fund for retirement when you wish to quit work and enjoy some well-earned leisure. The advantages and disadvantages of insurance are discussed and some pointers about buying insurance are given.

Chapter 19. SOME KINDS OF INSURANCE

While it is not exactly a pleasant thing to think about, let us consider some of the risks of life. They are of all kinds and may cause damage to your property or even loss of your life. Ordinarily the sun rises on a busy day for you, but things could happen suddenly to you that would make the starting of a new day meaningless. You might die of an illness; you might be unable to work because of an accident; you might grow so old that your usefulness was ended; you might be out of work and unable to find another job. Even if you were getting along all right, you could still lose your savings or capital through bad investment or in a depression. Anything might happen from having your house burn down to having your car stolen.

There are some risks that cannot be avoided no matter what we may do; there are others that can be controlled if we use care; there are still others that we can lessen to a large extent. Few individuals or businesses can afford to provide for these risks by themselves, since it is impossible to be certain when the losses will occur or how great they may be. Thus the custom has developed of transferring them to agencies that are equipped to cope with them and to compensate you for damage and losses. These agencies are called "insurance companies" and they are of many kinds.

This chapter will explain what insurance is and how it operates, and will examine some of the kinds of insurance that you will use to protect yourself against possible losses. Life insurance will be considered in the other chapters.



From the Institute of Life Insurance motion picture, "The Search for Security"

An insurance agent will be glad to explain the principles of insurance to you.

What is insurance? "Insurance," says Joseph B. Maclean, "is a method of spreading over a large number of persons a possible financial loss too serious to be conveniently borne by an individual."

Upon what principles does insurance operate? The primary principle upon which insurance is based is the spreading of risks over large areas and over a large number of persons. You contribute to a fund from which sums are taken to repay all those who suffer losses.

This contribution, collected by the insurance company, is called a "premium." It is collected from many persons year

after year; but only a few of these may ever suffer a serious loss requiring payment. Thus the insurance companies are able to accumulate a large surplus that enables them to meet demands made upon them.

Another basic principle is that companies issuing certain kinds of insurance do not accept many risks in any one community but scatter them over large areas. Thus, when a hurricane occurs, say, along the Atlantic coast, no one insurance company is called upon to bear all the losses or even a large proportion of them. Insurance companies of this type also reinsure part of their risks in other companies, thus further reducing their chances of serious loss.



Courtesy New York Life Insurance Company

A view of a towering insurance building in New York City.

What is an insurable interest? There are some things you are not permitted to insure just because you feel like doing so; it would be odd, wouldn't it, if people just insured favorite cats, or relations, or football togs, and forgot about the things involving real risks. Also if this could happen, the door would be thrown open to fraud, and the insurance companies would soon be forced out of business. Before you will be permitted to insure anything, you will be obliged to show that you have such an interest in it that you would suffer a financial loss if it were destroyed or seriously damaged. You may take out insurance on your property, health, or life.

If you hold a mortgage on a piece of property, you may insure it to protect your interest in it. But you may not insure the property, health, or life of another person unless you can prove that you would suffer a loss if anything happened to her. This is called an "insurable interest" and must exist at the time any kind of insurance is taken out. If the insurance covers property, it must exist at the time of the loss or there can be no recovery. In the case of life insurance it does not matter whether the reasons for which the insurance was taken originally exist at the time of death in order to collect the insurance.

Insurance exists for every purpose. The commonest kinds of insurance are life insurance, fire insurance, and automobile insurance. There are also accident and health insurance, workmen's compensation insurance, burglary insurance, insurance against floods, tornadoes, earthquakes, hurricanes, hailstorms, frost, drought, and the like. Then we find several forms of social insurance, such as unemployment, old-age and survivors insurance, and hospital insurance.

This is not intended to be a textbook on insurance; therefore no attempt is made to describe forms in which you wouldn't have an active interest.

Fire Insurance

What you should know about fire insurance? Someday you will probably own such expensive property as household furniture, a home, or an automobile. These will mean much to you, particularly as they cost you hard-earned money. The way to protect yourself against the loss of your valued belongings by fire is to buy fire insurance. This kind of insurance pays you a sum of money when your property is damaged by fire, smoke, water, or other means used to put out a fire. It covers only property clearly described in the *policy,* which is a contract between you and the insurance company.

When you decide to insure property against loss by fire, you consult an agent of a company that assumes such risks. He will give you an application blank, which you are required to fill out with truthful answers. You will be asked to describe the property you wish to insure, to state the amount of insurance you desire, and to give such other information as the company calls for. Your application will be examined and your statements investigated. You will probably pay the premium when your application is sent in, for not many applications are refused. Your property is insured from the time you pay the premium until the end of the term.

What does a fire-insurance policy contain? Since the policy sets forth the rights and obligations you have, you should read it carefully. Many people have been very much surprised and disappointed after a fire to learn that they were not as well protected as they thought. The policy contains many clauses and much fine print. The finer the print, the more carefully you should read. If you don't understand any of the provisions, ask for an explanation. Most fire-insurance policies are now standard in form and contain the following important items:

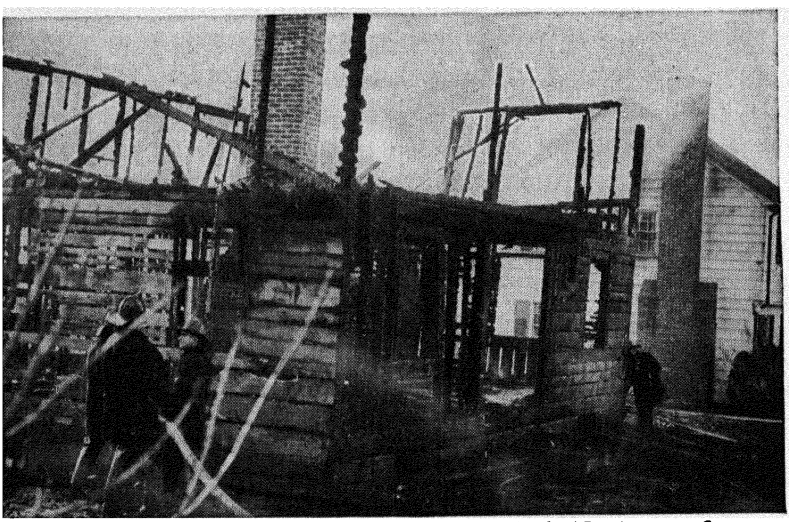
Length of Time on Policy. This period may vary from one to five years. It will pay you to insure for a long period rather than for a short one.

Description of Property. Many people think that insuring household furniture means that everything within the house is insured. This is not so, because the policy contains a statement in regard to certain articles that will not be insured unless you pay extra for them. As a rule, articles that have a sentimental value only to you, such as your much-loved hockey trophies, stuffed animals, honor medals, or school prizes, are not covered by the policy unless so stated. You should make out a list of all the articles that you wish insured and give the insurance com-

pany a copy. This will avoid trouble later if a fire occurs and damage is done.

Cancellation Statement of Insurance by the Company. When your policy is canceled for some reason, a refund is given you.

How the Amount of Loss Shall Be Determined. If you disagree with the insurance company's estimate of the amount of



Courtesy Hartford Fire Insurance Company

When an insured property is destroyed by fire, the amount of the loss will be estimated by the insurance company.

damage, arrangements may be made to have the matter settled by arbitration. You and the insurance company each select a representative to consider the matter; if they cannot agree, a third party, selected by you and the company, settles it. This seldom happens except where losses are very large.

If your property is insured for more than it is worth. There have been instances where people have raised the value of their property with the thought that they would ob-

tain more in this way if fire destroyed it. This does not get them anywhere, for insurance companies are aware of the practice and make provision for it in their policies. You will find a clause that says that when damage is done to your property, you will be recompensed only to the extent of the damage done, but not more than the amount stated in the policy. Also the person who sets fire to his property to obtain insurance is guilty of "arson," and, if convicted, is liable to punishment by imprisonment.

What special permits should you obtain? Tucked away among other clauses are statements that may be of interest to you. They give you permission to do certain things under certain circumstances. You must secure a permit to keep explosives like gasoline on your premises, to install an oil burner, or to leave your house vacant while you are away for any length of time. If you do any of these things without a permit and there is fire and damage, you may find that you cannot claim money for the damage. It is a simple matter to have these permits inserted in your policy and this you would be wise to do.

Automobile Insurance

What should you know about automobile insurance? We are all thoroughly conscious that there are many risks in operating an automobile. Risks, such as injuring or killing persons, damaging property, colliding with another car, upsets, or having a car stolen or burned, are so common that you should insure yourself against them in so far as you can. Of course, you will not be able or wish to carry all kinds of automobile insurance available, but you should know about some of them. It is good to remember that the rights of injured persons should be protected whenever possible.

How does personal-liability insurance protect you? This is the kind of insurance which protects you against loss if other

people are injured or killed in an accident in which your car is involved. Note that this is insurance against injuries to *others,* not to yourself. There are many cases on record in which the courts have awarded as much as $20,000 damages to the heirs of a person killed by an automobile. If you were caught in such a situation, you might not be able to afford to pay so much, and you might lose all your possessions and still be obliged to make payments over a period of years. Personal-liability insurance reduces the amount you may have to pay and in most instances probably would cover all the loss.

Some states require car owners to carry such insurance. Even though your state does not compel you to carry this type of insurance, you should purchase it for your own protection. The insurance company pays the damages and other expenses up to the amount stated in the policy.

Why is property-damage insurance useful? You, as the owner of an automobile, are covered by this insurance, against loss incurred when your car does damage to *another car* or to the property of *another person.* It does not cover damage that you do to your own car.

Why insure against fire and theft? Your automobile has cost you a lot of money, and you do not care to lose it. If your car is stolen or burned, you suffer a serious loss. The insurance company stands ready to pay part or all of this loss for a small cost. However, fire and theft policies should be studied carefully by you to see just what is insured and under what conditions you may recover your loss.

Should you buy collision insurance? Collision insurance protects you against loss through damage to *your own* car caused by a collision with another car or object or by an upset. As it is quite expensive, it is usually carried by those who own expensive cars. You may not be able to afford this kind of insurance, since in most cases you are required to pay for part of the

loss yourself. For example, the policy may state that the insurance company will pay for damage exceeding $50 or $100. You pay all below these amounts.

Other Types of Insurance

Will health and accident insurance be useful? Unless you are different from most human beings nowadays, you will lose time and money through sickness and possible home or automobile accidents. It will be wise to provide yourself with insurance to reduce losses caused by these events.

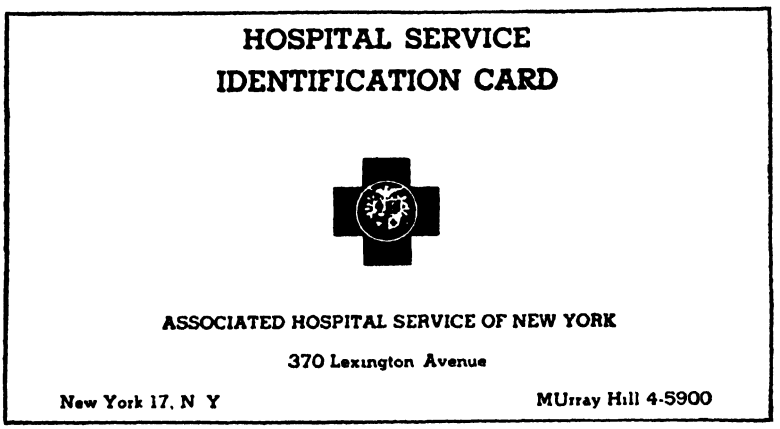
There are many companies that will insure you against loss due to sickness or accident for the payment of a definite amount each year. In this type of policy you get only what you pay for, and sometimes less. Companies, as a rule, will not insure you to receive an amount that is more than your income, and many do not pay as much as that. Health and accident policies are so variable and many of them are of such doubtful value that we advise you to investigate carefully before you accept one. Ask for a sample policy, and read it through critically. You may find that it will not insure you against the illnesses and accidents that are likely to happen to you; you may also find that other conditions are unsatisfactory. For example, you may find that the "waiting period," that is, the time between the accident or beginning of your illness and the date payments start, is too long.

You are protected against unemployment. You have to face the possibility that you may arrive in the business world when many others will be competing for the job you want or that you may eventually lose your job through no fault of your own. Cutting off your cash income may have serious results. That is why people have had to share this kind of financial loss by means of insurance.

All states and territories of the United States provide financial

protection against the risk of unemployment to persons in certain occupations. The cost of this insurance is paid by a tax on employers, and no charge or tax is levied against workers, except in the states of Alabama, California, and New Jersey.

The benefits are based on the worker's wages before he was unemployed, and these vary from state to state. There is a mini-



Courtesy Associated Hospital Service

The membership card issued by the Associated Hospital Service authorizes the member to receive all the benefits of the plan.

mum payment, generally $10 per week, and a maximum, generally $21 per week. The requirements and length of time the benefits are paid also vary. Usually payments are made for a period of not more than 26 weeks, beginning after two weeks of unemployment.

To be eligible for the benefits, you must meet the requirements set forth in the law of your state. Usually these provide that you must have been employed for a certain length of time, generally 10 weeks, be out of a job through no fault of your own, and have been employed in certain occupations, such as those in factories, stores, mines, and offices.

You apply for unemployment benefits through the state employment offices and you must accept any suitable job that is available.

What is hospitalization insurance? Through insurance of this kind individuals and families are insured under certain



Ewing Galloway

Hospitalization insurance will ease your financial worries at the time of an accident.

conditions against the financial risks of illness that require hospital and medical care. It is sometimes called the "3-cents a day plan," or the Associated Hospitals Plan, or the Blue Cross. While the plan may vary in different communities, the general principles and practices are much the same.

The cost of hospital care for a period of 21 days each year

including room, nursing service, medication and drugs, use of the operating room, dressings, and similar service is paid for by members of the plan. If you are confined to the hospital for a longer period than 21 days, you receive a substantial discount on the charges, generally for 60 more days.

Hospitalization insurance may be taken out either by you or by your family. Frequently people join the plan as a member of a group, such as an employees' group. When that is done, the charge is usually deducted from the employee's wages and often the employer pays part of the cost.

Summary

Insurance is a device by which a number of people unite for mutual protection so that the losses of any one are shared by all. Because everyone is exposed to many risks during life, insurance is a convenient and reasonable method of reducing losses. Insurance companies operate on the principle of spreading risks over a large area and over a large number of persons. By accumulating a surplus, it is possible to take care of losses as they occur, because all insured persons will not suffer losses at any one time.

There are many kinds of insurance intended to provide for all the needs that one can imagine. So long as you can prove an insurable interest in a person or thing, you can insure it. Among the kinds of insurance, other than life insurance, which you may buy at some time are the following: fire insurance which protects property against damage by fire and water; automobile insurance of all kinds which protects you against losses arising from the use of your car; health and accident insurance which provide you with an income while you are recovering from an illness or an accident; and unemployment insurance which provides you with an income while you are out of a job, or at least for part of the time.

Questions for Discussion

1. Why is it important for you to know about insurance? Illustrate what might be the result if you did not.

2. If a man's house burns and he receives a check for $5,000 from the insurance company, what is the real source of this money?

3. Why do you suppose the legal provisions as to insurable interests are as they are?

4. Why is it necessary for the purchaser of a fire-insurance policy to make sure just what is covered by it?

5. Do you think automobile owners should be required to carry personal-liability and property-damage insurance? Why? Why not?

6. Why is it impossible to have any kind of insurance program without involving large numbers of people?

7. Which risks should one insure against first, those that are likeliest to strike or those that would cause the most injury if they did strike? Give an example in each class.

Practical Applications

1. Are there any risks that are especially important in your community because of the climate or the work people do? Are there risks that are important in other places but not very important where you live?

2. Insurance costs money and almost no one can afford to buy every bit of insurance he might need. Assume that a typical family in your neighborhood could afford to spend $125 a year for all kinds of insurance discussed in this chapter. What kinds should the family take care of first? What kinds would you advise it to pass by? Why? Perhaps an insurance salesman will give you some ideas.

3. Is your family protected by government unemployment or old-age insurance? What difference does it make in its buying of private insurance?

4. If a young salesman with a fair job but hardly any savings owned a new car, would you advise him to buy collision insurance on it? Would your advice be the same if the car was an old one worth about $100? Why?

5. Does a young man or woman who has just left school and is earning his own living but has no dependents need any insurance? If so, what kinds and how much?

Problem: Benefits of Fire Insurance

Philip Blake had been saving money for some time in order to purchase a home. He finally purchased a small cottage with garage attached. It cost him $6,000, of which sum Blake paid $4,000 and gave his bank a mortgage for $2,000. In his garage he kept his car that had cost him $1,200 six months earlier. Blake insured the house and garage against fire for $5,000. He insured his car against fire in the sum of $800. One year after he had moved in, fire destroyed his home and his car. Only the foundation of the house remained.

1. How much insurance was paid by the insurance company for the house?

2. How much of this insurance went to the bank?

3. How much insurance did Blake receive?

4. Would he be likely to receive full value for the burned car?

5. How would the amount due on the car be determined?

6. Suppose the damage had amounted to only $4,000. How would the insurance money have been divided in this case?

Chapter 20.· LIFE INSURANCE

So far we have said nothing about an essential form of protection needed by everyone, protection against the monetary difficulties caused by death—life insurance. It is hard for you, when you are young and active, to think of the possibilities of death, especially when your chances to live are the best in history. In 1900, life expectancy was approximately 50 years, while in 1947 it was 66 years. The length of your life is governed in part by the kind of work you do; but with the exception of accidents and illness you have a better chance of living to a fine old age than your grandparents had at your age. However, there are many reasons why you should face the possibility of death and provide protection against it.

INCREASES IN LIFE EXPECTANCY AT BIRTH

1789 (Mass.).....35 years
1850 (Mass.).....40 years
1901 (Ten states).....50 years
1942 (Entire United States).....65 years
1947 (Entire United States).....66 years
Figures supplied by R. Wilfred Kelsey of the Institute of Life Insurance.

What life insurance is, the reasons why you should buy it, how much it costs, and what the various kinds are with their advantages and disadvantages are some of the subjects we will discuss in this chapter.

Why is life insurance needed? Some people do not believe in life insurance and can see no need for it. While this is a personal matter and must be decided by each individual for himself, there are three good reasons why everyone should buy some life insurance.

To Protect Your Dependents. "But I have no dependents," you say, "I'm young, I don't work, and my old age is something I don't even think about yet. Why do I need life insurance?" But let's consider what is involved. Whether you buy life insurance to pay funeral expenses or to support yourself in later years, you are doing it in order to protect something or someone. It has been said that you don't buy life insurance because you expect to die but because you expect someone to live.

Even if you're only fifteen, you might die and someone would have to pay the funeral bills. Through insurance you or your family can make sure that no one will have to sacrifice to pay undertakers, hospitals, and doctors.

When you are eighteen, you may marry and have a family. But if you should die, you wouldn't want to leave your dependents in poverty and with personal and business debts they couldn't meet. The only way open to most young men to support a family even partially after their death is through insurance. During your married life you would probably also want to accumulate a savings fund for your children's education or for a start in business.

To Provide Something for Later Years. Whether or not you marry, you will grow old and be unable to earn an income. If you have a family, there is greater reason for providing for the later years. Certain types of insurance make it possible for you to accumulate a sum that will be returned to you in regular payments when you reach a certain age, say, sixty-five or seventy. This will enable you to care for those still dependent

upon you. If you are single and have no dependents, such insurance will make it possible for you to live comfortably without being a burden to others when you can no longer support yourself through wages.

To Encourage You to Save. When you buy insurance, you agree to make regular payments over a period of years. While you should look upon life insurance as a means of protecting your dependents against the risk of your early death, it may also serve as a means of saving. When you open an account in a savings bank, you are free to make any number of deposits. Banks do not send reminders that deposits are due, and there are no penalties if you make no further deposits. The insurance company is different. It requires you to make payments at regular intervals and notifies you when these payments are due. If you fail to pay, you may lose your insurance.

What is life insurance? *Life insurance is a contract in which the insurance company, for the payment of a premium, agrees to pay your estate, or any person named by you, a certain sum of money if you should die within the period covered by the contract.*

The insurance company is called the "insurer," the one whose life is insured is called the "insured," and the person or persons designated to receive the money from the company in the event of the insured's death is the "beneficiary." The contract is called a "policy"; the payment made for the insurance is called a "premium." You should become familiar with these terms as they will be used frequently.

How do insurance companies obtain their funds? Most life-insurance companies are able to pay and do pay the amount of the policy a very short time after the insured has died. Many policies must be paid every day. Insurance companies also pay salaries to employees, pay taxes, and have other fixed operating expenses. They send out printed matter, advertise, and have

many other expenses to meet. Where do they get money with which to do all this? There are two main sources of income for insurance companies: (1) from the premiums paid in by those insured and (2) from the investment of these premiums.

How are premiums determined? When an agent calls to sell you or your family insurance, ask him to show you his little book that gives the annual cost of insurance at every age and for every kind of policy. Ask him to tell you about the mortality tables by which the insurance company knows what to charge at different ages and for the different kinds of insurance.

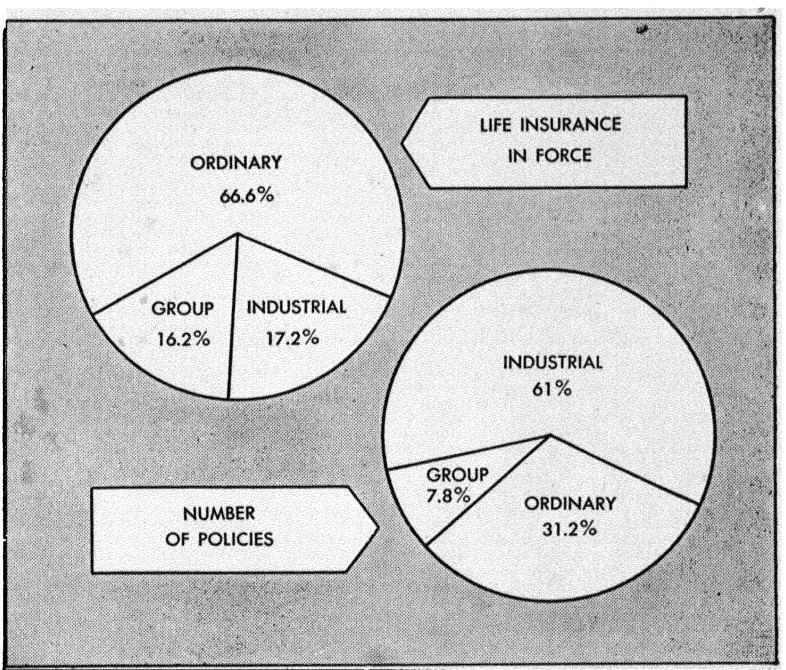
The older the person, the greater the risk of death. Thus the older you are before you buy life insurance, the more it will cost you. Although the cost of life insurance is greater for older people because of the higher death rate, the premiums for a particular age and type of policy are the same as long as the insurance is in force. If at the age of fifteen you take out a $1,000 ordinary-life policy that costs $15.34 a year, the premium will not be increased even though you are still carrying it at the age of sixty-five.

But this is not the only factor that helps to determine the premium charge. Other important factors are the kind of policy you desire, the cost of operating the company, and the estimated income from the funds invested out of premium payments. When these are known, it is not difficult to establish a premium.

Kinds of life insurance. In order to make life-insurance protection available to as many people in the country as possible, the life-insurance companies long ago worked out three separate and distinct kinds. These are known as "ordinary," "group," and "industrial" life insurance.

Ordinary-life Insurance. This is the form of life insurance most widely used by those who have great need for life-insurance

protection and who can afford to pay fairly substantial sums of money each year for it. You can use this type of insurance to meet practically every conceivable need for protection and investment.



From Douglas, Skar, and Price, *Modern Business*, McGraw-Hill

The percentages shown are based on year-end estimates for 1946.

It will provide cash funds for doctors' bills, funeral expenses, unpaid bills, taxes, etc., which remain after your death. It can supply a regular monthly income for your widow and children; it can provide funds for your children to go to college or for the payment of a mortgage on your home. Or it can be used to guarantee a definite income for you after you stop working if endowment features are added.

Ordinary-life insurance is almost always issued in amounts of $1,000 and more and usually requires a medical examination as one proof that you are a proper person to insure. Premiums



Courtesy The Employers' Group

Insurance taken out by a man when his child is young can supply funds which will make possible a college education in the future.

are payable annually, semiannually, quarterly, or sometimes even monthly. Annual premiums are the cheapest. The average size of ordinary-life policy in force in this country in 1946 was $2,117.

Group Insurance. Insurance of this kind is issued to you as an individual employee, usually without medical examination, through an arrangement the employer makes with an insurance company. Most state insurance laws require that at least 50 employees be insured under the master policy issued to the employer.

Premiums may be (1) paid in full by the employer or (2) paid partly by the employer and partly by you. When you pay part of the cost, the premiums are usually deducted from your wages. The premium for the entire group is paid directly to the insurance company by the employer. The amount of insurance is often equivalent to one year's salary or earnings.



Library of Congress

The family man who wishes to safeguard the future of his family is a willing buyer of insurance.

Group policies are usually for a term of one year but may be renewed from year to year, and no physical examination is required. The rates are much lower than those charged for other types of life insurance.

The great advantage of group insurance to people as a whole is that a worker's family gets, in effect, an extra year's earnings in case of the death of the breadwinner and that his employer is relieved of financial responsibility toward his family. The big advantage claimed for group insurance is that it is inexpensive. Another advantage is that it permits many who could not obtain insurance in any other way to become insured, because no physical examination is required.

Against these advantages must be placed certain *disadvan-*

tages. It is temporary insurance, since the policy expires if you leave the employ of the company or the company decides to drop the plan. However, if you do leave the company, you can,

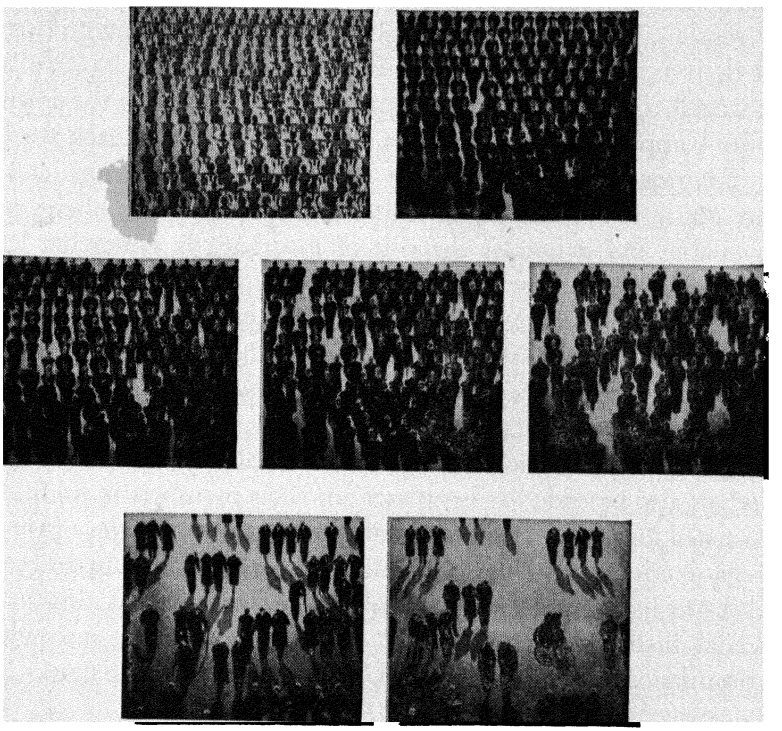


O.E.M. Photo by Palmer and Courtesy Metropolitan Life Insurance Co.

The man with the hose is a good prospect for industrial insurance, for although he cannot afford to pay a large premium in one payment, he can probably arrange to pay the smaller weekly premiums called for by this type of policy.

within 30 days, change your policy to a permanent one on the life or endowment plan without a medical examination. Another disadvantage is that a group policy has no cash or loan value.

Industrial Insurance. This type of life insurance is arranged to meet the needs of those people who cannot afford to pay a large premium in one payment. It is arranged on a basis of



From Skar, Schneider, and Palmer, *Personal Business Law*, McGraw-Hill

Proportion of people surviving after each decade from birth to age of seventy.

small weekly or monthly payments and is frequently purchased in weekly premiums as low as 5 cents. The face value of the average policy is $250 although the maximum amount available in any one policy is usually $1,000. Such policies are generally written without medical examination in order to make the coverage available to as many as possible of those who need

such protection. The policies are taken out to provide for funeral expenses and a modest readjustment fund for the family.

Industrial insurance is expensive because of the type of service it renders. The death rate is higher among the group who carry it than among people in general. The higher rates have to be charged to cover the higher death rate. It also costs the insurance company much money to collect the premiums each week.

Savings-bank life insurance. In certain states savings banks are permitted to sell life insurance. All the standard policies are available and generally the cost of insurance is somewhat less than the same insurance purchased from an insurance company. There is a limitation on the size of policy that can be issued to any one person by any one bank; the maximum policy in Massachusetts is $1,000 and in New York it is $3,000. The minimum policy is $250.

Fraternal insurance. Certain fraternal organizations and lodges also provide life insurance for their members in addition to social and other fraternal benefits. Insurance policies of these organizations at the present time are usually limited in amount and are limited to ordinary policies. At the present time fraternal insurance is under the supervision of state insurance commissioners, the same as regular insurance companies.

Summary

Life insurance is intended to provide protection for dependents in case of death. Few people on small salaries are able to save enough in a lifetime to provide dependents with the funds necessary to meet bills and to live on after the head of the family is gone. Also, many reach old age with no means of support for themselves and with no one left who will or can care for them. Insurance provides for these needs.

Ordinary-life insurance is available in amounts of $1,000 or more for those who have need for several thousand dollars of protection and who are able to make sizeable premium payments at intervals. It requires a medical examination and in the long run is the most economical form of life insurance for use in investment programs.

Group insurance exists for those working for one employer and enables them to obtain protection for the term of their employment at very little cost and without medical examination. It also makes it possible for many persons to carry insurance who would not be able to obtain it otherwise.

Industrial insurance is a type adapted to the needs and the pocketbooks of workers in industry who cannot save enough to pay the premium on other kinds of insurance. The policies are usually for small amounts, averaging $250, and the premiums are in multiples of 5 cents a week. Thousands of children are insured in this way. By its very nature it is more costly than other types of insurance, but this is offset somewhat by the many services rendered by the companies that sell this type of insurance.

A system of insurance conducted through mutual savings banks has been adopted in certain states for the purpose of reducing the cost of life insurance to those who cannot afford to pay higher premiums and who wish to get more insurance for the same amount of money.

Anyone in good health can obtain some kind of life insurance if he can pay for it. Some people engaged in dangerous occupations have to pay very high rates if they wish to be insured. The cost of life insurance is based upon several factors, such as the chance that the person seeking insurance may die before a reasonable age, the type of insurance desired, the cost of operating the plan, and the income expected from investing the funds paid in by policyholders.

Questions for Discussion

1. Explain why annual rates for young people are lower than those for older people. Does this mean that a person who takes a policy when he is young will pay less for it altogether?

2. Why is it not permitted to insure the life of a person in whom you have no insurable interest? What abuses might arise if this were permitted?

3. Of the three purposes given for buying life insurance, which do you consider most important? Why?

4. Industrial insurance is often criticized because the premiums are so high in proportion to the amount. Can you think of any reasons why it should continue to be made available?

5. How should a person decide how much life insurance to carry?

Practical Applications

1. Find out whether there are any group plans of insurance in operation in your community, possibly affecting some members of your class. If so, learn how the plan operates, and what the rates are. What are the special advantages in this system?

2. Is savings-bank insurance available in your state? (A banker or insurance man can tell you.) If so, how does the plan operate and what are its special features?

3. Sam Smith, a nineteen-year-old lad, was injured in a crash of his automobile, and died after several weeks in the hospital. He still owed $275 on his car, and left some other small debts. Hospital and doctor bills amounted to $450 and funeral expenses added another $225. His father, a day laborer with three younger children, had to pay the bills. How could Sam have protected his family? What would have been the cost to him?

4. Examine an industrial life-insurance policy. What is the amount of insurance? What does it cost per week? What is the

total bill per year? How much is this per thousand? How does this compare with the premium of a $1,000 ordinary-life policy?

5. Construct a table showing by comparison the advantages and disadvantages of the three methods of buying insurance: ordinary-life insurance, group insurance, and industrial insurance.

Problem: How Dividends Work Out

Peter Nolan bought an ordinary-life insurance policy for $3,000 at the age of twenty-five, paying an annual premium of $15.26 per thousand. He decided to leave the dividends with the insurance company to accumulate. No dividend was paid the first year, but after that they averaged $3.60 per year. Mr. Nolan named as beneficiary his son Peter Junior, who was two years old when the policy was taken out. Mr. Nolan died at the age of fifty-four.

1. How much money had Mr. Nolan paid to the insurance company at the time of his death?

2. How much money did his son receive? (Disregard interest on dividends.)

3. Did the son receive more or less than his father paid to the company?

4. If the father had arranged to have the dividends credited toward shortening the time of paying premiums and have the policy paid up at the age of sixty, would this have made any difference in the amount the son received?

Chapter 21: LIFE-INSURANCE POLICIES AND HOW TO BUY THEM

Insurance companies will provide almost any type of life insurance a person desires. You would not be interested in all these, and therefore this discussion will be limited to the common ones you will probably buy. These are term, whole-life, and endowment policies. If you desire some variation from the standard forms, you should seek reliable advice.

What Is Term Insurance?

Term insurance furnishes you protection for a specified period or "term," usually 1 to 10 years. Generally, it may be renewed at a higher premium. Term policies are intended to take care of situations that require only temporary insurance of the greatest amount of protection for the time being at the lowest premium rate. For example, you may have borrowed money to go to school, to buy a tractor for the farm, or to start in business. The term insurance would guarantee the payment of these loans. Or suppose you were a young married man who did not have the money to buy the permanent insurance your family should have. You could buy the term policy to protect them until you could afford to buy permanent insurance. Term

insurance is purely for protection; no savings are involved. The face value of the policy is payable only if death occurs during the term specified.

Term insurance has several *advantages.* For one thing it has the *lowest premium rate* of any life-insurance policy. You can buy more insurance for the same amount of money than for any other type of insurance. Furthermore, it can usually be converted into permanent life insurance without another medical examination—an important consideration if you are not in the best of health.

While the advantages of this type of life insurance are important, there are two serious *disadvantages* to be mentioned: (1) It is only temporary insurance. You are insured only during the period of the policy. Whole-life policies are in force throughout the life of the person if the premiums are paid. Should you be living at the end of the term and fail to renew it, you would no longer be insured. (2) There is seldom anything returned when the term ends and you are still alive. This is not the case with other types of policies.

What Are Whole-life Policies?

In contrast to term insurance, which is temporary and pays only if death occurs during the term of the policy, you may obtain a type of insurance that is permanent. This type pays the amount of the policy upon your death whenever it occurs, provided that you have continued to pay the premiums. This is called "whole-life" insurance and exists in two forms: ordinary-life and limited-payment life.

Ordinary-life insurance. This is the commonest form of life insurance sold and gives you lifetime protection for your family and for yourself. In this type the premium rate is the lowest of any kind of permanent insurance. You must pay the premium as long as you live and wish full protection.

Several *advantages* are claimed for this type of policy. It gives you *the greatest amount of permanent protection for the lowest annual charge.* This should be a very important consideration because you will probably wish to have the most family protection you can afford. You will want to see that as much provision as possible will be made after your death not only for your family's support but for ready cash for current expenses or possible emergencies, such as illnesses. This will be clear if you will make a comparison of costs between the different types offered (see page 320).

Ordinary-life insurance also provides a distinct advantage to you while you are alive, since it can be used as an emergency fund and, for an additional premium, as a disability fund in case you are unable to work because of illness or accident. In the early years of such a policy the premium is more than is required to pay the current cost of protection, and the insurance company retains the balance as a reserve that is invested at compound interest for the purpose of making up the difference in the later years when the annual premium no longer covers the actual cost of insurance. This policy reserve is available to you in emergencies either as a loan or as a "cash-surrender payment" if you find it necessary to give up your insurance. If you should face a sudden and urgent need for money, the insurance company may become your emergency bank, perhaps saving your home or providing your children with food, clothing, and an education. Or it may be used in case of disability or as a retirement fund in later years by choosing to receive a monthly income for life.

Two *disadvantages* are claimed for the ordinary-life policy: (1) You must continue to pay the premiums or accept less insurance, and (2) the payments may be hard to meet late in life when your earning power is smaller.

Limited-payment life insurance. This form of insurance differs from ordinary-life insurance in that it requires pay-

ment of premiums for only a certain number of years, although it also provides lifetime insurance. After the premiums have been paid for the number of years agreed upon, the policy remains in effect for its full amount the rest of your life. The period is usually 20, 30, or some other definite number of years. Since premiums are to be paid for a shorter period of time than in the case of an ordinary-life policy, limited-payment policies have a higher premium rate.

Limited-payment policies have certain *advantages.* They have a larger cash-surrender value than the ordinary-life policies. Another advantage is that at the end of the limited period no more payments need be made and the insurance is fully paid up for the rest of your life. Of course, if you leave your dividends with the company, the policy becomes paid up sooner than the period indicated in the policy.

Limited-payment policies are excellent for those who have sufficient income to afford the larger payments for a short period of years and for those who know their earnings will be less in later life. The principal *disadvantage* is that if your income is small the higher premiums may not permit you to provide as much protection as you would like. In general it may be said that if the choice lies between an ordinary-life policy and a limited-payment policy, you should take the ordinary-life policy if you are looking for the greatest amount of protection for the least yearly cost.

What Are Endowment Policies?

An endowment policy is one that pays a specified sum of money to you at the end of a certain period of time or to your beneficiaries if you die before the end of the period. Thus you see that endowment insurance is different from both term and whole-life insurance. In the case of endowment insurance, the entire sum is paid to you at the end of the period, while for term insurance and whole-life insurance the face

If I were not here

My Wife Would Have—		*My Wife Would Need—*	
Cash on hand in the bank	$	Cash for emergency	$
Market value of home or of equity in home		For last illness and hospital expenses	
Building and Loan, Savings Account, etc.			
Value of Real Estate, Stocks, and Bonds, Actual		Unpaid charge accounts at stores	
Value of Business		Unpaid installments of personal and Federal taxes	
Face Value of Life Insurance Policies			
Any other assets		For estate and inheritance taxes	
		Amount needed to clear mortgage and give her a home	
		Amount needed to protect my interest in firm or co-partnership	
		Amount needed to educate children ($3,000 minimum for each child)	
		Amount needed to be invested at 5 per cent to provide very least monthly income for wife and children	
Total	$	Total	$

Total she would have . . . . . $

Total she would need . . . . . _____

Balance needed . . . . . $

Courtesy Bankers Life Company

amount of the policy is paid only after the insured dies and then to his beneficiaries. This makes an endowment policy a combination of insurance and savings.

Endowment policies have a higher premium than other policies because they must cover the cost of insurance protection and enough more to accumulate a fund to pay the value of the policy when the period ends. It is this investment feature of the policy that makes the premium rate higher. You have actually less protection per dollar of premium in an endowment policy than you have in any other policy.

Endowments may be bought for periods as short as 10 years or as long as 50 to 60 years. Endowment policies are excellent for you if you wish to accumulate a definite sum for some future use, such as your own retirement, educating your children, purchasing your home, or starting a business. They thus serve as an incentive to save. If you cannot save in any other way, you can purchase an endowment policy and save money by agreeing to make the regular payments.

To illustrate, if you would like $5,000 at the age of sixty-five and you are now fifteen, you can arrange to pay premiums of such an amount that you will have the desired sum when the time comes. In the meantime, you have insurance protection. This fund can provide for old age or for some other specific purpose.

All ordinary endowment policies sold today contain a clause that enables you to choose a guaranteed income for life payable in monthly installments instead of receiving the lump sum when the policy matures. This is the life-annuity principle described more fully on page 335. Also an endowment policy is often taken out when a child is young and arrangements made for it to be paid when the boy or girl goes to college.

You will readily guess the great *disadvantage* of this form of insurance for many people. Most young people starting out

in life have someone whom they wish to protect. Usually, in the case of young men particularly, this need to provide protection for dependents is so great that they cannot even afford all the protection they need by purchasing the cheapest plans of insurance, let alone endowment policies.

An Interesting Comparison

You have now examined the leading types of life insurance and know their advantages and disadvantages. When you select a policy, it will be one of those discussed. You will have to decide for yourself whether you wish to emphasize protection or savings or both. Cost will have much to do with your decision. In order to aid you in making a wise decision, the following

RATES OF VARIOUS POLICIES*
Annual Premiums for Each $1,000 of Insurance

Age	*5-year term*	*Ordinary-life*	*Life, paid up at 65*	*20-payment life*	*Endowment at 65*
15	.....	$17.02	$17.95	$28.71	$19.57
16	$ 9.88	17.34	18.34	29.08	20.04
17	9.93	17.67	18.73	29.46	20.50
18	9.98	18.03	19.05	29.84	21.00
19	10.03	18.41	19.61	30.26	21.53
20	10.10	18.79	20.07	30.68	22.08
25	10.56	21.02	22.80	33.00	25.33
30	11.17	23.84	26.41	35.77	29.62
35	12.09	27.46	31.30	39.11	35.48
40	13.66	32.18	38.18	43.21	43.79
45	16.32	38.48	48.47	48.47	56.31
50	21.21	46.99	65.22	55.49	76.97
55	29.37	56.67	97.18	65.21	117.14
60	42.99	74.28	.....	78.50	

* By permission of Provident Mutual Life Insurance Co., Philadelphia, Pennsylvania.

table of comparative rates for the different types from which you may choose was prepared especially for this book by a life-insurance company.

How to Buy Life Insurance

How much insurance should you buy? One of the first questions that will occur to you is: How much insurance should I buy? You may be influenced by the amount you would *like* to buy rather than by the amount you can *afford* to buy.

While there is no general rule applying to everybody, the best authorities are agreed that no one should devote more than 20 per cent of his income to insurance and savings. Only part of this will be available for insurance. Some say that from 8 to 12 per cent of one's income should be spent for insurance.

However, the best general rule to follow is to decide what you want your insurance to accomplish, and then, if you are able to do so, purchase enough insurance to do this. The amount should be determined by

1. The amount of your present income.
2. The amount of this income that must be spent for living expenses.
3. The number of dependents for whom you must provide together with their financial needs.
4. The financial obligations you may have to meet, such as interest on mortgages, business debts, and other debts.
5. Your occupation.
6. The probabilities for future increases in income.

Many young people reason that because they are unmarried now and have no dependents, a large amount of insurance is not necessary. This may be a mistaken attitude. It is much wiser for a person to buy life insurance at intervals when he is young and insurance is cheaper. Some take out insurance while

they are in high school or even earlier. Those who wait until they have dependents before they purchase life insurance often find they have waited too long. The older you are, the more insurance will cost you. Then, too, the older you are, the greater the chances are that you may not be able to pass the required physical examination and thus may be deprived of life insurance altogether.

This means that you would be wise to follow a plan of buying life insurance when you are young and insurance is cheap, then adding to it from time to time as income and circumstances permit until you have built up the amount you think will be sufficient to provide for your future needs.

Rules for buying insurance. The following rules have been approved by insurance companies and by those who have purchased life insurance in large amounts.

1. *Buy Insurance Only from Well-established Companies.* You should deal only with reliable concerns. In order to know which companies are reliable, you might consider

a. The age and general reputation of the company.
b. How promptly it settles its claims and its reputation for dealing fairly with its policyholders.
c. The service rendered by the company and its local representatives. Many companies offer its policyholders valuable service and advice free of charge.
d. The attitude of the company and its agents toward its policyholders, particularly in answering inquiries, in making and collecting loans, in collecting premiums, and in encouraging policyholders to keep up premium payments on their policies.
e. The kind of local representative it employs.

2. *Choose a Reliable and Experienced Salesman.* The great majority of insurance agents are honest and intend to advise you

well, but there are a few who advise you to do things that your common sense tells you are unwise. Avoid these and seek out the agent who will consider your interests before his own. Agents have to live and there are many who know that it is good business to sell you the kind of insurance that fits your needs rather than to sell you a particular policy because it means a higher commission. If you inquire among your friends, you will probably learn of a good agent if you do not already know one yourself.

There is one way in which you can detect an agent who is not acting in your interest. If an agent tries to persuade you to give up insurance which you have been carrying for some time and to take out a new policy in his company, he is not acting in an honest manner. This is called "twisting" and is against the law in most states. Report such an agent at once to his company and to the state insurance authorities.

3. *Answer All Questions Fully and Truthfully.* When you apply for life insurance, you will be given a blank to fill out. This calls for certain information of a personal nature that the insurance company must know. You will be required to answer many questions when you take your medical examination. All statements made in filling out the application blank, as well as your answers to the medical examiner's questions, must be absolutely true to the best of your knowledge. Any misstatements about essential facts may result in the cancellation of your policy or in failure of your beneficiaries to collect the insurance should your death occur within a year or two after purchasing the policy. The application blank and the medical report are photographed, and are attached to your policy and become part of it. If any untrue statements are found later, it may mean your insurance will be canceled.

4. *Find Out Exactly How Much You Must Pay.* Agents will often make the yearly cost of the policy appear as low as possible

USE BLACK INK ONLY—THIS IS TO BE PHOTOGRAPHED

APPLICATION PART 1, to THE PHOENIX MUTUAL LIFE INSURANCE COMPANY of HARTFORD, CONN.

1. Applicant. Print name in full including middle name	John Harold Brown
2. Date of Birth. Month Day Year	May 14 1900
3. Place of Birth. City or Town State	Boston Mass.
4. Are you married or single?	Married
5. Residence Address. Street and Number or R. F. D. City or Town County State	342 Cypress St. Springfield Hampden Mass.
6. Length of such residence.	5 years
7. Previous Residence. City or Town State	Boston Mass
8. Business Address. Street and Number City or Town State	1200 Main St. Springfield Mass
9. To which address are premium notices to be sent? Residence or Business Address	Business
10. A. Principal Occupation.	Sales Manager
B. Name of Firm or Employer.	A. N. Browning
C. Have you any other occupations? If so, give particulars	No
D. Length of time engaged in principal occupation.	10 years
E. Previous Occupation.	Salesman
11. Do you contemplate making any change in your occupation? If so, give particulars	No
12. Do you contemplate traveling or living outside the continental United States? If so, give particulars	No
13. A. Have you ever made any aircraft ascension? If so, give particulars of each ascension, including date	Flight early 1932 Pittsburgh to Newark
B. Do you contemplate future aircraft ascensions? If so, give particulars	No

14. Amount of Insurance.	$10,000.00
15. Plan of Insurance.	Retirement Income at Age 65
16. Special Features Such as Dating of Policy, Automatic Premium Loan, Interim Premium, Extra Policies, etc.	A.P.L. D.S. Div. M.
17. Premiums payable.	Annually
18. Dividends applied.	To accumulate
19. A. Beneficiary. Primary Contingent Or Equal Shares	MARY SMITH BROWN FRANK BROWN MARY BROWN Print name in full Subject to Note A on reverse side
B. Relationship.	Wife & Children
C. Is the right to change the beneficiary desired?	Yes
D. Is a Settlement Agreement desired?	Yes Answer Yes or No. See Note A on reverse side
20. What is the total amount of insurance now in force on your life? If no insurance, state "None."	Company — Amount — Year of Issue Mut. England 5000 1925 Conn. Mutual 5000 1921
21. How much Disability Income is payable under all your policies including Health Insurance?	$ 125.00 Monthly Income
22. A. How much additional is payable under all your life insurance for death due to accidental means?	$ 9000
B. How much other Accident Insurance have you?	$ None Amount of Principal Sum
23. Are you discontinuing or planning to discontinue insurance in this or any other Company? If so, state Company and give full details	No

My acceptance of any policy issued on this application will constitute a ratification by me of any correction in or addition to this application made by the Company and noted in the space provided for "Home Office Endorsements Only," but no change shall be made so to amount, classification, plan of insurance, or benefits unless agreed to in writing by me.

FOR HOME OFFICE ENDORSEMENTS ONLY

I have paid to the Agent named hereunder $ 0.00 in cash, on account of the premium on the insurance of $10,000.00 applied for, the said sum to be applied in accordance with the Binding Receipt bearing the same date as this application, which has been delivered to and accepted by me subject to the conditions thereof and on the understanding that, if for any reason the Company disapproves the above beneficiary designation, it may be changed with my written consent whether or not I have reserved the right to change the beneficiary.

I hereby declare and agree that the foregoing statements are full, complete and true, and the insurance hereby applied for shall not take effect until the issuance of a policy and the payment of the first premium thereon, except as provided in the Binding Receipt bearing the same number herewith, if a payment has been made thereunder. I further agree that my death from suicide, while sane or insane, within two years from the date of issue of any policy issued hereon, shall reduce the Company's liability thereunder to the amount of the cash premiums paid thereon.

Nº 37859

Dated at Springfield, Mass. this 1st day of December 1939

Witnessed by J. Allen Hunter, Soliciting Agent

John Harold Brown, Applicant sign full name

Courtesy Phoenix Mutual Life Insurance Company

Detailed personal information is required by life-insurance companies before a policy will be issued.

by assuming that you will use your dividends toward reducing the premiums each year. However, no one can be sure what the dividends will be in the years to come, so you should insist upon knowing the total premium in order that you may better judge your ability to carry the insurance over a period of years.

5. *Read Your Policy Carefully.* No matter what kind of a policy you buy, you should be sure to read it all carefully. Many of the terms are in fine print, but this should not keep you from knowing what agreements you have made and what the insurance may or may not do.

In most policies you will find the following statement: "No officer, agent, or other representative of this company shall have the power to waive any provision or condition of this policy except by writing indorsed hereon or added hereto." This means that no matter what the agent may tell you, you cannot hold the insurance company liable for anything not contained in the policy itself. For your information and protection, therefore, read the policy carefully to make sure you understand its terms. Obtain a copy of a policy and find out what is meant exactly by cash-surrender and loan value, disability clause, double indemnity, incontestability, and period of grace.

Plan of settlement. One of the most important features of the policy is how you are to receive the funds when it comes time to make payment. Several choices are open to you. Generally the proceeds may be paid in one lump sum or in installments. It is important that the various ways be understood and the proper one selected.

Dividends. Most policies of all mutual life-insurance companies and certain policies of other companies provide for the payment of dividends when the company earns a profit. The amount of the dividends depends on the size of your policy and the length of time it has been in force. You may use your

dividends to purchase additional insurance, leave them with the company to be invested and accumulate with interest, receive them in cash, or use them to reduce the premium on your policy.

Summary

Life insurance is of several types and there are varieties of policies issued under each type. Term insurance is temporary only and is paid only in case the insured dies during the period. If he lives, nothing is returned. Ordinary-life insurance is the cheapest type of permanent insurance and has many advantages. Its chief disadvantage is that the premiums must be paid all during life. However, this is not so serious when you realize that dividends accumulate in favor of the insured. These dividends may be taken in cash or used to reduce the annual cost of insurance, to buy additional paid-up insurance, to accumulate at compound interest, or to reduce the length of time premiums must be paid.

Limited-payment policies are like ordinary-life policies except that they cost more and need be paid for only a limited number of years.

Endowment policies have the advantage of helping you to save something while including protection, but they leave you uninsured when the endowment period is ended. Because of the income benefit available in endowment policies, even people with modest earnings are able to make some provision for old-age pensions.

When you wish to buy insurance, you will have to decide for yourself whether you wish to emphasize protection or savings, or both. You will need to consider cost. Before you make a final decision, it will be well for you to compare the costs of the various types of policies.

Questions for Discussion

1. If in buying insurance you were interested in the greatest possible protection you could secure for dependents, what types of insurance would serve you best? If you were interested chiefly in savings and investment for your old age, which type would you choose?

2. Suppose that a young man bought all the endowment insurance he could carry. How might this handicap him a few years later when he married and had a family?

3. If you were to depend altogether on term insurance for a few years, why would it be important to make sure it was *renewable?*

4. In a family when the father is a wage earner and the mother is a homemaker should life insurance be taken equally on both of them? If not, on whose life should the primary insurance be placed? If the amount that can be put into life insurance is limited, should part of it be used for policies on the small children? Explain.

5. What do you consider the greatest value of life insurance? Why?

Practical Applications

1. John is going to be a doctor. He is nearly through medical school and he believes that in a few years he will have a good income. But just now he has some debts, little income, and a small baby. What kind of life insurance would you recommend to John? How can he change it later?

2. Many young people seem to prefer 20-year endowment policies or 20-year limited-payment policies. If it is assumed that they take such a policy at the age of twenty-one, are they likely to need the money especially when it matures? What is the chief argument against their using these two forms.

3. If you were buying a $10,000 endowment policy to mature

when you were sixty-five, what plan of settlement should you select? Tell your reasons.

4. Bob Johnson is graduating from high school this spring and is going to work in a garage. He does not have any life insurance yet. Make up a story showing some of the things that are likely to happen in his life during the next 15 years and how his insurance needs are going to change from time to time. Have him purchase the kinds and sizes of policies that you think would be best for him.

Problem 1: Which Type of Insurance

Charles Adams is a young man of twenty-five who has recently married and has a home that is mortgaged. He already has a small amount of ordinary-life insurance, but it is not enough to provide for his needs. He wishes to add more insurance, but is puzzled as to the best plan to follow. He has a good position that pays him a salary of $3,000 with prospects of reaching $5,000 in about 10 years.

1. In what way might term insurance be advantageous in this case?

2. Would you recommend ordinary-life insurance for Adams?

3. If so, how much would you advise him to buy?

4. Does Adams' financial position warrant him in buying a limited-payment policy? If so, how much should he buy and for what term?

5. Should he consider protection alone in his case? Explain.

6. What possibilities are there that his responsibilities might be increased before he is much older?

7. Would it be wise for Adams to buy endowment insurance? Why? Why not?

Problem 2: Buying Life Insurance

One of the large, well-established mutual life-insurance companies reports the rates per $1,000 for four types of policies as listed in the accompanying table.

1. At the age of seventeen what would be the annual premium on a $3,000 policy of each type?

2. At the same age, how much more insurance can be bought through an ordinary-life policy than through a 20-payment life policy? An endowment at sixty-five?

Age	Ordinary-life	Life paid-up at 65	20-payment life	Endowment at 65
17	$17.67	$18.73	$29.46	$20.50
18	18.03	19.05	29.84	21.00
19	18.41	19.61	30.26	21.53
20	18.79	20.07	30.68	22.08
25	21.02	22.80	33.00	25.33
30	23.84	26.41	35.77	29.62
35	27.46	31.30	39.11	35.48
40	32.18	38.18	43.21	43.79
45	38.48	48.47	48.47	56.31
50	46.99	65.22	55.49	76.97

3. Why are the rates lower for a young man of eighteen than for a man of fifty?

4. If it is assumed that you are twenty-five, have no insurance, and are soon to be married, which type of insurance would you select using the above table? Why?

5. What factors would determine how much insurance you would buy?

6. What factors should you consider in deciding which type of policy you should buy?

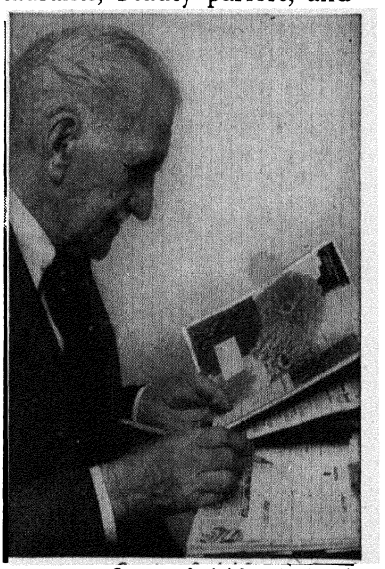
Chapter 22. OLD-AGE AND SOCIAL INSURANCE

People nowadays suffer from a feeling of insecurity, and when they begin to get old and their income probably dwindles they feel even more uncertain of what is to become of them. Comfort in old age depends increasingly on accumulated money, but it is difficult for people with middle and low incomes to put aside savings when it is so hard just to pay the butcher, the baker, and the grocer. Even if they could build up more savings through self-denial, they wouldn't have all they needed for their old age. Therefore, to see that these folks have a minimum income after they quit work, we have developed what is known as a social-security program in this country.

What is old-age insurance? When you apply for your first job, you will probably be asked to give your social-security number. If you don't have one, you will have to get one. You may also have deducted from your pay, even if the job is part time, 1 per cent of your wages or salary up to $3,000 a year. The reason for this is that Congress has provided, through the Social Security Act, for old-age and survivors insurance, which is financed by contributions by all workers in certain occupations and by their employers. Thus your pay deductions or social-security taxes are in reality premiums you are paying for social insurance. Unlike other insurance, which is volun-

tary, this insurance is compulsory, and both you and your employer are required by law to make payment toward federal old-age and survivors insurance if you are engaged in certain occupations. These include jobs in factories, mills, mines, offices, stores, banks, garages, hotels, restaurants, beauty parlors, and the like. More than 40 million employed persons are affected by the Social Security Act.

It is called "social insurance" because the entire cost is not paid by you. The employer also pays 1 per cent tax on your wages or salary up to $3,000 a year.



Courtesy Social Security Board

Insurance can help to give you a comfortably secure and pleasant life when you decide to retire.

How does old-age insurance operate? The social-security taxes paid in to the Federal government by the employers and workers, and added to when necessary by the government, are used to pay a pension to you when you have retired after reaching the age of sixty-five and benefits to your dependents if you should die before reaching the age of sixty-five. If you are married, additional allowances are paid your dependent wife after she becomes sixty-five years of age, and allowances are paid also for your dependent children under the age of sixteen, or under the age of eighteen if they are still in school. The exact amount of the benefits depends on the length of time you are employed in the occupations stated in the law and average monthly earnings during that time. The minimum

benefit is $10 a month, the maximum benefit is $85 a month.

The benefits paid under the present law are usually not enough to provide comfortably for your old age or for the support of your dependents in case of your death. These benefits, then, need to be supplemented by insurance, annuities, and other savings. Old-age benefits do not take the place of insurance and savings, but are to be considered as part of your entire program of protection.

To qualify for benefits

1. You must be sixty-five years or older.
2. You must have worked on a job in a factory, shop, mine, mill, store, office, or other places of business or industry. These are the jobs which are called "covered" jobs.
3. You must have been paid, on "covered" jobs, at least $50 in each of a certain number of calendar quarters. This means, that you must have been earning at least $50 during each three months of any year. If you do not earn at least $200 in the year, you do not qualify. Likewise, you do not qualify if you earn this $200 in one or two three-month periods.
4. You must have given up your job and not be working. You are considered to be working if you earn more than $14.99 a month in a "covered" job. You are not considered to be working if you are engaged in agricultural or domestic service, government service, self-employment, or nonprofit organizations, which are "noncovered" jobs.
5. You must file a claim at a Social Security Board field office.

How does the plan work out? Under the present act, benefits are figured on the basis of your average monthly earnings and not on your total earnings.

You receive a *basic* benefit consisting of 40 per cent of the first $50 of your average monthly earnings from Jan. 1, 1937

(or from the date when you first began to work), to the time you retire, plus 10 per cent of any monthly earnings over $50 and up to $250. Then for every year in which you earn at least $200, in employment covered by the act, you get an additional 1 per cent of the basic benefit.

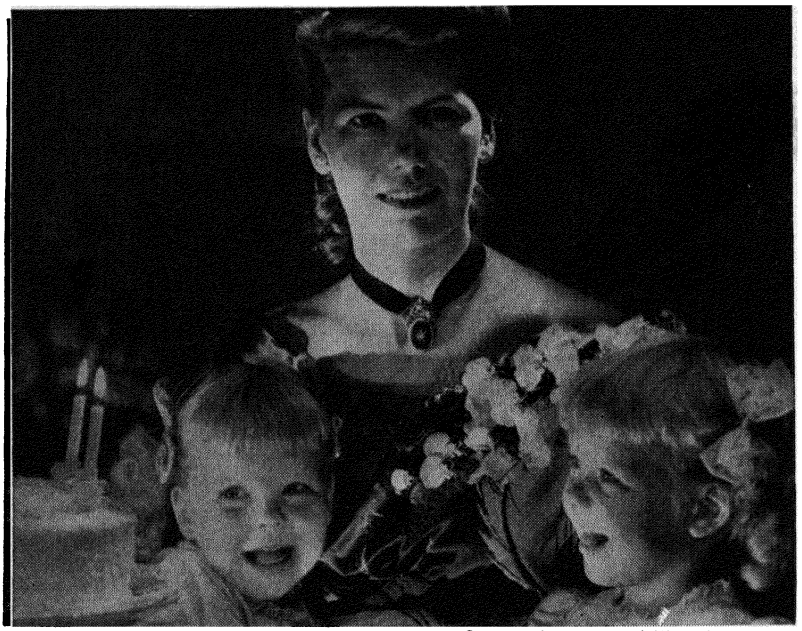
For example, if William Gray worked in a "covered" job from Jan. 1, 1937, to the end of 1945 and averaged $100 a month during that period, he would receive a benefit of $27 a month for the rest of his life. This would be true if he were unmarried and had reached the age of sixty-five in 1945. He would receive this amount although he paid taxes for only eight years. This figure is arrived at by taking 40 per cent of $50, or $20, and adding to it 10 per cent of the remaining $50, or $5. This gives a basic benefit of $25. William worked eight years before retiring. Therefore take 1 per cent of $25, or 25 cents, and multiply it by 8, giving $2. Add this to his basic benefit and you have $27, his retirement benefit.

If we assume, however, that William was married and had a wife who was also sixty-five, he would receive an additional benefit, on her account, of half his monthly benefit, or $13.50. This would give a combined monthly pension of $40.50. If William should die, his widow would receive a monthly benefit of three-fourths of his monthly benefit of $27, or $20.25, a month as long as she lived or remained his widow.

The longer you work and the larger your average monthly income, the greater will be your benefits. A young person starting to work at the present time and continuing to work until the age of sixty-five will have a chance to receive a fairly reasonable pension at that time. As the law stands at present, no one is permitted to count as earnings more than $3,000 a year. This means that the largest possible benefit anyone may receive as an individual will be $85 a month.

Benefits are also provided for younger widows with minor

children. Take the case of William Gray previously mentioned. If he should die before he reached the age of sixty-five and leave a widow with minor children, his widow would receive three-fourths of the monthly benefits that would have been due on the basis of the wage credits built up by her husband.



Courtesy International Silver Company

Social security offers certain benefits to young widows left with minor children.

She would receive this amount until the children reached the age of sixteen, or eighteen if they were still in school. She would also receive for each child one-half as much as her husband's wage credit would permit.

If William left no widow or children, but only a wholly dependent father or mother, each dependent parent would receive a monthly benefit equal to one-half of William's pension.

Since social-security benefits are determined by law, they may be changed. It is not likely, however, that the benefits will be decreased or that anyone covered at the present time will lose anything. It is likely that the amount of tax, 1 per cent on both employer and worker in 1948, may be increased and that workers in occupations not covered will later be included and have the right to benefits.

What are annuities? There are forms of voluntary insurance that you can buy that emphasize the retirement fund rather than protection. You recall that endowment insurance included both protection and savings that could be used as a retirement fund. While there may be a certain amount of protection in some of these forms, the purchaser has in mind primarily the idea of building a fund for future retirement. These forms are called "annuities" and "pensions." As applied to insurance, *an annuity is a guaranteed income payable at stated intervals.* The duration of payments may be for life or for shorter periods. As popularly used today, the term "annuity" signifies a lifetime income. Annuities are not life insurance in the strict sense. Life insurance is a protection against "dying too soon," while an annuity is protection against "living too long." It is a contract that ensures you an income for old age or retirement.

There are three ways in which you may buy an annuity.

1. You may pay a definite lump sum to the insurance company and have the income start immediately to be paid for the rest of your life.
2. You may pay the sum in installments over a period of years with the understanding that the annuity is not to start until a definite age, say sixty-five.
3. You may pay a definite sum now and leave it with the insurance company to draw interest and accumulate a sum from which the annuity will be paid at a later date.

The amount of the annuity income will depend upon the age of the holder of the annuity, the amount paid in, and the interest rate used in calculating income payments. If you begin early in life to purchase an annuity to be paid after you reach sixty-five, your payments need not be so large as would be required to provide a sufficient income if you wait until you are, say, forty to begin. Frequently people purchase annuities to supplement their social-security benefits.

Summary

The matter of making some provision for the day when earning power ceases is important to everyone. Most people are not able to save enough from their earnings over a period of years to enable them to live free from financial worries later in life. It is for this reason that so many people purchase endowments or annuities. Annuities cost so much that few people on small incomes can afford to buy enough of them to make them worth while as old-age pensions.

The plans for paying pensions to retired employees, which are being adopted by more and more industries and business organizations, are an additional aid for thousands of people. If you add these voluntary pension plans that are provided through individual thrift and initiative to the benefits now being provided through social security, you will find that literally millions of people can now look forward to retirement on something more than mere subsistence levels. More than 40 million wage earners and salaried workers are at present protected by old-age and survivors insurance benefits.

Under the provisions of the Social Security Act employers are obliged to contribute equally with employees. Under this plan all qualified workers will receive a monthly benefit upon retirement at the age of sixty-five. The amount of this benefit

will depend on the average monthly wage received from date of beginning work to retirement at sixty-five. In addition, provision has been made to pay a benefit to the widow and dependent minor children of such a worker. The amended act broadened the scope of the benefit provisions, increased the amount of the benefits, and made a distinction between married and unmarried workers. Instead of recognizing only the individual worker as entitled to a pension, the act now recognizes the family as the basic unit. Plans are now under way to increase the number of those who may benefit from the act. It is hoped that before long all workers with no exceptions will be included under the benefits.

Questions for Discussion

1. In the past quarter of a century there has been increasing interest in various kinds of old-age pension plans. What changed factors in the way we live and make our living account for this?

2. How does an annuity differ from life insurance? What does this difference indicate as to why persons should vary in their choices?

3. Not all workers are covered by the old-age and survivors program of social security. Should you like to see more workers included? Why? Why not? If your own family is covered are you glad or sorry? Why?

4. Many insurance salesmen calculate a customer's probable social-security income before they advise him as to how much insurance he should buy. Why should these two items be considered together?

5. The countries that have highly developed social-security programs are all countries with many factories and factory workers. Do you see the reason for this?

Practical Applications

1. Find out which classes of workers in your community are covered by social security and which are not. What difference should this make in their savings and insurance programs?

2. What steps are involved in getting a social-security number and card?

3. Do you think that an annuity is a "good buy" for a person in the position in which you expect to find yourself? Why? Why not?

Problem 1: Creating a Retirement Income

Samuel Barker is an enterprising and ambitious young man who has the sense to realize that he cannot continue to work hard and earn good money all his life. He plans to retire at the age of sixty-five so that he may enjoy some leisure. At present he is twenty-five years old, married, and owns his home free from debt. He has one child, one year old. He has a small sum invested in good stocks that nets him an income of about $200. His present salary is $4,000 and he has prospects of raises that will give him an income of $6,000 about the time he reaches the age of forty. He is considering two plans: one is to purchase a $20,000 endowment policy maturing at the age of sixty-five; the other is to purchase an annuity that will pay him $125 a month at the age of sixty-five.

1. Using the table on page 329, find out how much he will have to pay each year if he purchased an endowment policy as planned.

2. How much will he have paid the insurance company on the endowment policy at maturity, figuring on an average yearly dividend of $4 per thousand.

3. How much has been added by the insurance company?

4. How much will he have to pay in for an annuity in 40 years if it is to return him a monthly income of $125? (Allow interest on his funds at 2 per cent.)

5. How much of an annuity could he buy if he used the same amount as he would pay for the endowment policy?

6. Which method would you recommend—endowment or annuity? Why?

Problem 2: How Old-age Benefits Work Out

Let us assume that William Martin was thirty years old on Jan. 1, 1937, when the old-age insurance system went into effect. Let us also assume that he will work continuously in a "covered" occupation at an average wage of $150 a month until he retires at sixty-five. With these facts in mind, answer the following questions:

1. How many years will Martin have worked?

2. How much will he pay in taxes at the rate of 1 per cent yearly?

3. How much will his employer pay?

4. If Martin remains single all his life, what will be the amount of his retirement benefit when he is sixty-five?

5. If Martin is married and his wife is also sixty-five when he retires, what will be the total pension?

6. Suppose Martin dies at the age of fifty-five, leaving a widow and two minor children. What will his widow receive for a pension? What proportion will each child receive as a benefit?

7. How long will the children receive this benefit?

PART 9

Making Money Work for You

CHAPTER 23: INVESTING IN YOURSELF

CHAPTER 24: YOUR FIRST INVESTMENTS—FINANCIAL INSTITUTIONS

CHAPTER 25: DIRECT INVESTMENTS

Frank Conway went to work the year after he finished high school. His salary was not large, but he found he did have some money left after he had paid for his meals and lodging and other necessities. Of course he could easily have spent the money on a good time; or he could have put it in a savings bank to earn interest. But Frank decided that the most important thing was to use it to improve himself, so that he would have a better income later, and live more enjoyably.

Therefore he spent a moderate amount of money on books that would help him. He spent enough for good clothes so that he always looked well at his work and elsewhere. He put quite a bit of his savings into a correspondence course that gave him added training for his work. In various ways he used his spare cash to develop himself, both as a person and as a worker. He took pains to get good work equipment. And the result was that his income grew.

A few years later, when he had a good start at his work, he began using part of his spare funds differently. He bought a few good bonds, and later bought some stocks. He picked these carefully so that they yielded him some added income. His investments grew as time went on. By the time he was ready to retire he was able to live on the returns they brought him.

Frank had learned an art that we all need to learn, that is, how to put money to work for us. We work hard for it; it should work for us. In this part we want to examine ways of making investments that will bring good returns.

Chapter 23. INVESTING IN YOURSELF

So far, we have been helping you map out a course for yourself in regard to choosing a vocation, budgeting earnings, buying goods and services, making use of banks and credit, and protecting lives and property against loss. All these are important; but there is another phase in your financial life that should concern you just as much: learning how to put surplus earnings to work so that you may successfully develop yourself during production years and at the same time make provision for your later retirement from active work. We all want to have happy, successful careers, but we don't always think when we are young about providing for an independent and serene old age.

The investment you make in yourself now, and in the next few years, however, is probably the most important one you will ever make. As a matter of fact, unless you do develop your abilities and personal qualities at an early age, it is doubtful whether you will ever be in a position to advance far later on. This chapter will take up the investment of money in you—in your education and work and in the development of your personality.

What do you want to get out of life? Someone has said that the world makes way for the young person who knows where he is going. Do you have a definite goal? At the present time you may have many ideas as to what you would like to do.

As soon as you have decided definitely, you can choose the kind of investment you will make in yourself. Your investment, in other words, will be determined by your purpose in life.

Perhaps you would like to be a person who knows something about a number of things and who has many different skills at his command. Maybe you are already engaged in varied activities besides school tasks, such as school club work, 4H clubs, Boy Scouts, outside work for pay, athletics, and work at home. Through these various occupations you will have opportunity to discover what you can do best and what you would most like to do.

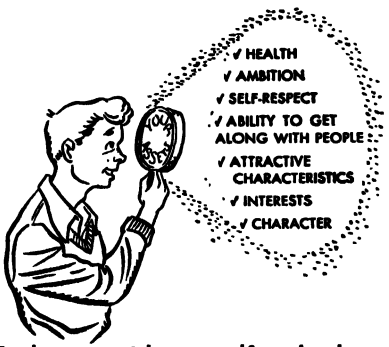
You may prefer to be a specialist or to become expert in one line only, such as a chemist, mathematician, or surgeon. Or aviation may interest you. Whatever line you decide to follow, you will need to set a goal to be reached. You must take care not to set this goal too high or too low and to make your plans so that you can carry them out as wisely as possible.

Of course you may not be able to do all this by yourself. You will need help in finding out your abilities and you will need encouragement if things go wrong or seem too hard for you to handle. Your teachers will do much to aid you in discovering your abilities and offering suggestions. Your family and friends will also be of assistance along the way, but the choice and the perseverance to carry out your plan must be your own.

Have you any capital to start with? No one can make an investment without something to start with, without capital. The word "capital" is used in many ways, but here the following definition will be used: *Capital is anything you possess that will help you to improve yourself.* Do not get the idea that capital is only money, for there are many other things that make up a person's resources. You have your abilities, your interests, your character, your attractive characteristics, and many other good personal points. Other capital assets that you possess

in some degree are health, ambition, ability to get along with people, and self-respect. Upon these as a foundation you are ready to build the kind of person you wish to be.

Are you a good investment risk? When a person considers investing money in anything, he first wants to know whether it is worth the risk, that is, is it something that will prove valuable as time goes on and that will yield a fair return during the life of the investment? The same principle holds good in the case of investing in yourself. Are you worth the risk?



Be honest with yourself and take a good look at your assets to determine what you are really worth.

You do not need to be told that a human life is valuable today. It is not only in dollars and cents that a person has value; much more important is his worth to his family and to society. Once in this country slaves were bought and sold just like property. They were priced according to their strength and the number of years they could work for the master. Sometimes a large sum was paid for just one slave. Slavery no longer exists in the United States, but in other parts of the world there are still human beings who are valued only as laborers or as beasts of burden. In India or China human life is often very cheap.

Our wars, especially the last two, have taught us that every well-trained man and woman—whether in the armed forces or outside them—is a precious asset. No one should set down in dollars and cents what a person is worth either to himself or to society, for each one is more valuable than that. Every normal person is worth much in human efficiency; any losses

of this efficiency through sickness, poor health, inadequate education, physical defects, placement in wrong jobs, and failure to get along with people are registered not only in dollars and cents but also in a less prosperous and happy individual and society.

You have only one life to make or enjoy. If you do your best and make the most of your opportunities and abilities, you will be the gainer, and your family, friends, and society will also benefit. If you fail to do your best, you will be the loser, and all others dependent upon you will also lose. You see that it is up to you to determine whether you will be a good or bad investment risk. But we can tell you in advance that every person is worth the fullest development he can achieve.

Is it important for you to know your real worth? You may feel that to think of your own importance is to be conceited. But let us look at it this way. Suppose that you are one of the outstanding members of a relay team and you know it because the coach has told you so. Knowing this, would you not be more likely to keep yourself in good condition for the sake of the team? Doesn't this knowledge serve to steady you and make you more reliable? Having a proper sense of your worth makes you more eager to do the right things and to make yourself a better runner. You will practice regularly, keep the training rules, watch your health, and keep up in your studies. You have confidence in yourself and know what you can do; but this is not conceit.

You will find as you go through life that self-improvement is not wholly for your own personal advantage. You are indirectly helping to improve your community, your state, and your country. You live in a democracy and here everyone counts for something; everyone has some contribution to make to the welfare of all. No doubt you can add other reasons why it is important for you to have knowledge of your own real worth,

but what has been said above will serve to show you that such a knowledge is essential.

Investing in education. As you know, one of the best investments any person can make is in a good education. Perhaps you have seen pupils leave school before graduation; frequently they



H. Armstrong Roberts

Taking correspondence courses in subjects in which you are interested is a good way to increase your assets or abilities.

end up in a low-pay job and make a failure of life. This is not true of all of them, for many successful men and women did not have much education in school. Yet, these very persons will tell you that you cannot have too much education, whether it is acquired in or out of school.

Education is becoming increasingly important in today's world. An investment in education is the most direct one you can make and pays the highest dividends in the long run. How much you will put into an education depends entirely on you and on your estimate of what you think you are worth. If you have a poor opinion of yourself, you may not feel like putting much into it; but if you realize that with a good education you can reach a higher goal and become a more efficient and useful person, you will be willing to risk a lot.

Because individuals have different abilities and interests, they need varying educational programs. The fact that some person you know made a success by taking certain steps does not mean that you will also succeed with the same ones. A program must be adopted that will fit individual needs.

Your education will be obtained from school and from contacts and experiences outside. Almost every person has received training from both these sources. However, when you have finished your studies, your education is far from complete. Have you ever wondered why the exercises that take place when you are graduated are called "commencement" exercises? It is a correct title because you are really beginning your real education.

Your in-school education began when you entered the kindergarten or first grade and will end for most of you when you finish high school. Some, perhaps, will go on to college, to evening schools, or even to more study after college. If you decide to get more in-school education after high school, you will have to face the problem of how to get funds to meet the cost. For those who are ambitious and have a real purpose in life, there are a surprising number of ways by which you can do this. You can get information regarding costs and possible financial aids from any college catalogue or from the United States Office of Education, Vocational Division, Washington,

D. C. The pamphlet from this office gives a list of colleges and universities, with estimated costs. You will find that these range from about $500 a year to over $1,000. Some private institutions have even higher rates. In most of the colleges you will find that there are opportunities to earn a large share of your expenses by waiting on table, caring for children, helping in the library, acting as clerk or assistant in a laboratory, working in local stores, and in many other ways. The person who is determined to get an education will not find many doors locked against him. Of course, it may also be possible to obtain a loan; and perhaps you may win a scholarship which will take care of many of your expenses.

A few words of caution may be added here before you make a final decision about your educational program. You will want to consider carefully your financial resources and needs, your ability to profit by the kind of education you are seeking, your health, your need for social activities, the nature of the work you intend to do to earn part of your expenses, and the educational opportunities available.

In case you are unable to go to college, or do not wish to attend, there are still many ways open to you to increase your education. There are correspondence schools, junior colleges, continuation schools, libraries, museums, books, newspapers, and magazines. All these means offer opportunities for adding to your knowledge if you are eager enough to forge ahead.

Investing in your work. If you decide to go to work after finishing high school, you are really investing in your job. If your work is doing mechanical things, you may develop the ambition to own a garage some day; you may work as a clerk in a store and see future possibilities of starting a small business of your own. Or, perhaps you will become interested in farming through something you learn while a member of the 4H Club. You may have other goals than these, but you will find

that all of them require not only ability and interest but some money. Lack of money and lack of fitness have been the two chief causes of failure in business. If you have no money now, you may save some from your earnings until you are able to get a start, or you may be able to borrow. The experience you have gained from working should also be considered a part of your investment. In any case, you are making an investment in



U.S.D.A. Extension Service

Working at something that interests you is pleasant and at the same time broadens your experience.

your work and you want it to turn out well. It is well known that many persons who are skilled and well informed about their jobs still fail to make successes of themselves. Why is this? Those who have studied the matter say that it is because of faults of personality, especially the lack of ability to get along with people. If this is true, it is important that you think more seriously about investment in personal development, not just because it may help you to advance in a job and earn more money but because it will add greatly to your future happiness.

The question has often been asked: Can a person improve his personality? Isn't it something one is born with and cannot

change? If you are tactless, abrupt in manner, homely, ill-natured, and conceited, can you change these qualities? Fortunately, the answer is a decided yes. Well, then, how does a person proceed to improve his personality?

First, we may say that you already have some personality to start with whether this is good or poor. On this personality you can build up a better one. Certain factors will enable you to improve yourself—particularly experience, health, and friendships.

Experience is a hard teacher but a good one if heeded. You are undergoing new experiences every day of your life and the way you use these is shaping the kind of person you will become. If you heed the lessons of experience, you can smooth out many of your faults and develop new and attractive qualities. If, however, you ignore the lesson of an unpleasant experience, you may fail to remedy a defect in your personality. If a bitter experience tends to make you sour and to make you rebel, you may find that your associates consider you an undesirable person to have around, and you will be unhappy. So you see this, too, is a risk you take when you make an investment in self-development.

Health is a factor that affects one's success all during life. If you are fortunate enough to enjoy good health, you will probably be good-natured, contented, and efficient. If your health is poor, it does not always follow that it must remain so. Every person has the chance to maintain health at a good or poor level. Of course those who have a serious disease or a physical deformity cannot do much to improve their condition. But they can make a serious attempt to rise above the handicap and not allow it to defeat them entirely. Refraining from activities and habits that cause poor health can aid greatly in keeping one fit. Having plenty of refreshing sleep, eating proper food, and husbanding one's strength make for good health. You can

see to it that your surroundings are kept clean and that you are always in condition to do a good day's work in an efficient manner.

The third factor in building personality is friendliness. It has been said that we become what we are by associating with others. Some consider this the greatest factor influencing personality. The expression "People are known by the company they keep" means that if you wish to rise to your very best you will cultivate fine friendships. A real friend not only points out your good qualities but cautions you about your bad ones; he will help you to develop yourself in the best way and will do nothing to hinder your future happiness and success. An investment in real friends is the most productive one you can make.

Summary

This matter of investing in yourself is so important that many consider it the one thing to do if you wish to succeed in life. Stated in few words, investing in yourself means developing your skills, abilities, personal characteristics, and personal qualities in such a manner that you will become as efficient as possible and as helpful to yourself and to society as possible. There can be no doubt that you are worth the effort this implies. You will first analyze yourself and decide what you are worth now and can be made to be worth several years from now. You will need to know what you wish to get out of life and how you are going to get it; in other words, you must set up goals and then plan your investment program so that you may attain these goals.

The capital you have to put into your investment consists of your abilities and skills, your character, your interests, your friends, your health, your self-respect, and your personality. At the start these may not be all that you wish them to be, but

by investing a little more in them you can increase them many-fold. Capital grows by adding more capital and making it work to produce still more. It is a risk well worth taking.

Questions for Discussion

1. What are the results if a young person overestimates his worth, his abilities? What are the results if he underestimates them? Why is it important to have an accurate sense of your own value?

2. Friends are a great help in developing a person. In order to have many good friends, what investments of time, energy, and money shall you need to make?

3. Appearance is important to success. How can you best make investments in your appearance? Is the *care* of clothing less important than its selection in helping you look well? How much time is it worth while to invest in looking well?

4. How much money do you think a young person should budget for books, magazines, etc., that will help him educate himself?

5. Which do you think is more important, eliminating your weaknesses, or building on your strong points? Why?

6. Are recreation and hobbies worth investing in? Why? How much of an investment are they worth?

7. Show how a young person in some occupation—a farmer, a mechanic, a teacher, a businessman, or a man in any occupation you are interested in—would need to invest in his work?

Practical Applications

1. Consult some adult who has been successful in his work. Find out how he used his money in the first few years at his job in order to improve himself and increase his income.

2. In what ways can you use your money right now to improve yourself?

3. Suppose that one of your friends had too low an opinion of himself, because his parents had always criticized him harshly. How could others help him to see his real worth and understand his abilities?

4. How can a family budget its money so that all members of the family get a fair chance to improve themselves? What things could they all use together?

5. Is traveling to various places and seeing many things a good means of developing yourself? How much of an investment do you think travel is worth?

6. Perhaps there are things to see in your own community which people might travel considerable distances to see, but which you have neglected because they are so close at hand. Can you think of any?

7. What things are available free in your community which a wide-awake young person could use to develop himself? Are there libraries, museums, art galleries, recreational facilities, etc.? Have you been using them enough and thoughtfully?

Problem

Let's suppose that the first year after you leave school and begin earning your own living you are able to spare $200 above the costs of food and other necessities and a reasonable amount of recreation. Draw up a plan for using the $200 as an investment in your own future. For what purposes should you use those hard-earned dollars? How many for each purpose? Can you give good reasons for your choices?

Chapter 24: YOUR FIRST INVESTMENTS — FINANCIAL INSTITUTIONS

While it is important that you concentrate in this period of your life on making as great an investment in your efficiency and happiness as you possibly can, a time will come when you will want to consider investing surplus earnings or savings in some way that will provide you with sufficient income for later on. You will have some money in your hand, and you will dream of comfort in your sunset years, but you will be puzzled over what sort of a wise investment to make. The next few chapters will be devoted to helping you solve these problems.

What is an investment? What is meant by investment when applied to such things as bonds, stocks, building and loan shares, and the like? *Investment is the conservative use of money for the purpose of keeping it as safe as possible and at the same time gaining a reasonable income from it.*

What are the qualities of a good investment? Let us consider carefully several factors that should apply to every good investment. You will have no money to waste and you will want your money to do all it can for you. Many people have put their hard-earned savings into what they thought was a

safe medium for income only to find that it turned out badly and their money was lost. You can do something to protect yourself against such a misfortune in the future by giving careful thought now to certain considerations.

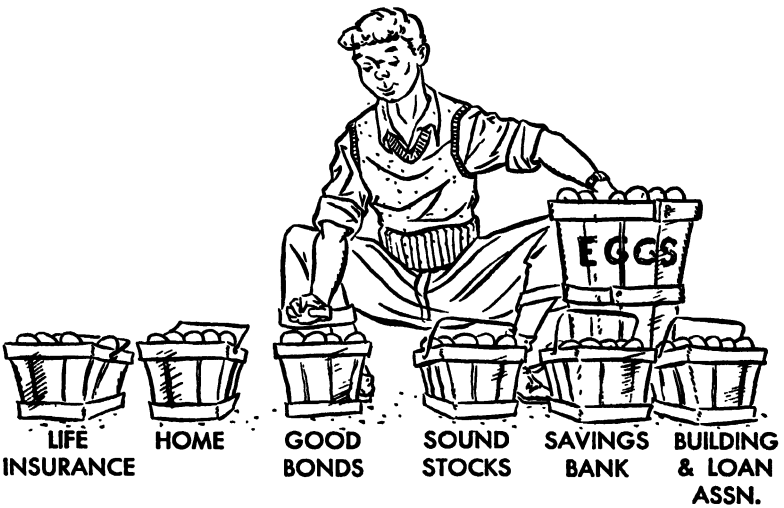
Safety of the Principal. First of all, are you sure that the money you invest will be safe and that you will be able to get it back again when you want it? Keeping your money at home in a strong box or hidden in a closet or mattress is not a good procedure. Banks are a safer place as they are intended for just such a purpose. Likewise, if you buy United States government bonds, your money will be protected. There is no such thing as perfect safety in this world but you can assure yourself that you have done everything you can to obtain it.

Rate of Return on Money Invested. Can your money earn as much as possible and at the same time be safe? By rate of return is meant the interest rate paid. One per cent would be a low return while 6 per cent would be high today. You are probably accustomed to the rate of 2.9 per cent paid on your Series E, United States bonds. This is about an average rate of return. In general, it can be said that very safe investments pay a rather low rate. It is better to have a low return on your money and know it is quite safe than to get a higher return and run the risk of losing all or part of it.

Ease with Which You Can Get Your Money Back. When you need a sum of money at once for an emergency or for a better investment, will it be possible to sell your investment easily and get your money back quickly? You know you can get your money out of the savings bank right away, but this is not always true when you buy bonds and stocks. However, most of these securities can be sold readily with only a short delay.

Convenience of Purchase and of Returns. You will want to find out the following: Is the investment one that can be purchased in convenient and fixed amounts? Is the return one

that will come in at stated intervals convenient for you to use? Will you have to collect the interest yourself or will it be mailed to you by check? Will the interest be paid every three months, every six months, or only once a year? These points may make a difference to you in arranging your budget.



"Don't put all your eggs in one basket" is a good slogan from a financial standpoint.

Variety. Should you place all your money in one investment? As the old saying goes, "Don't put all your eggs in one basket." The exception to this is a government bond. You should seek to scatter your investments as far as you can in several types of securities so that if one goes wrong not all your money will be lost. The term applied to this quality of an investment is "diversification."

What should be your first investment? Even the experts are not agreed as to what should be the first investment for a young man or woman who is beginning to accumulate funds for future use. You will read many articles discussing this

point, and you will be given the opinions of many successful men; but you will find that they do not agree entirely. For example, Andrew Carnegie said that one's first investment should be in a home, and there is much to be said for this advice. Others say that the first investment should be in life insurance. However, as you have learned, life insurance is primarily for protection and not for investment. But today there are many policies of insurance so arranged that one can purchase in easy installments an income for old age and retirement. Still others advise a savings account. No one can quarrel with the statement that a savings account is an excellent place for the person of small means to place his surplus cash. To be sure, a savings account pays a low rate of interest but it is very safe. It is difficult to say just what your first investment should be; it is something you will have to figure out for yourself.

A simple investment program for you to follow. It may help you if we suggest an investment program that you can follow, in part at least, with success. What follows is a composite of several programs offered by banks, insurance companies, and successful businessmen.

Start a Savings Account and Add to It Regularly. When you begin to earn money steadily, you will probably have only small sums left over from expenses each month, but it will be wise to put these sums in a savings bank. From time to time as you have a larger surplus, you can add to your savings. This account will serve as an emergency fund in case of serious illness or in a period of unemployment when money is needed to pay for board and other expenses. You can add to it until it reaches a certain amount. Then at stated intervals, you can withdraw all above this amount and invest it in some security yielding a higher rate of return. Thus your savings account will serve two purposes: it will be an emergency fund and also a reservoir from which to draw for other investments.

Purchase Life Insurance. Particularly if you have a family to take care of, it will be advisable for you to buy life insurance. This will offer protection to your dependents that you cannot provide in any other way. Insurance should be bought at this time primarily for protection. Later on, when your income permits, insurance of other kinds may be bought. You do not need to wait until you have accumulated a savings fund before you purchase ordinary insurance. It can be bought as soon as your earnings permit, for it is cheapest when you are young. Many people make their savings account and their insurance run parallel to each other, that is, they keep them both going at the same time.

Invest in a Building and Loan Association. Part of your investment program might include buying shares in an association of this kind. They are called by various names in different parts of the country. You may know them as savings and loan associations, cooperative banks, or homestead associations, depending on the state in which you live. You may buy shares, investment certificates, or simply make deposits. They are considered not only a safe and excellent investment, paying a fair rate of return, but they also furnish opportunities for obtaining funds for the purchase of a home. You may wish to look up the standing of these associations in your own state.

Buy a Home. Buying a home, in the opinion of many, is a worth-while investment. This step should not be taken, however, until you have accumulated enough to make a fairly substantial payment on the property, and until your income justifies it. Of course it is possible that you may never care to own a home. The pros and cons of purchasing a home of your own are discussed in more detail in Part 10.

Purchase Some Good Bonds. After you have set up a comfortable emergency fund in a savings bank, protected your dependents through sufficient life insurance, and possibly made a good start on paying for your home, you can use any surplus

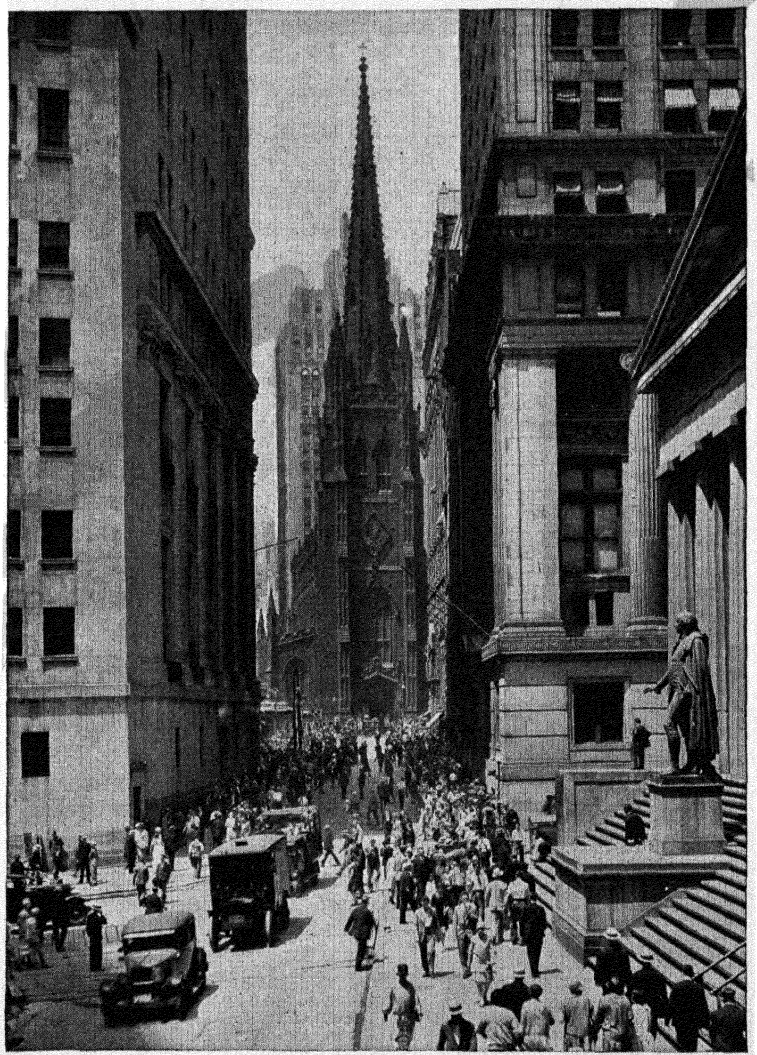
funds for the purchase of good bonds. Bonds will provide a steady income even though it may be small, and they can be turned into cash without too great a loss if need arises. It is possible that the bonds may increase in value instead of decline. Buying bonds, as well as stocks and real estate, are discussed in the next chapter.

Perhaps You Will Want to Buy Sound Stocks. Stocks in general are risky and should not be purchased until all other needs have been taken care of. In fact, you may be wiser if you do not buy stocks at all. However, there are some good ones that may be purchased and held for income. These may be sold later if a need for extra funds arises.

Now let us examine in more detail each step in this investment program we have just described in order to find out how it can be used to the best advantage. The remainder of this chapter will explore the use to be made of savings banks, savings and loan associations, and the United States Postal Savings System.

How can savings banks aid you? The main business of savings banks is to accept money of depositors, keep it safely, and lend it on good security. Although these banks do not pay a high rate of interest, the matter of safety of your funds should count more in early life than the interest earned.

Savings banks were originally established for the benefit of sailors who had no place to put their wages and therefore spent them foolishly and quickly. These banks have always had as their primary purpose the serving of the low-income individual who can save only small sums at a time. They keep his money safe and pay him a low rate of interest. The wage earner, the clerk, and the professional man on a low income cannot afford to take any risk because they have little or no surplus upon which to depend. The kind of securities that savings banks may buy is determined by state laws. They consist mainly



Keystone Views

A view of Wall Street where stock exchanges, brokers' offices, and many banks are located in New York City.

of government, railroad, and public utility bonds, and real-estate mortgages.

What are the advantages of savings banks? There are several ways in which savings banks are of advantage to you.

They Will Accept Small Deposits. You may start a savings account with as little as $1. After this you may make deposits of any sum you wish, provided that it is at least $1. Thus you may save something even out of a small income. If you have a school bank, you may find that its regulations are the same as those stated here.

They Keep Your Money Safe. Banks are carefully regulated and supervised by state authorities to prevent mismanagement. If a bank fails, you lose little, if any, of your savings because the deposits are insured through the Federal Deposit Insurance Corporation or through a special fund set up by the state or through the Association of Mutual Savings Banks. The FDIC insures your deposits up to $5,000.

They Pay a Reasonable Rate of Interest. At the present time the interest rate you get on your money varies from 1 to 2 per cent. Few safe investments today pay a much higher rate.

You May Make Deposits at Your Convenience. Regular banking hours are maintained, and if you cannot make deposits during the working day you will find that many banks are open one or more nights each week. Most banks permit deposits to be made by mail.

You May Withdraw Your Money at Any Time. If you wish to withdraw money, the procedure is quite simple and has been explained in Part 6.

Do savings banks have any disadvantages? Like most things, savings banks have certain disadvantages, although they are not serious.

Easy Withdrawals Hinder Permanency. If you wish to indulge in personal whims, speculate in stocks, or join in some

get-rich scheme, you may be tempted to withdraw some or all of your savings since it can be done so easily. This may be disastrous for you, since you will be doing away with your permanent backlog of funds. To be sure, the banks may legally require 30 days' notice before they permit a sum to be withdrawn. But this rule is seldom applied, except in rare cases of emergency.

You May Lose Some Interest in Withdrawing Funds. Many banks start paying interest on the first day of the month. If you deposit money later than this date, you lose interest for that month. Again, interest is added every six months but is figured on every three-month period as a rule. If you withdraw money during any quarter, you will lose interest on the sum withdrawn for the entire quarter. For example, if you have $500 in a bank that pays 2 per cent interest semiannually on January 1 and July 1, and if you wish for any reason to withdraw it in May, you will lose $5 interest.

Banks should have first place in your investment program. Certain questions were given you at the beginning of this chapter to apply to any investment you might consider. Have you judged savings banks as to their safety, rate of return, availability, and convenience?

What systematic savings plan is offered by savings and loan associations? As we stated earlier, these associations have various names, but the name savings and loan association is now preferred by the group because of its wider use and its more complete description of the services rendered to investors and borrowers.

These financial institutions vary in organization from state to state. In a few states they operate like banks, accepting deposits as you wish, lending this money on real-estate securities, and paying out your investment when you wish with a rate of interest that is usually higher than in savings banks.

In other states, you are required to become a shareholder in cooperative institutions owned and operated by the members who benefit from the savings and loan activity. They offer a *systematic* savings plan. You apply for the number of shares you wish. Several types may be purchased. The two main types of shares are the installment shares in which you pay $1 per month per share for about 13 years, receiving $200 at maturity—these shares pay fairly high rates of interest and encourage systematic saving—and the paid-up, or prepaid, shares whereby you pay the full amount at the time of purchase, receiving checks at intervals as a profit on your investment.

In addition to these two main types of shares, some associations have other shares called "optional savings," or "full-paid income," shares, which are only slightly different from the ones just described. Still other savings and loan associations offer investment certificates of which there are several different kinds.

If you so desire, you may withdraw any or all your shares before they mature, receiving your payments and the accumulated interest. Of course, if you withdraw your shares or any part of them, you interfere with your systematic plan of saving. In case you have need for some money, and need is only temporary, it would be much better for you to obtain what is called a "share loan." This will answer your purpose and not interfere with regular saving.

When you make a share loan, you may borrow up to 90 per cent of the value of your shares at the time of applying for the loan. You pay interest on the loan, usually about 5 per cent, but you continue to receive compound interest on your deposits. You may repay these share loans in full or in multiples of $5 at any time. Interest on the share loans is paid monthly in advance.

As in the case of banks, some of these associations operate under state regulations, while others are under the Federal



Cartoon by Herbert Johnson for the McClure Syndicate

The artist gave this cartoon the title "The Same Man."

Savings and Loan Act. The safety of the organization depends upon the legislation under which it operates.

What is the United States Postal Savings System? Another means by which you can accumulate a reserve fund is the United States Postal Savings System. This operates for

the common good by making the post office the link in a great savings chain.

If you wish to open a postal savings account, you should apply to any post office. Not all post offices are authorized to receive deposits, but you may open an account at a depository office by mail through your local postmaster, who will give you the details if you ask him. Any person ten years of age or older may open an account. However, it is not possible for the same person to have more than one account.

Your deposits are received in even dollars only. These deposits are acknowledged by postal savings certificates, which are in denominations of $1 up to $500. The certificates are made out in your name and serve as receipts. They are valid until paid and are backed by the United States government. They are not transferable; if you lose one, or if it is destroyed or stolen, a new one will be issued to you. There are no such things as passbooks; the certificates take the place of these. Under the law at present no depositor may have to his credit more than $2,500 exclusive of accumulated interest.

Interest accumulates in most states at the rate of 2 per cent for each full year as long as the certificate is outstanding. The interest accumulates for a partial year at the rate of one-half of 1 per cent for each full quarter, or three months. Compound interest is not allowed, but you may withdraw interest payable and include it in a new deposit. You may withdraw your money at any time you wish, with any interest due, in person, through a representative, or by mail.

We have said that deposits must be made in even dollars. However, it is possible for you to save amounts less than a dollar by purchasing postal savings stamps. These stamps come in denominations of 10 cents, 25 cents, 50 cents, $1, and $5, and may be purchased in any amount you wish. When you have pasted them in albums or on savings cards furnished free, you

may apply them toward the purchase of postal savings certificates. Or, if you prefer, you may cash them.

What are the advantages of the postal savings system? What are the advantages to you in using this system for the accumulation of funds?

It Is Easy to Start. A deposit of only $1 is sufficient to open an account. If you do not have $1, you can use the postal savings cards and add stamps until you have the required dollar.

Your Money Is Perfectly Safe. You never have to worry about the possible loss of your money. It is guaranteed by the government in the following words: "The faith of the United States is solemnly pledged to the payment of the deposits made in postal savings depository offices."

You May Have Your Money at Any Time. You may withdraw all or any of your deposit with any interest due thereon at any time you wish.

Are there any disadvantages in this system? Many people think that the greatest disadvantage is the fact that a limit of $2,500 is set for any one depositor. The low interest rate was once considered a disadvantage; but now that other savings institutions pay no higher rate, this has ceased to be a drawback.

Summary

After you have begun to receive an income, the problem of what to do with your savings assumes importance. Many suggestions have been made as to how you should make your first investment, but experts are not agreed on the best program. It is, however, generally agreed that a savings account should be your first aim. This fund should serve as an emergency fund and should be added to from time to time.

However, if you are to accumulate money regularly, you will need to have a systematic plan. To enable you to follow such a plan, the savings and loan associations offer the best oppor-

tunity. The postal savings system affords a good chance for those who can save only very small amounts at irregular intervals. This system has the merit of being backed by the government and thus assures absolute safety for all funds even though the rate of interest is low.

Whatever plan is adopted, or whatever institution is used, there must be some goal, and much persistence must be exercised if you are to succeed. There is no easy road to wealth. Only those who make plans early and stick to them are likely to succeed. The possibilities of success exist for those who are willing to make the necessary sacrifices.

Questions for Discussion

1. What is the usual meaning of the term "investment"? What tests or questions can you apply to an investment to see whether it is a good one?

2. Why is an investment program necessary if one wishes to get ahead financially?

3. Why should a savings account be the first step in an investment program?

4. How do savings banks invest their funds? Why do you suppose they are required to invest them in this fashion?

5. How do savings and loan associations offer a systematic plan of investment? What advantages do they offer?

6. Explain the operation of the United States Postal Savings System. What are the advantages of this system?

7. What does "conservative" mean when applied to investments?

Practical Applications

1. Rate the various forms of investments discussed on pages 358 to 360. Use a score of 1 for low, 2 for fair, and 3 for high.

2. Are there savings and loan associations in your community? If so, arrange to find out at firsthand how they operate. Find out how your general investment program and your home-buying program could be tied together through buying shares in such an association. What rate of return is to be expected on an investment in a local savings and loan association?

3. What interest rates are paid on savings account by banks in your community?

Problem

Many people become impatient with the slow growth of their funds in conservative investments. They want to make money faster. Therefore they buy more speculative securities or they even go into risky "get-rich-quick" plans. Can you obtain instances of this in your community by talking to older people or to bankers? What sorts of investments did these people buy? How did things turn out? Did they actually make big profits or did they lose their original capital?

Chapter 25: DIRECT INVESTMENTS

You have observed in the last chapter that savings banks, savings and loan associations, and the United States Postal Savings System afford opportunities to place your money where it will be safe and at the same time give you some interest. In all these cases you noted that you can withdraw your money whenever you wish, with little or no loss of interest. Putting your money into these places could be called *indirect* investing because you put your funds in the hands of others who invest them for you.

However, you say, "Someday I may wish to make investments directly for myself. What do I do then?" Then you may turn to two types of investments—bonds and stocks—that yield a fairly steady income, or you may consider investing in real estate. In this chapter we shall discuss these direct investments.

What Is a Bond?

A bond is a written promise to pay a fixed sum of money to a certain person at a specified rate of interest and at a definite time. It represents a debt owed by the issuer of the bond. Bonds are issued by corporations, railroads, governments, and public-utility companies.

Classifications of Bonds

Bonds are classified into two major groups:

Mortgage bonds. These bonds are backed by a claim against property such as real estate, machinery, and equipment. *First-mortgage* bonds have the first claim against the pledged property if the corporation goes out of business. Those who own these bonds receive their money first. Holders of *second-mortgage* bonds must wait until the claims of the first mortgage bondholders have been settled. Since second mortgages are the riskier ones, they naturally pay a higher rate of interest.

Debenture bonds. These bonds are really the promissory notes of the issuer. Their security consists of the reputation, earning power, and good faith of the issuer. Most government bonds are of this type. There are many excellent debenture bonds, but others are as risky as stocks.

In What Forms Are Bonds Issued?

Bonds are usually issued either as coupon bonds or as registered bonds.

Coupon bonds. These have little certificates called "coupons." Each represents the interest that will be paid at the time specified. All you have to do is to cut off the coupon on the date named and cash it. This is a simple way to collect your interest. Furthermore, coupon bonds are sold quite easily, since all you need do is sign your name on the back of them. However, coupon bonds are often made payable to bearer so that anyone holding the bond can cash the coupons; and if you lose a coupon bond after endorsing it, anyone finding it may cash it.

Registered bonds. Bonds of this kind have no coupons and are made out to a definite individual or corporation. The owner's name is entered on the books of the issuer and he receives at stated intervals a check for interest. If a registered bond is lost or stolen, it can be traced more easily than a coupon bond. Thus registered bonds are the more convenient and safer form. While there is a little more red tape connected with

selling a registered bond, usually the difficulty is not great, for the matter is handled through a broker who knows what procedure to follow.

United States savings bonds. You are surely familiar with these bonds, some of which you or your parents undoubtedly own. They are the type you will be the most likely to buy in the future. Series E bonds are the ones most commonly purchased by individuals. They are issued in denominations of $25, $50, $100, $500, and $1,000.

They are sold at issue prices, which are three-fourths of the face value, and they mature in 10 years. They increase in value regularly after the first year. In 10 years they increase by exactly one-third of the purchase price. This is equivalent to interest at the rate of 2.9 per cent, compounded semiannually. The following table shows the amount the buyer pays and the amount he receives at the end of 10 years.

UNITED STATES SAVINGS BONDS

Issue Price	*Maturity Value after 10 Years*
$ 18.75	$ 25.00
37.50	50.00
75.00	100.00
375.00	500.00
750.00	1,000.00

Each bond is registered in the name of the owner on the books of the United States Treasury. The name of the owner is shown on the bond. Bonds may be registered in the name of one individual, in the names of two (but not more than two) individuals as co-owners, or in the name of one individual and payable on death to one or the other designated individual. If a bond is lost, a duplicate can be obtained.

The government would like to have all of us hold the bonds

until they mature since the greatest return is obtained in this way. However, to provide for any emergency that may require ready cash by the purchaser, the government will redeem any bond at any time 60 days or more after the date of issue upon request of the owner. The price that the government will pay when redeeming the bond depends on how long the owner has held it. If the owner wishes to obtain cash for one of these bonds, he takes it to any post office or bank.

What Are the Best Bonds to Own?

We cannot answer this question for you by naming any *one* of the kinds of bonds just described. From the point of view of safety government bonds rank first; from the point of view of interest paid corporation bonds rank first. Perhaps the best advice that can be given you is to get the opinion of a good broker or a banker, and to buy only from reliable dealers who specialize in bonds.

How May Bonds Be Tested?

Although you should always follow the advice of a reliable bond dealer, there are a few rules of investment which apply to bonds and which help you in the future.

1. Be sure that your principal is safe. You should find out how much property is behind your bond. The property should have a value exceeding the sum the corporation owes to bondholders. For example, if a corporation has issued 1 million dollars worth of bonds, it should have property worth at least twice this amount.

2. Find out the earning power of the issuer of the bonds. This is another measure of the safety of your investment; in fact, it is the true measure, because if the corporation cannot make a good profit it will fail and its assets will not be worth as much as they were. The rule is that the earnings should be at

least twice the requirements for interest on all bonds and other debts.

3. The "marketability" of a bond is an important test. If you cannot sell your bond readily and without too much loss, you may be greatly inconvenienced. All bonds listed on the larger exchanges are sold quite easily.

4. Is the management of the corporation efficient and honest? Here we have a very important test for any investment, especially bonds. The manner in which a business is conducted determines whether or not there will be any profits. Some experts claim that the men who manage a corporation are more important than the property owned by the corporation. As a rule, it is not wise to buy bonds in a new company or in those about whose management you know nothing.

What about Real Estate as an Investment?

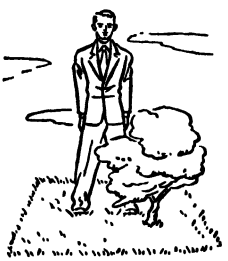
Let us think about the purchase of real estate, meaning land and buildings, as part of your direct investment program. In another section of this book (Part 10), you will learn something of the advantages and disadvantages of owning a home. But what we have in mind here is the buying of real estate strictly for investment and income.

There are those who maintain that land is something that will always be here and will always have some value. An investment in real estate, according to them, is a wise investment. A man buys a piece of land on the outskirts of a growing city, holds it for a few years, and then sells it at a large profit. Another man buys houses that he rents or sells later when prices of houses rise. But real estate is subject to variations in value that go down as well as up.

At the present time, because of the great shortage of homes, houses are selling at prices far beyond their named values. This condition is a temptation to some to speculate in real estate in

order to make big money. But, if you ever think of buying real estate, you should give the matter careful consideration and keep in mind a few facts.

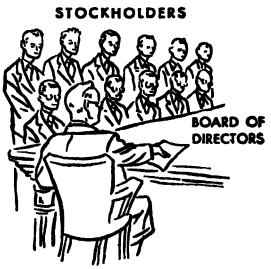
You would be unwise to purchase real estate for rental or sale unless you have the time and energy to take proper care of it. Real estate will not produce a steady income or prove to be a good investment unless it is well managed and kept in good condition. Buildings depreciate (lose in value) year



REAL ESTATE BUYER IS COMPLETE OWNER OF PROPERTY



THE BONDHOLDER IS CREDITOR OF COMPANY



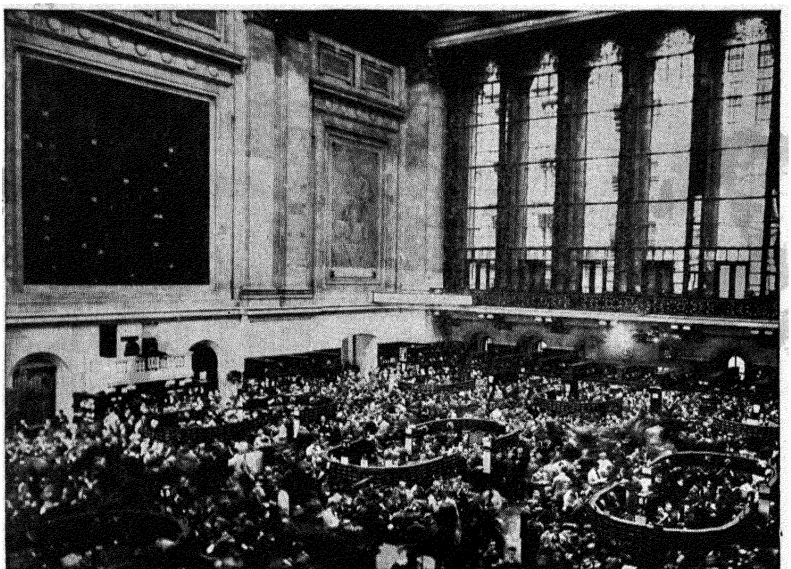
THE STOCKHOLDER IS PART OWNER

after year and unless repairs are made or alterations attempted from time to time, they soon become of little value to anyone.

Before you purchase real estate there are certain questions for you to ask and answer: Can I rent the property? If so, how much rent can be charged? How much shall I have to pay in taxes each year? How much shall I need to spend for repairs and alterations each year? If it is rentable property, how much of the time is it likely to be vacant, bringing in no income? How much does the property depreciate each year? Finally, you will want to figure out as closely as you can the amount your investment brings in above expenses.

This question of depreciation is an important matter to think about. What is the chance of a change in the community that may raise or lower the value of the property? Undesirable peo-

ple may move in and cause rents to drop; businesses may move away and thus reduce the value of the property. On the other hand, the section may become more desirable as a residential area but the house you own may be too old a type to suit the newcomers. So you see investment in real estate, while desirable



Courtesy New York Stock Exchange

Few places in the world are as busy as the floor of the New York Stock Exchange during a market session.

from many points of view, may become too risky for you to consider.

What Are Stocks?

Stock represents a share in the ownership of a corporation. If you purchase five shares of stock in the General Motors Corporation, you are a part owner of this corporation. You have not loaned your money; therefore you are not a creditor. The corporation owes you no money.

Upon what does the value of stock depend? The value of stock depends upon the earnings of the business. If the business is good, you will probably receive a return on your investment; if the business is poor, you may receive nothing at all. Shares of stock are not limited in the amount they pay unless they happen to be preferred stock. This should make it clear that while stocks hold greater possibilities of profit, they are also greater risks than bonds. However, there are some stocks that are as safe and dependable as some of the best bonds.

What is a stock certificate? When you purchase stock you receive an engraved or printed form signed and sealed by the officers of the corporation. This is called a "stock certificate." It states that you are the owner of a certain number of shares of ownership, that you are entitled to a part of the profits which the officers decide to distribute, and that you are entitled to any of the assets that may remain after all debts have been paid in case the corporation goes out of business. Nowhere in the certificate is there a promise to pay you anything, as in the case of a bond.

How do stocks differ from bonds? There are several big differences between stocks and bonds that you will want to know about.

In Relationship to Corporation. A bondholder is a creditor of the corporation since he has loaned it money; as a creditor he is entitled to first claim upon the assets. A stockholder is a part owner and as such must assume the responsibilities that go with ownership. If the corporation fails, he may get nothing back unless there is something left after the bondholders and other creditors have been paid.

As to Income. Bonds pay a fixed and definite rate of interest at stated intervals. Common stock pays no fixed return. At times the returns may be large; at other times small or nothing at all. Preferred stock pays a steadier return, generally a stated per cent, but its return is not absolutely fixed.

As to Safety of Your Investment. Bonds, as a rule, are more secure than stock because they represent a promise to pay backed by a claim against the corporation. Stock carries no promise to pay anything and the holder has no claim against the property of the corporation. The only security lies in the success of the business.

In Stability of Value. Bonds are more stable than stocks and vary less widely in price; they are not subject to the sudden and daily changes that stocks go through. Bonds are a conservative investment while stocks are more speculative.

In Denominations. Except in the case of United States Saving Bonds, bonds are usually issued in denominations of $500 and $1,000. Various stocks, on the other hand, can be bought for almost any price from $1 up.

In Matter of Payment. A bond has a definite date set for its payment. You are fairly certain that when this date arrives you will get your money back. Stocks have no date of payment. When you buy stock, you do not expect that your money will ever be paid back to you by the corporation. You must sell the stock to someone else if you wish to get your money back.

In What Forms Are Stocks Issued?

Stocks are issued in two forms, common and preferred, with variations of these known by other names.

Common stock. This is the type most usually sold, and many corporations issue only this kind. Holders of common stock are the last ones to be paid if the corporation fails and then only if there is enough left to pay them something. Moreover, owners of common stock receive their share of the profits only after all bondholders and owners of preferred stock have been paid. On the other hand, holders of common stock may receive a much larger return than bondholders or holders of preferred stock

Preferred stock. This is somewhat like a bond in that it has a definite rate of return, which may run from 3 to 5 per cent or even higher. It gets its name from the fact that it is given certain preferences over common stock. Holders of preferred stock are paid their share of profits before holders of common stock; they also receive a share of the assets, if any, ahead of common stockholders. This type of stock appeals to conservative investors who want a good income and a fair amount of safety. Returns on preferred stock are often higher than interest rates on bonds.

What Do the Expressions Used with Stock Mean?

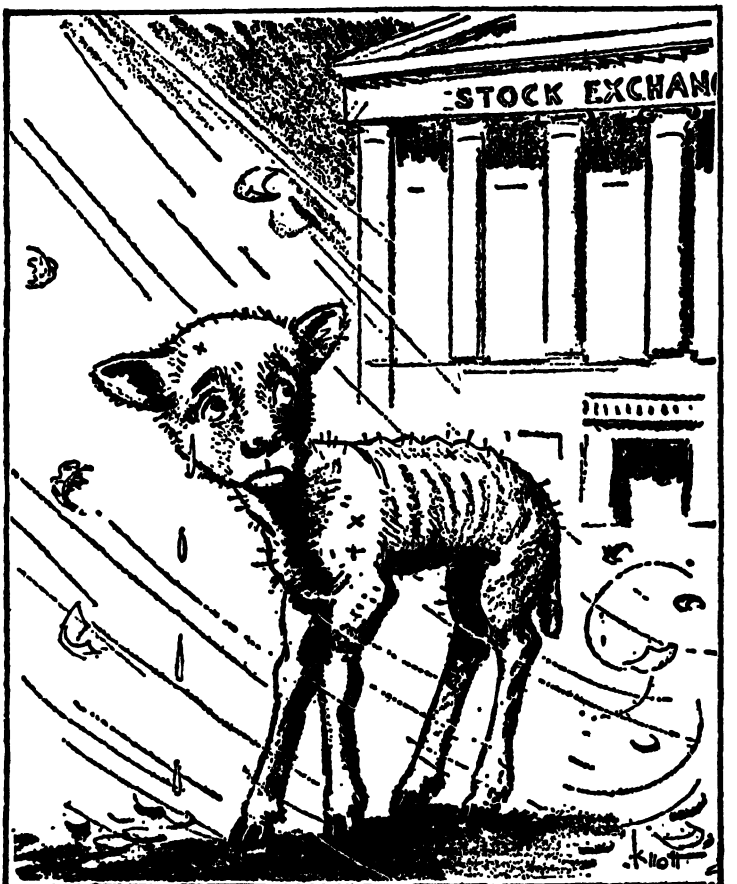
There are certain expressions used in dealing with stocks that you should know.

Par value. Most certificates show the original value at which the stock was first issued. This is called its "par value," and it may be any amount from $1 to $100. It is not the actual value of the stock, nor is it any indication of what the stock will sell for in the market. It is merely an estimated value.

No-par value. The laws of many states now permit corporations to issue stock without stating any value. Such stock is called *no-par value* stock. This has no effect on the true value of the stock. When you buy or sell stock it makes no difference to you whether it has a par value or not. The market value is what counts.

Market value. This is the price at which the stock sells in the market at any given time. It is not fixed or even steady, but changes with conditions of business or of the market. If demand is great, the price rises; if demand is low, the price usually drops. Market prices are also affected by rumors of war, failure to pay dividends, crises in national and international affairs, and poor business.

Dividends. The share of the profits received by a stockholder



Courtesy Knott and *The Dallas Morning News*

The cartoonist calls this "Shorn Again!" Nonprofessional speculators on the stock exchange are known as "lambs."

is called a "dividend." As a rule, dividends are paid only when earnings justify them and when the board of directors decides to pay them. They are payable usually in cash, but occasionally a corporation declares a *stock dividend.* In this case an extra

share of stock is given the owner for every specified number of shares he already owns; for example, one new share for every ten shares.

Are There Rules for Testing Stocks?

Yes, there are a few tests which experienced buyers of stock apply when they consider such purchases. The more important are

1. Am I likely to obtain a reasonable, regular, and fairly certain income if I buy this stock?
2. Will a bank readily accept this stock as security for a loan?
3. If so, how much will it lend me on the stock?
4. Is the corporation issuing the stock engaged in a stable industry? Is it a growing or declining industry?
5. Are those who manage the business men of ability, known for their good judgment and honesty?
6. Is the stock one that will require me to give much time to watching it in order not to lose money?

How Are Securities Bought?

You can sell stocks and bonds like any other commodity; hence there must be places where they can be bought and sold. These places are called *exchanges.* The best known one is the New York Stock Exchange, although every city of any size has some market.

Ordinary buyers do not go to the exchange as only members of the exchanges can do business there. You do not go to a wholesaler when you wish to buy groceries, but deal with your local retail merchant. Well, the case is somewhat similar when you wish to buy or sell stock.

Let us assume that you wish to buy five shares of General Motors common stock. You go to a broker whom you have

selected and place the order with him. He sends the order to another broker who operates on one of the big exchanges and who buys the stock on the exchange at whatever price it is selling. He then notifies your local broker that he has bought the five shares and at what price. Your local broker informs you and you pay him for the shares plus a commission. You will have to wait about two weeks for your certificates, as it takes about that long to register them on the books of the company and to get them back to you.

If you wish to sell your stock, you follow the same procedure and your broker takes care of all the details for you, sending you the money obtained from the sale less his commission. Thus you see that it is not at all difficult to buy or sell stock.

What You Should Not Do.

Buying and selling stock seems to have a very great attraction for some people who think they are going to get rich in the process. However, anyone who has dealt in stocks for some time will tell you that few really make money; those who do are people who make it a business to study stocks and market conditions very thoroughly before they buy or sell. The people who have had fair success in the stock market tell us that certain things should never be done. You should not buy on a "tip" from someone who claims to be on the "inside." You should not buy on a hunch, for hunches often prove to be wrong and are not reliable at best. There are few bargain days in the stock market. Do not buy until you have made a thorough investigation of the corporation and the stock. "Before you invest, investigate" is a good slogan to adopt.

How Does One Read the Financial Page of a Newspaper?

If you ever do buy stock, you will want to follow its changes from day to day so that you may have some idea about when

to buy or sell. In nearly every newspaper of any importance you will find one or more pages devoted to financial news. Your local paper probably carries the quotations of the New



York Times.

BROOKLYN-QUEENS
Full City Edition With Added News
Of Brooklyn, Queens, Long Island

New York Times Company.

OCTOBER 25, 1929. TWO CENTS

WORST STOCK CRASH STEMMED BY BANKS;
12,894,650-SHARE DAY SWAMPS MARKET;
LEADERS CONFER, FIND CONDITIONS SOUND

FINANCIERS EASE TENSION

Five Wall Street Bankers Hold Two Meetings at Morgan Office.

CALL BREAK 'TECHNICAL'

Lamont Lays It to 'Air Holes' —Says Low Prices Do Not Depict Situation Fairly.

FINDS MARGINS BEING MET

Sees Market 'Susceptible of Betterment'—Mitchell, Potter, Wiggin, Prosser at Talks.

Wall Street Optimistic After Stormy Day; Clerical Work May Force Holiday Tomorrow

Confidence in the soundness of the stock market structure, notwithstanding the upheaval of the last few days, was voiced last night by bankers and other financial leaders. Sentiment as expressed by the heads of some of the largest banking institutions and by industrial executives as well was distinctly cheerful and the feeling was general that the worst had been seen. Wall Street ended the day in an optimistic frame of mind.

The opinion of brokers was unanimous that the selling had got out of hand not because of any inherent weakness in the market but because the public had become alarmed over the steady liquidation of the last few weeks. Over their private wires these brokers commanded their customers against further thoughtless selling at sacrifice prices.

Charles E. Mitchell, chairman of the National City Bank, declared that fundamentals remained unimpaired after the declines of the last few days. "I am still of the opinion," he added, "that this reaction has badly overrun itself."

Lewis E. Pierson, chairman of the board of the Irving Trust Company, issued last night the following statement:

"Severe disturbances in the stock market are nothing new in American experience. The pendulum always swings widely and it would seem as though the long-expected break should bring about an equilibrium.

"The position of the Federal Reserve Bank is unusually strong and the borrowings of member banks are moderate.

"Considering the record-breaking earnings in many industries, we may well remember that whenever fundamental values are lost sight of by the unthinking majority it is time for courage on the part of those investors who have a real sense of basic worth."

Because the clerical facilities of brokerage houses are overtaxed as a result of the recent phenomenally heavy trading, an

LOSSES RECOVERED IN PART

Upward Trend Starts With 200,000-Share Order for Steel.

TICKERS LAG FOUR HOURS

Thousands of Accounts Wiped Out, With Traders in Dark as to Events on Exchange.

SALES ON CURB 6,237,415

Prices on Markets in Other Cities Also Slump and Rally —Wheat Values Hard Hit.

Courtesy *The New York Times*

The 1929 stock-market crash started Congressional investigation and regulation of stock-market practices.

York Stock Exchange together with items of news about corporations and dividends.

The part of the financial page that will be of most interest to you is the list of quotations of the big exchange. While this may seem to be complicated, you do not need now to under-

stand all of it. All you need to know is that the column marked "Last" gives the price of the stock at the close of the market. Some list this as "Closing" price. This does not mean that this price will hold for the next day, but it will give you some indication of whether your stock is going up or down. The column marked "Sales" indicates the activity of the stock, whether it was bought or sold in large or small quantities. Since stock is sold on the exchange in 100-share lots, you need to multiply the figure you find under "Sales" by 100.

Summary

The three principal outlets for investment funds are bonds, stocks, and real estate. Bonds represent a debt of a corporation or government to the bondholder. Of all investments, they fluctuate least in value and return the steadiest income. However, the rate of income is not high.

Stocks represent a share in the ownership of a corporation. Their value fluctuates greatly, and so do the dividends they pay. In very good times the dividend rate may be much higher than the interest rate on bonds, but in bad times it may be nothing at all.

Real estate also fluctuates considerably over long periods of time. It has the further disadvantage of needing much personal attention from the owner. However, real-estate investments, if well made, may return a very good income.

The investor must judge the kinds of investments he will make in terms of his own situation. Generally speaking, people with only a little money to invest should stick to safe, conservative investments. Even then they should diversify their holdings so that they will not be too dependent on one thing. When one has a backlog of conservative investments, he may choose to put some funds into riskier ventures. But he should remain careful. Money comes too hard to be invested recklessly.

Questions for Discussion

1. The income from bonds is steadier, as a rule, than that from stocks. Of what importance would this be to an aged couple living on its investments?

2. In what ways do stockholders have the advantage during times of high prosperity?

3. In what ways do bondholders have the advantage during periods of depression?

4. If you had an opportunity—and the money—to buy a house or a farm to be rented to others, how could you tell whether it would be a good investment?

5. If you did not care to give much time and attention to your investments after you had bought them, why would stocks and bonds be better for you than real estate?

6. How steady is the income from real estate? How about real estate from the standpoint of marketability? Can you get your money out of it quickly if you need to?

7. In planning for old-age income, how should one coordinate what he may get from social security, from his life insurance, and from other sources?

8. Why do you suppose that the government, which used to sell its bonds in large denominations, now sells them for as small an amount as $25?

9. Why are small investors generally advised not to put their money into new companies?

Practical Applications

1. Practice reading the financial page of the newspaper. Bring to class some samples, and find out what each part of the quotation means.

2. Perhaps, then you will wish to select a few issues of stocks and bonds and follow them for a while to see how they fluctuate.

3. Find out from adults in your neighborhood how real-estate values have gone up and down in the past 25 years. A real-estate dealer could give you especially expert help.

4. Perhaps you can consult a banker or someone else who is familiar with the whole problem of investing money. He may be willing to come and talk to your class. Have good questions ready to ask him.

5. Find out from what sources in your community you could get expert financial advice when you needed it. Is this another illustration of the value of having an account at a bank?

Problem

Gather stories of success or failure in investments. What difference has it made in the lives of the people whether they chose wisely or not? If they made mistakes, what caused their errors? If they succeeded, how did they do it? If each member of the class brings in one or two cases, the class will have a good bag of examples to work from. Try to form some general conclusions from them.

PART 10

Making a Home

CHAPTER 26: RENTING OR OWNING A HOME

CHAPTER 27: BUYING OR BUILDING A HOME

When you go into someone's home, whether it is as a guest or just as a baby sitter, you automatically begin to have an understanding of the inhabitants. This is because every home reflects the life going on within it with photographic accuracy. Suppose that the walls and tables are piled high with books, the covers of which are well worn. You can guess that the family likes to read. Or perhaps you notice dolls and trains poking from corners of the living room; you know that the family is lenient and likes to have children in its midst. From such clues you begin to know the kind of people, their ages and interests, and most of all the degree to which they "fit" their house. When a family really suits its home, you realize it at once, no matter what the size or relative luxury.

This feeling comes when a family has found just the right house for its needs. That is not easy; there are many solutions

to the great problem of a roof over one's head. The issues are slightly different for every family, depending on circumstances. You yourself are probably acquainted with one or two types of housing. If you live in the country, you may own or rent your house but you probably don't move very often. On the other hand more than half the people in the United States live in towns. If you are one of these, you have seen all kinds of lodgings from a furnished room to a four-story house. But no matter what you are used to, it is best to become acquainted with every kind of housing. Then when you come to choose one for yourself, you will be able to pick the type best suited to your individual circumstances. What are these circumstances? The following chapters discuss them in detail. Roughly they are the family's funds, the type of employment, and the family's size. Then of course there are the really individual questions of likes and dislikes.

In selecting a place to live, most people put above all other considerations the qualities that they feel will make a home. These may seem too personal and intangible to put in a textbook. However, the creation of that magic element which turns four walls into a home is not due to chance. It is based on many practical problems that you will read about in the next two chapters. After you have thought about all of them, you may not have a vision of your future home right down to the last cupboard, but you will realize the many choices and circumstances that will confront you.

Chapter 26. RENTING OR OWNING A HOME

Hilda and Tom Brown are just married, and they are trying to decide whether to rent or buy a home. Hilda thinks that renting is better than owning, especially for couples who are just starting out. "If we don't like the place," she says, "we can move to another one, and in any case, our expenses won't be so heavy." Tom argues eagerly for owning a home, because his parents never had a settled home and he has always wanted one. "There's nothing like having your own home," he claims, "even if it's small and modest—no landlord to tell you what to do, your own front yard to putter around in. . . ."

But when these two sit down and consider their finances, their plans for the future, and the advantages and disadvantages of renting and owning a home, they aren't so positive in their opinions. What do you think you would do in such a case?

This problem of renting or owning a home is a serious one that is not always easy to settle because so many personal and financial factors are involved. In this chapter we shall try to help you learn the facts that will make a decision easier when the time comes for you to rent or own a home.

To rent or own? You can see that this is a fifty-fifty question since statistics show that 48 per cent of all American families own their homes. Over 45 per cent of the families not living on farms and over 52 per cent of those living on farms are home-owners.

In most of us there seems to be a basic desire to own a home. Even though we may live in a one-room apartment, we send a Christmas card with a picture of a farmhouse snuggling in the snow. We dream of owning a cottage and garden just like the one on the kitchen calendar. We think that no one can harm us in this very personal place where we can say and do as we please. We think, too, that here children will have a better place to play, that we will have a more desirable social position, and that in old age we shall be more secure financially.

Some of these reasons for owning a home are sentimental ones, and all of them are not sound. We often let personal feelings cloud our better judgment. But does a home have to be owned to be a home? Can't a rented home be equally as satisfactory as one that's wholly yours? Do you yourself have plenty of play space in a community in which most of the homes are rented? Let's consider the pros and cons of owning and renting.

Why own a home? In discussing the advantages of home-ownership, you should consider some of the following factors:

Good Investment. Instead of pouring your income into rent, with no return other than the month's shelter, you pay out monthly installments toward the full ownership of your home. Then, if finances are reversed, you have a place to stay. In a rented house, if you can't afford the rent, you must move to cheaper lodgings, leaving behind any improvements you have made. Then, too, sometimes the value of your investment in a home increases, and you may eventually sell it at a profit.

Incentive to Save. When you buy a house, you are really providing yourself with a definite plan for saving. You deposit your savings in the house, so to speak, instead of the bank. With a home to pay for, you forego the movies and your favorite summer resort in order to have a new sofa for the living room or an up-to-date gas range. When you are sure of your invest-

ment, this money paid out for the house and its furnishings is definitely a saving. If you are a renter, however, the strong incentive is lacking; rent is usually lower than the combined cost of payments and upkeep of an owned house, and you haven't the same interest in improving your home. Therefore instead of regularly depositing money in the house, and in the bank for future expenses, you are likely to spend it on immediate pleasures.

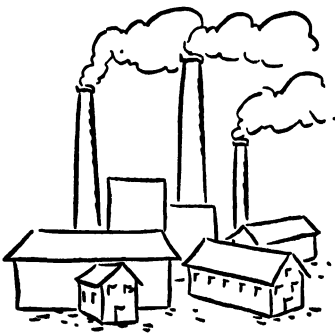
A Permanent Abode. You have a permanent place to stay. The landlord of a rented home may accost you at any time with the information that you must move because he wants the place for himself, or he may announce his decision to raise the rent. When you own your house, you will never experience the feeling of restlessness and insecurity that comes when you are uprooted from familiar neighborhoods, churches, and schools. Also, you don't have to move into quarters that have been occupied by people who were not clean or tidy.

You feel greater respect for your property, as an owner, and take better care of it. You are free to make repairs, decorate, or improve your home according to your individual tastes and at the same time savour the fun and satisfaction of creative work.

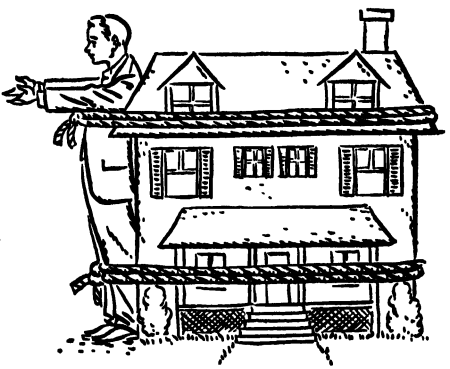
A Feeling of "Belonging." When you own a home, you become more interested in the community problems of permanent residents and are able to build up a more stable social life for the family. You may take a more active interest in church and club connections. The children will become attached to the neighborhood and won't have the emotional disturbance of leaving school and friends.

Disadvantages of home ownership. There are, on the other hand, some disadvantages to owning a home. Most homes are bought on borrowed money, which means that you must meet payments of interest and principal from time to time or face the possibility of losing your home. Then there are taxes and

assessments to be paid. Insurance premiums must be kept up and repair bills may become a constant worry. Sometimes you



JOB OPPORTUNITIES

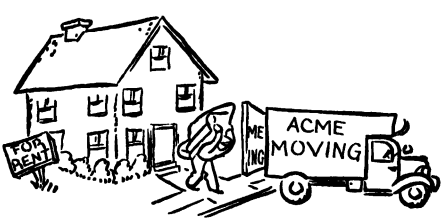


OWN HOME

A disadvantage of home ownership is the fact that you are tied to one spot and cannot go freely where opportunity calls.



UNDESIRABLE NEIGHBORS



RENTED HOME

An advantage of renting a home is your freedom to move when conditions become undesirable.

spend so much on the house that you don't have enough money for necessary expenditures like food and medicine. All these things must be balanced against the advantages mentioned above.

What are the advantages of renting? Now let's consider

some of the advantages of renting a house or an apartment. Many of these seem to contradict the benefits of owning a home, because what is an advantage to one family may be a distinct disadvantage to another.

You Are Free to Move. You can generally move on short notice, within 30 days. If you are transferred to another branch office, you will find it more convenient and economical to live nearer to the new job. If sanitary conditions in the neighborhood or the family next door becomes undesirable, you can move away from them. If your salary goes up or down, you can adjust your rent cost to fit your budget.

You Have Fewer Financial Worries. Renting is generally less expensive in terms of immediate outlay than owning, and leaves you with more ready cash. Being a young person just starting out in the world, you may not want the financial worries of owning a home. Taken month by month your budget will be simpler, with fewer unforeseen expenses.

You can see that the problem of renting or owning a house is a very difficult one for a family to solve.

First experiences in renting. Perhaps the first renting you will do on your own will be to select a room in a near-by city when you leave high school for a job. Or maybe you'll be living in another town while you study in a business school, trade school, college, or university. In any case you'll want to choose a place which will greet you pleasantly when you put the key in the lock each night.

When you are in a strange city, you will be looking for a sign that says: "Room to Rent." You will study the outside of the house, its relation to other houses on the street, and its neighborhood. You'll wonder whether it is near enough to your school or work and your friends. Then you'll see the room, and observe its location with regard to other rooms, especially the bathroom; you'll check on cleanliness, cross ventilation, condi-

tion of the furniture, size of worktable, lighting facilities, and a dozen other little but important items. You hope that you can find a place that reminds you a little bit of home. Inquiries will be in order about the cost, and you will consider this in the light of your budget. You will find out what type of person rents the other rooms and something about your landlady. She will ask you about your job, your background, and you should feel free to ask her any facts you want to know.



APARTMENT RESIDENCE CLUB FURNISHED ROOM

In choosing a place to live in the city, consider carefully the various advantages and disadvantages of each type of establishment.

Or you may prefer, for the sake of sociability, to obtain a room at a club for young people like the YMCA or YWCA or similar organizations. Perhaps you will wish to rent a room with facilities for light housekeeping where you can try out your cooking skills. You may be able to afford an apartment of your own. Then you will want to know the meaning of rental terms and agreements as given on the following page, in order to make satisfactory arrangements.

In choosing college quarters, whether you choose a room in a dormitory, fraternity house, or rooming house, it is best to observe the suggestions given in the above paragraph about

This Indenture, MADE the eighteenth day of August in the year of our Lord one thousand nine hundred and thirty-nine

Witnesseth, That I, Kenneth Engel

do hereby lease, demise, and let unto Bernice Taylor, her personal representatives and assigns, the following described premises,

Residence, No. 864 Monadnock Street, Champlain, Kansas

To hold for the term of one year from the first day of September nineteen hundred and thirty-nine yielding and paying therefor the rent of forty dollars on the first day of each month in each and every year.

And said Lessee does promise to pay the said rent in monthly installments as above specified

and to quit and deliver up the premises to the Lessor, or his attorney, peaceably and quietly, at the end of the term, in as good order and condition, reasonable use and wearing thereof, fire and other unavoidable casualties excepted, as the same now are, or may be put into by the said Lessor, and to pay the rent as above stated, during the term, and also the rent as above stated, for such further time as the Lessee may hold the same, and not make or suffer any waste thereof; nor lease, nor underlet, nor permit any other person or persons to occupy or improve the same, or make or suffer to be made any alteration therein, but with the approbation of the Lessor thereto, in writing, having been first obtained; and that the Lessor may enter to view and make improvements, and to expel the Lessee, if she shall fail to pay the rent as aforesaid, or make or suffer any strip or waste thereof.

And provided also, that in case the premises, or any part thereof during said term, be destroyed or damaged by fire or other unavoidable casualty, so that the same shall be thereby rendered unfit for use and habitation, then, and in such case, the rent hereinbefore reserved, or a just and proportional part thereof, according to the nature and extent of the injuries sustained, shall be suspended or abated until the said premises shall have been put in proper condition for use and habitation by the said Lessor, or these presents shall thereby be determined and ended at the election of the said Lessor or his legal representatives.

In witness whereof, The said parties have hereunto interchangeably set their hands and seals the day and year first above written.

Signed and sealed in presence of

Daniel Miller } Kenneth Engel [Seal]

Harry Bowen } Bernice Taylor [Seal]

Courtesy Hobbs & Warren, Inc.

This is one form of a lease that is commonly used.

renting a room. Also, you will want to know the "quiet hours" for studying, the time for curfew, and the facilities for hand laundry. All in all, you want your temporary home to provide the right environment for good health, concentrated study, and your full share of fun.

Terms to understand. When you are ready to rent a house or an apartment, you should familiarize yourself with certain rental terms such as the following:

Anna, Texas
December 1, 1947

To: Elton R. Phillips

I hereby give notice that I will quit and deliver possession January 1, 1948, of the premises at No.234 Towne Street, in the town of Anna, Texas, which I now hold as a tenant under you.

Stanley B. Barrett

If a tenant wishes to terminate his lease on a certain date, he may notify his landlord by a notice in this form.

What Is a Lease? A lease is a contract between the landlord and the tenant for the possession of property rented for a specified time. The one who leases the property to you is known as the "lessor," and you are known as the "lessee."

The lease itself may be oral or written, depending on the law of your state and the length of time it covers. However, it is better to have a written lease, especially for a long term, because then the rights and duties of the landlord and tenant are more clearly stated. A simple typed or handwritten lease is just as binding as a formal lease, but it is more common to use one of the standard printed forms available in stationery stores. As

long as the lease states clearly all the conditions of the agreement so that there may be no later misunderstandings, no particular words are needed.

Anna, Texas

To: Stanley B. Barrett

You are hereby notified that there is now due me the sum of $55, being rent for the premises at No 234 Towne Street, in the town of Anna, Texas.

And you are further notified that payment of said sum has been and is hereby demanded of you, and that unless payment thereof is made on or before the 15th day of December, 1947, your lease of said premises will be terminated.

Elton R. Phillips
Landlord

Dated December 10, 1947

If a landlord wishes to notify a tenant that rent must be paid by a certain date or the lease will be terminated, he may do so in this way.

What Are the Rights and Duties of a Tenant? Can you build the attic into a playroom? Can you suddenly move out without giving notice? Why is your mother always insisting that you be careful with walls and floors? These are probably just a few of the questions you have in mind.

You are entitled to the use of the property in any way not forbidden by the lease or by law. You must pay your rent on the dates and in the manner specified in the lease. You generally must give a written 30-day notice for leaving the premises even with a definite period of renting stated on the lease. You will not be permitted to sublet the house or apartment without the permission of the landlord.

Except for wear and tear due to ordinary use, it is the duty of the tenant to take reasonable care of the premises. A tenant must return the property to the landlord in substantially the same condition as it was received.

What Are the Rights and Duties of a Landlord? The landlord has a right to the rent. He has no right to interfere with your possession of the premises except to make necessary repairs and to protect the property. Generally a landlord is expected to keep the property in a livable condition and to pay taxes, but you will want to study the law of your state to see if he must make repairs or repay you for improvements.

Don't forget that both landlord and tenant may have other obligations to one another under the laws of individual states, or in accordance with special agreements.

Summary

You can see that the problems of having a home are many and varied. First, you must realize the purposes of a home. Then you will want to visualize the kind of home that will carry out these ideals. The main thing for you to keep in mind is that your home should be a place where each member of the family can enjoy some freedom to do what he or she wants to do and where all will have a chance to live happy, useful lives. Whether to rent or to buy a home is an important problem that comes to every young married couple. It should be given careful consideration. The final decision will depend on individual circumstances. We have given the advantages and disadvantages of renting and owning a home. It is sometimes cheaper and wiser to rent than to own a home; and often one who rents is in a better position to move if business requires it or if it becomes possible to save money by doing so. The renter does not suffer any loss if values decline; on the other hand the renter has paid out many dollars in rent and has nothing but receipts to

show for it. There are many distinct advantages in owning a home that the renter does not enjoy. The satisfaction of having a settled spot in which to bring up children and the feeling of security which ownership gives cannot be measured in dollars.

Questions for Discussion

1. There are undoubtedly some houses you love to visit, while there are others you do not care much about. What seem to be the things that make the difference?

2. What do you contribute toward making your home a good one? Do you have any habits that make it harder for your family to have a good home?

3. Does it make any difference to you whether your family lives in a rented or owned home? Why? Which is your preference?

4. Which do you think is likelier to arrive at old age with reasonable security, a family which puts some of its savings into buying a home, or a family which puts all its savings into other things?

5. If you are renting a home, what are the advantages or disadvantages of having a long-term lease?

Practical Applications

1. Find out what some other boys and girls of your age have done to make their homes better.

2. Perhaps some member of the class will bring in a new or old lease. See what it specifies, what rights and duties it assigns to each party.

3. Dramatize a family discussion as to why the purchase of a new home might be wise.

4. Show how you would evaluate a given room if you were a freshman at college trying to rent your first quarters. What

features would you look for? What should you expect to pay? Perhaps former graduates of your school can give you advice on this.

Problem

No matter whether you are a boy or a girl, making a good home is probably the most important thing you will ever do, because this is something in which both men and women must share. Considering what it will take to do your share well, what should you learn about it while you are still in school? What topics do you need to study? In what subjects will you have the opportunity to learn about them?

Chapter 27. BUYING OR BUILDING A HOME

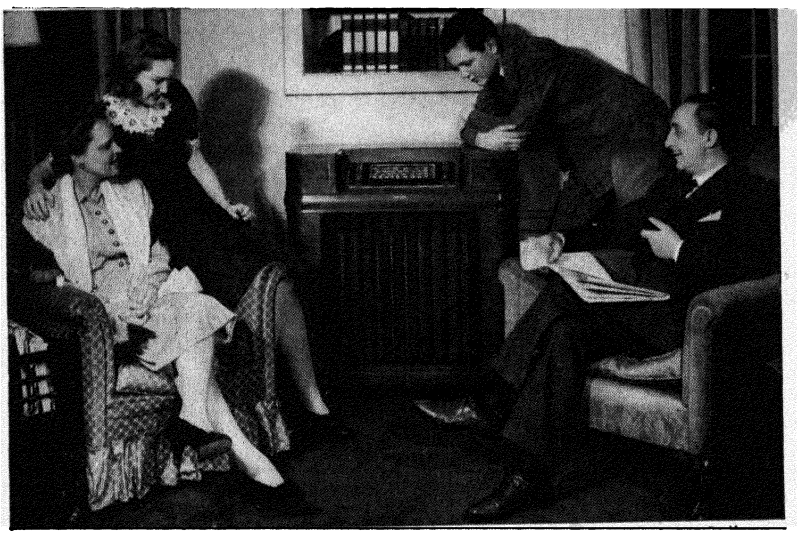
After studying the pros and cons, you have made up your mind to own your own home sometime in the future. "Shall I buy a house that is already completed with everything ready for me to move in, or shall I build a new home according to my own ideas?" This is a vital question that involves personal angles, and you must solve it according to your tastes and means. Perhaps this chapter will bring up certain facts and points of view that will help you to make a decision later.

Whether You Buy or Build, Most Things Are the Same

There are certain factors involved in either the skillful buying or the building of your home that you will want to consider in any case as a prospective purchaser. These are the following:

What kind of a house does your family need? You want the type of house that is tailored to suit your particular family. Will that be one in which they can settle down comfortably and happily whether it's a two-story house, a bungalow, or a duplex? Will they want a yard and garden? Many of the home magazines have floor plans of houses for you to study carefully and to note their differences. There are books of house plans, too. You will have to make a decision in regard to the size and

style of the home you want. It should be sound in structure and design and not become out of date as a result of changing styles and newer equipment and material. Other things you should think about are



Ewing Galloway

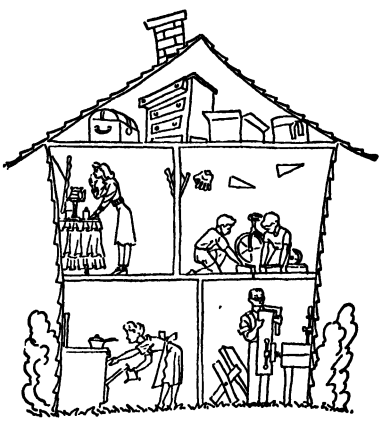
In planning a home, consider how the members of your family like to spend leisure time.

Number of Members of Your Family. You will know how many there are in your family, and you won't have to count noses; but you will have to think in terms of providing adequate quarters for them. Your grandma needs a room alone and so does the baby. How many bedrooms are needed altogether? Is the dining room the right size for the number sitting down there regularly? These are all questions to be settled in the light of the purposes of your home.

Living Habits. Is your dad a fresh-air fiend? Does your mother insist on closed windows and spotless rooms? Does

your sister like to sleep late? Does your brother get up with the sun? You will have to face squarely the whole brood's daily habits, wishes, and quirks in planning your house. For one thing, small windows in a house will not satisfy the folks who like sunshine and fresh air.

Activities. Most family activities are divided into recreation, work, and rest. You hope that your house will provide adequate rest for every member and therefore you plan to iron out such problems as the following: Should your big brother, whose hours for sleeping are from twelve to eight, sleep in the same room with your little brother who sleeps from nine to six? Where will your dad take his after-dinner nap? Will the railroad trains or street noises keep the grownups awake?



Every member of the family should have a place in which to pursue his own activities.

You want lots of working space for all. You want to have plenty of room for preparing meals, an extra room for washing and drying clothes (unless they are sent to the laundry), a quiet place for your sister to study, and maybe a garden for your dad. These are just a few of your ideas for providing separate work areas for each one.

You have set your heart on an indoor playroom, but you want it to be large enough for some of the neighbors to join in the fun. Here the old folks, too, can enjoy themselves in their own way.

Space for Possessions. Where will your stove fit in the new house? Can your davenport be set against the east wall in the

new living room? Where will your brother put his bike and your little sister her dollhouse? You want to retain most of your possessions and your new living quarters will have to accommodate them.

Future Housing Needs. Perhaps the new home will suit your family very well at the present time, but here is a thought: Is



Courtesy Federal Housing Administration

In choosing a home location, parents usually make sure that the neighborhood is one in which they want their children to grow up.

there room for more children or for grandfather and your Aunt Sally if they decide to move in with you?

What about the neighborhood? When you plan a home you intend to occupy for several years, perhaps for a lifetime, you naturally want it in a neighborhood that is desirable. Your family will certainly thrive best in a healthy, progressive community that offers cultural and social opportunities. Also, you don't want to endanger your investment by choosing a section where an industrial district may encroach. It will pay to investi-

gate the scholastic standing of schools, the nearness to work, schools, church, shopping and recreational centers, the availability of electricity, water, gas and telephone, and the amount of protection of your home by police and fire departments. You will also want to look into the zoning restrictions that affect your property; these restrictions regulate the type of homes or buildings that can be constructed in a given section of a community.

The condition of other homes in your community affect your life too. You will want to notice whether these dwellings come up to reasonable standards, such as the following:

1. A safe, sanitary home in healthful surroundings.
2. Pure running water in the house.
3. Modern and sanitary toilet conveniences inside the building for the exclusive use of the family.
4. Adequate sunlight and ventilation.
5. Reasonable fire protection.
6. Sufficient rooms and space to house the family decently.
7. Freedom from dampness.
8. Collection or disposal of garbage and trash.

Many American homes do not meet these standards. In fact, housing in America has become a city, state, and national problem. It has been said that about one-third of our nation is ill-housed. In 1940, 19 per cent of the homes needed major repairs, 46 per cent lacked private baths, 22 per cent lacked gas and electricity, 30 per cent lacked refrigerators, and 12 per cent lacked central heating or stove. During the war years, houses could not be repaired and painted easily, and plumbing fixtures and refrigerators could not be bought, so that the housing condition did not improve during that period. Many houses are now so poorly constructed that accidents occur.

You can help solve the housing problem by improving your

own home now if you possibly can. Then perhaps you can help out in your community, for every such improvement means a better home for you and your family. You may wish to serve on a club committee to improve slum conditions or the zoning laws. Perhaps you can learn something of the local picture by listening to a civic group explain to the people about the costs of construction and how they may be reduced in your community if united action is taken.

What is the economic condition of the country? Some times are better than others for buying or building houses. Are prices high at present? If there is a boom, is the cost of the house or lot or building materials overrated? What will happen to their value in the next depression? Suppose you had to give up the house then? There is no sure way of telling in advance whether you have made a good investment, but you can analyze general economic and business conditions and use your best judgment on when to buy or build.

Is your job a permanent one? You would be treading on thin ice financially if you became a homeowner without being sure of steady employment. You should ask yourself: Will I continue to do well at the local plant or business? You should also check on your future earning capacity by asking yourself: Will I remain at the same salary or am I in line for a higher one? You can figure that promotions ought to keep pace with growing family and household responsibilities. Then before you buy, you should test your willingness to remain in the one work locality. While you wish to buy your home when you are young and vigorous, would you be willing to let the obligations of the house keep you from taking a better job offered you in another town? These are all questions that deserve thoughtful answers.

How much will the house cost? Experts tell us that one should not spend on a home more than 2½ times the annual

income. For example, if you earn $2,000 a year, you should not pay any more than $5,000 for your home. Let us suppose that you were buying this house. Since your cash payment of, say, 30 per cent of the cost would be $1,500, you would owe $3,500 on a loan that would have to be paid off in installments over a period of years. If, on the other hand, you were building a home costing $5,000, you would have to be sure that you understood how this money was to be applied to the various cost elements and that you wouldn't find at the last minute, or too late, that your house was going to eat up a good deal more money than you had. When you build, you must add up each cost accurately, and then allow some leeway.

When you become the head of a family, you will have to decide honestly whether you are undertaking too much of a financial burden in acquiring a home. Will you be using cash that ought really to be held in reserve for an emergency, such as illness or an unexpected trip? Will you be able to pay interest on money you borrow without having to skimp on the nourishing food you all need, or to forego too many of the movies, dinners out, or holidays in the country that the family loves so much? Are you being too optimistic about your earning capacity, just because the boss promised you that raise? Then will be the time to sit down with the family budget and really figure out seriously your capacity to handle all these complicated transactions.

Homes are generally bought on the installment plan, paying down so much of your own money and paying the rest by a loan obtained from a bank, building and loan association, life-insurance company, or other financial institution. As a rule, the cash payment should not be below one-fourth of the value of the house and the lot. It should be around one-half if it can be arranged. It is frequently impossible to obtain a first-mortgage loan of more than two-thirds to four-fifths of the value

of a house. The difference must be paid in cash, or an additional loan must be obtained from another source. The whole financing is simpler and the cost of the house less in proportion to the amount of the down payment. Certain government regulations make it possible for qualified people to purchase a home with a down payment of less than one-fourth of the cost, but even a down payment of this amount is dangerously low for many people. You can see that if you hope to own your own home, you should begin early to accumulate some savings toward this payment.

If you build a home, you will need money to pay the contractor, possibly in installments. When you are arranging a loan in connection with building, you will find that the lending agency will not accept a mortgage on a house under construction until it has reached a certain stage of completion, usually when it is under a roof. However, the lending agency will help you as a rule by negotiating a construction loan with a local bank so that building can be started. Naturally your financial position must be such that the bank will be willing to make the loan.

How much will it cost to maintain the house? Listen again to the experts who say that the annual carrying charges, including insurance, taxes, interest on the mortgage, payments on the principal, and repairs should not require more than one-third of your annual income. With an income of only $2,000, you should not pay more than $667 a year for these items.

Depreciation in the value of your property because of age or changes in land prices also figures into your maintenance costs. Another thing that is often forgotten in a discussion of charges is the interest on the money no longer invested in banks or in securities. If a $1,000 war or savings bond were cashed to buy the house, the 2.9 per cent interest, or more than $200, will never

be collected. Think how hard you struggled to buy those bonds and to build up those savings! Think twice before you say good-by to them.

Are there any assessments to pay? If your house is in a new neighborhood, it is wise to investigate whether any assessments for improvements must be paid. The curb and gutter may not be laid; sometimes there is no sidewalk or hard surfacing for the street. If this is so, you will be assessed by the city for your share of the costs, which sometimes amount to large sums for which you should be prepared.

Taxes on your home. Every community levies a tax on land and its buildings. In return for the tax money that you pay to your state, city, county, and school district, you get such benefits as fire and police protection for your home, schools for the children, and near-by parks for recreation.

If you are thinking of buying a home that has been built for a year or more, you can find out from your local town or county officials not only the tax rate for different purposes but also the value of the property upon which the tax is based. This value, which is generally lower than the real value, is known as the "assessed valuation." You can multiply the assessed valuation by the tax rate to determine the amount of the annual taxes. Frequently you can find out from the tax office the total amount levied. If your house has not been completely built or if it is new and has not yet been assessed for taxes, the assessed valuation of similar houses in the neighborhood can be learned and the rate figured.

Getting clear title. You probably believe that when you acquire real estate that it is all yours and you will get title to ownership. But perhaps the former owner really does not have title to the property because of nonpayment of taxes, inheritance difficulties, or something similar. Thus he cannot pass

I, Lloyd P. White

of Springfield Hampden County, Massachusetts

~~for~~ for consideration paid, grant to Thomas Hess, married, and now living at 161 Albemarle Road in said Springfield with ~~quitclaim covenants~~ warranty covenants

the land in said Springfield with buildings theron, bounded and described as follows:

[Description and encumbrances, if any]

Beginning on the westerly side of Westland Avenue at a point distant eight hundred and thirty-five (835) feet southerly from Wilbraham Road and running thence southerly on Westland Avenue sixty (60) feet; thence WESTERLY at right angles with said Avenue one hundred and fifteen and 25/100 (115.25) feet; thence NORTHERLY parallel with said Avenue sixty (60) feet and thence EASTERLY at right angles with said Avenue one hundred and fifteen and 25/100 (115.25) feet to the place of beginning.

I, Marie White ~~husband~~ wife of said grantor,

release to said grantee all rights of ~~tenancy by the curtesy~~ dower and homestead and other interests therein.

Witness our hands and seals this 26th day of January 1940

Raymond Lee — Lloyd P. White [Seal]

Oliver Andrews — Marie White [Seal]

The Commonwealth of Massachusetts

Hampden ss. January 26, 1940

Then personally appeared the above named Lloyd P. White

and acknowledged the foregoing instrument to be his free act and deed, before me

Vincent Bennett
Notary Public — Justice of the Peace

My commission expires January 1, 1941

This is a frequently used form of warranty deed.

I, Beatrice Scott

of Pittsfield Berkshire County, Massachusetts, ~~grantor~~, for consideration paid, grant to Patrick J. Kelly, unmarried, and now residing at 1042 Doubleday Avenue, in the town of Peru with quitclaim covenants the land in said Pittsfield with buildings thereon, bounded and described as follows:

[Description and encumbrances, if any]

Lot number eight (8) block six (6) in the Ferncroft subdivision as described in the map hereto attached.

I, Walter F. Scott husband ~~wife~~ of said grantor, release to said grantee all rights of tenancy by the curtesy ~~dower and homestead~~ and other interests therein.

Witness our hand s and seals this tenth day of January 1939

Ted Driscoll Beatrice Scott [Seal]

Caroline Jones Walter F. Scott [Seal]

The Commonwealth of Massachusetts

Berkshire ss. January 10, 1939

Then personally appeared the above named Beatrice Scott and acknowledged the foregoing instrument to be her free act and deed, before me

Anthony Kaufman
Notary Public ~~Justice of the Peace~~

My commission expires February 4, 1940

Courtesy Hobbs & Warren, Inc.

A quitclaim deed. Compare this with the warranty deed opposite.

clear title on to you. It is, therefore, advisable to get an attorney to look out for your interests or a title guarantee company to issue a policy guaranteeing title for you.

What is a deed? A deed is a written instrument under seal that grants you the right of ownership to real property. There are several kinds of deeds and the laws regarding them vary in the different states, but a lawyer or title company will be acquainted with these and will be able to advise you. A warranty deed is a common form of deed which not only conveys the property to you but which also states that certain facts are true in regard to the title. The grantor "will warrant and defend the same against the lawful claims and demands of all persons."

A quitclaim deed is a transfer of title in which the grantor gives his interest in the property to the grantee without any warranties or agreements. The grantee assumes the risk that the title may not be good. In some communities this deed is used instead of a warranty deed.

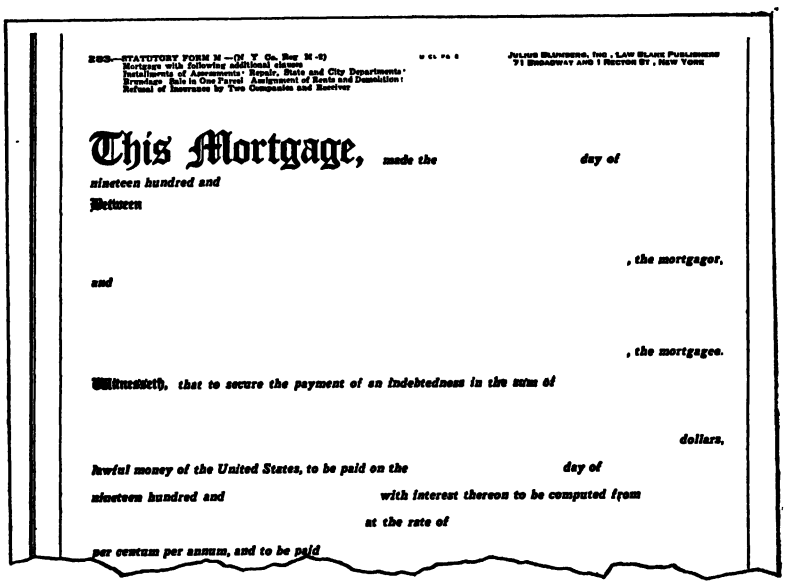
Recording the deed. As soon as a person receives a deed, he should take it at once to the office of the recorder of deeds or of the official responsible for this task, where it is copied into the records. These records will serve as legal evidence in settling any future disagreements or losses of owner's deed.

What about plans for financing? When it comes time to have your own home, you may be very prosperous and have accumulated considerable savings and wish to pay for the whole thing with cash. Most people, however, pay for only a small part of their obligation and obtain a loan for the remainder, usually in the form of a mortgage.

Obtaining a Mortgage. A mortgage is a legal document in writing conveying an interest in your land or house as security for a loan. If you borrow money from a bank and pledge your home as security for the loan, you are the mortgagor and the

bank is the mortgagee. A mortgage should be in writing, and the signatures should be witnessed. Mortgage forms can be purchased at any stationery store for a small sum.

In transactions involving mortgages, two papers are usually required: a mortgage note and the mortgage. The mortgage



2205.—STATUTORY FORM M.—(Id. Y. Cp. Sup. M-6) Mortgage with following additional clauses: Installments of Assessments: Repair. State and City Departments: Drainage. Sale in One Parcel. Assignment of Rents and Damnation: Refusal of Insurance by Two Companies and Receiver

JULIUS BLUMBERG, INC., LAW BLANK PUBLISHERS 71 BROADWAY AND 1 RECTOR ST., NEW YORK

This Mortgage, made the day of

nineteen hundred and

Between

, the mortgagor,

and

, the mortgagee.

Witnesseth, that to secure the payment of an indebtedness in the sum of

dollars,

lawful money of the United States, to be paid on the day of

nineteen hundred and with interest thereon to be computed from

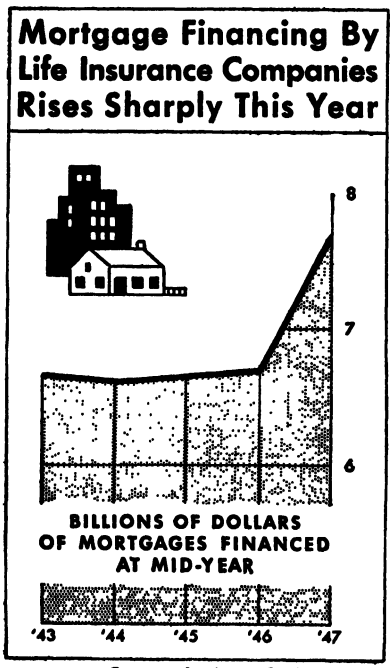
at the rate of

per centum per annum, and to be paid

Note that the mortgage form specifies the amount of the loan and also how it is to be paid.

note specifies the amount of the loan and how it is to be paid. The mortgage is the part of the transaction that forms the security for the loan. You will get a receipt when you have paid the mortgage in full and will receive in return the mortgage and the note. If you are unable to meet your obligations of paying the loan and interest, the mortgagee has the right to take legal action against you. This is known as the "right of foreclosure."

Where Can You Borrow Money to Purchase a Home? Suppose you want to find a reliable agency that will lend you money for obtaining your home. You will discover that the procedure and the interest charges and special costs vary according to the type of lender, and these will be worth investigating. Some lenders charge for examining the title, for appraising the value of the property, for recording the mortgage, and for certain legal expense. If you ask a lawyer to help, he will also charge for his services. For example, you may want to obtain title insurance that provides you with a guarantee against defect in the title, and for which there is a fee. While the interest rates vary, the percentage that lending agencies will loan on the value of your property is about the same, the liberality of the loan depending on community conditions.



Courtesy Institute of Life Insurance

A chart devised in 1947 to show the increase of mortgage financing by life-insurance companies during that year.

Several sources for obtaining a loan are open to you.

1. Your Local Savings Bank. Savings banks have money that they are willing to lend on good first mortgages. They are an important source for obtaining loans on homes. When you apply for a loan, an officer of the bank, or a committee, usually visits your property and makes an appraisal. The size of the loan is generally re-

stricted by state law to a certain percentage of the value of the property, but there are no state restrictions on making liberal or conservative appraisals. Some banks extend loans for short periods only, such as three, five, or ten years, but loans can be extended to longer periods.

2. TRUST COMPANIES. These banks receive large sums of money from estates and organizations to invest for income. They like good first mortgages and their lending policies and methods are similar to those of savings banks.

3. INSURANCE COMPANIES. These companies receive premiums from thousands of policyholders, which they invest in good securities. They will lend on first mortgages of the best type, and also follow much the same plan as the savings banks and trust companies. It should be noted here that insurance policies may provide cash that can be used to pay mortgages. Also, an insurance policy can be used as the basis of obtaining a loan. The policy must be given to the insurance company as security, and the loan can be repaid when it is convenient. If death occurs before the loan is repaid, the amount of it is deducted from the payment due the beneficiary.

4. BUILDING AND LOAN ASSOCIATIONS. In most states, these organizations operate something like banks. While you are depositing monthly amounts, you may also borrow money for the house you are building. They extend loans to you for reasonably long periods, usually about 12 years. They often appraise your property at full market-price value. First-mortgage loans are made on property to a certain percentage of their value, depending on local conditions.

5. MORTGAGE COMPANIES. These companies are an important factor in home financing in many large communities. Their methods and policies differ greatly, and usually they are not placed under such legal restrictions as banks, trust companies, and insurance companies. They ordinarily do not lend in ex-

cess of a certain percentage of the valuation of your property, unless a commission is charged.

6. INDIVIDUALS. You may also obtain loans from private persons who can be found in any town or city. They are free to operate as they please as long as they abide by state statutes on



Courtesy Farm Security Administration, Photo by Rothstein

In times of depression, families have lost their homes through foreclosure proceedings and have been forced to sell everything.

lending. They will probably be willing to lend a higher percentage of the property value than other lending institutions in the community, but you will have to pay a slightly higher rate. Naturally, you should deal only with reliable lenders.

7. THE FEDERAL HOUSING ADMINISTRATION. You may wish to let the Federal Housing Administration aid you in getting your home. The FHA provides federal insurance on loans that are obtained through an approved lending agency. If the FHA approves the loan, the money can be borrowed from the regular

lending agency. You may, if you meet the requirements, borrow up to 90 per cent of the appraised value of the house you wish to buy, as established by the FHA on one first mortgage. If you wished to build a $6,000 house, you could make a first cash payment of 10 per cent, or $600. Installments on the principal may be paid over a period of 25 years with interest at 4½ per cent or less, plus one-half of 1 per cent for mortgage insurance.

You can always talk over with your architect, contractor, or the representative of an approved lending agency the preliminary problems of home-building requirements and financing. Tell them how much cash you can invest in a home and the value of the land you already own. Indicate the approximate price of the house you wish to build and how much you can afford to pay each month. If it is determined that your home requirements are in line with your income, your next step is to have plans, specifications, and estimates drawn up. When these are ready, your FHA mortgage application should be placed with your lending agency, which in turn will send it to the nearest office of the FHA for consideration.

If the location and type of house and the mortgage application are approved by the FHA, it will then inform the lending agency that it will insure your mortgage when the job is complete. With this done, you or your contractor can obtain a construction loan and proceed with the building of your home.

If You Buy a House, You See What You're Getting

Now that we have been over these first considerations which all prospective homeowners must think about, we can discuss some of the special angles you would encounter in buying or building a house. The chief asset of a house that you buy, for instance, is that you can see just what you are getting — you know that it fits your requirements and that you and your

family are going to be happy in it. There is also the advantage that if the house is already built and ready to be occupied, there will be no delay in moving in. You can save the rent you would otherwise be paying while waiting for a new home to be built.

You know at once how much you will have to pay for your house. You won't have a whole lot of extra expenses, say, for window shades, screens, and awnings. If you buy a house that was built a few years before, it has had time to show any defects in construction. The heating plant has been tested, and the plumbing and electric wiring have been well tried out. You can find out how much it will cost you to maintain the house. Also, you may prefer to assume the responsibility of loans that have already been arranged by the previous owner, rather than to pay everything in cash or to negotiate a new loan. It may be easier to sell the house to someone who has a similar preference.

What if You Build Your House?

It's true that if you build a house you will probably have one more suited to your desires and tastes, and will enjoy including certain features of your own planning. You will have the satisfying feeling that it is wholly yours. You can choose any locality you wish. You may also get a better constructed house if you can supervise the building yourself.

However, there are some distinct disadvantages in building that you should recognize fully. Most people cannot be informed about all the various kinds of material and workmanship that go into a house, or be as skilled as the craftsmen who work in the building trades. Consequently, you may not get the best possible result. There is also the additional trouble of buying a lot that must be graded, drained, and improved with streets, walks, sewers, and gas and electric-power lines. Another decided disadvantage of building is that the cost may exceed your budget because of unforeseen delays, changes, and other

troubles. You may also be delayed in occupying the house if you can't get material or if bad weather hinders construction.

Only you can decide how important it is in your scheme of life to build your own home. Some things to be considered before building are

Consult a reliable architect. An architect will not only draw up the plan of your home and its specifications but he will also often make all preliminary arrangements and supervise the building of it. Fees vary, but they often run from 5 to 10 per cent of the valuation of the house.



Courtesy Public Housing Administration

The architect and the contractor both play important parts in the building of a home.

Specifications are needed. Specifications are technical descriptions of the kind and quality of materials to be used. These should be agreed on by the owner and the contractor, and when accepted and signed by both, become a part of the contract. Specifications are usually listed under general headings, such as brick, carpentry, painting, plastering, plumbing, sheet metal, floors, roofing, etc. Then details are given, for example, that all lumber is to be yard dried and is to be sound yellow pine or Douglas fir. Or the specifications may state that the kitchen and bathroom are to have standard gauge linoleum floors, which are to be cemented over felt, with seams laid in waterproof cement. You can see that each specification must be in detail and must be complete and accurate.

Select a responsible contractor. Unless you know a reliable contractor, you may let two or three responsible contractors bid on your plans and specifications so that you can give the job to the one who is lowest in price and will do the best work. A good architect will see that the contractor uses the materials and does the work as agreed.

A fair contract should be drawn up. You should have a lawyer draw up a clear and definite contract between you and the contractor. It should provide for a third party to settle any possible disputes that cannot be settled between you and the contractor.

You must obtain a building permit. Every community of any size requires that a permit be obtained before any building is erected or alterations and repairs exceeding a certain amount are made. Your contractor will obtain the permission from the building commissioner who must approve your plans and specifications in accordance with the building laws and zones in his community.

Before releasing contractor, check on all bills. Because you probably contracted to pay for your house in one or two payments to the contractor, you will ask him to settle all bills before you pay him these large amounts. Remember that if he does not pay all the workmen and pay for all the materials, you will be liable for unpaid bills, that is, a legal claim called a "lien" may be filed by the workmen against the property.

Summary

When you are ready to have a home of your own, you will have to decide whether you will buy a completed home or build one according to plans of your own. Even before you come to a final decision in the matter, you will want to consider carefully all the problems involved. There are certain advan-

tages in buying a house that is already completed; not the least of these is that you know the exact cost and that you can take possession at once without the delays and annoyances that occur when you build your own house. But whether you buy or build, you should make sure that the title to the property is clear and that the deed is correct and properly recorded.

The actual financing of your new home will probably have to be done through borrowing money and giving a mortgage or claim to your house as security for the loan. In this case you should be clear as to the rights and obligations of the agency that lends you the money as well as your own rights and obligations.

It is possible to borrow money on a mortgage note from your local savings bank, from a trust company, from an insurance company, or from a building and loan association. Of course, you might borrow the money from a private individual. The plan of the FHA makes it possible for you to borrow a larger amount and to pay less for the loan, which must be repaid in monthly installments over a period of 25 years or less.

Questions for Discussion

1. In what sort of neighborhood should you choose to build or buy a home? What characteristics should you especially stress?

2. Why is it bad for a family to put too much of its income into payments on a home or into maintaining and operating the home?

3. Even though it is possible to buy a home with a low down payment, why is it wise to make a substantial down payment if possible?

4. What steps should you take to make sure that you have clear title to land and property?

5. How much would an architect's fee probably be on a $10,000

house? Do you think his services would be worth that much to you?

6. Which would you rather do, buy a house already built, or build your own home? Why?

Practical Applications

1. A young married couple with one small child have been paying rent of $40 for three years. They do not like the neighborhood in which they live, and, since they have $2,000 in savings and other investments, they think it is a good time to have a home of their own. The husband has a good position with a salary of $3,500 a year, and the prospects are good for a substantial increase soon. They find that they can buy a completed house that suits them for $5,500. They find that they can build a small home in a desirable neighborhood for $6,000, including the lot. Which plan would you advise them to follow? Which plan fits the income better? What should be the amount of the first installment? List the factors they should consider before they begin to build.

2. An interview with one of the local real-estate agents will give the businessman's viewpoint of building a home. Whether a committee of pupils sees the agent or whether he comes to speak to the class, the pupils should have their questions for the interview well organized.

3. You will want to get the information about the lending agencies in your community. Perhaps you can obtain sample forms of a mortgage from a bank, an application for a loan from a building and loan association, or a sample deed from a realtor. In addition, you will get some ideas about their terms and requirements.

4. What is the tax rate in your town? Is the property evaluated fairly? On what value of the property is the tax rate based? You may need to go to the county courthouse for some of this information.

Problem

Gather house plans and pictures of fittings and various modern features of homes from magazines, advertisements, newspapers, and local firms. Try to get at least approximate cost figures as you go along. Decide the kinds of arrangement and the physical features that are especially desirable in a home. Arrange your pictures with a display to show the kind of home you would choose and the features you would consider worth the money.

PART 11

The Consumer and Society

CHAPTER 28: THE WHAT AND THE WHY OF TAXES

CHAPTER 29: THE CONSUMER AS A CITIZEN

One of the airplanes that are sold nowadays to private fliers has a cruising speed of 90 miles per hour. But that is not always the speed the pilot actually makes. If he is flying head on into a 30 mile per hour wind, his actual speed is reduced to 60 miles an hour. But if he is flying downwind on the same wind, his speed becomes 120 miles an hour.

Our economic lives are something like that. How fast we get along is not determined entirely by what we do as individuals. In a period of prosperity we are helped along like an airplane riding a tail wind. Even machine workers get along pretty well. But in a period of depression we are like an airplane bucking a strong head wind. Even the best of us can hardly make any headway.

Therefore if we want to live rich, happy lives, we must learn to look beyond our private, personal affairs. We must take part

in another job — the job of helping to keep the whole situation good for all the people. We are dependent on others; they are dependent on us. If anybody falls down on his share of the job, everybody is the worse off for it.

In this final part of the book, we want to look briefly on what this means to you as a consumer-citizen. First, we shall look at the matter of taxes. For taxes are the way that we consumers, all together, buy certain things for ourselves that we could hardly buy as single individuals. If it is sensible to study how we spend the money in our pocketbooks, it is just as sensible to study the use of our tax money. Second, we shall look at our more general responsibilities that come to us with the power we have in this great democracy of ours.

Chapter 28. THE WHAT AND THE WHY OF TAXES

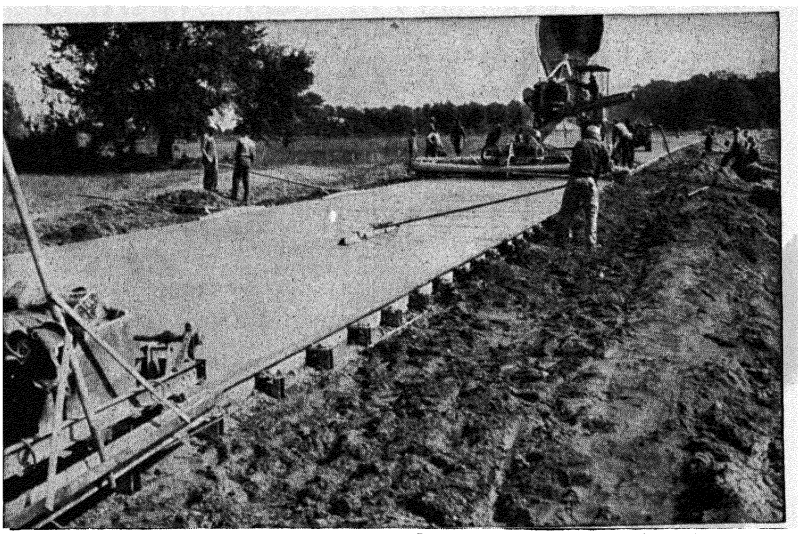
Benjamin Franklin said, "In this world, nothing is certain but death and taxes." Taxes begin soon after we are born and continue until death, for there are even such things as "death" taxes. You probably hear more objections to taxes than praise. Such expressions as "Reduce the tax burden," "Balance the budget," and "Economy in public expenditure" run through the newspapers. Our representatives in the government know that taxes are unpopular and often indicate that they would like to reduce them.

We know that money must be raised, and yet we ask ourselves, "Why are taxes so high?" "Why are there so many kinds of taxes?" "Where does all the money go that we pay in taxes?" "How do I benefit from paying taxes?" In this chapter we shall try to help you find some of the answers to these questions.

What are taxes? *A tax is a compulsory contribution made by citizens and others to the government so that it may carry on the services required by the people.* By common consent, taxes are imposed by the various forms of government under which we live: town, county, city, state, and nation. They are collected for the benefit of all the citizens of a community, not for any particular individual. *All* persons are required to pay taxes in some form, whether or not they approve of them or have occasion to use all the services.

Why are taxes levied? Taxes are levied chiefly for two purposes: for revenue and for purposes of regulation.

For Revenue. As a future resident of a town or city, you will probably not like to pay taxes any better than our forefathers did. However, you can easily see that unless you do pay taxes



Courtesy Michigan State Highway Department

The taxes you pay your state enable it to serve you in many ways. Construction and maintenance of highways is one of these services.

you will not enjoy many of the benefits they bring. Taxation really is a cooperative way of paying for present community services and for those which we are constantly demanding. You would not wish to be without the protection of police and firemen. You would not want to be responsible for the disposal of your own garbage or ashes. It would be a misfortune if public parks and playgrounds were abolished and you had to depend on yourself or others for the space in which to enjoy recreational and picnic facilities. You would not care to drive your automo-

bile far if roads were muddy, rutted, dusty, or narrow, as they used to be.

States levy taxes for many of the same reasons towns and cities levy taxes. However, states render other services for which we must pay. Among these services are the building and maintaining of state highways, universities, hospitals, schools for the feeble-minded, jails, and asylums and the maintenance of the police and the state government.

The financial needs of the national government are so great and the services it performs for us today are so many that it is impossible to list all of them. The chief need for revenue by the national government during the past few years has been to pay the costs of the greatest war ever waged. Now that peace has come, large sums of money are required to care for the wounded and disabled veterans, to give them an education and homes, and to care for the dependents of those who lost their lives. We shall have to pay heavy taxes for many years if we are ever to reduce just this one huge debt we have incurred.

For Regulation. Taxes are also levied in order to regulate certain businesses in the interest of the public; these taxes are called "licenses" or "franchises." A license is a permit to conduct a certain business or to do certain things. In order to be sure that too many do not enter into particular lines of business and that business will be conducted properly, the government requires individuals and corporations to obtain a permit for which a tax is paid. If a group of persons wishes to operate a gas or electric-lighting business, a franchise must first be obtained. Corporations must pay a charge to obtain charters to do business, and must pay a tax to the state or the Federal government, whichever issues the charter.

If you, as an individual, wish to operate a taxi business in your community, or to hunt and fish within the state, or to get married, you must obtain a license.

Upon what principles are taxes based? Taxes are levied upon various individuals and firms according to two basic principles.

According to Benefits Received. This idea is that those who receive benefits from government should pay for the services rendered. The greater the benefit, the greater the tax should be. However, this principle is difficult to apply. There is no accurate way to measure the amount of benefit a person receives from governmental services; moreover, it is impossible to determine how much more benefit one person receives than another. It frequently happens that those who get the most are the least able to pay taxes. George Wilson, a millworker with five children, receives more help from public education than wealthy Richard Weaver with only one child. Yet, George Wilson pays the smaller tax. Do you think this method is a very satisfactory way to levy taxes?

According to Ability to Pay. The argument here is that those who are able to pay taxes because of their greater wealth should contribute in greater amounts to the expenses of government. But what is a fair measure of ability to pay? Should it be based upon the amount of property one owns, upon the size of one's income, or upon what one spends? As a matter of practice all three measures are used. If a family owns its home, this is considered evidence of their ability to pay taxes. When several members of a family earn an income in offices, there is obviously ability to pay something. If the members of a family spend money for an automobile and fur coats, it is assumed that they are able to pay taxes.

Why do some pay higher taxes than others? If my income is twice as large as yours, should I pay twice as much in taxes as you? Or should I pay at the same rate? In practice taxes are sometimes *proportional* and sometimes *progressive.*

Proportional Tax. A proportional tax is one that is levied on

all taxpayers at the same rate, regardless of the amount of income. Whatever the rate may be, it is applied to all alike. For example, if the rate is 6 per cent and you have an income of $1,500, you will pay a tax of $90. If my income is $3,000, I shall



Courtesy Grey and *Kansas City Star*

The cartoonist calls this "Room for One More."

pay $180. I pay a higher tax than you do, but the rate is the same.

Progressive Tax. A progressive tax places an increasing rate on income as the income increases. For example, Jim, whose income is $2,000, might pay 6 per cent, or $120; Jerry who earns $10,000, might pay 10 per cent, or $1,000; Don, who makes $100,000, might pay 60 per cent, or $60,000.

Who pays taxes? This may seem like a foolish question to ask since we have already indicated that practically everybody

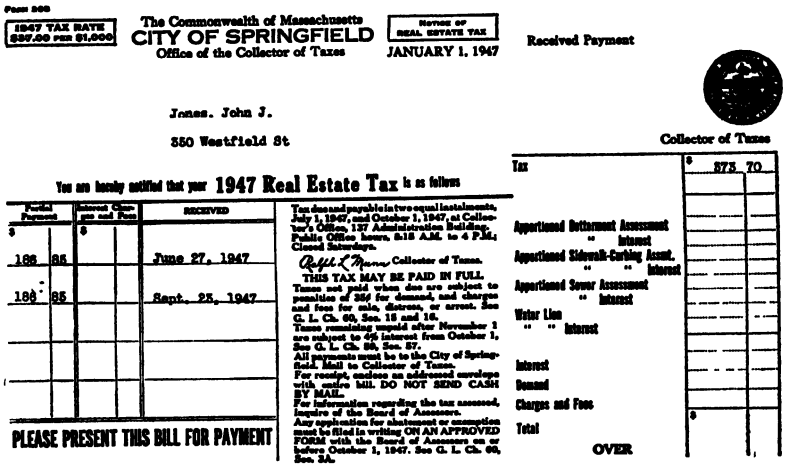
pays taxes in one form or another. However, a poor family may think that they escape payment of taxes, because they do not own their own home, and do not run an automobile and because their father makes a small salary. To be sure, their father may never receive a tax bill and may not be taxed directly. The mistake they make is that they forget about the many indirect taxes they are obliged to pay. Even though they may not own their own home and may have an income below the level taxable by law, they still must buy food and shop for other articles. Concealed in the price that they pay for what they buy is a share of the tax that businessmen and corporations are obliged to pay. Also if someday you rent a house, a farm, or an office, you will find included in your rent a part, if not all, of the tax that the owner had to pay.

How do direct taxes differ from indirect taxes? Some of the taxes you will be called upon to pay in the future will be levied upon you directly, that is, you will know that you are paying them. The property tax, for example, that your father now pays on the home is a direct tax. Other direct taxes are income taxes, the excise tax on the automobile, the tax on the gasoline to operate the car, and any other sales tax. Some states impose a poll tax that every man over twenty-one must pay in order to vote. This is a direct tax.

However, taxes are not always levied directly. Many taxes are concealed in the prices paid for goods. These are known as "indirect" taxes. They are sometimes called "invisible" taxes because they are levied in such a way that we are not always conscious of them. Many things that you buy almost every day carry a tax of this kind. When you buy playing cards, cosmetics, toilet articles, or other luxuries, you pay an indirect tax because the producer or wholesaler, as well as the retailer, passes his tax to you in this way. So far as the producer is concerned, the tax is direct; but in your case it becomes an indirect tax. Taxes of this

kind are used because they are considered painless and easy to collect and because they bring in much revenue. Indirect taxes spread the cost of government over larger groups of people.

Why are there so many kinds of taxes? There are many kinds of taxes because it would not be wise or practical to raise



1947 TAX RATE $37.00 per $1,000

The Commonwealth of Massachusetts
CITY OF SPRINGFIELD
Office of the Collector of Taxes

NOTICE OF REAL ESTATE TAX
JANUARY 1, 1947

Received Payment

Collector of Taxes

Jones, John J.

350 Westfield St

You are hereby notified that your **1947 Real Estate Tax** is as follows

Partial Payment	Interest Charges and Fees	RECEIVED
$	$	
186 86		June 27, 1947
186 85		Sept. 25, 1947

PLEASE PRESENT THIS BILL FOR PAYMENT

Tax one and payable in two equal instalments, July 1, 1947, and October 1, 1947, at Collector's Office, 137 Administration Building, Public Office hours, 8:15 A.M. to 4 P.M.; Closed Saturdays.

Collector of Taxes.

THIS TAX MAY BE PAID IN FULL.

Taxes not paid when due are subject to penalties of 3% for demand, and charges and fees for sale, distress, or arrest. See G. L. Ch. 60, Sec. 15 and 16.

Taxes remaining unpaid after November 1 are subject to 6% interest from October 1. See G. L. Ch. 59, Sec. 57.

All payments must be to the City of Springfield. Mail to Collector of Taxes.

For receipt, enclose an addressed envelope with entire bill. DO NOT SEND CASH BY MAIL.

For information regarding the tax assessed, inquire of the Board of Assessors.

Any application for abatement or exemption must be filed in writing ON AN APPROVED FORM with the Board of Assessors on or before October 1, 1947. See G. L. Ch. 60, Sec. 24.

Tax	$ 375 70
Apportioned Betterment Assessment	
" Interest	
Apportioned Sidewalk-Curbing Assmt.	
" " Interest	
Apportioned Sewer Assessment	
" Interest	
Water Lien	
" " Interest	
Interest	
Demand	
Charges and Fees	
Total	$

OVER

Courtesy Office of the Collector of Taxes of Springfield, Mass.

A real-estate tax form. The real-estate tax is a direct tax.

all the necessary funds to pay for the various governmental services through one tax. It would be so high that we would all protest seriously. Therefore several different kinds have been devised to get money from us in as easy a manner as possible. It would be tiresome and of no interest to you to list all the taxes you will pay at one time or another. However, there is one tax that is worth your special attention.

Income taxes. The Federal government and many of the states levy income taxes. Since the various states differ in regard to the amount of income to be taxed and the rate of taxation, we shall leave you to find out about this when the time comes for you to pay such a tax. In the case of state income taxes, incomes

are often divided into two classifications: *earned* and *unearned.* By *earned* income is meant that income which is derived from wages, salaries, fees, commissions, or bonuses. In other words, it is what you actually earn by your labor or services. *Unearned* income is that income derived from any form of investment, such as interest on bonds or savings or dividends from stock. Many states tax unearned income at a higher rate than earned income.

The Federal income-tax laws have been changed so many times and are undergoing so many different interpretations that it is difficult to say how long the present requirements will be in effect. Present regulations are that your employer is required to deduct from your wages a certain amount and send it on to the proper authority.

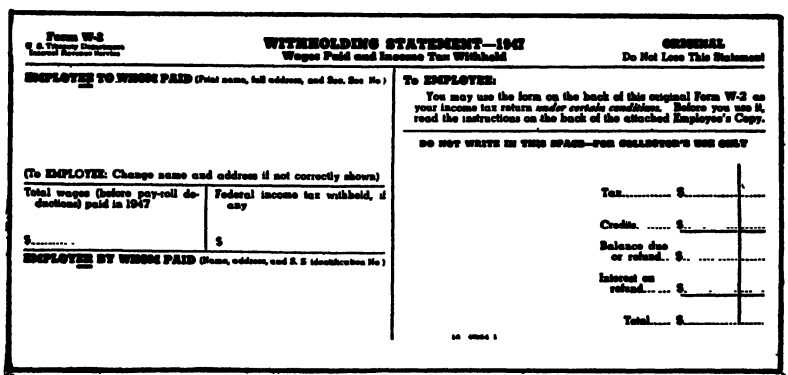
In 1948 when all income taxes were reduced, married couples had the privilege of splitting incomes. A husband and wife may file a joint declaration paying a surtax on two small pieces with lower rates than would apply to the total.

Who Must File a Return? When you fill out a form and send it to the proper authorities, this is called "filing a return." Everyone, including minors, whose annual income is $600 or more must report earnings. If your income is less than $600 but your employer has withheld part of your wages, you should file a return in order to get back this money. It should be filed as soon after January 1 as possible, but not later than March 15. The return should be filed in person or by mail with the Collector of Internal Revenue in your district or at a branch office.

What Form of Return Should Be Used? Our present income-tax system is called the "pay-as-you-go system." Under this system most people pay their tax during the year in which they receive their income. The tax is withheld from their wages by their employers. The form used is called the Withholding Receipt, Form W-2 Revised. This is given to you in duplicate by

your employer. On this form you state your income and exemptions and the collector will compute your tax. He will give you credit for the amount your employer has already deducted and will send you either a bill or a refund check for any difference. A sample of this form is shown on this page.

Although you will probably make use mostly of the Withholding Receipt, it is possible that your income may become



Form W-2
U. S. Treasury Department
WITHHOLDING STATEMENT—1947
Wages Paid and Income Tax Withheld
ORIGINAL
Do Not Lose This Statement
EMPLOYEE TO WHOM PAID (Print name, full address, and Soc. Sec. No.)
To EMPLOYEE:
You may use the form on the back of this original Form W-2 as your income tax return *under certain conditions*. Before you use it, read the instructions on the back of the attached Employee's Copy.
DO NOT WRITE IN THIS SPACE—FOR COLLECTOR'S USE ONLY
(To EMPLOYEE: Change name and address if not correctly shown)
Total wages (before pay-roll deductions) paid in 1947
Federal income tax withheld, if any
$
$
EMPLOYER BY WHOM PAID (Name, address, and U. S. identification No.)
Tax..... $
Credits..... $
Balance due or refund.. $
Interest on refund..... $
Total..... $

Form W-2 that was used in 1947 to declare the taypayer's earnings and withheld tax.

so large that you will want to obtain greater deductions. In this case you should use a Short-form Return, Form 1040. On this form no deductions are listed and no computation of tax is necessary, since the tax is found in a table that automatically allows you 10 per cent of your total income for deductions.

What Deductions Are Allowed? Deductions are automatically taken care of in the case of the Withholding Receipt and the Short-form Return, Form 1040. However, since the use of these forms is a matter of choice, anyone who claims deductions of more than 10 per cent of total income may itemize his deductions on pages 2 and 3 of Form 1040. Deductions may be made for charitable contributions, interest paid, taxes, medical and

dental expenses above a certain amount, and miscellaneous expenses. Furthermore, a married person may deduct $600 for himself, $600 for his wife, and $600 for each dependent relative. A further deduction of $600 is allowed persons of sixty-five years of age or over who fill out their own returns.

What Happens if You Change Jobs during the Year? Each employer for whom you work must give you a Withholding Receipt for the taxes withheld from your wages. If you work for more than one employer during a year, you should have one such receipt from *each* employer. *All* the receipts must be filed together. However, if a return is made on one of the receipts, only that one need be filled out. All other receipts must be attached.

These withholding receipts are important and should be kept. If you should lose one, you may ask your employer to give you a copy. If you are unable to replace it, you are not permitted to use the Withholding Receipt, but must use Form 1040 instead.

Where Do You Get Forms and Assistance in Making Them Out? You may obtain Form 1040 at any collector's office, bank, or post office, or from your employer. If you need information and assistance in filling out the form, it can be had from the collector in any district or from one of the branch offices. Deputies spend a few days in various towns and villages for the purpose of aiding those who need help.

What should be your attitude toward taxation? Many people fail to see that they derive benefit from taxes, and therefore they dislike being obliged to pay them. It may be true that some of the numerous taxes we pay could be eliminated. This, however, would not do away with the need to raise revenue in order for us to enjoy certain services and benefits. We can grumble as much as we please about taxes, but remember that if we do not pay for services in this manner, we shall either go without them or pay so much for them that we can enjoy few



Courtesy Cargill and *The Dayton Herald*

The average man pays many taxes without realizing that he is being taxed.

of them. When each of us pays a share, all of us profit. There seems to be no other satisfactory way of arranging things.

Also along with the paying of taxes there goes a responsibility for all of us to see that tax money is spent efficiently and that as little of it is wasted as possible. Everyone knows that much tax money is wasted or spent unwisely. When you become a more mature citizen, you should insist that this does not happen. It is only by being vigilant that the consumer of tax benefits can be assured of getting his money's worth.

Summary

While some taxes are burdensome and many are nuisances, as matters stand at present they are nevertheless necessary if we are to pay for wars, to feed unfortunate people abroad, to enjoy the many services provided by the different forms of government, and to meet future needs. Unless governments have incomes from some source, they cannot function, and we would find it almost impossible to carry on our daily activities efficiently and in peace. So long as you require services from your government, you should be willing to contribute your share to the support of government. You cannot expect to enjoy protection for yourself, your family, or your business without paying for it. It is a cooperative way of purchasing the services and goods that we demand constantly. But we should always be vigilant to see that the tax money is spent wisely and efficiently and not wasted.

Questions for Discussion

1. We now support by taxes many things, such as public schools, that used to be paid for on a private basis. Why do you think we have gone in this direction?

2. What are some of the most valuable services we pay for through taxes?

3. Which do you think is fairer, a proportional or a progressive tax? Why?

4. Would it be better to raise more of our tax money by direct, instead of indirect, taxes? Why? Why not? Would you yourself prefer to be taxed directly or indirectly?

5. Why should everyone be vigilant to see that tax money is not wasted? What can one do about it?

6. What benefits are derived from taxes levied by (a) your local government, (b) your state government, and (c) the Federal government?

7. If you were the owner of an automobile, what benefit would you get from the gasoline tax you had to pay?

8. Many people object to paying taxes claiming that services should be paid for in some other way. Would it be possible to pay for the services of our local government in the same way we pay telephone or water bills? Discuss.

9. Show how placing some direct tax upon every individual might bring about a more intelligent and critical attitude toward the spending of public funds.

Practical Applications

1. Get sample forms for making out state or Federal income-tax returns. Study them to see how the amount of a person's tax is determined.

2. Get similar forms to see how property taxes are worked out. What government units levy a property tax where you live?

3. In your town or county, who decides what kinds of taxes shall be levied and how large they shall be? How is the decision made?

4. Are there any services which are not now provided by your community but which you think it ought to provide and for which people would be happy to be taxed?

Problem: Are Taxes Too Burdensome?

During the past 10 years or so, taxes have not only increased in amount but also in number. We know that during the war we submitted to the levying of high taxes on incomes and to the payment of taxes on nearly everything we had to buy. Is it not possible in peacetime to reduce the number of taxes and to make them less of a burden? Especially desirable would be the reduction or elimination of many of the so-called "painless" taxes. Many think that there should be no indirect taxes at all; they think that everyone should be taxed directly so that he will know that he is being taxed and will also know that he is sharing in the costs of government. It has been suggested that our tax system should be simplified, that many nuisance taxes should be eliminated, and that a few revenue-producing taxes should be retained. Some claim that when people have fewer taxes to pay, they do not notice the amount so much.

1. The national debt was greatly increased through borrowing money from the people by the sale of war and savings bonds. We could reduce this debt or possibly wipe it out by canceling these bonds. Would you like to see this done? Why? Why not?

2. Do you believe that people pay direct taxes more willingly than indirect taxes?

3. Do you believe that a tax of some sort should be placed directly upon every person in order to make him more conscious that he is sharing in the costs of government? Would you exempt any groups? Which groups, if any?

4. What services would you eliminate in order to reduce the amount of taxes?

5. How would you have these services performed if government no longer performed them?

6 If fewer taxes were levied, would the amount of these taxes be greater than they now are or about the same?

7. Have you any suggestions to make as to how we may continue to enjoy governmental services and still pay less taxes?

Chapter 29. THE CONSUMER AS A CITIZEN

Through most of this book we have written about the things you can do as an individual to get the most out of whatever income you have. That is very important. One authority has estimated that if all consumers were educated in buying wisely they could get 25 per cent more value for what they have to spend.

But no matter how shrewd or skillful you may make yourself, you cannot depend entirely on your own efforts to make a good life. To a large extent, how good a life you can have will depend on the success and prosperity of our whole country —and of the whole world. If we have long, serious depressions, you may do badly, even though you are an efficient individual. As we have mentioned before, during the last major depression, millions of highly skilled workers went for months without jobs, lost their savings, and had to get along in a very skimpy way. On the other hand, when conditions in general are good, it is relatively easy to find jobs and to live rather well.

But the difference between prosperity and depression is not the only important factor. In the best times we have to watch many matters. For example, just after the war we were very prosperous, but many families could not find good homes to live in. A nation that could rise up overnight to build 50,000 airplanes a year should have been able to get dwellings built swiftly and economically. But we failed to formulate wise social

policies, and we permitted homes to become so expensive that few who needed them could afford them. And for quite a while the housing situation went from bad to worse, and it still bothers us.

In olden times, government used to be concerned chiefly with "police" functions—maintaining law and order, preventing



U.S.D.A. Extension Service

If you serve on some committee in your town, make your influence felt and cast your vote as wisely as you know how.

crime, etc. But more and more—whether we like it or not—government is concerned with policies that affect our everyday living; for example, the quality of the schools or of the drinking water in your community depends on the collective action of your citizens. Whether this country will have genuine free enterprise with many progressive companies in open competition—or whether many fields will be ruthlessly dominated by huge monopolies—is also a matter that depends on our actions as citizens.

You are a citizen-manager. In this free land, what happens is in our own hands. If we make wise decisions, we can continue

to be a rich nation and to grow progressively richer. We can virtually wipe out poverty among those who are willing to work hard, but we can condemn ourselves to poverty and want if we make too many bad, hasty, and careless decisions.

Being a citizen and a member of the economic order are no longer two separate things. They are combined. You are a *citizen-manager,* that is, you are a citizen who helps control our political organization and in the same breath you are one of the managers of our national economic life.

You cannot escape this joint responsibility. You may think you can be unconcerned and "do nothing," but you cannot. For if you do nothing you are doing something—you are permitting some group to do what it wants to do. You can no longer vote for a President of the United States or for members of Congress without influencing what happens to the prices of farm crops or wages or business profits, for all these things are influenced by what the government does.

Not All Your Votes Are Political Ballots. For centuries the English Parliament struggled to wrest the "power of the purse" from the kings; for it knew that whoever controlled the money could dictate policies.

As a consumer, you have your share of the "power of the purse." Every time you spend your money, you are casting a sort of "economic vote." If you and many other shoppers choose to spend your money at chain stores, we shall have chain stores. If you choose to support consumer cooperatives, we shall have those. If you buy most from merchants who use sensational, exaggerating advertisements, other merchants will be forced to imitate them. But if you insist on patronizing merchants who tell the truth, you will be backing that kind of business.

The combination of political ballots and economic votes gives us tremendous power. The only question is: How shall we use it?

With power goes responsibility. If we have great power, then we also have great responsibility to use it well.

You Have an Obligation to Be Right. What would you think of the manager of a corporation if he made important decisions without first studying the situation and all the facts? Well, you are one of the managers of the greatest "corporation" of all time—the American economic system. What will you think of yourself if you do not pay attention to your job?

There can be only one answer. An American citizen with the urge to live up to his duties must study. He must learn the basic principles of economics—what makes for prosperity and what does not. He must keep alert. New proposals are constantly being brought forward; he has a duty to evaluate each one and use his influence as seems best.

In high school and perhaps in college, you will have opportunities to prepare yourself. Probably you will not become an expert economist, but you can get a reasonably good background of information. Then, when you leave school, you will have to go on studying.

You Have an Obligation to Be Unselfish. Nothing can wreck our nation faster than to have many factions, each selfishly striving for whatever will best serve its immediate interests. In the long run, even your selfish interests depend on the welfare of the people as a whole. No one group can fully succeed if others fail. But even if this were not true, it would be your duty to make your decisions for the good of all. The generations just ahead of you fought the two cruelest wars in all history to preserve this fair, free land for you. Don't you want to make your contribution, too, even if it costs you some sacrifice?

Exercising your influence. If you wish to discharge your responsibilities as a citizen-manager, you must learn something more than mere economics. You must learn also how to make your influence felt. For this, you must know many things, for

example, how your government works. We do not have space here for a lengthy discussion, but we would like to propose three principles.

Examine Your Own Actions. Not everyone has the ability or the energy to do a great deal of campaigning, make speeches, etc. But each of us *can* see to it that his own actions are good. Perhaps you cannot persuade a hundred other people to go to the polls and vote for the right man, but if you do it yourself, that is something. You may not be able to keep others in your group from acting selfishly, but you are able to keep your own actions geared to the general welfare.

This is often overlooked or underestimated. There are many quiet citizens who do not seem to exert much influence. But their good example influences others more than we think. And their own actions, taken by themselves, add up to a solid core of goodness.

Start Close to Home. Young citizens are often urged to write or telegraph their congressmen, etc. They are made to feel that if they will only take the trouble they can greatly influence national policy. This sort of action is very good in its place. But it is well to remember that there are limits to the influence one can wield over the great federal organization of 140 million people.

You can be much more influential in small groups, among your friends, and in your neighborhood. Your vote for a good school-board member may be more important than your vote for the President of the United States.

Maybe you cannot do much to help underprivileged people a thousand miles away—though you should do what you can—but you *can* help achieve good programs of recreation for everybody in your own community. You can go a long way toward getting a good health program at that level.

Moreover, working in social and political affairs right at home

is the only real way to learn how to influence them at the state or national capital.

Multiply Your Influence. Some citizens wield influence far beyond their power as individuals. They join forceful organiza-



Courtesy Police Athletic League, Inc., of The City of New York

You are never too young to start being a good citizen.

tions and work hard in them. Occasionally they write a letter to their newspaper. They state their positions on various issues to the board of education, to the city council, to a member of the legislature, or to their senators and representatives, as the case may be.

It has been estimated by experts that people who are willing

to do such things—and to do them thoughtfully, with real preparation—can wield as much influence as a hundred citizens ordinarily do.

In Conclusion

You must wonder as you turn the last page of this book, exactly what difference it will make in your life. Will you suddenly find yourself getting 33⅓ per cent more value for your money on everything you buy? Will your financial balance all at once tip violently in the direction of assets? Of course it will not, because the things you have learned are of long-term value. By the time you earn a salary, have a bank account, invest your savings, and buy a home, this knowledge should be a basic part of your thinking.

If you really want to be a good consumer and investor, you must realize first what a tremendous effect your attitude can have on your happiness. It can mean the difference between the bare necessities and the comforts that make life pleasant, between the constant worry of poor investments and the peace of mind that comes with a balanced account book. It can bring to your material lives all the things you want to make them happy.

By your "attitude" we mean the way you go about buying and investing from now on. Our country, in spite of its great natural richness, has many economic imperfections. Only by the combined efforts of all its citizens can they be cured. It takes knowledge and watchfulness and most of all active faith in our power to better our existence. But it is worth while.

Questions for Discussion

1. To what extent do you think your success will depend on your own individual efforts? To what extent will it depend on the social and economic "climate" in which you live?

2. Is it true that one very good way to help yourself is to help others? What specific things could a group of your age do right now in your community to help everyone have a better life?

3. Do you agree with the statement that it is most important to use your influence as a citizen right in your own neighborhood?

4. In what ways can you "multiply your influence" as a member of your school group? Should you do so?

5. Can one have much influence as a single individual? Or must he work through organizations?

Practical Applications

1. What problems of a general economic nature do the citizens of this country have before them now? What do they need to know in each case in order to make a good decision?

2. What evidence can you show that individuals or groups are working unselfishly for the common good? Do any groups seem to be working purely selfishly for their own advantage?

3. What problems need to be solved by the people in your own community? How can they do it?

Problem

Select one problem which you are interested in helping to solve, or one project which you want to see put across in your own school or community. Choose one that can be handled only by group action. Lay out a plan as to how you can wield your influence best to get what you want accomplished. Show just how you would go about it.

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