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COMMERCIAL THEORY AND PRACTICE /

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PREFACE

THE object of this book is to give a brief account of the operations of Commerce in its various departments, and to outline the economic principles on which these operations are based. While the book is designed to serve as a textbook for the examinations of the Society of Arts and the Union of Lancashire and Cheshire Institutes in the "Theory and Practice of Commerce" being, in fact, the only textbook completely covering the syllabus of those examinations—it will also be found suitable for use in the commercial departments of secondary schools. The subject has been treated in such a way as to emphasize the broad principles underlying commercial transactions, rather than to supply a mass of detailed information thereon. It will be useful, therefore, to both teachers and students as a general survey, and will serve as a basis for further specialized study of any one particular sphere of commercial activity.

W. ABBOTT.

MANCHESTER.

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COMMERCIAL THEORY AND PRACTICE

INTRODUCTION

At the present time, and in every country of the world, it is being recognized to how great an extent the success of the great enterprises of commerce and industry depend on the knowledge and ability, not only of those who direct them, but also of their subordinates. In no business can the management afford to neglect the continual changing of conditions, the rise of new problems and new methods, and the necessity for promptly and efficiently coping with these. With the magnitude of modern business organizations, the isolation and inaccessibility of their controllers have almost vanished. The mass of detail inseparable from large-scale trading has caused many duties to be delegated to subordinates, which, in businesses on a more modest scale, would be attended to by the head himself. This in turn gives greater scope for the display of exceptional ability on the part of those who could not hope, by their individual exertions, to obtain the wide field necessary for the exercise of their talents. More and more can the principles underlying trade and commerce be treated scientifically, and the man possessed of ability but with no capital has a better chance than ever before

of utilizing that ability to his own and also to his nation's advantage.

However great such natural ability may be, even though it amount to genius, there is no question as to the advantage, even to such a one, of the study of the principles which he uses almost by instinct. Those who exercise the control of business, indeed, are unable to ignore the conditions which nature and social institutions impose upon them. Rule-of-thumb methods are no more likely to succeed in commerce than in industry, and there is no room at the top for the man whose mental horizon has for its boundary the routine of one section of the counting-house. Not that the training afforded by this routine should be disparaged; no one pretends that a merchant, a manufacturer, or a banker can be said to be trained before he has spent a long time in a counting-house, a factory, or a bank; such a training is indispensable. But this alone is no longer sufficient; it needs vitalizing by the training of the faculties of observation and generalization, by clear reasoning and logical thought.

The theory and the practice of commerce should go hand in hand; the former being tested by reference to the actual facts, and the soundness of the latter by its conformity to the former. Commerce is not a thing of chance; its laws are as plainly written and as unalterable in their effects on commercial transactions as are the well-known physical laws in the operations of Nature. To the young man embarking on a commercial career, unremitting study of these laws is imperative. The instinctive tendency of human nature to take the line of least resistance will otherwise cause him to pursue the mechanical routine of business, and he will fail to conceive of things otherwise than as he sees

them, thus becoming the slave of routine when he ought to be its master. Moreover, the study of the theory of commerce will enlarge his views, and he will benefit intellectually therefrom. One can deal with business details, relatively of the least importance, so much the better with the assistance of large ideas, and it is not by modelling one's actions according to a traditional routine that such ideas are acquired.

Our most successful trade rivals have recognized that a scientific training is just as useful for the commercial man as it is for the doctor or the lawyer, and they have accordingly taken steps to render as accessible as possible the acquisition of such a training. The result is becoming more and more manifest in the keenness of their competition, which, while not wholly due to this cause, is undoubtedly to a large extent accounted for by it. Goods, however high their quality, do not sell themselves automatically, and it behoves us, as the foremost commercial nation of the world, not to rely too exclusively on the reputation we already possess, but to seek to fit ourselves by the extended study of the principles of production, distribution, and finance, to retain our proud position, and, as far as we can, to render that position unassailable.

PRODUCTION AND THE AGENTS OF PRODUCTION

Meaning of Production.—The term Production is usually associated, in the mind of the ordinary individual, with the making of things. Production is an active, not a passive process, and may be exemplified in the operations by which the shoemaker takes various pieces of leather and fashions them into a pair of shoes. But in doing this he has simply taken an article, leather, which was already in existence, and by his efforts has changed it, giving it the form we recognize as a pair of shoes; if the tanner had refused to supply the leather, the making of the shoes would have been impossible. This is the case in regard to all material goods; man cannot produce matter in the sense of creating it; the only thing he can do is to alter its form or change its position. When the miner digs out coal from the bowels of the earth, he merely changes its position; and when the weaver turns out his cloth, that cloth is but an altered form of the yarn supplied to him. In the world of non-material things man can certainly create new ideas, but in the world of material things the only thing he can do is to adapt or readjust matter so that it may satisfy his wants or desires more fully; he can make matter more useful, so that in reality he only produces utilities.

If the meaning of production be taken as signifying

the rendering of commodities more capable of satisfying human wants, we must class as productive activities all those that are engaged with that object in view. The farmer who cultivates his crop of wheat, the dealer who buys the crop and subsequently sells it to the miller, who in his turn grinds it into flour for the baker, who turns it into bread ready for immediate consumption—all these may be considered as engaged in production, since they are all engaged in rendering things more useful. For the same reason, the functions of transport as exercised by the railwayman, the mariner, or the dock-labourer, are productive, since the aim of these is to place commodities in a position where they are capable of being utilized.

Extent of Production.—Up to quite recently it was impossible to ascertain, with any reasonable degree of accuracy, the value of the production of British industry, but the Census of Production, taken in 1908 in respect of the production of 1907, has furnished data whereby a fairly correct estimate may be made of the value of the production of the United Kingdom. The census dealt with thirteen groups of trades—viz., mines and quarries; iron and steel; other metals; textiles; clothing; food, drink, and tobacco; chemical; paper and printing; leather, canvas, and rubber; timber; building; public utilities; and miscellaneous trades, such as the making of scientific and musical instruments, toys, materials for athletic sports, etc. The net output of these trades—*i.e.*, the total value added to the raw materials in the course of manufacture—was about 712 million pounds, and on this basis the total value of the whole output was estimated as 1,765 million pounds. If the output of agriculture—210 million pounds—and from fisheries—12 million pounds

—be added to this, a grand total of 1,987 million pounds is arrived at as the gross output of agriculture, manufactures, and fisheries, according to the Census of Production. If an allowance is made for the many producers on a small scale who were excepted from the census, there is no doubt that the total output would be well over 2,000 million pounds. This represents the total value at the place where production is completed, and as such does not include the services rendered in marketing, nor in the transport of the goods. The following is a graphic representation of the net output of the industries enumerated:

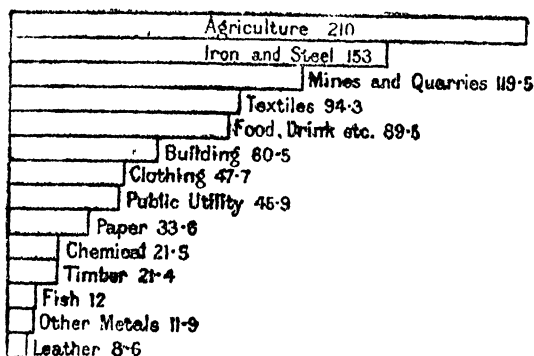


DIAGRAM SHOWING THE RELATIVE NET OUTPUT, IN MILLIONS OF POUNDS, OF THE ABOVE INDUSTRIES.

To produce this enormous quantity of goods necessitated the efforts of upwards of 11 million persons—a fact which should help to emphasize most vividly the contrast between a highly organized industrial State such as the United Kingdom and a primitive agricultural community such as our ancestors formed, not many centuries ago, and such as are at the present time many of the nations of Asia and Africa. This

great volume of industrial production is due to many causes, but the one great feature which has made it possible is the application of the principle of the Division of Labour. By this the productive power of labour has been increased almost inconceivably; complicated operations are analyzed, and each part entrusted to workers according to their individual capacity, thus increasing each worker's dexterity in his particular occupation, and effecting at the same time great economies in both time and utensils. It was the adoption of this principle that gave to the Swiss their pre-eminence in the watchmaking industry. Each worker confined himself to the construction of one special part of the watch, and thus developed a marvellous dexterity in his branch of the work. However, when the division of labour has been carried to such a point that the operations necessary can be reduced to routine, then the time has arrived when the work can be successfully taken over by machinery. This is exactly what has taken place in the making of watches, and at the present time the cheap Swiss watches are being ousted by the cheaper American machine-made watches. This principle of specialization, having been found effective in increasing the product of industry, has also been applied to commerce. Each of the great staple industries has its entourage of dealers, brokers, and agents, who subdivide the different branches of the industry, each dealing with a certain special range of the product.

Cause of Production.—The aim of every organizer of production is to satisfy the wants of those who desire his commodities—*i.e.*, the consumers. On the other hand, a person may desire to consume a certain article,

yet may not possess the means to render that desire effective, and until that is done such a desire cannot be translated into a demand. The penniless street-arab, who stands gazing longingly at the goods in the window of the pastry-cook's shop, certainly possesses intense desires, but from the standpoint of demand, he is entirely ineffective. When a person's means are sufficient to enable him to satisfy his desires, he becomes a potential buyer. Then the organizers of production begin to take an interest in him, and to study the best means of gratifying his wants. When he actually begins to buy, he becomes the focus of the attention of the whole world of industry and commerce.

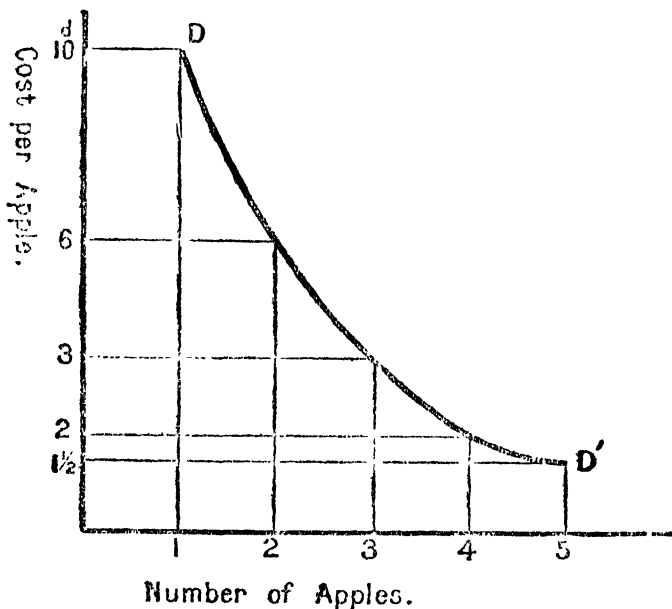
The demand for a commodity in general is not an isolated demand. If a demand arises for ink, associated with it is the demand for pens and paper. The brewer wants malt in order to brew his beer, but along with it he must also have hops, since the one commodity without the other would be of little use to him. Since such commodities are dependent on each other when they come to be consumed or used, the demand for the one must powerfully influence the demand for the other. Another way in which the demand for one commodity entails the demand for others is seen in the demand for manufactured articles, such as machinery, cloth, etc. The demand for these goods causes a demand for the raw materials from which they are made; a kind of secondary demand which is derived from the primary demand for manufactured articles. Secondly, every want of mankind is limited in extent, and the more of a thing that a person has, the less does he desire additional amounts of it, and the less will be the price that he will be willing to pay for these

additional amounts; therefore, the greater the amount of a commodity to be sold, the smaller must be the price at which it is offered in order to find purchasers. For example, assuming that the market price of sugar is 1s. a lb., a purchaser may be willing to buy 1 lb. at that price rather than go without it altogether; but if the market price be 6d. a lb., he will buy 2 lbs., and if the price be further reduced to 3d. a lb., he will then buy 4 lbs. This amount is as much as he wants, and any further reduction in the price would not cause him to buy more. Thus there is a limit to every want, and when a certain want is satisfied, it gives place to the desire for some other thing. If the intensity of the consumer's desire is measured by the price he is willing to give for each successive increment of a commodity, then it is possible to represent the above phenomenon by a curve. Suppose that the commodity in question were fruit, such as apples, and that the price measuring the satisfaction afforded by the first apple were 10d., prices for successive apples being 6d., 3d., 2d., 1½d., then the following curve, *DD'*, would represent the consumers' curve for apples. Such a curve is termed a Demand Curve. (See diagram on p. 10).

The desire for any particular commodity is also influenced by the possibility or otherwise of some substitute being easily available; for instance, coffee may be substituted for tea, margarine for butter, candles for oil, etc.

Thirdly, the sum of the individual demands for any article constitutes the total demand, which, from the producer's point of view, is the demand to be satisfied. This total demand finds expression as the demand of the market. Originally, a market referred to some

particular place in a village or town where goods were bought and sold, but the meaning of the term has been extended in modern times, and when speaking of a market now we refer to any region in which buyers and sellers are in free intercourse with one another, so that the dealings in any commodity may be easily carried on. The region may be a town, a county, a



country, or even the whole of the civilized world, and such are the facilities of communication that the general tendency is towards the widening of the market area. The more perfect the organization of the market is, the stronger is the tendency for the same price to be paid for the same commodity at the same time in all parts of the market. This principle is based on the

assumption that there is perfect competition, and that all the sources of information concerning the market and the dealings therein are equally accessible to both buyers and sellers. Under such conditions, the seller, who was offering his goods in one part of the market at a price lower than other sellers were offering theirs, would inevitably attract the buyers to him, and since no seller would wish to have any part of his goods left on his hands, the other sellers would be compelled to sell at the same price. Competition between the buyers would, in a similar way, lead to the establishment of the same price for the same class of goods throughout the market.

Organization of Production.—In order to satisfy the wants of the consumers, who may be scattered all over the world, the necessity arises for someone to determine the lines on which production should be carried on, and where this should be done, to undertake the assembling of the agents and materials of production, and afterwards to organize these in detail. Such a person has to introduce order and discipline into the unorganized mob of individual producers, and the duties he performs are of the same importance in the army of commerce as those of a General in the military forces of the country. These useful functions are performed by the employer, who may be either a single individual, as in the case of a private firm, or a board of directors, as in the case of a joint-stock company. Thus, the employer undertakes the business of supplying the wants of the consumers as they are expressed in the demand of the market, and for this work ability of a high order is necessary. Moreover, this ability need not be specialized ability—i.e., it is not necessary for the successful undertaking of a large machine

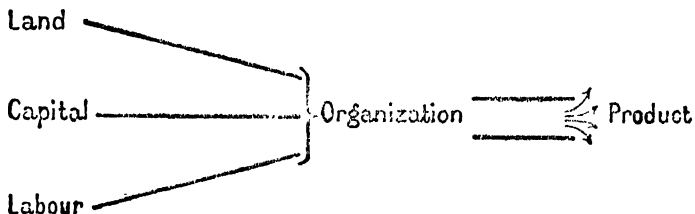
making industry that the undertaker should have been an engineer. An examination of the names in the lists of directors of our railway companies and other great concerns will provide numerous examples of this. So long as the employer possesses general business ability in a high degree, the detailed work of the business may be left to subordinates, and he is enabled to devote himself solely to work which is worthy of him.

His functions are of two types: undertaking and controlling. As an undertaker he must possess the power of forecasting the broad movements of production and consumption, of seeing where there is an opportunity for supplying a new commodity that will meet a real want, of judging cautiously and undertaking risks boldly. As a controller, he must, of course, understand the materials and machinery of his own business; he must be a natural leader of men, and must have the power of first choosing his assistants wisely and then trusting them fully. The controlling function may be further subdivided into the commercial and industrial, the former being concerned solely with dealing, buying, and selling; the latter with the management of the agents of production, including the proportion in which each has to be employed so as to secure the maximum of advantage, and the internal arrangements of the business with the same end in view. Thus, the organizer of industry may be considered as engaged in conducting a peaceful campaign, in which his success depends on the soundness of his strategy in undertaking, and on his fertility of resource in the tactics of business management.

Agents of Production.—In the industry of our day,

production is generally carried on in large units, of which a big factory may be taken as typical. The day of the small independent producer, at least in the staple industries of the country, is rapidly nearing its close, and it is becoming increasingly difficult for the "small man" to establish himself or even to maintain his position in the face of the competition of these larger units. Let us examine the various operations that would be necessary if one of the undertakers of business previously mentioned were to decide on the inauguration of a new business, to be devoted in this case to the spinning of cotton yarn. In the first place, a site for a suitable factory must be acquired, either by hiring or purchase; this is an indispensable preliminary, since production would be impossible without the space whereon to produce, and therefore Land may be recognized as one of the agents of production. His next work would be to build the factory and equip it with the requisite machinery, motive power, and other furnishings. These he must buy, and thus there arises the necessity for the use of another agent of production—viz., Capital—which may be either his own, or, as is more general, that of other individuals from whom he is able to borrow. He must also have a sufficient amount of capital to provide the raw cotton which he intends to convert into yarn. To achieve this object he must next engage workmen to tend the machinery and to exert their labour on the raw material which he has provided. We see, therefore, that in the production of cotton yarn three agents are used—Land, Capital, and Labour, and to these three may be added a fourth—Organization—which the employer or

undertaker himself supplies. This structure of industry may be simply illustrated by the following diagram:



An examination of the accounts of any manufacturing concern will provide further evidence as to the extent to which the payments made for the use of land, labour, and capital bulk in its business transactions. The Trading account will show, under the heading of Wages, the amount appropriated to the payment of the labour exerted in the direct production of the goods. Other charges for labour will also be found in the Profit and Loss account as salaries, such payments being, as a rule, for services rendered indirectly in production—*e.g.*, office staff, etc. In this latter account are also found rent and interest payments, so that some idea may be formed as to the relative proportions of the three agents of production from a consideration of the payments made for their use.

The proportion in which these agents are employed varies greatly in different types of business, and the history of the industrial development of the human race supplies a striking example of the gradually diminishing importance of land in production. In that stage of development when men had to depend on the chase for their food, vast areas of land were necessary to supply the needs of a mere handful of

people, but in the subsequent stages, the pastoral, agricultural, and industrial, land became of less and less importance. In modern times, land is in greatest demand in the pastoral and agricultural industries. While labour occupies a prominent position in most trades, there are some which are particularly noteworthy in respect of the amount employed in proportion to the amounts of the other two agents—for example, labour is the predominant agent in the mining and quarrying industries, in the excavation of canals, and in the constructional industries generally. Capital is the predominant factor in banking, in the dealing in stocks and shares, and in most commercial operations. There is a tendency in an old-established industry for the proportions of land, labour, and capital to approximate to a few types—*e.g.*, one employer may use more capital, another may use more labour, and so on. A continual process of substitution is going on, each agent being used up to a certain limit beyond which the use of a further quantity would not be remunerative. Probably there will be several methods whereby the maximum economies of production will be obtained, and it is in the choice and management of the arrangement adopted that the business undertaker has the opportunity to exhibit his peculiar abilities.

Land.—Land is possibly not the best name for this agent of production, as the usual conception of land is somewhat too narrow. The broader view is to consider under this head both the materials and the forces which Nature gives freely for the aid of man, and it includes not only land in the common acceptance of the term, but also water and the other free gifts of Nature, such as the light and heat of the sun, the

winds and the rain. When we are considering the productiveness of land, our thoughts naturally turn first to its agricultural uses, but we must not neglect its uses as the great storehouse of the raw materials of production other than those of a purely agricultural nature, neither can we lose sight of the fact that it is the ultimate source of all material wealth. The amount of this agent which is considered necessary varies according to the nature of the production to be carried on, though in all businesses it is an indispensable factor, since the use of a certain area of the earth's surface is a primary condition of anything that man can do. In agriculture it bears an important proportion to the other factors; in manufactures it is much less in extent, while in trade and commerce it becomes comparatively a negligible factor.

Perhaps the most important feature of land is the limitation in its extent, particularly in the extent of what may be termed "usable land." Of this, some parts will be more fertile, or more conveniently situated than others, and we may reasonably assume that such areas will be occupied and cultivated before the less fertile and less convenient areas are used. The increase of population and the growing intensity of their wants will soon more than appropriate the produce from these areas in any given neighbourhood, and it will then be necessary to have recourse to the land from which produce will be raised at a disadvantage. While an increase in the Demand for a manufactured commodity would speedily call forth an increased supply of commodities of equal quality, this is not the case with land, owing to the limitation of its extent. Therefore, assuming that there are no improvements in the arts of production, and that the increase of population is

maintained, we shall find that the produce is obtained from land with an ever-increasing degree of difficulty.

Labour.—Where man lives under primitive conditions, as in the parts of the world where the heat of the sun enables him almost to dispense with clothing, and where the luxuriant vegetation supplies him with food in return for the mere exertion of gathering it, the whole of the necessaries of life are freely supplied by Nature, the amount of labour rendered by man being practically negligible. Under ordinary conditions, however, labour must be exerted in an appreciable degree before man can enjoy even the barest necessaries for existence. Labour alone is certainly useless, but when it is exerted in conjunction with the other agents of production, or in conjunction with Land alone, then the result appears in the production of commodities adapted for the satisfaction of our wants. Man is the centre of the problem of production; on the one side, his wants set the machinery of production in motion, and, on the other, he guides and assists in its activities; everything revolves around him.

There is much exertion undergone for its own sake, as in the playing of games, but in the ordinary sense of the word, labour comprises work that is done otherwise than for pleasure alone. For the production of material goods, only two agents are absolutely necessary—viz., labour, and something on which to exercise that labour—*i.e.*, land. The labour may be exercised directly, by the application of the physical powers of man, as in wood-cutting or quarrying; or indirectly, by the application of his mental capacities, as in directing or organizing and inventing, as well as in buying and selling goods. These two broad classes of labour may be still further subdivided. Manual labour may

be either skilled, partially skilled, or unskilled, according to the amount of mental force which co-operates with the purely physical exertion, and the various grades of mental labour range from the mechanical work of the lower clerical grades to the exceptional abilities of the captain of industry. But any classification of labour is, under existing conditions, bound to be unsatisfactory, because one grade shades into another almost imperceptibly, and it is difficult to draw broad lines of division where Nature has not done so. The following rough divisions into four grades is perhaps as suitable a one as any: (1) Automatic manual labourers, including common labourers and machine tenders; (2) responsible manual labourers, including those who can be entrusted with some responsibility and self-direction; (3) automatic brain workers, such as book-keepers; (4) responsible brain workers, including the superintendents and directors.*

Capital.—This agent of production may be distinguished from the two former by the fact that, though many theorists maintain that it is not an absolutely indispensable agent, yet, practically, production as we know it would come to a standstill if it were withdrawn. Even in the most primitive stages of society, capital in some form or other has been in existence—*e.g.*, the implements for hunting and fishing, the herds of cattle and flocks of sheep, etc. Under modern conditions it has advanced to a position of supreme importance, and the present tendency is to accentuate this importance still further. Briefly, capital is wealth which is devoted to the production of more wealth, and the owner of capital expects to derive revenue therefrom. Originally, if an individual refrained from consuming

* Marshall, "Principles of Economics."

the surplus products of his labour, but used them as a store to assist him in further production, he, in this way, created capital. The fisherman who accumulated a store of food for his subsistence during the time when he was constructing a net or a canoe, which would give him a wider range for his fishing operations, created capital. Thus, it was a necessary corollary to the existence of capital that a surplus of goods, over and above what was required for consumption, should be existent; hence capital may be termed "stored-up labour."

The existence of capital has resulted in the interdependence of the agents of production; without capital, labour is almost useless, and *vice versa*. It has also been the means of rendering production on a large scale possible, and thus has enabled the wants of mankind to be satisfied more fully and on easier terms than would otherwise be possible.

QUESTIONS.

1. In what way does consumption influence the production of bicycles, butter, petroleum, and bread?
2. Give any reasons for limiting the agents of production to two—viz., Land and Labour.
3. What do you understand by "specialization"? What is its effect on the production of commodities?
4. Estimate the proportion of the expenses of production which are absorbed by the four agents of production respectively in a shipping business, a coal-mine, and a flour-mill.

If possible, verify the estimate by an examination of the accounts of such businesses.

CLASSIFICATION OF OCCUPATIONS

IN the sphere of production we have already seen that in every operation the exertion of some labour is essential. Such labour may be exerted in diverse ways, and its effect on the raw material of industry may be brought about either directly or indirectly. Taking the meaning of production in its widest sense, as the putting of utility into commodities so as to render them more capable of meeting the desires of the consumer, we shall find that very little labour can be styled unproductive; but as the terms "productive" and "unproductive" are exceedingly elusive, care is necessary when we make use of them. However, it may be taken for granted that most people in receipt of earned incomes are engaged in some form or other of production.

The occupations of mankind may be classified objectively under three heads: (1) Those which are concerned directly with the movement of commodities—*e.g.*, the occupations of mining and transport; (2) those which are also engaged in the handling of goods, but with the object of changing their form—*e.g.*, the manufacturing and constructional occupations; (3) those which are only indirectly connected with the raw material, and in which it may not be necessary either to handle or even to see the goods which form the subjects of their activities—*e.g.*, the trading and com-

mercial occupations. The first and second classes act directly on the goods in such a way as to promote either a change in position or a change in form; the third acts indirectly, and forms a sort of lubricant for the occupations of the two former. In addition to these, there are a number of individuals whose connection with production is even more remote, inasmuch as they are employed in rendering direct services to any member of the other three classes—*e.g.*, the members of the various learned professions.

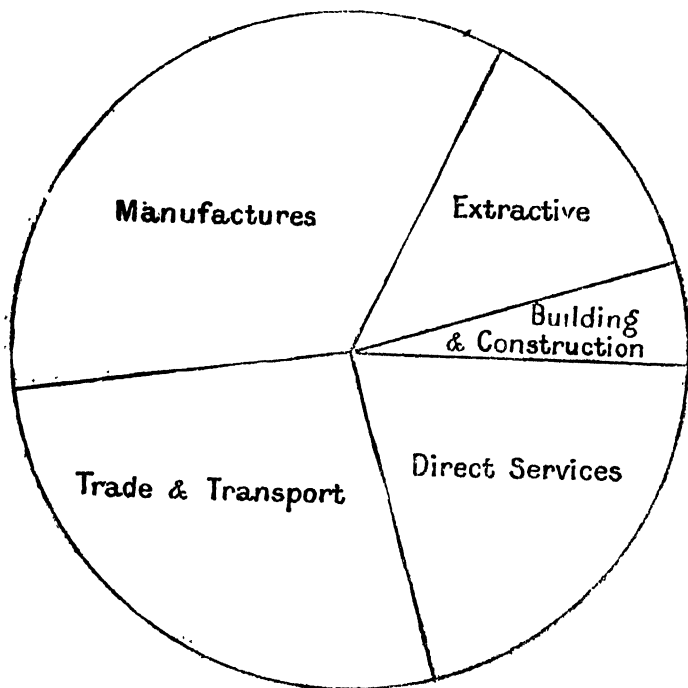
According to the Report of the Census of 1911 on Occupations, the total number of people, of the age of ten years and upwards, who were engaged in occupations of one kind or another, was 16,284,399. These persons described their occupations in hundreds of different terms, which were classified in the Census Report under twenty-two distinct headings. These twenty-two may be consolidated in five broad groups, which are specified in the following table:

A.	Those engaged in	extractive industries	..	2,274,880
B.	..	..	manufactures	.. .. 5,664,552
C.	..	..	trade and transport	.. 4,056,506
D.	..	..	building and construction	.. 946,707
E.	..	..	performing direct services	.. 3,341,754
Total				.. .. 16,284,399

The same result is graphically represented in the diagram on p. 22.

Class A includes workers in agriculture, fisheries, and in mines and quarries. Class B includes the workers enumerated in Tables 10 to 22 of the Census Report, who are makers as distinct from dealers. In each of the above tables dealers are enumerated under their particular industry, as, for example, in the textile industry, the total number occupied is 1,317,565,

of whom 191,139 are returned as dealers, leaving a balance of 1,126,426 as makers. In the foregoing classification the total number of dealers enumerated in Tables 10 to 22 of the Census Report has been transferred to Class C. In addition, the latter class



comprises those engaged in commerce, and enumerated under that head in Table 5 of the Report, and also those engaged in transport work, whether by rail, sea, road, river, or canal. Class E includes officials of the Government, central or local, members of the land and sea forces, domestic servants, clergymen, lawyers,

doctors, teachers, authors, artists, musicians, and actors.

Extractive Occupations.—Strictly speaking, only those industries can be classified as extractive which take away something from a stock which is incapable of reproduction. This conception would restrict extractive industry to mining, and would exclude agriculture, fishery, etc.; but as the latter industries are closely analogous to mining, it will be found more convenient to include them all in the same group, bearing in mind this distinction in function. Chronologically these industries are the most ancient, because they are most closely connected with the satisfaction of the most imperative wants of mankind. The Australian native extracts roots from the earth to furnish himself with food, and the farmer, in a more complex manner, also obtains the means of subsistence for himself and others from the same source. This group of occupations must be considered as fundamental, since before any elaborate schemes of production can be entered upon, some stock of raw materials has to be acquired, and these have to be obtained from Nature's storehouse. These are sometimes termed natural products, but one is apt to forget that their acquisition entails the exertion of labour to a considerable extent. The farmer has months of hard work before he can coax the soil to return him the harvest for the seed he has sown, and the miner has both a difficult and a dangerous task before he succeeds in removing from the bowels of the earth the coal and other minerals that are enclosed therein.

In these occupations labour is brought into intimate contact with land, and while it is true that Nature plays a great part, yet to secure the maximum return,

the intelligent co-operation of mankind is an essential condition. Although agriculture, mining, quarrying, fisheries, and forestry are all classed under this head, great diversity is found in the size and constitution of the units in each of the subdivisions. Take the agriculture as practised on the great bonanza farms of America, with their complete outfits of the most modern agricultural machinery, and compare these with the small holder working his tiny holding largely with the spade, and then it may be realized that between these extremes there is an enormous field for the existence of a multitude of intermediate undertakings. The same conclusion holds when a comparison is made between concerns such as the great mining companies of South Africa and the solitary prospector, washing his sand for a few tiny specks of gold. There are also, in these extractive industries, subdivisions of the main classes; in agriculture we have arable, pastoral, dairy, and fruit farming; in mining, the extraction of coal or iron and other metals; in fishing, the sea and the river fishing, the steam trawler and the small fishing smack. Such a variety of subdivisions also gives scope for the existence of a variety of organizations, ranging in size from the syndicate which may control the whole of one subdivision to the individual producer who supplies the wants of his immediate neighbours.

There is one tendency which is always more or less strongly in evidence in any extractive industry—viz., the tendency towards diminishing returns. Suppose a farmer cultivates his farm with the assistance of ten labourers and a certain amount of machinery and other implements. After the harvest he determines to engage another ten labourers and also to double his

expenditure on machinery and tools. As a result of this, the next harvest may show a return in produce equal to more than double the amount he had the previous harvest. If he repeats the procedure, and increases his outlay on labour and capital to the same extent as before, expecting a return of three times the original return, he may find that he is disappointed—the tendency to diminishing returns has asserted itself. If this tendency had not expressed itself at this stage, it would have manifested itself at some later stage, since, except under certain circumstances, the application of increased capital and labour to land will ultimately add a less than proportionate amount to the produce raised. In agriculture, if this were not so, it would be to the interest of the cultivator to devote his energies to the smallest possible piece of land. Then the demand for land would be diminished, and there would be no necessity to have recourse to lands of inferior fertility if we could obtain a sufficient increase of product from the lands already under cultivation. The same tendency is shown in the case of mines and fisheries, where, in the former, the necessity of working at increased depths and in less accessible places causes the minerals to be harder to win; and in the latter, the fishing vessels are compelled to go farther and farther afield in quest of the harvest of the sea. To some extent this tendency may be checked and counteracted by improvements in the arts of production or by an increase of skill on the part of the producer. In agriculture, for instance, the increased use of machinery and artificial manure may postpone the operation of this tendency, and in mines the use of coal-cutting machinery may also have this effect.

Manufactures and Constructional Operations.—This group of occupations is dependent on the former group for the opportunity to exercise its particular powers. The raw materials, as extracted from the earth, need the hand of man to transform them. It does not necessarily follow from this that the products of any one of these industries emerge as completely fit for the hands of the consumer. The miller takes the wheat from the farmer and grinds it into flour; but the flour has to pass through the hands of the baker and the retailer before it arrives at its destination as the loaves of the consumer. Here, as in the extractive industries, one can see and handle the tangible results of the labour, and consequently these two groups of occupations are frequently considered *the* productive occupations, to the exclusion of all others. These occupations also mark a stage in the divorce of labour from the land, and the closer and more intimate connection between labour and capital. The land becomes a much less important factor as the manufacturing industry becomes more and more elaborative. The latter needs a smaller amount of raw materials, but, at the same time, an increasing amount of assistance from implements and machinery, which are provided through the agency of capital.

One of the conspicuous features in our everyday life is that hardly anyone is engaged in producing the things he consumes; indeed, the majority of our workers do not produce the whole of any given article. The task of making a commodity is subdivided, and different parts entrusted to different individuals. This separation of tasks is termed “division of labour,” but this term does not adequately express

all that is implied in the process, since the products of the division of labour must be united before the process can be completed. Different workers construct the various parts of a bicycle, and then these parts are assembled and fitted together so as to produce an article that can be put on the market. The advantages of the division of labour are obvious. It enables each worker to devote himself to the work for which he is best fitted; it increases his skill, and consequently his output; it saves the time that would otherwise be spent in passing from one occupation to another; it economizes in the wear and tear of tools and machinery, since they are kept continually in use, and the number of different tools a workman requires is reduced to a minimum. In modern industry this principle has been carried to an extraordinary degree of completeness, and the process is continually being extended. Labour employed in this group of occupations becomes more specialized, and a correspondingly increased amount of skill, or at least, of expedition, is expected from labour thus employed.

In one respect, however, the manufacturing industry may be likened to the extractive, each developing a characteristic tendency. These tendencies are opposite in their effects, being in the latter group in the direction of diminishing returns, as we have seen; while in the former, increasing returns are manifested. We understand by the term "increasing returns" that, under certain circumstances, the additional amount of product to be obtained by a given extension of production would be greater than the additional expense entailed. Examples of increasing returns are afforded in manufactures where each successive increase of production cheapens the cost of

producing each unit of the article. The following table shows how the cost of production of coal per ton falls as the amount of the output increases:

TABLE SHOWING COST OF PRODUCTION OF COAL.*

Weekly output in Tons.					Cost per Ton.	
					s.	d.
2,746	..	..	..	..	8	3
4,323	..	..	..	..	7	6
5,069	..	..	..	..	7	2
5,456	..	..	..	..	7	0
5,653	..	..	..	..	6	9
6,159	..	..	..	..	6	4
7,015	..	..	..	..	6	3
8,000	..	..	..	..	6	2

This is due to the fact that by enlarging the industry you increase the possibilities for greater specialism, since not only machinery, but also labour, may be employed in the most economical way, and there is no doubt that the product of the labour of one hundred people working in combination will be far more than one hundred times what the most efficient workman could produce by himself. There arise as well opportunities for the full use of expensive appliances which otherwise it would be unprofitable to employ, and by the careful organization of labour each unit can be kept fully employed on a narrower range of operations, and, as a consequence, would perform those operations in a more efficient manner. The field of manufacture also provides organizing ability with a wider scope for the display of its power. But it is important to note that if production were carried far enough, the tendency to diminishing returns would again come into operation, the opposite tendency—i.e., increasing re-

* Cunynghame, "Geometrical Political Economy."

turns—by no means operating to an unlimited extent.

Generally speaking, manufacturing and constructional work call for skilled types of labour, though the distinction between skilled and unskilled labour is frequently difficult to draw. Much of the labour that we class as unskilled would be accounted skilled in making a comparison between the British people and the peoples in a lower stage of industrial development. Even in the ranks of skilled labour there are many degrees of skill—*e.g.*, in the textile industry it is found that some workers, while perfectly capable of producing the plainer goods, cannot be trusted to produce the finer qualities or to weave in two or more colours; they have not the necessary skill, or perhaps not the necessary confidence in themselves, and therefore are classed in the lower grade of skilled workers. In a highly developed industrial community we are sure to find a considerable proportion of the higher grade workers with a sufficient amount of general ability to enable them to acquire rapidly the necessary special ability to undertake work in a line of which previously they have had no special knowledge.

Commercial.—The occupations classed under this head include those which have for their object the supply of the goods that the consumer wants in the place where it is most convenient for him to receive them. They include those engaged in the great mercantile and financial businesses—brokers, commission agents, shippers, and also the vast armies engaged in the transport industries. These two great subdivisions are closely interrelated, and the former are the true directors of the latter, who are largely employed in executing their orders. Since the cardinal object

of production is to render commodities more useful, the commercial and transport industries may be certainly classed as productive. The prevailing tendency of modern times is towards a more than proportionate increase in the number of those exercising these functions, and opinions are frequently expressed regarding the undesirability of multiplying the numbers engaged in commercial functions. They are stigmatized as middlemen levying toll on every industry, and thus burdening the consumer with a price largely in excess of what is asserted to be the true price.

According to the United States Bureau of Labour Statistics, wheat for which the farmer received 3s. 3d. per bushel is finally sold to the retailer as flour at 5s. 3d. per bushel, leaving a margin between the farmer and retailer of about 60 per cent. A certain part of this margin is due to the miller who transforms the wheat into flour, but the greater part passes into the hands of the dealers, jobbers, and transport workers. The fact that these intermediaries are employed does not necessarily show that their work is indispensable, and we could probably get on without some of them, at least; yet, if their numbers are excessive, the fault lies in the defective organization of distribution.

The commercial and transport functions have their highest importance in a highly organized community, where hardly anyone is engaged in directly supplying his own wants. When the wants of one section are to be supplied by the products of another, some connecting link is needed between the two, and such a pivot is supplied by the merchants and the traders. We also often find these specialized in locality, as, for example, when a district is engaged in the manufacture

of some staple commodity, a common centre is fixed upon, where the trading functions may be localized—*e.g.*, Manchester in the cotton industry, and Bradford in the wool industry.

Direct Services.—At first sight the services rendered by the members of the various professions seem to possess no similarity whatever to the services rendered by those engaged in the occupations previously considered. We can understand how the dealer or the sailor can assist in the production of wealth, but it is not equally clear as to the way in which the physician or the lawyer may contribute to that end. The individual manufacturer, in his own interests, usually maintains a staff of mechanics to keep his machinery in working order and to execute the necessary repairs when a breakdown occurs, and similarly, in the interests of the nation, it is desirable that the human element in production should be maintained at its fullest efficiency. Here the physician plays his part in production. In agriculture, is not the work of the engineer, who has devised elaborate systems of irrigation, and that of the architect, who has designed buildings, quite as important as that of the farmer?

One striking result of the continued progress of society is seen in the increased value at which leisure is estimated. The hours of labour tend to become shorter and shorter everywhere, and one result of increased leisure is the development of higher wants, the satisfaction of which entails a corresponding increase in the numbers of those rendering direct services. Statesmen, philosophers, artists, clergymen, teachers, soldiers, judges, musicians—all render services which are demanded, and which generally tend to increase the results of labour. Such services are

commodities, and, like other commodities, can be bought and sold. We must have defence against aggression, and freedom and security in following our avocations, since without these neither manufactures nor trade would be possible. Increased leisure also demands the services of those who can minister to our enjoyment and pleasure, and renders us more susceptible to the refining influences of Art. Further, the preparation of the raw materials of production cannot be considered as on a higher plane than the preparation of the human element, a work which devolves on the teachers of the community.

We thus see that the circle of productive workers extends infinitely, and we are logically unable to stop until we have embraced practically the whole community. If an individual renders a useful service, then he may be considered as aiding production. Certainly, the givers of direct services do not contribute their share in the same way nor in the same degree, but we are forced to the conclusion that, were any one of the occupations mentioned to be suppressed, production would suffer.

QUESTIONS.

1. Compare the extent to which the principle of division of labour is carried in agricultural and in mercantile occupations.
2. Classify the following occupations, giving your reasons: Gamekeeper, dairymaid, licensed victualler, estate agent, playwright, the Home Secretary.
3. To what extent is it true to assert that diminishing returns are characteristic of agriculture and increasing returns of manufacture?
4. What class of occupations do you expect to prevail in China, Holland, Massachusetts, New York, Brighton, South Wales, Switzerland?

DIVISIONS OF COMMERCE

Trade.—The distinction between trade and commerce is largely an arbitrary one. Reduced to its simplest possible form, the essential feature of a commercial operation is the buying of some commodity with a view to selling it again. We may provisionally confine the sphere of trade to those transactions which are limited to a comparatively narrow area, and apply the term “commerce” to those which require for their fulfilment an area only limited by the size of the known world. Production, in the narrow sense, changes the form and the nature of products, trade and transport change their external relations, and the trader or merchant forms the connecting link between those engaged in the production of goods and those who demand such goods for consumption. Thus, it is his function to supply to the consumer the quantity and quality of goods that he requires in the place where and at the time when it is most convenient for him to receive them.

It is unfortunate that the term “middlemen” should have been applied to traders, who fulfil a most useful and necessary rôle in the economy of society. This term has attracted to itself in the course of commercial development ideas that are calculated to prejudice unthinking persons as to the real functions of traders, and cause them to be considered as useless

parasites on the industry of others. So far from this being the case, the trader performs services that are indispensable; he acts as the voice of the mass of the consumers, and, by indicating their demands, assists the producers in arranging the manner and amount of their production. The assumption of this responsible function relieves the producer of one part of his anxieties, since he obtains through the trader a good idea as to the amount of his special product that is demanded. He is also relieved of another of his delicate functions by the trader when the latter, by purchasing his goods often before they are actually produced, himself assumes the risks of finding a market for them. The tendency of manufacturers to produce more to order and less to stock, shows that this risk-bearing function is being taken over by the traders in an ever-increasing degree.

It is obvious that the qualities which go to make the successful trader are not such as can be developed by a study, however diligent, of one isolated branch of production. He must be capable of surveying the whole field of commerce, and of interpreting every movement of the markets, however insignificant such may seem, and, in addition, he should be fearless in action, rapid in decision, and determined in execution. The mind of the merchant becomes gradually equipped with a store of knowledge and a faculty almost of intuition, which can be obtained in no other way than by the continual application of his best efforts to the consideration of a special class of questions. The prosperity of the country is in his hands to a great extent, and it is his duty to play the part of universal provider of all our wants. If this work is well done, the results are seen in the distribution of commodities

with reference to our wants as cheaply and promptly as is possible.

In the domain of trade, we must also distinguish between a number of functions, similar in aspect, but differing in degree. We have first the merchant who deals on a large scale, and whose services take the form of concentrating the merchandise in which he deals in one particular place or market in such quantities as to maintain an equilibrium between demand and supply. There is even no actual necessity for him to possess an intimate knowledge of the production or of the detailed qualities of the various goods dealt in by him. His work is excellently illustrated by such types of business men as the Manchester warehousemen. They study the movements of fashion, the markets for raw materials, the general state of trade, of the money market, and of politics, and all other causes likely to influence the prices of different types of goods during the coming season; then the contracts for the making of the goods are given out to the manufacturers. Secondly, we have a number of brokers and agents, who assist the merchant in his sales and purchases, and who probably possess the detailed knowledge lacking in him. The merchant has control of plentiful supplies of capital and credit, and possesses the natural ability to engineer operations on a large scale. Traders on a small scale, brokers, commission agents, etc., have to acquire an intimate knowledge of the grades and qualities of the goods in which they deal, and in this way they supply some compensation for the disadvantages under which they work when compared with the merchant. Thirdly, we have the independent retail trader, carrying on his business on a small scale, often with meagre capital, and

existing on profits which frequently only provide him with the scantiest remuneration for the services he renders. He has not the time, and frequently has not the ability, to follow and understand the broad movements of trade, and he depends for his information regarding the goods he sells largely on the agents and travellers of the wholesale house from which he buys. Notwithstanding this, there is one advantage in his position denied to the merchant and his agent; the retailer comes into personal contact with the consumer, the ultimate support of the whole structure of our trade.

All these handling and distributing agents are representative of the two great forces of Demand and Supply, which are the main determinants of the prices of goods. It is from these prices, also, that the trading agents obtain remuneration for their services in effecting the circulation and the exchange of commodities. They maintain the constant ebb and flow of commodities which is an essential feature of a healthy national trade.

Transport.—When the trader purchases merchandise, he has to make provision for its delivery at some place convenient for the ultimate consumer, and this necessitates the employment of some form of transport. He seldom undertakes the transport himself, but, in accordance with the principle of division of labour, hands over this work to be done by a special set of workers. Both the transport and trading functions are essentially productive, since they have for their object the transference of goods from one place, which is less suitable, to another, which is more convenient, to the consumer. The principal means of transport at present are by sea, river, canal, railway, and road.

Economical, speedy, and regular transportation facilities are essential to the development of commerce, and the more cheaply these can be provided, the more quickly will the development of the country proceed.

The number of people employed in the transport industries has shown a great increase in recent years, and the prevailing tendency is still in the direction of an increase in the size of the purely distributive trades. In the case of railway, shipping, and canal transport organizations, the preliminary capital outlay is large, and, generally speaking, such organizations can only be run with the aid of such amounts of capital as a single individual would be unable to risk. Railway and canal transport are the types mainly used in our internal trade, and in this country there is undoubtedly plenty of room for an improvement in the organization of both.

Railways.—The railway system of the United Kingdom, as a necessary consequence of the mode of its construction, has been developed on no systematic plan, and it is marvellous that any order at all has been produced from such chaotic conditions. A comparison of a railway map of the United Kingdom with a similar map of France shows a striking contrast between the two systems. The system of the latter country is the antithesis of ours, for its dominant characteristic is the scientific way in which it has been laid down. In the United Kingdom, with its 217 railway companies, there must be an enormous amount of overlapping, and duplication of officials, railway stations, rolling stock, etc., which is quite unnecessary. Some parts of the country are served by competing lines, but in others one line has the monopoly of all the traffic, and naturally the company looks to the latter

to recoup the losses or the low gains of the former. For these and other reasons, the opinion is widely held that the railways of the country might be organized so as to afford much more assistance to its commercial activities than they do at present.

The railway certainly provides the quickest and most punctual means of transport, and every line of railway does something more than connect two points—it attracts the commercial movements of the area lying between those two points. No place in the United Kingdom is more than a few miles from a railway line, and the total mileage of lines in the whole country is 23,447, or, in terms of track mileage, including sidings, 54,909 miles. These railways for the year ending December 31, 1913, carried 1,228 millions of passengers, and 371 million tons of merchandise. The total capital of the various companies on the above date amounted to 1,343 million pounds, of which amount the London and North-Western accounted for 128 million pounds, and the Great Western 105 million pounds.

Shipping.—From our insular position we naturally expect that our shipping should attain considerable proportions, but the enormous volume of our overseas trade has caused the concentration of a larger proportion of shipping in the hands of one country than has ever before been known in the history of the world. According to Lloyd's Register, 1913-14, the total tonnage of British shipping was 20,431,543 tons, out of a grand total for the world of 46,970,113 tons, so that, roughly speaking, Britain possesses almost half the merchant service of the world. These totals include both steam and sailing vessels, and when we remember that our steam tonnage is many times in excess of our

sailing tonnage, the preponderance indicated by the above figures is seen to be even greater than at first sight appears. It is estimated, also, that the efficiency of one ton of steam tonnage is equal to that of three tons of sailing tonnage, because of the independence of the winds and currents of the ocean, and the consequent regularity in the sailings and the duration of the voyages of the steamer.

The shipping of the country may be divided into three classes. There are the fast mail and passenger steamers, which fulfil immensely useful functions by giving regular and expeditious communication between the various parts of the world for business men and for their letters. As far as the carriage of goods is concerned, these steamers are of little importance. Then there are the vessels which sail more or less regularly between certain fixed points, which do part of the ocean trade, moving the manufactured articles, and bringing in the raw produce to supply the factories and the food-stuffs for the sustenance of the people; both the foregoing classes of ships may be included under the general term "liners." Thirdly, we have the swarms of vessels that sail from the Tyne, Cardiff, Glasgow, etc., that go everywhere, cut into any trade, and pick up cargoes in all the out-of-the-way corners of the world. These are the "tramp" steamers, the most important but least advertised branch of our mercantile marine, in numbers at least six times as many as our vaunted liners.

In one sense, our insular position has a disadvantage, since all our external trade must be maritime. Thus, when trade is carried on with an inland foreign country transshipment is necessary, and every transshipment and "breaking of bulk" adds to the cost of transport, and

consequently raises the price of the commodities. But if our external trade must be maritime, our natural position enables us to conduct a part of our internal trade by sea. Goods sent from Northumberland to London need not bear the heavy railway charges, but may be sent coastwise from the Tyne to the Thames, and many lines of coasting steamers ply regularly from every port on the coast. Two necessary conditions of our maritime trade are security and the provision of calling places. The first is supplied by the Navy, and the second by the provision, in every quarter of the world, of British possessions which serve as coaling stations, harbours of refuge, store depots, and repairing yards. We find these stations at intervals along all the trade routes of the world, and, without them, the difficulties of our maritime trade would be immensely greater. ✧

Canals and Rivers.—A country with a good system of internal waterways, in addition to roads and railways, is in a better position than one with roads and railways alone, for every facility for transit acts as a stimulus to exchange, and its effect is reflected in the trade of the country. Water transport by river or canal is suitable for goods that are bulky and comparatively non-perishable. The rivers of England of any size are all navigable—*e.g.*, the Ouse is navigable for barges throughout its length; the Trent, for small sea-going vessels as high as Gainsborough; but in the continental countries generally, the rivers are much more important as a means of internal communication than those of England. The canal system of this country, while of high importance at the time of construction, has considerably diminished in value since the introduction of railways. In 1905 there were 4,673

miles of canals in the United Kingdom, and of this total 1,363 miles were owned or controlled by the railway companies. When we see that Germany possesses only 1,500 miles of inland canals and 1,600 miles of ship canals, this country seems to be in an advantageous position in this respect. A comparison based on such mileage is quite misleading, since the canals of Germany are larger and deeper, and will accommodate heavier traffic than ours.

The advantages of canal transport—cheapness, immunity from risk of damage by shunting, etc.—need no demonstration, and when time is not of great importance this mode of transport may be used with advantage. The possibility of using an alternative means of transport in places prevents the growth of the monopoly of the railway, and materially influences railway charges. The low cost of mere haulage at a slow rate on canals seems to provide an irresistible argument for their extensive use. It is estimated that on a good road one horse-power will drag about 3,000 lbs. at a rate of 3 feet per second; on a railway, about 30,000 lbs. at the same rate; in water, up to as much as 200,000 lbs. But it should be borne in mind that (1) the cost of increasing the rate of speed is greater in water; (2) the average rate of progress is reduced by delays at locks; (3) that there is a lack of through communication, which involves “break of bulk”; (4) there are differences in gauge, in the capacity of locks, and in the depths. Notwithstanding the disadvantages under which our canal system suffers, it carries annually upwards of 40,000,000 tons of goods. By the development of our canal facilities, it is possible that all bulky goods could be conveyed by them at a lower working cost than by the railways, and

this would relieve the railways of that part of their traffic which is least remunerative, and would also tend to promote the trade of the districts concerned.

Roads.—Up to quite recent years the commercial importance of the roads of the country was almost negligible. Their chief use was to act as feeders to the railway, and to a great extent this is even now their main function. With the advent of motor-driven vehicles and the greatly increased capacity of those for undertaking long journeys, the carriage of goods by road has increased in extent during the last few years. This method of carriage offers to the trader freedom from the risks and delay involved in the different changes necessary during the transit of goods by rail or canal, and its adoption has been stimulated by the dissatisfaction of business men with their treatment at the hands of the railway companies. In England and Wales there are upwards of 140,000 miles of highways maintained at the public expense. Of these, 27,000 miles are on what are called main roads. A Road Board has also been formed under the Development and Road Improvement Funds Act, 1909, for the purpose of assisting local authorities in the provision, improvement, and maintenance of the highways. Such things as this must naturally lead to the utilization of the roads as a means of transport to a greater degree than in the past.

Banking and Finance.—The importance of the position assigned to the financial and banking functions in commerce can hardly be exaggerated. No trading transaction is possible unless there is complete confidence on the part of all concerned that the obligations entered into will be carried out, and the surest guarantee of their fulfilment is the possession of credit at the

bank to the extent of those obligations. The banker is relied upon to provide the means whereby the production and the distribution of goods may be smoothly and economically carried out. When a business man is in need of capital, it is convenient for him to know where to go to procure it, and for the investor it is similarly convenient that he should have some place where he can deposit his money with a sense of security and an expectation of profit, until he desires to make use of it himself.

It is only possible to develop a banking system to any extent in a country where the people are accustomed, as a natural thing, to allow their money out of their possession. In France, for example, the peasantry largely keep their money hoarded in their homes; they are unwilling to trust it to the banks, and hence the banking system of France is inferior to that of England, where the idea of "idle money" is repugnant to most people. The Englishman puts his savings in a bank, and the thousands of small amounts thus deposited in banks, when collected under the control of a single organization, can be more safely and more efficiently employed than when they exist in a multitude of tiny hoards. The banking system has entailed the appearance of a small, highly specialized class of men, whose sole business is to manage the financial resources of the country. They very largely decide in what direction capital shall flow, which industries offer a profitable field for investment, to whom credit may safely be granted, from whom it must be withheld, and where it is desirable to assist temporarily an industry which may be passing through a period of depression. Since financial control must carry along with it preponderating influence, the banking function, more than any

other function of commerce, acts as the ultimate arbiter of the nation's activities. Without the assistance of finance, labour, manufacturers, traders, and merchants, are reduced to impotence.

In international commerce financial organization plays an even greater part than it does in internal trade. The magnitude of the operations calls for the employment of corresponding amounts of capital, and the delicacy of the adjustment of international trade is emphasized by the narrow margin of profit; even a slight movement in the level of prices may convert a gain into a loss. The interdependence of the markets of the world is another factor calling for efficiency of financial organization. The facilities of communication cause any movement in the London market to be immediately reflected on the exchanges of Berlin, Paris, and New York. The main object of the organization of finance is the desire to economize the use of standard money and to replace this by a mass of credit documents. This tendency is clearly exemplified in the use of the cheque in settling obligations in internal trade transactions, while in international trade, transactions amounting to hundreds of millions of pounds are carried out by means of bills of exchange and other instruments of credit, only an insignificant amount of the precious metals passing from one country to another.

Insurance.—The element of uncertainty bulks very largely in all branches of trade and commerce. The trader may have his stock destroyed by fire, the ship-owner may suffer loss through wrecks, and the ordinary individual has always the possibility of sickness, accident, or death before him. Since one cannot foresee any of these events, it is the duty of everyone to make

provision as completely as possible for the minimizing of these risks. This may be effected by insurance; there is scarcely any contingency which entails a monetary loss which cannot be provided for in this way, and someone can always be found who, for a consideration, will assume the liability for any loss whatever. Moreover, the principle is one the scope of which is ever widening, and possibilities of adaptability and extension are continually being evolved. The principle, first applied to marine risks, now covers fire, life, bad debts, accidents, burglary, plate-glass, claims under the Workmen's Compensation Acts, and many other contingencies.

Originally in business all risks were borne by the individual trader, but now, recognizing that the unforeseen cannot be eliminated, he seeks to make the effects less burdensome to himself. He arranges with others to share the evil effects of certain untoward events, and in this way to make them less individually overwhelming. Insurance does not prevent these occurrences, but by it the insured is indemnified against any financial loss which may result from them. So far he secures that tranquillity and peace of mind which is an asset of the first importance in any man's work. Through insurance, he adds to his security, and the price paid for this boon is relatively insignificant. One may look upon insurance premiums as so many small losses incurred with the object of spreading the liabilities of business over a wider area. There is no question of philanthropy on the part of the persons who are willing to undertake the liability for the risks enumerated in an insurance policy. They calculate the chances of shipwreck, fire, accidents, etc., from statistical tables. and regulate their premiums ac

cordingly, depending on the principle that what may be irregular in the individual is stable in the mass—*e.g.*, the proportion of accidents per 100 men insured can be approximately ascertained, but of course it is impossible to say whether any particular individual will suffer. Thus, the element of gambling in insurance is reduced to a minimum by the collection and rapid dissemination of accurate information, and by the increasing reliability and completeness of our statistical knowledge.

QUESTIONS.

1. In what way would the abolition of insurance affect commercial dealings ?
2. A consignment of oranges comes to Birmingham from Spain. Show how the four departments of commerce perform their functions in connection therewith.
3. "The pivot of commerce is the organization of finance." Comment on this statement.

DIVISIONS OF TRADE

BUSINESS generally may be taken to include all provision for the wants of others, which is made in expectation of payment, direct or indirect, from those who are benefited. No one can take a broad survey of the course of business without noticing the striking manner in which the work of distribution has been separated from that of production. This crystallization, so to speak, of the trading functions has been necessitated by the extent and complexity of those functions, with the result that they have been assumed by a specialized class, to the great advantage of their economic organization. The advantage has been by no means one-sided, since the producer, having been relieved of the worry and anxiety incidental to the finding of markets for his goods, is now free to devote his undivided attention to the organization of the business of production. The trader estimates the probable demand for any given line of goods, transmits his orders, based on this estimate, to the manufacturer, and thus brings about an approximate co-ordination between demand and supply.

If the trader's estimates are at fault, then the losses will be borne by him, thus relieving the manufacturer of the risks connected with the sale of his goods. Much of the trader's business is nothing more nor less than the bearing of the trade risks on the producer's

behalf. The wholesale dealer may certainly pass on these risks to some extent to the retailer, but even then they are assumed by another trading functionary. The trading functions are exercised in different ways; trading may be carried on between individual traders, between individual traders and the general public, between traders in business in the same country, or between traders in different countries. Whatever form the trading assumes, the obligation of risk-bearing is predominant. We may now examine the characteristic features of each type of trade, at the same time noting that one business may undertake one or more types at the same time, though it is customary, if a firm undertakes, for example, wholesale and retail dealing, to organize each as a separate department.

Wholesale Trade.—This type is carried on by the merchant or large proprietor who distributes the commodities in which he deals to the retailer. Sometimes, however, the wholesale merchant deals with other wholesale merchants either directly or indirectly by means of brokers or other agents. Generally speaking, when dealings are transacted with the retailer, the wholesale dealer holds large quantities of stock in his warehouse, from which he can execute delivery promptly. When business is transacted between two or more wholesale dealers, there is no necessity for any of them to carry a large amount of stock. Samples are sufficient for their purpose, and business centres itself more on the exchange than in the warehouse. The task of such dealers is to guarantee regular supplies of the goods dealt in on the market, and he neither needs to see them nor to possess any particular detailed knowledge concerning them.

Usually, the wholesale dealer traffics in large quan-

tities, hence his name; but this is not a necessary accompaniment of this type of trade. A retailer may require small amounts of a particular commodity, and these small parcels the large dealer is quite willing to supply. Purchases by the wholesale dealer, however, are made in large quantities. In the case of any parcels of goods, large or small, which are supplied to the retailer, they are furnished to him on such terms as to give him an advantage over the general public in similar dealings, or, in other words, he buys at the wholesale rate. This advantage is obtained because he buys to sell again, and the wholesale dealer can only carry on profitably when it is to the interest of the retailer to trade with him rather than the grower or the manufacturer.

It is not invariably that we get the specialization of producer and trader, since in very many instances the producer undertakes the distribution of his goods as well as their manufacture. This is effected usually by the establishment of a department specially devoted to the distributive side of the business, so that, although there is unity in appearance, there exists at the same time specialization of function. A striking example of this is the boot and shoe trade, which has to some extent passed into the hands of the manufacturers of Leicester and Northampton. Owing to the recent development of capitalism, this tendency will probably continue to extend.

The rapid increase in the production of material wealth has been accompanied by a more than proportionate increase in the number of people who earn their living by its distribution. For example, during the last forty years, while the total number of occupied persons has only increased by a little more than one-

half, the number of "commercial" persons has increased threefold. The actual number of those engaged in the work of trading is much greater than this, since that part of the census returns referring to commercial occupations is chiefly confined to wholesale trade, and leaves out large classes of shopkeepers. It shows, however, that an enormously increasing number of merchants, agents, business clerks, etc., are engaged in trying to effect wholesale dealings.

Retail Trade.—The retail trader forms the final link in the chain of operations which has for its object the placing of goods in the hands of the consumer. He receives the goods in a suitable form from the manufacturer or the wholesale dealer, and transfers them to the persons who intend to make use of them. It is seldom that he changes their essential form; what he does is to prepare them for handing over to his customer in the form most suited to the latter's convenience. This generally implies their subdivision into parcels containing quantities sufficient to meet the immediate needs of the buyers.

This type of trading, especially in large centres of population, is specialized to a high degree, and it is only in sparsely populated districts that we find the "general" shop, which sells all sorts of things, from a reel of cotton to a suite of furniture. With the advent of improved means of communication, the parcel post, and shopping by telephone, even the village store finds itself subject to the competition of the shops of the town. There is also a gradual decay of the intimate relationship formerly existing between the proprietor of the shop and his customer, and this has been hastened by the establishment of the huge department stores, which are a leading feature of every large shopping

centre. There is a gradual weakening of the personal nexus, and the sentimental idea of shopping at a particular establishment for generations tends to become steadily weaker.

All this does not necessarily imply the extinction of the small retail trader. He will continue to hold his own in trade where the reputation for the finest articles is of value, and in the sale of goods in the selection or final preparation of which personal skill, attention, or knowledge is required on the part of the shopkeeper. Wealthy people who are indifferent as to the price of an article, particularly if it be one for personal consumption, prefer to deal with a shopkeeper who will personally assist them to satisfy their individual tastes. Businesses dealing in perishable goods, such as fruit or fish, which are unsuited to the economics of large capital and company management, will also hold their own. Another type which survives the competition of the larger shops is the tiny little shop dealing mainly in necessaries, which is found in the poorer quarters of our large towns. These maintain their position because of their proximity to their customers, who prefer to pay a higher price for the goods to making a journey to obtain a cheaper and a better article. Probably a more potent cause of the survival of such shops is the undesirable fact that credit is easily obtained there, and, considering the class of their custom, although the gains are precarious and the trade is expensive to the community, under present conditions they will continue to carry on business.

Any remarks on the retail trade of the country would be obviously incomplete without some reference to the huge amount of trading of the retail co-operative societies, which in 1913 sold goods to the amount of

over 83 million pounds, at a profit of almost 13 million pounds, a great part of such profit being distributed among the members as dividend. The larger societies undertake all branches of retail trade, but their principal importance lies in the distribution of the necessaries of life and of such other commodities as are in constant demand among the members of the working classes. Thus, we find them dealing in groceries, drapery, boots and shoes, coal, clothes, meat, furniture, and hardware. Besides being the means of providing a better quality of goods than is generally sold at the same price in retail shops usually patronized by the working class, they also offer facilities for the investment of the savings of the less wealthy members of the community.

Home Trade.—In addition to the separation of trade, according to the mode in which it is carried on, into wholesale and retail, two other categories may be instituted—viz., home and foreign. In the case of the United Kingdom, of course, our foreign trade is all overseas. Along with our foreign trade must also be included the trade with the other parts of the Empire, which is of the same type and is conducted on the same principles. In the continental countries much of the foreign trade is overland, and the question of sea transport does not enter into it. The distinction between these two types of trade is not very clearly marked, and, indeed, any causes affecting the foreign trade would speedily affect the home trade, and *vice versa*.

There is no doubt whatever that the volume of our home trade is very much greater than the volume of our foreign trade. Statistics of occupations tell us that the tendency is for the distributive and transport

trades to absorb an ever-increasing proportion of the national energy, while of the workers engaged in the production of material forms of wealth, more and more are employed in the final processes of adapting goods to the special tastes of particular sections of consumers. These elaborated commodities are found in the home market, and it seems likely that the importance of the work of supplying this home market will continue to increase, and therefore so much less of the nation's wealth will be available for the purpose of foreign trade. With the general increase of the wealth of the community, and the accompanying diversity and enlargement of its wants, will arise a demand for the more highly finished products of industry. There will also arise, as a consequence of this, a demand for the services of those who distribute and transport them, so that in a progressive society there should be a progressive extension of the home trade.

The home market has many advantages from the trader's point of view; buyers and sellers are in close proximity, and can communicate their wishes to one another speedily and with certainty; goods are only subjected to the risks of land transport, the special dangers of the sea voyage being eliminated; and, finally, traders are members of the same community, having the same laws, language, manners, and customs. The advantage of the proximity of buyers and sellers, while to some extent modified by the increased facility of communication, nevertheless remains a very real one. The wholesale traders meet together on the Exchange and transact their business while in personal touch with one another, and the retailer comes into personal contact with the wholesale dealer and his

agents in the warehouse which he visits for the selection and purchase of his goods. The personal supervision of the buyer of the goods may thus be exercised both when they are purchased and when they are delivered.

In the home trade, too, owing to the closer intercourse, the terms on which business is done permit of relaxation, and may be readily adapted to the particular circumstances of the time and of the locality. The knowledge that both parties to the transaction are subject to, and presumably cognizant of, the laws and customs common to both tends to greater elasticity, and materially influences the seller in granting longer credit, etc. Another point which tends to facilitate business is the use of a single system of weights and measures, and the expression of prices in terms of the same currency.

A continual movement is going on in business, signs of which are evidenced in the slackness of some branches and the activity of others. Owing to economic pressure, some firms disappear and new ones arise; some conduct a highly profitable business, others secure a very narrow margin of profit, and still others may be temporarily carried on at a loss. In general, businesses must make good their claim for a continued existence on the ground of efficiency in their conduct, and the lack of efficiency incurs the penalty of failure. When any branch of business is prosperous, we find no lack of capital ready for investment in it. One of the tests of efficient commercial organization is the ease and readiness with which capital will move into those branches where attractive returns are probable, and desert those businesses where the prospects are bad.

The average man with capital to invest prefers in-

vestment in the home trade, and as a rule will only invest abroad when there is an appreciable difference in the returns. For one thing, he feels that his capital is invested where he can watch it easily, and this gives him a feeling of greater security, which he feels is worth the sacrifice of the larger return he may possibly obtain from a foreign investment. The mobility of capital in the home trade is comparatively great, but with the spread of knowledge and of increased facilities for communication, capital will flow just as readily to any part of the world as it does now from industry to industry in the same country.

The other essential agent of production—viz., labour—does not move so readily. It is of great consequence to a worker whether he works under congenial or uncongenial conditions; and he will not readily move from one end of the country to the other. Familiar associations, the expense of removal, the probable permanence of his stay, and many other personal reasons, prevent his movement taking place with the same ease as that of capital. How much more, then, would this movement be hindered when it was a question of the transference of himself and family to another country? The movement of capital from one trade to another in the same country may be easy and rapid, and although the disinclination to move on the part of labour is gradually being weakened, yet it cannot be said that labour is mobile in the sense that capital is. There is much greater mobility of both these agents in home trade than in the foreign trade. The result of this is that capital tends to receive the same return in all undertakings where there is the same degree of risk. Assuming that labour was perfectly mobile, then workers of the same

efficiency would receive the same rate of wages. This is only approximately true under the present conditions of imperfect mobility. The result of perfect mobility of labour and capital would be that the costs of production due to interest and wages would in the long-run tend to become stable, and would not vary much from trade to trade in the same grade. In turn this would render the work of the dealers easier, since fluctuations in price would be much less frequent in the case of the commodities dealt with in the home trade.

Foreign Trade.—This subdivision of trade is often spoken of as though it were separated by a sort of water-tight compartment from all the rest of our commercial activities. Possibly the wide attention given during recent years to tariff questions has had the effect of directing a disproportionate amount of the attention of the public generally to this department. Foreign trade certainly forms an important section of our total trade, but as it is estimated that only one-fifth to one-sixth of the labour engaged in production in the country is devoted to the supply of goods for foreign trade, it is not entitled to the dominant place it seems to hold in the minds of men. The principles on which foreign trade is carried on are exactly the same as those governing any other branch of trade. Trade is an exchange of the goods we have in excess of our needs for the goods another individual has in excess of his needs. Nations, as nations, do not trade with each other; it is the firm in the one nation who trades with the firm in another, and it is important to remember that there is no more antagonism or opposition of interests in foreign trade than there is in the home trade.

The rise of foreign trade is really due to the extension of the principle of the division of labour. Just as it is most economical to employ one set of workers in cultivating the soil and another set in making machinery, so it is found to be economical to produce textile manufactures in one country and wine in another. Indeed, it is an impossibility for a single country, however large, to produce everything to satisfy all the wants of its inhabitants within its own borders. For climatic reasons, Britain cannot produce tea, coffee, sugar, cotton, and a host of other articles of everyday use, and therefore we are bound to obtain these from other countries. To pay for such commodities, we send to these countries in return manufactured cotton, woollen, and iron goods. In this way the consumer is enabled to enjoy the use of many articles which he would never even see were it not for the agency of foreign trade. But there are articles which it would be quite possible to produce in this country, and yet we import them from abroad. The fact that we do this shows that the foreign goods are cheaper, probably because the foreigner possesses some advantage in their production—*e.g.*, he may be able to acquire the raw material easily. It is therefore to our advantage to buy such commodities rather than to attempt their production in the face of our disadvantages, natural or otherwise. This is one way of utilizing the total productive power of the world to its best advantage, as would be done if all the natural divisions of the world devoted themselves to the production of those commodities for which they are the best fitted.

To a great extent at the present time our foreign trade is an elaborate machinery for the supply of food-

stuffs and raw materials, and up to the last decades of the nineteenth century the world might have been roughly divided into two sections, the one comprising new countries which were producing food and raw materials, and the other old countries which were manufacturing them. This arrangement could not continue, since it was only natural that the new countries should develop a tendency to institute manufactures, and so render themselves independent. Thus, foreign trade cannot keep pace with the growth of the wealth of a nation, but must diminish as the more backward nations advance.

The main advantages of foreign trade are the acquisition of articles which it is impossible to produce at home, and of articles in the production of which we are at some disadvantage, natural or artificial. England, for instance, produces wheat, and we might, with an immense expenditure of labour and capital, possibly produce sufficient for our needs. But it is cheaper for us to produce other things and exchange these for the wheat of lands which can grow it more cheaply. In actual practice, of course, we sell the things we produce, and with the proceeds purchase the wheat from others. Since our wheat supplies are drawn from many different quarters of the world, a failure of the harvest in Russia may be compensated by abundant supplies from Canada or the Argentine. Thus, the extension of the market tends to steady the supply of the total amount, and, consequently, to render the price fairly stable from year to year. Another advantage of foreign trade, which, from an ethical point of view, is perhaps the greatest, is the powerful influence it exerts on the peace of the world. Any disturbance speedily makes its influence felt on trade, and the interruption

in dealings caused by warlike operations affects a wide circle of those employed in carrying on the trade of the world. The continuance of peace is necessary for the profitable conduct of foreign trade, and acts as a powerful incentive for the merchants to secure peaceful conditions. Constant intercourse between the members of different nationalities also tends to remove those misunderstandings which are so fruitful a source of international troubles.

It is possible, however, that foreign trade may be in some respects disadvantageous. A country, by recklessly exploiting its limited natural resources, and by exporting continuously large quantities of raw produce, may find that it has sacrificed the future in the interests of the present. In a sense, the export of the raw materials is an export of the qualities of the land itself, and by the exhaustion of these qualities it becomes more and more expensive to produce further amounts of the raw material, so that a few years of cheapness may be followed by many years' dearness. The consumer, also, is not always the best judge of his own interests, and it is possible that the cheap foreign product is less advantageous than the dearer home product, the attractive cheapness being balanced by the inferiority of the article. There are also disadvantages from the producer's point of view. A country which imports most of its food-supply finds that the natural exchange between the manufacturers of the towns and the agricultural produce of the country is limited, and a decay of agriculture follows. This may result in the depopulation of the countryside and the influx of the labourers into the towns, with its accompaniment of overcrowding and general diminution of the efficiency of labour. The continual changing of trade conditions,

such as the opening up of new routes, may cause hardships to one country as a result of advantages acquired by another.*

Nature of British Foreign Trade.—The total value of the merchandise imported and exported by the United Kingdom exceeds that of any other nation, amounting in 1913 to 1,403 million pounds. This amount is made up of imports (including re-exports), 768 million pounds, and exports 635 million pounds. If these figures are analyzed, we find that about 38 per cent. of our imports are articles of food; raw materials and articles mainly unmanufactured account for a slightly less proportion, leaving about 25 per cent. of our imports as wholly or mainly manufactured articles. Our domestic exports—that is, exclusive of goods which have not been previously imported, as might be expected, are largely composed of manufactures, these comprising approximately three-quarters of the total.

It is satisfactory to observe that a steadily increasing proportion of our foreign trade is being carried on with our Empire oversea, the total amount of trade with them in 1913 approaching half that carried on with foreign countries. Our best customers in 1912 were the United States, India, Germany, Australia, and France; while the countries from whom we made the largest purchases were the United States, Germany, India, and Argentina. The table on p. 61 shows the foreign trade of the three principal commercial nations of the world. The figures are given in millions of pounds.

The imports quoted below for the United Kingdom and Germany refer to imports for home consumption only and exports of home produce of the United King-

* Nicholson, "Political Economy."

dom. Although this is not the case for the United States, her re-exports are comparatively small, and the three sets of statistics may therefore be used as a fairly reliable comparison of the foreign trade of the countries named.

IMPORTS.

			United Kingdom.	Germany.	United States.
1913	..	..	659·4	525·8	373·3
1912	..	..	632·9	525·6	378·7

EXPORTS.

			United Kingdom.	Germany.	United States.
1913	..	..	525·5	495·6	517·5
1912	..	..	487·2	440·4	499·8

QUESTIONS.

1. Would it be possible to eliminate the wholesale dealer in the home trade? What organization, if any, would you substitute for him?
2. Account for the disparity between the imports and the exports of the United Kingdom.
3. Give the advantages and disadvantages of direct dealings between the retailer and producer.
4. In what way is foreign trade affected by (1) reductions in cost of transport, (2) mobility of labour.

INFLUENCE OF GEOGRAPHICAL CONDITIONS AND INVENTIONS ON COMMERCE

THE operations of commerce are essentially dealing operations; they may consist in the buying and selling of commodities or in their transport. Thus, if the meaning of the term Commerce is limited to this conception, the work of the farmer, the miner, and the manufacturer, is not commercial. When pieces of cotton cloth leave the gates of the Lancashire factory, they pass from the control of the manufacturer to be dealt with by some one or other of the functionaries of commerce—an agent, a broker, a shipper, a carrier, a wholesale or a retail dealer. It is seldom that any one of these changes the form or the nature of the goods that pass through his hands; the piece of cotton cloth is in exactly the same condition in the hands of the retail trader as it was when it left the factory. In like manner, the grain of the farmer and the coal of the miner undergo no change at the hands of the commercial intermediaries who arrange for their final delivery to the consumer.

When the individual members of a community only produce sufficient goods to satisfy their own wants, there is little need for the activities of the man of commerce, and hence in such a community commerce exists only in a very rudimentary state. But when a

surplus of goods over the actual wants of the community is produced, the disposal of this surplus, usually in exchange for the surplus products of another community, creates the necessity for commercial operations, and when the exchanges are on a sufficiently large scale, causes the emergence of a specialized body of commercial men, whose sole function is to carry out these exchange operations. The increased power of production which is a consequence of the progress of society naturally increases the surplus of products, and hence the work of commerce increases and becomes of greater importance.

Growth of Commerce.—The economic history of England affords a good example of the development of an organized commercial State from a small self-sufficing community. Down to the beginning of the sixteenth century, the structure of the social organization and the disturbances due to periodical wars were not conducive to the peaceful pursuits of trade. Foreign trade was mainly concerned in the export of wool and the import of luxuries, such as Eastern stuffs, silks, spices, and furs. Internal trade was carried on at the staple towns, the market towns, and the great fairs. During the latter part of the Middle Ages the foreign trade of Europe centred in Venice and Genoa, which were the great emporiums for Eastern goods; and the Hanse towns, which controlled the trade of Northern Europe. The discovery of America and the sea route to India by the Cape transferred the importance of the two trading republics of the Mediterranean to Spain and Portugal, and England's struggle with the former power led to this country embarking in commercial ventures hitherto undreamt of. Colonies were planted in America, and

factories established in India, thus laying the foundation of an enduring trade in both hemispheres. The seventeenth century saw the beginning of the decline of the Spanish dominion in America, and the rise in commercial importance in Holland, short-lived as this proved to be. The statesmen of the time were dominated by the solo-market theory, and in order to gain a monopoly of trade the Dutch had to be crushed, a policy which Cromwell carried out by his Navigation Acts and the war which followed their enactment.

From this period dates the prosperity and development of modern English commerce, as we now know it. By the wars and colonization of the eighteenth century we acquired a great colonial empire, held almost undisputed sway over the seas, and at the same time our trade increased by leaps and bounds. Our export trade, which amounted to about 2 million pounds per annum at the beginning of the seventeenth century, rose to $6\frac{1}{2}$ million pounds per annum in 1703, and in 1760 reached $14\frac{1}{2}$ million pounds. After this time, the Napoleonic wars, which kept the Continent in a ferment, and the Industrial Revolution in this country, strengthened our position still further, because we were able to supply the markets of the world with manufactured goods that no other country could then produce. For three-quarters of the nineteenth century, English trade has benefited largely from the quarrels of our potential competitors, and, at the same time, has taken full advantage of the multitude of discoveries which have affected the efficiency of trade. Since 1873 the competition of the European nations—especially Germany—and the United States has had to be reckoned with; but notwithstanding this, our export trade in 1913 amounted to the stu-

pendous total of almost 634 million pounds. Some idea of the enormous advance in a period of two hundred years is obtained when the modest total of 6 million pounds for 1700 is compared with this amount.

Geographical Conditions.—The causes determining the rise and development of commerce are many and varied. One of the most potent is undoubtedly the geographical conditions prevailing. This factor enters largely into the determination of the nature of the products of any country, and, what is of equal importance to the trading community, settles the modes of transport and the routes along which the commodities of commerce shall pass. Under the head of geographical conditions are included situation, nature and configuration of the soil, character of the agricultural and mineral resources, the climatic conditions, and also the way in which man has changed or modified his physical surroundings.

A survey of the commercial conditions of the world shows forcibly the fact that different parts yield widely different products. This is due to differences of soil and climate, the abundance or scarcity of natural resources, or the ability of man to utilize those resources to the best advantage. This inequality in the distribution of the gifts of Nature needs rectifying, and it is the business of commerce to supply a remedy by acting as an equalizing agent of the conditions of life in all parts of the world. The surplus products of the Ceylon tea-gardens and the Lancashire cotton industry are disposed of through the agency of commerce, and the same agency supplies the wants of the more backward races of the world for the elaborated products of the great industrial peoples.

The strength of the tendency to the development of the commercial activities varies directly as the progress of civilization. The geographical environment of mankind exerts a powerful influence on his general characteristics, and where the environment is most favourable, the development of the human race is found to be most advanced. Thus, the Australian native, with no domestic animals and no plants useful for food, exists in a state of degradation but little removed from the animal, and, on the other hand, the nations of Western Europe, with abundant supplies of agricultural and mineral wealth, and with excellent facilities for intercommunication, have attained an unparalleled stage of development. The rapid multiplication and expansion of new wants in such communities as the latter has caused every part of the world to be laid under contribution to provide for their satisfaction. To take one instance: the ordinary British labourer may get his bread from Canada, his meat from New Zealand, his tobacco from the United States, hides for his shoe-leather from South America, his tea from India, and his coffee from Brazil, the numerous agencies by which provision for these necessary wants is made being grouped under the generic name of Commerce.

The situation of a country is of supreme importance in its trade relations; no other purely geographic factor exercises the same influence, as the history of commerce clearly shows. The commercial republics of Venice and Genoa owed their importance to their central position on the great commercial highway of the Mediterranean. The towns of the Hanseatic League were the natural outlets for the products of the Baltic lands, and the position of Holland at the mouth of the

Rhine contributed to her commercial supremacy in the sixteenth and seventeenth centuries. The most striking example of the influence of situation is seen in the case of the United Kingdom. Situated within easy distance of the wealthy European nations, yet at the same time separated from them by the sea, and thus kept peaceful and free from the effects of war and dynastic struggles, she brought to a convenient focus the intercourse between the Old World and the newly discovered regions across the Atlantic. The concentration of trade routes in the Atlantic, partly a cause and partly an effect of British commerce, strengthened her commercial position, and, for the present at least, Britain may lay claim to the commercial supremacy of the world.

Before exchanges can be effected, there must be intercommunication of the parties thereto; hence the question of transport facilities is of prime importance. Obviously, geographical conditions will exercise great influence here. In the early days of commerce, the bulk of the commodities was transported by land, and the numerous physical obstacles, such as high mountain ranges, dense forests, marshes and arid deserts, rendered this a difficult and costly task. As a consequence, early commerce was confined to articles of luxury, which, from their value, could bear the heavy transport charges. The improvement of the trade routes on land forms a most striking testimony to man's power in overcoming physical obstacles. He has tunnelled mountains, bridged rivers, drained marshes, constructed networks of railways, canals, and roads, and in these ways has sought to modify the influence of adverse geographical conditions.

Notwithstanding the marvellous engineering feats

which have facilitated the carriage of goods by land, the sea now is the great highway of commerce. Its waters are free to all, and, in contrast to the heavy expenditure incurred in constructing and maintaining land routes, Nature here supplies and maintains the track, leaving to man simply the provision of the vehicles. Thus, the distribution of the land and water areas of the globe exercises great influence on the nature of sea transport. Oceans, which were formerly barriers to communication, have now become connecting links between the different parts of the world. Well-defined trade routes, or "steamer lanes," such as the North Atlantic, Suez Canal, South African, and River Plate, are now found in all the oceans. The increased range of navigation has also tended to enhance the value of distant countries, and it is frequently of greater advantage to deal with a far-off land which is accessible by sea than to deal with a nearer land where it is necessary to employ land carriage.

As the concentration of men in towns is one of the conditions of the development of commerce, it is interesting to inquire into the influence of geographical conditions on the rise and development of such centres of population. Where conditions facilitating intercourse exist, towns naturally arise. Towns, like Lyons, situated at the confluence of two rivers, and others, like Milan, standing between two regions dissimilar in products, are favourably situated for trade. The position in the middle of a plain, allowing easy communication in all directions by rail, account for the importance of such towns as Berlin and Moscow. The great development of ocean transport, the increased tonnage of vessels, led to the concentration of trade in

ports with deep harbours, good dock accommodation, and easily accessible hinterlands, such as Liverpool and New York.

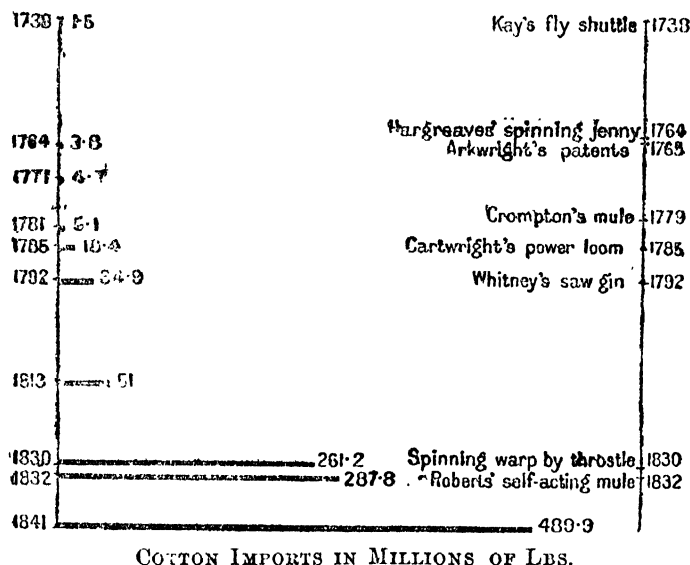
Effects of Discovery.—The extent of commerce is limited by the extent of the markets, and as every part of the world is a potential market, the progress of discovery has played a striking part in the advance of commerce. Any increase in our knowledge of the earth's surface has led to a corresponding increase in the area of the world market, and therefore to an increase of trade. Early trade was mainly carried on in the circumscribed Mediterranean area, and not until the sixteenth century was commerce on a large scale possible. Then the discovery of America, and the opening up of the Cape route to India, considerably enlarged the sphere of commercial activity. It took about two hundred years, however, before the effects of these discoveries exercised much influence on trade. In utilizing these discoveries, the policy of this country was to establish permanent settlements, as was done in North America and India, and, at a later date, in Australia, the Cape, and New Zealand. This policy led to conflict with other colonizing powers, and, in the competition for colonial expansion which marked the eighteenth century, the Spanish, Dutch, and French were all obliged to give way to Britain. The importance of this success is shown by the fact that till after the Napoleonic wars the bulk of our foreign trade was with our colonies, or, as they were then termed, "the Plantations." During the nineteenth century enormous advances have been made in the direction of extending the area of the world market. The countries of the American continent have been developed, the interior of Africa has been explored, the

exclusiveness of the great Eastern empire of China has been broken down, while its small but powerful neighbour, Japan, after adopting Western ideas and methods, has now become a formidable competitor of the older European commercial nations.

Inventions.—Closely allied to the discovery of new areas is the discovery of new, and the improvement of old, methods of production. The period of the great inventions dates from the middle of the eighteenth century, those relating to the textile industry—practically revolutionizing it—taking place between 1770 and 1792. The expansion of the trade area of the world, the enterprise of the English men of business, and the disturbed state of the continent of Europe, provided a powerful stimulus to the discovery of improved methods of production. The insular position of this country, by freeing us from the devastation of war, gave to us an exceptionally favourable opportunity for trade in all parts of the world outside Europe. Increased production was urgently necessary, and “Necessity, the mother of invention,” produced that crop of epoch-making inventions associated with the industrial revolution in this country. These appeared in three distinct directions: first, the industrial inventions of Hargreaves, Arkwright, Crompton, and Cartwright, in the textile trades; second, the evolution of the application of steam as a motive power; third, the evolution of steam locomotion. The two latter were the natural consequence of the first; a more powerful motive force than wind or water was needed, hence the development of the steam-engine took place, while the transport of the increased volume of production led to the application of steam to transport both on land and sea. These advances, it should be

noted, were rendered possible by the enormous stores of iron and coal possessed by this country, and by inventions which contributed to the more economical extraction of the former mineral from its ores. The combined effects of these three groups of discoveries was to make England, during the first half of the nineteenth century, the workshop of the world.

The effect of inventions on production is strikingly illustrated in the progress of our two greatest manufacturing industries, cotton and iron. The following diagram shows the close connection between the magnitude of the industry and the inventions applied to its development.



Since 1841, while there has been practically no great invention in the cotton industry comparable to the

ones enumerated above, a continuous improvement in the details of the machinery employed has been taking place, and in 1911 the British consumption of raw cotton amounted to 1,916 million lbs. The progress of the iron industry in relation to invention may be seen from the following table:

BRITISH PRODUCTION OF PIG IRON.

	Tons.		
1740	17,000	1756	Smelting by coal.
1788	68,000	1784	Cort's puddling and rolling inventions.
1830	677,000	1828	Neilson's hot-blast furnace.
1862	3,900,000	1856	Bessemer steel process.
1870	6,000,000	1864	Siemens-Martin process.
1890	7,900,000	1879	Thomas's basic process.

During this time, when the efforts of the inventor were directed towards the securing of an ever-increasing amount of production, other inventors were bringing about a revolution in the modes of transport. In land transport, railways and canals were displacing horse-drawn vehicles. The Bridgewater Canal, for the carriage of coal from Worsley to Manchester, was opened in 1761, and the Liverpool and Manchester Railway in 1830. From that time to the present there has been a continual stream of inventions relating to steam locomotion, and some idea of the progress made may be gathered from a comparison of Stephenson's locomotive, the "Rocket," which hauled a load of $9\frac{1}{2}$ tons at the rate of 13 miles an hour, with the powerful express engines of to-day, drawing loads of 300 to 350 tons at the rate of 50 to 60 miles an hour. The never-ceasing search for improvements in transport has also led to the displacement of steam as a motive power in favour of electrically propelled vehicles,

though only to a limited extent. The invention of the internal combustion engine, using petrol as a motive power, has provided another competitor of the railways. During the year 1913 the largest group of inventions for which patents were applied related to the transport industry. This clearly shows the direction in which inventors are exercising their energies, and a further significant fact is that, of these inventions, the most important related to the improvement of motor vehicles.

It is interesting to note that the application of steam as a motive force took place in connection with water carriage before it was applied to land transport. The *Comet* was the first commercially successful steamer in Great Britain. It was run on the Clyde by Henry Bell in 1812. Since that time there has been one long record of inventions and improvements in both the structure and the means of propulsion of ocean steamships. The growth in volume of our sea-borne commerce has also provided a wide field of experience for our engineers and inventors, without which they probably would not have been so successful. The improvements in steamships during the nineteenth century fall into five groups. The first was marked by the building of wooden vessels propelled by paddles; the second, by the substitution of iron for wood in the construction of the hulls of vessels, the *Persia*, in 1856 being the first Cunard iron paddle-steamer. Then paddles were superseded by the screw as a means of propulsion, and steel displaced iron in the building of vessels, the first ocean steamer so built being the *Rotomohana* in 1879. Twin screws were first used in 1888, and the introduction of double, triple, and quadruple expansion engines has led to great economies in

fuel consumption, while the invention of steam steering-gear has rendered the management of vessels easy, and enabled the size to be increased.

During the present century the inventions affecting ocean transport deal with the modes of propulsion. The steam turbine and the Diesel oil-engine both introduce new, and, it is claimed, more economical, propelling forces. The former has evidently a superiority over the old reciprocating engines, at least where high speed is required, since our biggest liner, the *Mauritania*, is fitted with turbines of about 70,000 horsepower. The use of oil-engines for the propulsion of ships is a very recent development. The first oil-driven ships built for regular passenger and cargo service are the *Selandia* and *Jullandia*, and the results of the voyages of the former have produced a very favourable impression. The invention of the method of discharging cargoes of wheat by means of suction-pumps, and the use of hydraulic machinery on the docks and wharves, have conduced to the more efficient handling of cargoes, while cargoes of a special nature are transported by specially constructed vessels, such as the tank-steamers for petroleum and the "whale-backs" for grain.

Closely allied with the transport of goods is the transmission of news, and in this sphere inventions have been made of inestimable value to commerce. Wheatstone's electric telegraph was patented in 1837, and came into practical use about 1846; the first permanently successful submarine cable was laid across the Atlantic in 1866; the telephone, in its present form, first became known in 1856; and wireless telegraphic messages were first sent across the Atlantic in 1907. These facilities for communication render the great

task of the commercial man—viz., the co-ordination of supply and demand—much easier, and the accumulation of large stores of goods is no longer necessary, since messages can pass to the region of supply, even if it be at the other end of the earth, in a few hours.

Thus, the inventive faculty of mankind is seen to have influenced in the past both the production and the distribution of the commodities of commerce. Production on a wider scale has been made possible, and improved methods of transport and communication have naturally followed so as to deal with the increased volume of products. Industry, commerce, and invention go hand in hand, and together will lead men to attain a still higher condition of civilization than exists even at present.

QUESTIONS.

1. Give a few instances of cases where physical obstacles have been overcome by man.
2. What alterations in trade routes will probably be caused by the Panama Canal ?
3. How has the progress of invention facilitated commercial transactions in recent times ?
4. Explain why the British have become the "carriers" for the world.

CAPITAL

Nature of Capital.—Capital is one of the indispensable agents in modern production; in hardly any of the common articles of everyday use is it possible to carry out production without the preliminary outlay of an amount, either great or small, of capital. The prevailing tendency, indeed, is in the direction of this agent of production assuming an even greater importance in the domain of commerce and industry than it occupies at present. In occupations of every grade capital is demanded: the farmer needs it in the shape of implements, machinery, buildings, and manures; the manufacturer as raw materials, plant, and machinery; the dealer as a reserve on which is reared the huge fabric of credit which facilitates his trading operations; the transport industry requires ships, vehicles, permanent way, etc.; and in no occupation can the amount of capital be reckoned as negligible.

While the capital of a country consists, broadly speaking, of the whole of its material wealth—*i.e.*, of the raw materials, finished goods, and the implements which aid man in production—the business man considers capital from the money point of view. He calculates the capital invested in industry not as so many factories, machines, etc., but rather as the value of these expressed in money. This is still more true in the world of commerce, since here the business man

uses a relatively small proportion of the implements of production in his work. When he refers to his capital, he has in mind either a certain amount of hard cash, or a balance at his bank, or a number of claims on other business men, all of which are represented by money.

Notwithstanding this, the fact should be clearly grasped that capital is not money, and certainly not coin. When the merchant imports a cargo of wheat, he is laying out his capital, but that does not mean that he sends sovereigns to Russia or to any other country from which he receives the wheat, in order to pay for it. The Russian exporter prefers to be paid by means of other commodities, such as woollen cloth or machinery, and by means of the organization of exchange, this is what he finally does receive in payment. Money, which consists either of pieces of paper or metal, would be of little use were it not that it gives to its possessor the power of acquiring goods which will be of real use to him. Money, solely as money, is of very little importance in production, since man can neither use it to support life nor in the production of other articles. It is only as a means of procuring other things that we desire to possess this commodity; we desire, not money, but money's worth. The capital of a business, however, is the estimated cash value of everything possessed by the business—its land, buildings, machinery, stock, goodwill, book-debts, and so on.

As an agent of production, capital assists labour; it makes the product of a given amount of human exertion greater than it otherwise would be. It is obvious that a seamstress, with the aid of a sewing-machine, can make more shirts in a given time than

she could if she were compelled to sew each one by hand. The sewing-machine is capital; by its aid the product of labour is increased. Another way in which capital assists the productivity of labour is by enabling industry to be continuous. If the woollen weaver had to shear and clean the wool and afterwards spin it into yarn, he would find little time for weaving. But capital gives him a continuous supply of yarn, and thus time is economized and the weaving industry kept going. By the help of capital, methods of production may be adopted which entail an enormous initial expense, but which ultimately cause the output to become much greater in return for a given amount of labour. A great shoe factory, which has been equipped with costly machinery and which employs a thousand workers, will turn out many times the number of shoes that a thousand similar workers could make, each working in his own shop.

Source of Capital.—In the early stages of society capital was undoubtedly provided from some store of wealth which had been accumulated previously. Such a store of wealth would consist of the products of former labour. The accumulation of this wealth presupposes some deprivation, and hence arose the idea that capital was the result of abstinence—i.e., the refraining from consumption in the present with a view to a greater reward in the future. In these early times we should not expect to find any widespread evidence of the balancing of present enjoyments against future benefits, and therefore we find that the accumulation of capital took place on a modest scale. With the phenomenal increase of production during the last two centuries, the surplus of production over consumption rapidly increased, and there was very

little abstinence necessary on the part of the fortunate holders of this surplus to secure the saving of a considerable part of it. As applied to modern conditions, then, the idea of abstinence, which implies some deprivation as the source of the accumulation of capital, is erroneous. The desire of accumulation has also been stimulated by the advance of education and the general progress of society, which have tended to bring about a juster balance between the relative advantages of the present and the future. At the same time, the advance in the arts of production and the constant increase of the surplus over what was necessary for consumption have enhanced the power to save.

When an individual, stimulated, possibly, by the desire to make provision for the future for himself or for those dependent on him, has been led to accumulate wealth, he seldom does this in the manner of the miser. Hoarded wealth is useless to everyone but the immediate possessor, and to him only as a means of gratifying his debased nature. Moreover, the hoarding of wealth implies its isolation, and when wealth is in the possession of numbers of isolated individuals, it very seldom is capable of assuming its true function—*i.e.*, to assist production in the form of capital. For this purpose the individual stores must be collected at some central point which is well known to everyone, and from this central aggregated fund it must be distributed and allowed to drain away by suitable channels into the great ocean of production. This function of the collection and distribution of the savings of the community is effected by means of our banking organization. The private individual nowadays, as a matter of course, entrusts his savings to the custody of a bank, and the degree of confidence which is reposed in these

institutions may be taken as a measure of the commercial morality of a nation. This confidence is certainly sometimes misplaced, and institutions arrogating to themselves the title of "bank," but which, perhaps, do not limit their activities to purely banking functions, may fail to meet their liabilities, and to some extent shake the trust of the investing public. Generally speaking, however, in this country confidence in the banking system is fully justified.

There is no doubt that the pre-eminent financial position of the United Kingdom among the nations of the world is in a large measure due to the relations of confidence existing between the banks and their customers. In less highly civilized communities mutual suspicion prevents the establishment of such relations, and we find in such places that wealth is hoarded either in the form of gold or silver ornaments or of coin. The presence or absence of a secure and stable form of government has also a considerable influence in the development of the quality of trust in one's fellows which is essential to the growth of the banking habit.

Types of Capital.—While we have previously laid stress on the consideration of capital as an agent of production, we must not lose sight of two other attributes possessed by capital—viz., that of yielding a revenue and of providing a means of satisfying wants directly. The manufacturer's machinery may be classed under the first head, his investments in Consols under the second, and his house under the third. The root idea underlying all three is expressed in the definition of capital as wealth set aside for the satisfaction—directly or indirectly—of future needs. An individual may obtain this satisfaction by investing his capital

in a joint-stock company, in which case it is both employed in production and also returns a revenue, or by purchasing a house for his own use, thus satisfying directly his desire for house-room.

Producer's Capital.—In business life a man's capital is commonly regarded as that part of his wealth which he devotes to the acquiring of an income, generally by means of trade; and on this account it is sometimes convenient to speak of it as trade capital. Any form of hoarded wealth is barren—that is, unless it is actively employed in the production of more wealth, it will bring forth no increase. This conception has impressed itself so forcibly on the ideas of men of business that capital is often considered as synonymous with producer's capital, to the exclusion of the other types. Producer's capital may be further subdivided into two classes, according to the use to which it is put.

Fixed Capital.—In some businesses, such as steel works, textile factories, and railways, an enormous outlay must be made before any fraction of the produce can be turned out; whereas in others, such as agriculture on a small scale, or the business of an agent or a broker, very little preliminary outlay is needed. The outlay which is necessary for the provision of such a thing as the permanent way of a railroad is an outlay that does not occur periodically, since, when once this is provided, it may be utilized for a considerable time before a renewal is necessary. This proportion of the capital of a business is called "fixed," since it exists in a durable shape, and can be used over a considerable period of time. During the period within which it is employed, naturally a revenue is obtained from it, and the aim of the controller of the business is to extend this period to the farthest limit possible. To attain

this object, the fixed capital must be kept in repair, parts which show weakness must be renewed, and there is also the contingency, not to be overlooked, that it may be rendered useless by new inventions or improved methods. If such fixed capital is very durable, there is the risk of its becoming obsolete; therefore it is not its actual durability, but its duration of utility, which concerns us.

Circulating Capital.—In the foundation of a business, when the outlay necessary for the fixed capital has been made and everything is prepared for the inauguration of production, further calls on the proprietor's capital are made. Raw materials are needed, and also labour, to utilize the fixed capital in the transformation of the raw material into the finished product. Both of these must be paid for as a rule before a single penny is received for the product; but when this is disposed of, this part of the capital outlay should be returned to the employer, together with a surplus—that is, if his organization and conduct of the work has been successful. Another point that should be noticed regarding this outlay is that, once it is made, the capital is consumed; the raw material purchased disappears as raw material, and the labour, as labour, also disappears, though both appear in the value of the resulting product. This is the distinctive feature of this type of capital, which is called “circulating capital,” because it fulfils the whole of the work in which it is engaged by a single use.

The proportion of fixed and circulating capital will vary considerably in different industries, and we usually find the greatest proportion of fixed capital used in those industries which produce goods suitable for routine production, and where the amount of

special organizing ability is small. The greater the amount of circulating capital employed, the greater will be the demand for those qualities of organization, prediction, and ability to gauge the forces of the market, which are the marks of the successful business man. The circulating capital needs replacing after its single use from some source or other; the fixed capital does not, though even here we cannot assume that indestructibility is a characteristic of fixed capital, and provision must be made for its depreciation.

Revenue Capital.—When the possessor of capital hands over the control of it to another, the idea which actuates him is to secure some return for the loan. Such capital may be termed “revenue capital.” Revenue capital presupposes such existing social and economic conditions that wealth can be lent at interest to employ others in production. The lender thus uses his wealth for the purpose of procuring revenue, without its being necessary, at the same time, for him to exercise his labour. It is immaterial to him whether it is used to finance a mining or manufacturing concern, and so assisting production, or in the provision of warships to be immediately employed in the destruction of wealth. He lends it to an industrial undertaking or to a warlike Government with the utmost indifference. In the latter instance the revenue derived from his capital must come out of the pockets of the taxpayers, who in the main are the producers of the national wealth. This charge on the national production not only does not directly aid production, but may be an actual hindrance to it, and his capital, by giving him the right to claim a portion of the national production, makes him, as it were, a mortgagee of industry.

Consumption Capital.—It is obviously true that all capital is consumed, in the sense that nothing lasts for ever; but the reason for distinguishing this type of capital from the others lies in the manner of consumption. Consumption capital consists of goods in a form to satisfy wants directly, more particularly of goods which afford a direct sustenance to the workers, such as food, clothing, etc. This consumption may take place over various periods of time—*e.g.*, a leg of mutton may be consumed almost immediately, whereas a piece of furniture may satisfy the direct wants of the owners for several generations. No sharp lines of demarcation can be drawn between the different types of capital, and goods may be considered as belonging, now to one class and at other times to another, according to the point of view taken—*e.g.*, the food of the labourer, since it satisfies his wants directly, may be consumption capital; but it assists him also in his work, and might, in that sense, be considered producer's capital.

The Capital of a Business.—The question of finance in connection with a business is perhaps the most important one in the consideration of the promoters. Their aim is always to secure such an amount of capital as is deemed adequate for the economical conduct of the business, and it is quite as dangerous to attempt to carry on a business with insufficient capital as it is wasteful to have any unnecessary capital in the concern. One of the most frequent reasons given for failures in business is "insufficiency of capital." Lack of capital, while a drawback, may be remedied to some extent by careful organization and judicious management. On the other hand, unnecessary capital means a diminution in the rate of dividend, and, further, may act as an incentive to extravagance.

The term "capital" is used in business with reference to the wealth invested by a person or number of persons therein, and represents the amount by which the assets of the business exceed the liabilities. Such investments are made with a view to obtaining a return in the shape of interest or dividend, the probable rate of which, generally speaking, varies directly as the risks of the undertaking. Capital invested in a speculative business, such as the opening of a new gold-mine, expects a much higher remuneration than capital invested in less adventurous undertakings. This business capital is drawn from widely diverse sources, and in very few cases is a modern business carried on solely with the capital of the proprietor.

When the capital has been collected a part is devoted to the full equipment of the business, to the acquisition of premises, stocks of materials, plant and machinery, furniture, fittings. This outlay, of course, by no means exhausts the capital; in addition, there should be a reasonable amount of working capital which has not been expended in the equipment or purchase of the business. Such working capital ought to be sufficient to provide and hold an adequate stock, and to support a reasonable amount of book-debts. In addition, a sufficient balance should be maintained at the bank to enable creditors' claims to be promptly settled, and also to take advantage of any combination of favourable circumstances in the way of securing unexpected bargains for prompt cash.

From the accountant's point of view the capital of a business can be ascertained by an examination of the balance-sheet. Suppose that a firm held in cash £600, stock £900, goodwill £200, and that certain persons owed them £500. These items represent their

assets, and against these they have liabilities to the extent of £100. The balance-sheet then would be as follows:

LIABILITIES.			ASSETS.		
Sundry creditors	..	£ 400	Cash	.. ..	£ 600
Capital	..	1,800	Sundry debtors	..	500
			Stock	..	900
			Goodwill	..	200
		<hr/>			<hr/>
		£2,200			£2,200

Thus, the difference between the amount of the assets and the liabilities—viz., £1,800—represents the capital of the business.

Capital of a Company.—In the case of a joint-stock company the capital is the property of a number of shareholders, each being entitled to a portion of the company's profits, corresponding to the number of shares he holds. Since it is impossible for an army of shareholders individually to take part in the management of the business, this duty is delegated to a limited number, who constitute the board of directors, and who are elected by the general body of shareholders. As a compensation for risking their capital without retaining their personal control of it, the liability of the shareholders is usually limited to the amount of their shares, not, as was formerly the case, to the extent of their personal wealth outside the business.

The constitution of a joint-stock company secures the advantages of a large accumulation of capital by attracting the stores of numbers of small savings, and in this way it is enabled to embark on production on a large scale, with its incident economies. The death or withdrawal of one shareholder has seldom any effect on the continuity of policy of the concern, as would

be the case in a private partnership. There is also a division between the bearing of the risks of business and the undertaking function, the former being assumed by the shareholders, the latter by the directors and salaried officials.

The capital of a joint-stock company falls into two classes—nominal and issued. The nominal or registered capital is the total amount stated in the memorandum of association of the company, and it is not necessary that the whole of this amount should be issued at once, though stamp duty is payable thereon upon registration. The amount offered for subscription is termed the “issued capital,” and of this amount even the whole may not be required to be paid up—*i.e.*, demanded and received in cash from the shareholders. Thus it is possible for a company to hold in reserve, as uncalled capital, a considerable amount of financial strength, which may be drawn upon in case of necessity.

The shares of a company are not all of the same type, but are divided into classes, so as to appeal to all sections of the investing public. Those who are willing to undertake the full risks of the working are catered for by the issue of ordinary shares. These are entitled to a share in the profits after all prior charges have been paid, and such share will be greater or smaller according to the success of the business. For investors who wish for a greater measure of security, preference shares are attractive. These shares receive a certain fixed dividend out of the profits before the ordinary shareholders receive anything, but beyond this they receive no further share. Founder's shares, which are not now usually found in companies conducted on the soundest financial lines, are as a rule few in number,

and are taken generally by the promoters. Another way in which a limited liability company can raise capital is by the issue of debentures. In the case of these the investor incurs the minimum of risk, and the return to them may be considered as pure interest on capital. They are really securities for loans granted to the company in the terms set out in the bond or trust deed acknowledging the debt. The extent of the business done by joint-stock companies is shown by the fact that in April, 1913, the number of such companies was 60,754, with a capital of over 2,425 million pounds.

QUESTIONS.

1. "Insufficiency of capital is a frequent cause of bankruptcy." Give any reasons you know why this should be true.
2. Name the different categories of capital employed in joint-stock undertakings, and enumerate the special features of each type.
3. In what way does the economic conception of capital differ from that of the business man ?

BUSINESS MANAGEMENT

Organization of Business.—We have already seen that the agents of production are four in number—viz., land, labour, capital, and organization. It is with the last that we are more immediately concerned in this chapter. The rise in importance of this agent is due to the preponderating part that division of labour plays in the industrial and commercial world of to-day. As a necessary corollary of the division of labour, there is the combination of labour. In the making of a bicycle, for example, each part of the machine may be made by separate workmen, but their labour must be combined so as to produce the complete machine. It is no use having too many cranks and at the same time to be short of wheels; hence the need to organize the work so that there is a perfect balance of parts produced. In most modern industries this organization is indispensable, and efficiency of organization is the test whereby the success or failure of a business may be determined. The planning of business operations and the effective superintendence to ensure the carrying out of those plans is the main work of a business organizer.

The force stimulating the business organizer to do his best is the force of competition, whether exerted by other business men at home or by his trade rivals abroad. In very few cases can there be much secrecy

about business methods at the present time; the tendency appears to be all in the other direction. Secrets may be stolen, but the driving force underlying the business is something inherent in the organizer, and as such cannot be stolen. Accompanying the increase of publicity is the continual change in business methods; now ideas are being adopted and transformed with astonishing rapidity, and the successful business man must keep abreast of all these. Although important in all businesses, the faculty of organization is a greater necessity in a commercial than in an industrial undertaking, since the former type of business is less easily reduced to routine than the latter.

The business organizer forms the hub of the wheels of commerce and industry. Each in his own particular sphere combines all the activities of the various departments, and ensures the smooth working of the whole, at the same time causing each section to retain its individual responsibility. So difficult is this control of commerce and industry that in all industrially advanced communities a distinct class of individuals is called into being to undertake this function. This class is known as the class of business undertakers, or employers, or, to adopt their French name, the entrepreneurs.

Functions of the Entrepreneur.—The services rendered to society by this class are of the utmost value, and the capable entrepreneur should be able to command his own price almost. At least, judging by recent events in the railway world, there seems to be a dearth of men capable of fulfilling these high functions in this country. There are two main functions which such a man should exercise—viz., the controlling function and the power of dealing with economic questions

final settlement. The advent of the parcel post has minimized this advantage of the small trader, since goods may be ordered by letter, wire, or telephone from some great central stores, and delivery made both expeditiously and to suit the customer's convenience. But while shopping by post has enlarged the clientèle of the enterprising trader, it has at the same time entailed heavier expenses on advertising, the preparation of catalogues, price lists, etc., and incidentally it has provided an excellent opportunity for fraud on the part of unscrupulous traders, who rely on the complete severance of the personal link between customer and shopkeeper for the success of their dishonest transactions.

It is this personal link which, after all, furnishes the strongest reason for the continued existence of the small trader. He must cultivate the good-will of his customer, since his aim is to induce any person, who perhaps only enters the shop for a casual purchase, to come again. Personal attention, courtesy, readiness to oblige—all these must be impressed unobtrusively on the customer's mind; but, before all, the trader must be willing to supply a good commodity at a moderate profit. In many cases the small man has an advantage over the larger concern in being able to work certain lines on a lower percentage on the turnover. He is also in constant touch with his assistants, and can personally take steps to check waste, and detect idleness, or, on the other hand, he can encourage and reward enterprise and diligence.

The smaller retail shopkeepers frequently, for the sake of retaining their independent position, have to struggle on in the face of great disadvantages. Often conservative in ideas and methods, they cannot buy

on equal terms with their more enterprising competitors, neither can they even sell so successfully, since they cannot afford to spend money on the effective display of their goods, even if they had the desire to do so. The necessity of granting credit to their poorer customers, and the consequent bad debts, make their positions so precarious that such shopkeepers are glad to accept subordinate positions under a "stores" or a multiple-shop firm in order to escape from the harassing life of the small retailer.

Purchase of Goods.—The activities of the retail dealer fall naturally into two divisions—the purchase and the sale of commodities; and of the two, the former undoubtedly demands abilities of a higher order than the latter. "Sound buying is necessary for sound selling" is a maxim nowhere more true than in retail trade. The business of buying is the business of experts, and needs skill, prudence, foresight, restraint, and a thorough knowledge of the kinds and qualities of the commodities dealt in. Such qualifications can only be obtained by years of preliminary training and assiduous study.

In making his purchases the retailer has to gauge the demand of the public and of his own clientèle in particular, and buy accordingly. The character of his stock will depend largely on the size of the population he is catering for. If his shop is in a small town, he needs a greater stock in proportion to his turnover than he would if he were in a large town. Fresh and clean stock is essential to the enterprising dealer, and he is always on the look-out for attractive lines with which he may add variety to his own goods. New productions are continually being introduced, and his policy is to buy small quantities, but to buy fre-

quently, thus keeping a smaller amount of idle stock and securing a quicker turnover. The old custom of buying heavily two or three times a year is now obsolete, and clever traders now buy from hand to mouth, weekly or even daily. When credit facilities are so extensive, the great danger is in buying too much, particularly when prices are low, since even then it is advisable rather to err on the side of caution. The incautious trader, too, may be tempted, by the offer of attractive discounts, to overload his stock. When buying is of a seasonal character—*e.g.*, in the dried-fruit trade—there are frequently inducements to overstock, and this may have serious consequences in the case of goods which are liable to deterioration. A keen buyer will also spread his purchases over a wide field, and thereby reap the full advantage of the sellers' competition. This he can do so long as he retains his financial independence, but when he rashly accepts extended credit from any one firm, and afterwards finds it difficult to discharge the whole of his obligations to them, his sphere of buying is restricted. He is unable to buy in the open market so long as he is under a financial obligation to one firm, and he is bound to act in practice simply as their retail agent. This state of affairs is frequently revealed in the bankruptcy court, when the major part of the debtor's liabilities are to a "principal" creditor. Whenever there is a principal creditor, "tied" trading of the above nature is generally found to be a corollary.

The buying of the retail dealer may be carried out either through the wholesale trader or directly from the manufacturer. The smaller concerns mainly buy through the wholesale house, though the tendency to buy direct from the maker is on the increase even here,

while the larger retail concerns generally deal directly with the maker. The object of this direct dealing is to eliminate the middleman, and, as a consequence, to secure his share of the profit. It is doubtful, however, whether this object is completely achieved by dealing with the manufacturer, since it will entail the setting up by the latter of a mechanism for selling as a separate department of his business. The expenses of such a department must be taken into consideration when the relative advantages of the two methods of dealing are being compared. There are, besides, several minor drawbacks in direct buying from the manufacturer. He does not as a rule supply more than one or two lines of goods; neither does he specialize to suit local tastes; and, further, he is rarely an expert in selling. These drawbacks are no disadvantage in the case of goods which are standardized, but obviously there are many classes of goods possessing slight differences of quality which will continue to require the services of the wholesale dealer for their disposal. Nevertheless, the increasing tendency towards this type of dealing seems to point to the fact that the economies gained must outweigh its drawbacks.

The wholesale trader is an expert in buying and selling; he buys in bulk from the maker, and sells in convenient parcels to suit the retailer. He maintains a large, well-assorted stock of goods at some convenient transport centre, to which the retail trader can resort and where he can rely on seeing a wide selection of his special lines of goods. He is not only an expert in buying and selling, but possesses also excellent facilities for packing and forwarding goods, and therefore can be relied upon to deliver promptly miscellaneous assortments of parcels. His stock is representative of the products of many manufacturers, and by the

concentration of these goods in his warehouse, he enables the retailer to carry a smaller and better assorted stock in his shop. In the case of breakages, defects, and shortages, the maker certainly has the advantage in his superior ability to rectify them, but the wholesale dealer has the power of assisting his customers in many ways which are impossible to his rival. He can, and does, give valuable advice to him in making his purchases. His position in the commercial world enables him to take a wide survey of the trade; he notes the movements of the markets, changes in custom or in fashions, and his expert knowledge is always at the service of his customers. By granting them facilities for making small purchases, he helps them to lessen the risks of business, and thus contributes to the maintenance of the general stability of the trade.

The shopkeeper may make his purchases either personally or through the commercial travellers sent out by the wholesale merchants and the manufacturers. The latter method will be pursued by the retailers of the more isolated towns and villages, but owing to the facilities for communication, most shopkeepers procure their goods through both channels. There are few towns in England which are not within easy distance of some great distributing centre. Here are warehouses where the shopkeeper may see a wide selection of his lines of goods, and examine what he buys. He also comes into contact with the warehouse buyers and salesmen—men with their fingers on the pulse of the trade—and from them may obtain valuable guidance in the carrying on of his own little business. The commercial traveller performs the same office for such retail dealers as only visit the distributing centre infrequently. This body of men has reduced the selling of goods to a fine art. The procedure following a call

of the traveller is as follows: The order having been booked, a copy is sent to the firm the same day, and the goods then despatched in due course. Generally speaking, travellers' orders are executed with promptitude, though cases are known where orders have been sent to firms by post direct rather than through the firm's traveller, because experience had shown that the order by letter was dealt with more promptly. Such a method of dealing was, of course, distinctly unfair to the traveller. On the other hand, a pushing traveller, with a view to increasing his own commission, might persuade a customer to place orders for goods largely in excess of the requirements of his business. Purchases may also be made verbally either from a traveller or his principal on the Exchange, and when an article is required at short notice the order can be transmitted by telegram or telephone.

Often enough purchases must be made when it is neither possible to visit the wholesale warehouse personally nor to wait for the next call of the manufacturer's traveller. Then recourse must be had to the catalogues and price lists of the firms supplying the goods required, for information regarding qualities and prices. A price list is a statement issued by a manufacturer or dealer which contains particulars of the goods sold and the prices at which the issuer is prepared to sell. A constant study of all the recent trade price lists is the best way of becoming thoroughly conversant with the details of any retail business. These lists must not be confused with other lists which are issued by large dealers or published in the press, and which are known as "prices current." A "prices current" is a statement showing the market prices of a particular range of commodities, and is issued periodically. It shows the current market prices, and, of

course, implies no obligation on the part of the merchant to sell at those prices. If a retailer sends an inquiry to a wholesale dealer regarding the terms of supply of a specified article, the latter may send a quotation—*i.e.*, a statement of the price and conditions under which such article can be supplied—or he may simply send a price list containing the necessary information, which is tantamount to a quotation. The dealer may also go further and make the shopkeeper a firm offer of the articles in question. By this the dealer gives him the option of buying the goods at a certain price if he accepts within a stated time. During that time the dealer is precluded from offering the same goods to anyone else unless the offer is refused before the expiry of the period.

The following points may be instanced as essential to all transactions relating to the purchase of goods:

- (1) A written memorandum of the particulars of each transaction should be made; this may not be legally necessary, but the extra trouble is repaid by the security afforded.
- (2) Correct specification of the quality and description of the goods; if they are "best" or "guaranteed," this should be inserted in the contract.
- (3) Correct particulars of the quantities ordered. Vague terms, such as "fifty packages," should be avoided when actual weights or quantities can be given.
- (4) Time and route of delivery should be precisely mentioned. If nothing is said on this point, immediate delivery is understood.
- (5) Full particulars as to price and terms should be furnished; any discrepancy should be notified at once, and a written acknowledgment of the same obtained.

Regarding the quantity of goods purchased, each shopkeeper must perforce be guided by his experience. Purchases based on the ordinary requirements of the

business are generally safe enough, and anything in the nature of speculative buying is out of place in retail trade, and is bound to have disastrous consequences in the long-run. As we have seen, the tendency at present is to buy small parcels, but to buy often, and even when high discounts are offered as bait, the temptation to heavy buying should be resisted. Orders given to travellers should be definite in quantity, not a vague "about the same as last time," and a written copy of the order should be obtained from the traveller himself. A knowledge of the units of the commodities purchased, peculiar to any business, will, of course, be part of the shopkeeper's stock-in-trade—*e.g.*, in the grocery trade tea is sold in half-chests, about 50 lbs. each; eggs by the long hundred, *i.e.*, 120—and also of any allowances made to compensate for leakages—*e.g.*, 2 lbs. per bag in coffee.

Since in the majority of commodities it is impossible to purchase from the bulk after inspection, some means must be devised for providing intending purchasers with satisfactory evidence of the nature and quality of the goods. This is done by means of samples—*i.e.*, small portions of the commodity drawn from the bulk, and corresponding with it in quality. The bulk of the purchases made from travellers are on this basis, and in general few complaints of non-correspondence with the bulk are heard, while, on the other hand, business is tremendously facilitated by their aid. In some commodities it may not be convenient to provide a sample—as, for example, in the case of the current year's crop of wheat. In such a case transactions are according to "type." A type is a standard sample, taken usually from the previous year's produce, and when the bulk is found to be inferior to the type, an allowance, determined by arbitration, is made. Such goods as

Canadian wheat, tobacco, sugar, etc., are sold in this way. Sometimes goods may be purchased quite safely without the intervention of either sample or type. Such goods and their qualities are so well known, they are so easily identified by special brands or trade-marks, that any further proofs of their character are unnecessary, and they can be sold by description only. It is an implied condition that goods sold by description shall correspond with the description—*c.g.*, if Harris tweed or Wiltshire bacon is purchased, the buyer can refuse to accept delivery of Donegal tweed or Irish bacon. Under whichever of these three conditions the retailer makes his purchases, he is bound to rely in a large measure on his own experience and judgment when forming an opinion as to the nature and quality of the goods he buys.

Delivery of Goods.—When goods have been purchased, although the seller is not bound to deliver them at the buyer's place of business, yet, as a matter of convenience, especially in the case of large parcels, the packing and carriage is generally undertaken by the dealer or maker from whom the retailer buys. In wholesale warehouses a special department is entrusted with the packing of parcels. At the same time as the despatch of the goods an invoice is sent by post giving particulars of date, purchaser, goods, quantity, and any incidental charges. Many types of goods require packing in cases, bags, or chests, and a deduction, known as "tare," is made from the gross weight of the package in respect of the weight of the article in which the goods are packed. In dealing with the return of empty cases there is no uniform method; some firms allow their return within a certain period, and others charge for the cases on the invoice.

Goods may be sold for delivery immediately—*i.e.*,

prompt delivery—or they may be sold on the understanding that they shall be delivered on a specified day—the prompt day—in which case the sale is termed a “prompt sale.” They may also be sold for forward delivery, in which case they may either be delivered in one lot at some future date, or delivered by instalments spread over a given period of time.

The method of delivery depends on several circumstances—the nature of the goods, the situation of the buyer’s place of business, the urgency of the demand, etc. If the goods are not very bulky, and the distance is within easy reach of the warehouse, the delivery is executed by the wholesale firm’s own messenger. On delivery, the messenger presents a delivery note, which the receiver signs as evidence that the goods have been received satisfactorily. Where goods have to be sent longer distances, either a local carrier, the parcel post, a parcel company, or the railway, is employed.

The local carriers are mainly found in the rural areas, and frequently traverse areas which are not served by railway. He carries cheaply, and usually delivers within the same day, though his rounds probably only permit him to visit a given place once or twice weekly. The parcel post can only be used for parcels within certain limits of size and weight, though the charges are uniform for any distance. The bulk of the delivery of goods is effected by means of the parcels delivery companies and the railways. Such companies as Sutton and Co. and Pickford’s, are specialists in this form of transport. They collect parcels in one town, concentrate them at their receiving office, classify and assemble them in bulk, consign them in large parcels by rail, and then deliver them at their destination. They thus take over much of the more detailed work of

the railway companies, with whom they can contract on favourable terms, and therefore they can carry these small parcels on cheaper terms than the railway companies themselves. Many firms who are continually receiving and sending parcels contract with these companies to do all their carrying. The best and most rapid method of delivery is, however, by rail, and the bulk of the retail dealer's deliveries are made through this agency. If the saving of time is a consideration, he may have his goods sent by passenger train; but, if cost of carriage has to be considered, the goods may be sent by goods train at little more than half the cost of carriage by passenger train. A consideration of the question of railway rates and charges, however, must be left to the section dealing with transport by rail.

Price and Terms of Payment.—The most important factor in the purchase of goods is undoubtedly the conditions with reference to the price and the terms of payment. With regard to the former, goods may be bought at "loco price"—i.e., the price of the goods wherever they happen to be at the time of sale. This includes no charges for removal or carriage. The price "at station" includes the carting from the warehouse, but no loading charges nor carriage. "Free on rail" covers cost of cartage from warehouse and loading charges, but not cost of carriage.

The terms of payment are also varied. In the case of a transaction with a firm with whom there have been no previous dealings it is not unreasonable that cash should be required with the order. If cash with order is not required, then payment may be required before the goods are handed over; such a transaction would be on the basis of cash on delivery, or C.O.D. Thirdly, dealings may be for prompt cash. This is a somewhat

elastic term, though if the account be paid within fifteen days of the receipt of the invoice the transaction may be considered as one for prompt cash. These payments imply not cash without discount, but generally a limited range of discount is allowed, and the terms are usually stated on the invoice. For example, prices may be quoted at $2\frac{1}{2}$ per cent. discount for cash, or a similar rate of discount may be allowed on all accounts paid within a specified period of time.

The discount referred to in the preceding paragraph is cash discount. This is allowed as an inducement to the purchaser to settle his accounts as promptly as possible. Another type of discount, known as "trade discount," is an allowance made by the wholesale dealers to the retailer in his purchases from the prices as quoted in their lists. These allowances vary according to the customs of the trade, and range from $2\frac{1}{2}$ per cent. up to 75 per cent. off the list prices. These discounts are peculiarly useful in those trades in which the raw material is liable to sudden fluctuations in price. If the price of the raw material advances, the manufacturer simply revises his scale of trade discounts, and thus obviates the necessity of revising the prices of every commodity into which the said raw material enters. Such trade discounts are always deducted from the prices before the latter are entered in the books of the firm.

It is a most valuable asset to the retail trader to have a reputation for prompt payment. He often receives special terms and discounts, and frequently has opportunities afforded of acquiring good lines of goods which are denied to his colleagues who are less punctual in meeting their obligations. It is also an advantage to his own business, since his books are more easily

kept; there is less likelihood of disputes arising, and it stimulates care in buying. The temptation to accept long credit, however, is a very real one, and more particularly so when combined with the custom of dating forward. Thus, goods bought in January may be dated forward to April, and, with the three months' credit allowed, need not be paid for until June, thus giving practically five months' credit. This system provides a loophole for the careless buyer, but it is bad for trade, since extra dating and discount must be made up in price, and in this way is productive of trouble to wholesale and retail dealers alike.

Goodwill. — When an enterprising shop-assistant wishes to embark in business on his own account, two courses are open to him. He may either establish a new business in some selected locality, or he may purchase an already existing business. In the latter case the price of the business will probably be admittedly more than the total value of the fixtures, stock-in-trade, etc., such excess being accounted for as payment for the goodwill. The goodwill of a business may be defined as the benefit arising from connection and reputation. In most businesses there exists an amount of trade due to the dealings of regular customers, who have been induced to deal regularly through the efforts of the persons who have carried on the business, and this business connection is the foundation of goodwill. Therefore the purchaser of the business pays for the likelihood that these customers will continue to deal in the same way, and also for the opportunity afforded him of inducing them to increase their dealings.

The value of the goodwill of a going concern is the excess of the value of the business over and above the

value of its saleable assets, such as lands, houses, stock, etc. It has a cash value only on the occasion of the sale of the business or the admission of a partner or other similar occasions; but otherwise it is reckoned an intangible asset—*i.e.*, it is of no use in discharging the ordinary liabilities. It is very difficult to estimate the value of the goodwill, and it is a common mistake to calculate it largely in excess of what it really is worth. The value is usually based on the annual net profits, and may be from one to five years' purchase of these, varying according to the nature and conditions of the business. For example, in a retail business conducted largely on a credit basis the goodwill would be worth less than that of a similar business where the dealings were exclusively cash. Whatever be the estimated value in a business of any size, the value of the goodwill should either be gradually extinguished by depreciation or by the accumulation of a reserve equal to it in amount.

QUESTIONS.

1. Explain the exact position of the retail trader in the scheme of distribution.
2. Distinguish between a price list and prices current, invoice and statement, cash discount and trade discount.
3. Compare the conditions of retail trade in perishable goods with the trade in dry goods, illustrating your answer by reference to specific businesses.
4. What are the advantages in dealing with a wholesale warehouse in preference to dealing directly with a manufacturer ?
5. To what extent is the independent retail trader being driven out of business ? Examine this question from the point of view of the consumer.
6. What do you mean by the "goodwill" of a business ? On what basis is its value determined ?

METHODS OF PAYMENT

IN transactions between the small retail trader and his customers, payments in coin are the rule, though of course banknotes may be used, and cheques also are employed to an increasing extent. When the retail trader makes payments to the wholesale dealer or manufacturer for goods supplied, he may also pay in coin or notes. If he settles the account through the post, however, he would never think of remitting coin, and he would seldom remit notes; practically the whole of these payments are made through the medium of a bank. At one time only firms of some standing kept an account at a bank; but nowadays the practice is universal, and the status of a trader who does not pay his accounts with his own cheques is considered indifferent. In settling business accounts the bank is invariably employed, and private persons to a great extent settle their household accounts, etc., by means of cheques drawn on some bank or other. We may now examine broadly the procedure whereby this is done, deferring a more detailed investigation of banking organization to a later period.

The Banking Account.—To some particularly sensitive persons the general appearance of the bank premises, and the air of opulence pervading the fittings and furniture, act as a deterrent to the opening of an account. Especially may the nervousness of the man

who is just commencing business be excused when he finds that certain precautions are necessary before the bank will undertake to transact his business. However, the production of satisfactory references speedily clears away any obstacles, and the competition for business between the banks themselves causes the way to be smoothed. Money can be deposited in the bank in the shape of either a deposit account or a current account. A deposit account is one in which the money is left in the banker's hands, generally for a fixed period, though arrangements may be made for its withdrawal on demand, but as a rule a certain stipulated notice must be given before its withdrawal. Such deposits are really loans to the banker, and he allows interest on them. A current or drawing account is one into which the customer pays money, and from which he can draw money on demand. Interest may or may not be allowed on this type of account; in London the custom is to allow no interest except on large balances, but in the provinces interest is generally allowed on smaller balances, though a minimum is often fixed. The banker acts as financial agent for the customer, making his payments and safeguarding his receipts.

The current account is the type used by the trader, and, before opening his account he interviews the bank manager, satisfies him that he is in a position to open such an account, and arranges terms generally. Then he is requested to sign the autograph book, making use of the signature he intends to use in the signing of cheques. On making his first deposit he receives a pass book, a cheque book, and a book of credit slips. The pass book is for the purpose of recording all the receipts and payments made, and should be taken to

the bank at frequent intervals to have such amounts entered. A credit slip is simply a slip of paper upon which is entered the amount of the sums paid in, differentiated as coin, notes, cheques, or bills. A number of them are frequently bound together for convenience, and attached to each is a counterfoil on which the customer may enter particulars for his own reference. A cheque book contains a number of cheque forms, numbered consecutively, with a counterfoil attached to each.

Money can only be withdrawn from the bank by means of a cheque, and the trader usually withdraws it to make a payment. If this payment has to be made to another customer of the same bank, he hands the cheque to him, and this second individual pays it in to his account. Suppose the amount in question is £20: what has happened is that the first trader's account at the bank is diminished by £20, and the second trader's account increased by the same amount. Further, the payment has been made without the use of coin at all, by the transfer of credit from the one to the other. The principle is exactly the same when two or more banks are involved. This economy in the use of coin has been rendered necessary, since the total amount of metallic money in the world is quite inadequate to carry out even a fraction of the trading transactions. It is an advantage to the banker also, since he is not compelled to keep a large proportion of his resources lying idle in the form of coin, but is able to employ them profitably in loans and advances to business men generally. Thus the banker distributes credit throughout the business world, and in ordinary times he only retains sufficient coin for his daily requirements.

Cheques.—The legal definition of a cheque is: “A

cheque is a bill of exchange drawn on a banker payable on demand"—*i.e.*, it is an order written and signed by one person, the drawer, directing a banker, the drawee, to pay a certain sum of money to a specified person, the payee, or to the bearer, on demand. Cheques may be made payable to bearer or to order. The latter type is the most common, and the payee of such a cheque may order any other person to receive the money. He does this by endorsement—that is, he signs his name on the back of the cheque. A cheque payable to bearer will be paid to anyone presenting it at the bank, and of course needs no endorsement. Such cheques are convenient in cases where it is desirable that the cheque shall be negotiable without endorsement.

While the order cheque is a safer mode of making a payment than the bearer cheque, still both are made payable in coin. Therefore, in order to obviate the risks of theft more satisfactorily, the cheque may be made not payable in coin. This may be done by crossing, the effect of this being that coin cannot be obtained for it at the bank upon which it is drawn. The cheque must be paid to a banker, who collects the amount from the bank on which it is drawn, and credits the payee's account with it. A crossed cheque is one which has two parallel lines drawn across its face. Examples of common crossings are given on p. 135.

1 and 2 are general crossings; 3 and 4 are special crossings. The holder of a cheque crossed generally cannot obtain payment except through a banker, and the holder of a cheque crossed specially can only obtain payment through the bank named. It is always advisable to cross cheques sent through the post in settlement of an account. If a person who has

N^o G 65839
 The Lancashire and Yorkshire Bank Limited
 Pay Messrs Mad. mald. & Co or Order
 Ten pounds fifteen shillings
 £10-15-0
 Manchester May 3rd 1915
 James Wilson

N^o G 65840
 The Lancashire and Yorkshire Bank Limited
 Pay W. Gregory Esq^r or Order
 Fifty pounds
 £50-0-0
 Manchester May 3rd 1915
 Thos Harris

(1)

£ Co

(2)

not negotiable

(3)

Baris Bank, Leeds

(4)

Lloyds Bank, 94 of Payee

no banking account receives a crossed cheque, he may either get a bank to collect the amount for him, for which they will charge a small commission, or he may hand it over to someone who has a banking account, and obtain cash from him.

The chief function of the banker is that he holds himself liable for the payment of a sum equal to the amount deposited by the customer, and agrees to cash any orders for payment which he may receive from him, to the extent of the amount paid in. In addition to the services the banker renders in this way, there are many other advantages to the trader in having a banking account. There is no necessity to incur the risk and inconvenience of keeping a store of cash at the trader's house or place of business, when the banker is ready to take charge of it, and, moreover, will pay interest on it, if the cash is entrusted to him as a deposit account. The trouble and expense of cash payments are avoided in making payments by cheque, with the further advantage that a correct record of such payments is made by the bank. If a trader finds himself temporarily in need of a little extra capital, the banker will allow him to overdraw his account, providing that he gives sufficient security to cover the overdraft. The bank is also the most convenient place to get bills of exchange discounted. A banker is also referred to when any inquiries are made regarding the stability of any trader or firm, and on his report depends to a large extent the credit which such a firm may be allowed. Such information is usually given in general terms, so as not to impair the relations of confidence which ought to exist between banker and customer. The bank also will take charge of any deeds, valuable documents, or other property

which it may not be desirable or safe to retain in one's own possession. Finally, all kinds of information regarding trade and industry, such as the dealing in stocks and shares, the state of the money market, etc., may be readily obtained from the banker, who is invariably ready to advise and assist his customers in any financial transaction.

Money Orders and Postal Orders.—Payment by cheque is subject to the disadvantage that cheques are not legal tender as are Bank of England notes and gold coin, and, with certain limitations, silver and copper coins. But it is very seldom that business men make payments of any great amount by means of notes or coin. A person who has no banking account will not send remittances through the post in the form of notes or coin. The needs of such persons have been met by the introduction, by the Post-Office, of postal orders and money orders, which are orders by one post-office on another for the payment of certain specified sums. No person, whether he has a banking account or not, should experience any difficulty in remitting any reasonable sum with perfect ease and safety. The growth of shopping by post, and the extension of the mail order business, have led to an increasing use of these means of remittance.

A money order is made by one post-office on another specified office for the payment of any sum not exceeding £40 to a particular person. Application is made at the post-office on a form provided for the purpose, and each order is made out in duplicate, one being given to the remitter, and the other forwarded to the office on which the order is made. A small charge, called "poundage," varying according to the amount of the order, is made on each. When it is necessary

to make an urgent remittance, a telegraphic money order may be used. The charges for these include, in addition to the ordinary poundage, a charge for the telegram of advice to the office of payment, and a supplementary fee of 2d. per order.

A postal order is distinguished from a money order in that it is an order made by one post-office to any other post-office for the payment of any one of certain sums ranging from 6d. to 21s. In both cases the remitter, of course, deposits the sum to be remitted with the issuing office, and in the case of postal orders pays poundage, which varies from $\frac{1}{2}$ d. to $1\frac{1}{2}$ d., according to the amount. Attached to each postal order is a counterfoil, which must be presented when making any claim for loss in transmission. The extent to which these two means of remittance are employed is shown in the report of the Postmaster-General for the year 1912-13, wherein it is stated that during that period the number of money and postal orders paid in the United Kingdom was 14,274,000, representing an amount of £52,992,000, the poundage paid on postal orders alone amounting to £544,591.

On many occasions, when payment is made through the post-office in the above manner, the remitter is requested to cross the order, thus making it payable only through a banker. Thus the banking organization is brought into intimate contact with the post-office in dealing with these. When the receiver gets a batch of postal orders crossed as he requested, he hands them to his banker for collection. In the first case the latter must enter them in lists on the official forms supplied, and, if stamps have been affixed in the case of broken amounts, these must be listed separately. The banker then may obtain payment in coin or notes

from the local post-office. The procedure in London and the larger towns is slightly different. There they are sent to the head post-office, and payment is then made by cheque. In London, the General Post-Office settles daily with the leading London banks by issuing to each a transfer on the Bank of England for the total of the lists of postal orders remitted.

QUESTIONS.

1. Enumerate the various services that the banker renders to the business community.
2. A shopkeeper receives a money order, a blank postal order, and a crossed cheque, in payment of an account. Explain the procedure for converting them into cash.
3. "Bankers convert money here into money somewhere else." Explain this. Is it also true of the Post-Office ?

THE COMMERCIAL CONTRACT

ONE of the greatest assets of British commerce is the character of the British business man for integrity and honesty of purpose. This reputation is the growth of generations, and, in dealings with the more backward nations, is of the utmost value. Implicit reliance is placed on the word of a British merchant. In the early days of trade, when the statesmen of the period considered commercial transactions too unimportant for their attention, the mercantile community were compelled to adopt certain trading customs for their own protection. This mass of custom crystallized finally into law, the enforcement of which was no longer left to the guilds and other mercantile associations, but was undertaken by the State. In modern times the business man is certain to come into contact with legal matters sooner or later. Though he may not need a wide knowledge of the law relating to trade, yet there are occasions when he may be called upon to decide some question promptly, and it behoves him to have some acquaintance with the fundamental principles of the law relating to trade, and more particularly to that subdivision which deals with the law regarding contracts.

Nature of a Contract.—Anson defines a contract as “An agreement enforceable at law, made between two or more persons, by which rights are acquired by

one or more to acts or forbearances on the part of the other or others." Thus, in the first place, a contract is an agreement between two parties at least. *E.g.*, A says, "I will sell you this machine for £25," and B replies, "I will buy." Here there is a promise by A to sell, a promise by B to buy, and therefore a contract between the two. Such an agreement requires three conditions—(1) an offer, (2) an acceptance of the offer, (3) legal recognition of the binding character of such offer and acceptance. The last condition implies the creation of an obligation between the parties to the agreement, and in this respect a contract differs from many agreements which are not legally binding.

Regarding the acceptance of an offer, consent is the essential quality. Such consent may be expressed either verbally, in writing, or by conduct. The first two methods of acceptance are obvious, but the expression of consent by conduct is perhaps not so clear. In this case there is an offer of goods or services which may be accepted by doing a certain act. Thus, a public omnibus plying along a certain route is an offer of services upon certain terms; the offer is accepted by getting on the omnibus, and thereby agreeing to pay the fare when duly demanded.

An offer need not be made to any particular person, it may be addressed to the public at large; but no contract can arise until it is accepted by someone. The offer, by advertisement, of a reward for the recovery of any missing property becomes a contract when any individual returns the property; there is no obligation to pay the reward before this has been done. The acceptance must correspond, in all essential points, with the terms of the offer, and must not introduce terms not comprised in the offer. If A offers to sell B

£100 worth of goods, and B replies that he will accept if A will undertake to deliver them free of charge, there is no acceptance, because B has introduced a new element. Until an offer is accepted, neither party is bound, and the offer may be revoked by giving due notice to the party to whom the offer is made. After the offer has been accepted, it is necessarily irrevocable, though an offer may be revoked at any time before acceptance. Thus A, writing from Cardiff on October 1, made an offer to B in New York asking for a reply by cable. B received the offer on the 11th, and at once accepted in the manner requested. On the 8th A had posted a letter withdrawing his offer. In this case there was a true acceptance, which was complete as soon as B had replied, since the letter posted by A on the 8th was not brought to B's knowledge before he accepted, and therefore was useless as a withdrawal of the offer. As the majority of offers and acceptances are communicated through the post, it is of importance to know what are the effects of this transmission on the validity or otherwise of a contract. An offer made by post takes effect as soon as the letter containing it is received by the person to whom it is addressed. If, in reply, a letter of acceptance is posted within the time mentioned in the offeror's letter, or, if no such time is mentioned, within a reasonable time, the acceptance is complete as soon as the letter is posted. What is a reasonable time depends on the circumstances of each case.

Contracts are of two types—(1) Contracts by deeds; (2) simple contracts. Generally speaking, the former type is binding upon any person who enters into it, but the latter is not binding unless some valuable return for the promise is to be made by the person to whom the promise is made. Such a return is called

“consideration.” Consideration, in the legal sense, therefore, may consist in some benefit or profit accruing to one party, or some forbearance or loss suffered by the other. When an employer engages a workman, and promises to pay him a certain rate of wages, the consideration for his promise is the benefit to him of the workman’s exertions. On the other hand, the workman sells his labour, and the consideration to him is his wages. A valuable consideration is usually either money or money’s worth. As to whether the amount is adequate or not is a question into which the law does not inquire, and, unless it were so slight as to amount to fraud, a court of law would not refuse to declare a contract binding on that account. The consideration, however, must be something which the person giving it is not already bound to give; *e.g.*, the payment of a smaller sum in satisfaction of a larger is not a good discharge of a debt. Such a payment is no more than a man is already bound to make, and is no consideration for a promise to forego the remainder of the debt. This question of valuable consideration furnishes an important distinction between contracts under seal—*i.e.*, in deeds—and simple contracts. Valuable consideration is necessary before a promise in the latter can be binding, whereas it is unnecessary in the former.

Contracts in Writing.—It is desirable that all contracts of any importance should be in writing, not because they would not otherwise be binding, but because an agreement not in writing is often difficult of proof. There are certain agreements which, in order to be binding, must be expressed in writing. Such are—bills of exchange, promissory notes, cheques, contracts for the sale of copyright, for marine in-

surance, and contracts for the sale of goods of £10 and upwards in value. The Statute of Frauds also enumerates five contracts which are not enforceable against any party unless there is an agreement or some memorandum in writing signed by that party or by someone authorized by him.

The three most important of these are—contract of guarantee, contract relating to land, and contract not to be carried out within the space of one year from the making. The first-named may be always reduced to some such form as the following: “Deal with X, and if he does not pay you, I will.” Thus, three persons are necessary in a contract of this type—a debtor, a creditor, and a guarantor or surety. The principal debtor continues to be liable to pay the debt, but the liability of the guarantor is conditional on the failure of the debtor to discharge the debt. The second type includes all contracts by which an interest in land is given; land, moreover, includes houses, trees, or minerals. A contract referring to growing trees would be such a contract; but when the trees have been cut, a contract concerning them ceases to be a contract relating to land. The third type refers to all contracts which cannot be entirely carried out within the year. Contracts for employment for the space of one year are the commonest examples of this type. An agreement for service for the term of one year from January 1, made on December 25 preceding, would only be binding against anyone provided it were in writing and signed by him.

Sale of Goods.—Probably the commonest type of contract from the business man’s point of view is the contract for the sale of goods. The law relating to the sale of goods is almost entirely contained in the Sale

of Goods Act, 1893, in a codified form, and this Act, as is fitting, bears the reputation of being the best drafted Act on the Statute Book. A contract for the sale of goods is one whereby the seller transfers, or agrees to transfer, the property in goods to the buyer for a money consideration, called the price. A transference of goods without any money consideration is a gift, and where the consideration consists not of money, but of other goods, the contract is not a contract of sale, but a contract of exchange or barter. It is also important to distinguish a sale and an agreement to sell. In the former the goods are transferred from the seller to the buyer, but in the latter the transfer is to take place at some future time, or is subject to some condition to be fulfilled before the transfer of the goods takes place.

As in the case of an ordinary contract, contracts for the sale of goods may be made verbally or in writing, or may be implied by conduct. Goods sent on approval, to be returned within a specified time, or within a reasonable time if no period is mentioned, may be considered as accepted by conduct if the recipient fails to return them within such times. A contract for the sale of goods of the value of £10 or upwards is not enforceable without some note or memorandum in writing of the contract being made and signed by the party to be charged or by his agent on his behalf unless (1) the buyer shall accept part of the goods so sold, and actually receive the same, or (2) give something in earnest to bind the contract. As an illustration of this, a certain person verbally agrees to buy some furniture, and arranges that £1, which had been overpaid by him on a previous transaction, shall be applied to the payment of the account for the furniture. This was not considered a part

payment within the meaning of the Act. Again, where a buyer verbally agrees to buy goods by sample, and on delivery he inspects and samples them, he is considered to have accepted the goods by the act of taking such sample. Legal acceptance may be taken as meaning any dealing with the goods which recognizes the fact that there has been a contract.

It has been disputed as to whether this particular section of the Act has done more good than harm. It has defeated many an honest claim, but it may have prevented many a dishonest one being put forward. The difference between this contract and the contracts dealt with in the Statute of Frauds should be noted. The latter contracts are not enforceable unless they are in writing, whereas the contracts for the sale of goods of £10 or upwards are rendered enforceable either by acceptance or by part payment. Therefore no written contract is necessary where either of these last-named conditions can be proved. Moreover, the contract itself is not required to be in writing, but only a memorandum of its terms; the actual bargain may be made by word of mouth. It is, however, advisable that any contract for the sale of goods to any considerable amount should be in writing.

When a written contract is employed, all the particulars necessary to prove the contract should be inserted therein. It should contain the names, or a sufficient description of the parties concerned, the description of goods, the price, and the signature of the party to be charged. These particulars need not be contained in a single document, but may be in several connected documents. Such notes relating to the sale of any goods do not need to be stamped.

In transactions relating to the sale of goods, it is of great importance that the exact time when the ownership of the goods passes to the buyer should be known. The rules determining this are laid down in the Act as follows: (1) When the contract is for the sale of specific goods (*i.e.*, goods identified and agreed upon at the time the contract is made) which can be immediately delivered, the property passes when the contract is made; (2) when the seller has to do something to the goods before they are ready for delivery, the property passes when that has been done and the buyer notified; (3) if the goods require to be weighed or tested, or to be treated in some other way for the purpose of ascertaining the price, then such acts must be done and the buyer notified before the property passes; (4) when goods are sent on approval, they become the property of the buyer when he has signified his acceptance of them; (5) when the contract is for the sale of unascertained goods, including goods to be acquired or made by the seller after the formation of the contract, and goods of that description are set aside for the contract, with the consent of both buyer and seller, the property thereupon passes to the buyer. The general principle is that the ownership of the goods shall be transferred to the buyer at such time as the parties to the contract intend it to be transferred.

The question as to whether or not the property in goods sold has passed to the buyer is of importance, because, as a general rule, the goods are at the risk of the person who, at any time, is then the owner. If there is no agreement to the contrary, the goods remain at the seller's risk until the ownership has been transferred to the buyer, but when once that has been done, the goods are at the buyer's risk. It is generally

immaterial whether delivery has been made or not. However, when the delivery of the goods has been delayed through the fault of either buyer or seller, the goods are at the risk of the party in fault as regards any loss which might not have occurred but for such fault.

Frequently, in contracts for the sale of goods, certain conditions are inserted affecting either one or both of the parties. A condition is an essential term of the contract, and if either party fails to observe such condition, the other party is entitled to repudiate the contract, and usually he can sue the party in fault for breach of contract. If a butcher bought South-down mutton and the seller delivered New Zealand mutton, he would be entitled to reject it and sue the seller for damages for breach of contract. As an inducement to a customer to buy, a seller may guarantee his goods to possess a certain quality—*i.e.*, he gives a warranty. A warranty thus is an agreement with reference to goods which are the subject of a contract of sale, but are not part of the main purpose of the contract. A breach of warranty by the seller gives rise to a claim for damages, but not to a right to reject the goods and treat the contract as repudiated. If A sells a horse to B and warrants it sound, and afterwards B finds it is unsound, B has no right to return the horse, but he has a right to damages against A for breach of warranty. The difference between a condition and a warranty, therefore, is that in the case of a breach, the contract may be repudiated in the former case, but in the latter it may not.

Under the common law it is understood that the buyer must take care of himself, and before purchasing must satisfy himself that the goods are suit-

able. It is not possible, however, for the buyer to do this in every case. When he makes known to the seller the particular purpose for which the goods are required, so as to show that he relies on the seller's skill and judgment, and the goods are of a kind which it is the seller's business to supply, there is an implied condition that the goods shall be reasonably fit for such purpose. If a person buys a typewriter at an auction sale, there is no implied condition or warranty that it is in satisfactory working order, as would be the case if he purchased one from Remington's. When goods are sold by description by a dealer in such goods, there is an implied condition that the goods are of saleable quality, and the buyer may resell the goods under the same description. On many occasions it is impossible for the buyer to inspect the goods he buys in bulk, and consequently he makes his purchases by sample. In the case of a contract of sale by sample, there are implied conditions (1) that the bulk shall correspond with the sample in quality; (2) that the buyer shall have a reasonable opportunity of comparing the bulk with the sample; (3) that the goods shall be free from any defect, rendering them unsaleable, which would not be apparent on reasonable examination of the sample.

When a contract of any type is broken, one of the parties thereto invariably suffers some injury from the breach, and he naturally seeks whatever remedies are afforded. Such remedies are of two kinds: he may seek to obtain damages for the loss he has suffered, or he may seek to obtain a decree for specific performance—*i.e.*, a direction that the contract should be carried out according to its terms. Every breach of contract entitles the injured party to damages, but it

is only in certain contracts and under certain circumstances that the second remedy can be obtained. Regarding the amount of damages to be obtained for a breach of contract, the general rule is that the party sustaining a loss shall be placed in the same position, so far as money can do it, as if the contract had been performed. Damages for breach of contract are awarded as compensation, not as punishment, and the losses taken into account are ordinary losses; exceptional losses should be a matter of special terms in the contract. In the case of remedy by specific performance, this will not be granted where damages are an adequate remedy, but it is applied in cases where damages would not be an adequate compensation for breach of contract. In the case of a contract for the sale of land, damages would not be a sufficient remedy for its breach, since the intending purchaser may have been influenced by conditions of health, convenience, or neighbourhood. Another case is that of a singer who contracts to sing at a certain theatre, and during a certain period to sing nowhere else. Afterwards she contracted to sing at another place, but the court decided that the negative promise she had given must be adhered to.

QUESTIONS.

1. Distinguish between "condition" and "warranty" in contracts for the sale of goods.
2. What is the meaning of the words "on approval," as used in a contract of sale? If the goods are satisfactory in quality, may the recipient reject them?
3. Enumerate the types of contract which must be in writing.

PROFITS

Gross and Net Profits.—The question of the profits of a business may be considered from two points of view—that of the business man, and that of the economist. All business men are in business for profit, and the amount of profit obtained determines whether they remain in business or not. Here is provided the universal test of the success or failure of the trader, and the vital importance of the question of profits to the business man supplies an adequate reason for devoting a chapter to its consideration.

When examining the question from the business man's point of view, the most obvious way of ascertaining the amount of profits is to deduct from the total sales the total cost of the goods sold, the difference between these two amounts constituting the profits of the business. This is the total or gross profit. But out of this gross profit payments must be made for rent, rates, taxes, lighting, wages of clerks or assistants, advertising and similar expenses, which are incurred in the working of the business. Provision must also be made for depreciation, wear and tear of stock, bad debts, and interest on borrowed capital. All these charges and working expenses are defrayed out of the gross profit, which is thereby materially diminished. The amount remaining is termed the net profit of the business, and this the trader retains as the reward of

his labour, or, if the business is carried on by a limited company, then it is available for distribution among the shareholders as dividend.

The following example of a profit and loss account of a business will show the relation between the gross and net profit:

PROFIT AND LOSS ACCOUNT FOR YEAR ENDING DECEMBER 31,
1913.

<i>Dr.</i>	<i>Cr.</i>
	£
To Rent	By gross profit from
" rates and taxes	trading account ..
" office expenses	7,365
" insurance	
" salaries	
" depreciation	
" interest on capital	
" balance: net profit	
£7,365	£7,365

Profits on Turnover.—In all businesses of the same type there exists a certain rate of profit which is looked upon as the normal or customary rate for that particular type of business. But the term "rate of profit" implies some comparison between the amount of the profits and some other item of the business. The most suitable item for use in this comparison is the amount of the sales effected—*i.e.*, the turnover—since without sales there can be no profit, and the best way of expressing this comparison is by stating the profit as a percentage of the turnover. One advantage of this is that it is applicable to businesses of any magnitude and to periods of any duration. Thus, the profit for a whole year may be compared with the profit for three months or any other period. The fluctuations of the profit form the barometer of the business, and

these may be traced better by the method of percentages than by statements of the amount of profit, which are apt to be misleading.

Closely related to the question of profits, also, is the amount of working expenses, since an increase in these must lead to a diminution of the net profit. For purposes of comparison, therefore, these must be also brought into relationship with the turnover. For example, let us suppose that the trading of a single department has to be compared with the trading of the firm as a whole, according to the following particulars:

				Whole Firm.	Department.
				£	£
Turnover	..	..	..	1,600	480
Gross profit	..	..	..	400	120
Expenses	..	..	..	240	72
Net profit	..	..	..	160	48

In each case the gross profit is 25 per cent. of the turnover, the working expenses 15 per cent., and the net profit 10 per cent., thus showing that the department in question is exactly as profitable in its trading as the firm taken as a whole. When considering these results for different periods, if the percentage of net profit decreases while the percentage of gross profit remains the same, it is evident that the working expenses have increased, and steps may be taken to remedy this. If the percentage of working expenses remains constant and the percentage of gross profit decreases, then the fault must lie either in the cost being too high or the selling price too low. Thus, the importance of the rate of profit on the turnover is obvious to every business man who desires to keep his finger on the pulse of his business.

Profits on Capital.—Many individuals, however, are interested in business in a more passive manner; such are those who have invested capital in various types of joint-stock enterprises. These are not interested in the profits on the turnover so much as in the rate of profits on the capital invested. In the case of a business which, by reason of the expensive plant required, needs proportionately a large amount of capital, a high rate of profits on the returns may not imply a correspondingly high rate of profits on the amount of invested capital, and it is the latter rate which the investors wish to see at a high level. Of course, it must be assumed that the total net profits are divided amongst the holders of the capital of the business. The rate of profits on the capital is usually expressed as a percentage thereon, and is understood to cover a period of one year; thus, “profits per annum” is synonymous with “profits on capital.”

So as to show the connection between profits on capital and profits on turnover, it is advisable to be quite sure of the meaning attached to the term “turnover.” The term is generally used as synonymous with “returns”—that is, the total sales effected during a year or any other given period. This we may call the total turnover during this period. Much depends in some businesses, however, upon the frequency with which the total capital used in the business is turned over—that is, upon “the rapidity of the turnover”; and this rapidity may always be indicated for any given period by x , where x = the total turnover divided by the capital employed. It is obvious that where the capital can be turned over more rapidly, a correspondingly lower rate of profit on turnover will yield a given percentage of profit on capital employed.

Thus, if the capital of a dealer be turned over four times a year, his profits need be at only one-quarter the rate of another who can only turn over his capital once during the year. In this way, wholesale dealers, dealing in large quantities in most transactions, can be content with very small profits on these transactions, because they turn over their capital very rapidly. As might be expected, the rapidity of the turnover varies from trade to trade, and even from one department to another in the same trade. As extreme cases of the variation from trade to trade, we may take the shipbuilder and the stockbroker; and the variation between departments is illustrated in the drapery trades, where in goods such as millinery the capital may be turned over six times a year, whereas the household linen department may only turn over its capital three times in the same period.

Closely connected with the question of turnover is the amount of working expenses incurred in doing a certain amount of business, the percentage of this item being kept as low as is compatible without loss of efficiency. The working expenses vary according to the nature of the business, and there is found a great diversity of opinion in most trades as to the percentage of the returns which can be devoted to working expenses. When fixing the selling price of any article, a certain percentage of that price must be appropriated to working expenses, for if not, a dealer may be receiving as gross profits a smaller amount than the working expenses; in other words, he is selling at a loss. The nature of the business done has also an influence on the amount of working expenses, these being greater when the business is mainly on a credit basis than when the basis is partly credit and partly

cash, and the proportion is still lower when the basis is wholly cash. In departmental businesses, also, low working expenses in some sections compensate high working expenses in others. It is impossible to fix a rate which may be applied to all, even in businesses of similar type, but experience enables each business man to form a fairly accurate estimate of the expenses which may be reasonably incurred in carrying on his individual business.

Economic Profit.—The economist uses the term “profits” in a much narrower sense than does the man of business. The latter considers as his profits the sum of money that remains to him for his personal use, after he has carried on his business for a year and met all his working expenses, provided for depreciation of his stock, and put something to a reserve fund to be drawn on in bad times. He does not go into a detailed analysis of this sum, yet if it were suggested to him that his profits were of a composite nature—*i.e.*, that they formed the remuneration for several distinct services—he would probably acknowledge this truth. This is what the economist must do; he must analyze and investigate the true nature of this amount to which the business man applies the term “profits.”

In the first place, most business men have a certain amount of their own capital invested in their own businesses. As a matter of theory, the entrepreneur, or business undertaker, need possess no capital of his own, but, generally speaking, some amount is necessary, even though it may be almost negligible when compared with the capital of the business controlled by him. But it is immaterial, for the purpose of this analysis, whether the business man does invest his own

capital in the business, or whether outside shareholders supply it; the capital is in the business, and a portion of the profits of the business must be set aside as interest on this capital. From the economist's point of view, therefore, this part of the gross profits should not be classed as profits at all, but as the interest on capital. A certain percentage of this interest even may be separated as a distinct payment for insurance against the risk of the loss of his capital. Whether pure interest or insurance, however, this part cannot be considered as profits.

In small businesses, more especially, much of the work which is ordinarily done by the head of the business would be delegated to salaried managers or other officials in businesses of larger size. The head of a small business thus receives payment, which he calls "profits," for the work which in a larger business is paid for in the shape of wages, and therefore is not reckoned as profits at all. This obviously makes it difficult to institute any comparison between the profits of large businesses and of small businesses; much that is usually counted as profits in the latter case ought to be classed under the head of wages.

In recent times economists have devoted much attention to the distinctive function of the profit-receiver—that is, to the undertaking and controlling of the business. The elements of gross profits previously mentioned have been separated from that part which is destined to provide the remuneration for this undertaking and controlling function, and the economist considers profits solely as that amount which is devoted to the payment for this function. Thus, supposing that a capitalist employer makes £2,000 per annum profit. Out of this he receives

£500 as interest on his capital. If he does not employ a salaried manager to supervise the details of the business, but does this work himself, then his remuneration for management may be ascertained by comparison with similar businesses which do employ a salaried manager. If the salary of such a manager is £800, the remainder of the profits, £700, would be the remuneration of the employer in his capacity as undertaker of the business. This last payment, thus separated, is the profit from the economist's point of view. In a sense, this payment is analogous to the payment of wages, since the amount of the payment in each case is determined by the same forces, though they exert their influence in different ways.

If it could be assumed that economic forces work without friction, then it might be asserted that the profits of all business undertakers tend to an equality. A rise in the rate of profits of any business would cause an influx of business men into that particular business, and by competition this would bring down the profits to such a point that the business in question would possess no advantage of gain over other businesses. A fall in the rate of profits would, of course, on the above assumption, have the opposite effect. But this cannot be the case unless it is assumed that the amount of organizing ability necessary is the same in all businesses, and this assumption is contrary to facts. Different businesses vary enormously in the amount of undertaking and controlling work to be done, and where such work is heavy in proportion to the capital invested, the rate of profit per annum must be correspondingly high, whereas in a business where the procedure is largely a matter of routine, the rate of profit is low.

When a business employs a large amount of durable plant, needing but little attention when it has once been laid down—*e.g.*, water-works, canals, or docks—the rate of profit is low relative to the capital. Of course, such businesses as these are peculiarly suitable for joint-stock management. On the other hand, businesses in which there is a large element of risk, and businesses of a speculative nature, must show a high rate of profit in order to tempt men with ability of the highest order to enter them, and such businesses as a general rule do not call for the investment of large amounts of capital. In short, the business man's work is dependent more on the amount of circulating capital than on the amount of fixed capital, and the rate of profit will vary with the amount of such work to be done. We may conclude, therefore, that, subject to the foregoing considerations, the rate of profit per annum on the capital invested in a business should not vary to any very great extent in businesses of the same type.

It is impossible to come to the same conclusion with regard to profits on the turnover, since this depends on the rapidity and the amount of work required. Articles of dress, perishable goods, etc., must stand a high rate of profit on the turnover to remunerate the seller for the risk of loss due to the commodities becoming unsaleable either through change of fashion or deterioration through keeping. This rate of profit varies widely from business to business, and no general tendency to equality can be distinguished. In each particular business, however, there is a more or less fixed rate of profit on the turnover, which is considered a "fair" rate, and though this changes from time to time, through changes in trade methods, this

customary rate is of great practical use to those engaged in the business.

In conclusion, another point of view in the consideration of profits might be noted—viz., the legal point of view. The lawyer is concerned with this subject from the standpoint of the limited liability company, and is governed in his views by the various legal enactments regulating these concerns. Such questions as the correct ascertainment of profits, how and when they are divided, and remedies for the improper declaration of profits come within his purview. He neither attempts to deal with the scientific organization of a profitable business, nor with the economic theory of profits as a share in the distribution of wealth.

QUESTIONS.

1. "Small profits, quick returns." Estimate the value of this as a maxim of business.
2. A draper sells an article for 5s., of which the cost was 4s. 2d. Explain how he would arrive at the percentage of profit.
3. What is the difference between gross and net profits? How do working expenses and turnover influence the rate of profit?
4. Into what elements can the profits of a mill-owner who owns and manages his own mill be resolved?
5. Capital in one branch of a business is "turned over" four times in a year; in another branch, five times. If the rate of profit on turnover in the first branch is ten per cent., what must it be in the second if the earnings in both branches are to be at the same rate per annum?

LARGE-SCALE RETAIL TRADE

Large versus Small Retail Businesses.—One of the most striking tendencies exhibited in the sphere of retail trade during the last few decades has been in the direction of increasing concentration. Large sections of business have been absorbed by a comparatively small number of big firms, and in many branches of trade it has become increasingly difficult for the man of small means to establish an independent business with any great prospect of success. This is a phenomenon of great import to the small shopkeeper already established, as the keenness of these powerful competitors has intensified the struggle for existence on the part of the small traders. The economies of large-scale production have long been appreciated in the business of manufacture, and the application of the principle to the business of distribution simply marks another stage in the general evolution of trade and commerce.

A large retail establishment or store has many advantages when competing with the small trader. economies are possible to the former which are not within the reach of the latter. In the first place, the large establishment can buy in larger quantities, and consequently on better terms; it can get the goods bought carried more cheaply; it can stock a wider variety of goods and so meet the tastes of a more extended circle of customers. Economies of internal

organization are also possible in such businesses. The small shopkeeper must inevitably spend much of his time in mere routine work, that requires little ability; such work, in the large concerns, is delegated to juniors or other subordinate officials, the heads of departments being enabled to devote the whole of their time to work which is worthy of their ability—*e.g.*, buyers specialize in one narrow range of goods. The heads of departments, together with their chief assistants, constitute a valuable reservoir of business experience, which is periodically drawn upon by means of meetings, conferences, etc. The buying of stock is concentrated under one central authority, and there is less risk of the accumulation of large quantities of stock, rendered unsalable by some sudden change of fashion.

In addition to the advantages due to the large-scale type of business, there are certain influences at work which have assisted the rise and progress of the great retail concerns. The habit of credit-buying is slowly decaying, and the practice of the stores and similar retail businesses encourages the growth of ready-money payments, and consequently accelerates this decay, a most desirable consummation, since in retail trade the credit system is an evil both to shopkeeper and customer. The increased transport facilities have also materially helped the large shops. Everywhere are tramways, motor omnibuses, or local trains, which carry people easily and cheaply to the large and attractive shops of the nearest town. People, too, nowadays are less disposed to spend much time in shopping; they prefer to order from the price list of a large store, and this method is possible through the development of the parcel post and parcel delivery

companies. The disappearance of the sentimental bond between tradesman and customer, and its replacement by a pure business relationship, has also told heavily in favour of the large concerns. In the clothing and furniture trades, too, the growth of the custom of purchasing ready-made things in place of having them made to order, has led to the growth of some of our largest retail businesses.

While the large-scale business benefits itself by its superior organization, its supporters assert that, at the same time, it is a benefit to the community in general. This is very probably the case in many instances. The large shopkeeper is seldom content to deal with manufacturers through the medium of dealers, but usually makes it his business to establish direct relations between his business and the producer. By thus eliminating the middlemen, he brings the consumer and the producer into closer contact, and is enabled to sell his goods to the consumer at a cheaper rate. Under the large concerns, generally, the conditions of labour of their employés, in respect both of wages and hours, have been improved, and in many establishments a progressive and enlightened policy has given the employés an interest in the concern, and contributed to its harmonious working. Very frequently a shopkeeper, struggling on in his independence, hard-working and harassed, has accepted service under a large retail concern, and has found it both more profitable and less exacting than his former position. The large firm, also, with many branches, will often change the character of the trade of a district. When such trade has been shared between a number of small shops, informal agreements regarding prices can be arranged, and competition is more apparent than real. With

the advent of a branch of a large, up-to-date organization, competition begins in earnest, with resultant benefit to the consumer.

The supersession of the small man, however, is to be regretted for several reasons. In the smaller towns the small independent shopkeeper has been the backbone of the public life of the town. His prosperity has been bound up closely with the prosperity of the community, whereas the manager of a branch of an outside organization is solely concerned with his own business, and does not feel called upon to sacrifice his time or ability in promoting the interests of the general public. Further, the small tradesman as a rule spends his profits in the place where they are made, but the profits of these large retail companies are paid to shareholders with no interest whatever in the fortunes of the place where they are made. The huge scale, also, on which some of these firms carry on business has led to the expression of the fear that they will ultimately monopolize the whole of the distribution of a particular line of goods. The vitality of the small shop and its suitability to certain localities and certain trades, however, show that this fear is quite illusory.

There is no doubt that the small trader feels the pinch of the competition of the large retail houses, but the success of the latter is solely due to the fact that they have the support of the public. People will patronize the shops where they can get the best return for their outlay. If the shopkeeper will not change his old methods and customs, obviously he will lose ground in competition with the well-organized and well-managed shops of a large retail concern, and he can only hope to retain his position by adopting up-to-date and energetic methods.

Department Stores.—One of the forms in which retail trading on a large scale is carried on is through the medium of the departmental store. The growth of the great department store is in harmony with the demands of modern life, and is essential to its fullest development. Its handsome and convenient structure, with ample spaces for the display of its goods, provide a resort where one goes as much for the purpose of inspection as for shopping. Many of them have arisen from comparatively humble beginnings; indeed, the evolution of the store from the single shop is a good example of the natural course of business development to be expected in a large centre of population. The pioneer of this type of retail trading was probably the Bon Marché, which was established in Paris in 1852. Since that time the progress of such institutions has been steadily maintained, and the magnitude of their dealings is strikingly shown by the trading results of four of the leading stores in London for the year 1913-14, which show a combined total profit of £698,479.

It is a remarkable fact that many of the great stores have had their beginnings as retail drapery establishments, adding other branches from time to time. As now organized, they form a collection of different businesses, under one management, and generally concentrated in one huge building. They possess all the advantages of large-scale trading, combined with the control of ample capital and an extensive and highly specialized organization, and, in consequence, have swept out of existence hundreds of small shopkeepers. In most of our large towns the bulk of the trade in certain staple lines, such as drapery, furniture, etc., is passing into the hands of a few large stores. Every

improvement in the means of communication, rendering the large town more accessible as a shopping centre, tends to strengthen their hold on the consuming public still further.

Frequently the great store owes its inception and progress to the impelling force of one commanding personality, as in the case of Maple's and Whiteley's. The reward of their success is certainly great, but not greater than their organizing genius deserves. To ensure the harmonious working of different businesses, such as drapery, furniture, china and glass, provisions, etc., requires ability of a superlative order. When once well established, the management should be easy, and the head of the concern should only be called upon to deal with the broader questions of trade policy, all the work of buying and selling and general superintendence being delegated to subordinates.

Organization.—The modern store, as its full title implies, is highly departmentalized. Each department is run as a separate business, and is under the control of an expert, usually the buyer for that department. Under him is a staff of competent salesmen or saleswomen, as the case may be, though the control of the selling staff within the store may be delegated to the shopwalker, or "floor superintendent." In this case, the work of the buyer is confined to the buying and keeping stock. Keen rivalry exists between the different departments, each departmental head striving to produce better results than his rivals. The buyer is allowed a certain credit on which to run his department, and is not expected to exceed this amount unless under exceptional circumstances. This entails very careful buying and constant attention to the proportion of stock to the turnover. He fixes the prices of

the goods sold, and consequently the rate of profit, and though he might be tempted, through a desire to make a good show for his department, to sell at a price to yield substantial profits, yet he must obey the general policy of the stores and increase the turnover by taking small profits rather than diminish the turnover by taking greater profits. To combat this temptation, the rules of some stores fix a maximum limit of profit. However, the departmental head has one advantage in that he is not troubled with financial business, neither is he concerned with the packing and delivery of goods. All payments are made through the counting-house, and the forwarding of purchases is the business of a special department, acting for all the various sections of the store.

When the store deals in goods which are received in a saleable condition, requiring no further process of manufacture, such goods on arrival are sent to be unpacked to a special department, often on the top floor of the building. The top floor is selected for this purpose because floor space on the lower floors is too valuable to be used in this way, and also because it is easier to transfer the goods to their respective departments from above. In each department, the goods are displayed to the best advantage by the window-dressers, another specialized class of assistants, and disposed of to customers by the salesman. All sales are entered on cash slips, and the daily total of these should correspond with the cash in the hands of the cashier. Purchases requiring delivery are sent, with particulars, to the delivery room, where they are packed, labelled, and classified, according to area. The store will deliver all purchases free of charge within a certain area, which may be of considerable extent in

the case of the larger orders, and for this purpose possesses a small fleet of vans and motors.

The control of a modern store is usually vested in the hands of a manager, assisted by a small executive committee. Their special department is the counting-house, which forms the hub of the whole business. Daily reports of sales are received by the manager, and all statistical information is readily accessible to him. The importance of the financial department may be realized from the fact that frequently the net profits of the stores do not exceed the discounts saved by prompt payment. When the turnover is equal to four or five times the capital employed, however, it is possible, even under these conditions, to declare a fairly high rate of dividend.

The manager and his executive are also concerned with the general organization. The position and the amount of floor space allotted to each department is a matter for their decision. The share of window-space has also to be apportioned by them, and the amounts to be debited to the several departments for rent of the floor and windows occupied is another duty of the central executive. Many other matters, such as the desirability of a change of location of a department with a stationary or diminishing turnover, the organization of periodical sales, the feasibility of taking up new lines, etc., keep both the time and energies of the manager and his executive fully occupied.

Everything seems to point to the tendency of the stores to increase rather than diminish their hold on the public. The variety of their stock and the continual exhibition of fresh novelties tempt the casual purchaser, who may be attracted to the store through curiosity. By the provision of lifts, lounges, refresh-

ment-rooms, writing-rooms, etc., the great store has studied in every possible way the comfort of its customers, and has reaped a deserved reward. Some idea of the magnitude of the store's business may be gathered from the following figures, taken from the Report of Harrod's for the year ending January 31, 1914. For that year this firm made a net profit of £295,181 6s. 6d., declaring a dividend of 20 per cent. per annum on the ordinary shares, which constitute £600,000 out of a total capital of £1,101,400. In addition, a reserve fund of almost a million and a half has been accumulated, and it is interesting to note that the value of their principal business premises, according to the balance-sheet, is considerably in excess of a million pounds.

It is difficult to forecast the future developments of these organizations, but the prevailing trend seems to be in the direction of amalgamation. Exigencies of space and the cost of land in large urban centres appear to indicate that the limit of the economies of concentration of business has almost been reached. Obviously, therefore, the only way of extension now is to absorb other undertakings. Noteworthy examples of this have occurred in recent times, such as the amalgamation of Gamage's and Benetfink's, Selfridge's and T. Lloyd and Co., Harrod's and Dickins and Jones's.

Multiple-Shop Businesses.—The other form of retail trading on a large scale is that carried on by the "multiple-shop" concerns. By this term is understood the retail branches of a large private concern or of a limited liability company. Most of these have sprung into existence within the last thirty years. As previously mentioned, the departmental store usually

draws the bulk of its custom from a limited area, but the large multiple-shop concerns may cover the whole of the country. The magnitude of these undertakings varies considerably, ranging from those with perhaps half a dozen branches to the mammoth organizations with more than a thousand branches scattered over the whole of the United Kingdom. In general, it is only to businesses of the latter type to which the term is properly applied.

Whatever may be the opinion concerning this development of retail trade, it is undoubtedly the case that there is an increasing tendency for the distribution of certain classes of commodities to be effected through the medium of the multiple shop rather than through a large number of independent small traders. These concerns are capable of inflicting much greater injury on the small private shopkeeper than are the departmental stores, since they take their goods to the doors of their customers by establishing branches in the same districts and under the same conditions as the single-shop retailer. The establishment of a chain of shops is both a safer and an easier operation than the founding of a great store, particularly if the operation is carried out gradually. Every additional shop, as it reaches the remunerative stage, adds to the stability, increases the purchasing power, and reduces the proportion of working expenses of the parent company. The private trader feels the competition of the multiple shop keenly, because it is apt to cut prices in districts where it is attempting to secure a foothold. This can easily be done, since, owing to the great financial resources of these companies, it may pay to run some branches at a loss, making up their deficiencies from the gains of the successful branches.

Organization.—The management of the multiple-shop company is controlled from the central office, where the general policy is decided upon, where all purchases are made, and from which detailed instructions are issued to the managers of the different branches. From the central office goods are forwarded to the branch shops as requisitioned, and the necessity for stocking a large amount at any branch is thus obviated. In making their purchases, these concerns, by buying in large quantities, secure very favourable terms, and can demand conditions that would never be granted to the small man. For instance, contracts are made with the wholesale dealer or the manufacturer, stipulating for delivery by instalments or as required, and in this way less capital is locked up in stock, the manufacturer or the wholesale dealer carrying their stocks for them. There are many minor economies possible to this system of trading, among which may be mentioned the diffusion throughout the branches of any improvements in the display or handling of stock, the introduction of labour-saving machinery, impossible to the ordinary shopkeeper because of the cost, and the possibility of dispensing with the middleman by undertaking the growing or manufacture of the commodities dealt in.

Each branch shop is under the charge of a manager, and the prime factor in the success of a multiple-shop business is good organization combined with good managers. The local manager has no voice in the buying of the goods he handles; his concern is solely in the selling of them. He receives his instructions from the central office, and is required to furnish reports, daily or weekly, regarding turnover, stock, or any other matters pertinent to the business. His

stock must be kept as low as is compatible with safety, any line which has run low being immediately replenished from the head office. The stock is often invoiced to the branches at the selling prices, so that the branch manager is ignorant of the profits or losses made. As a rule the takings are paid into the bank daily, and the local man has no authority to withdraw money from the branch account. The branch expenses may be paid directly by the head office, or by the use of the "imprest" system, whereby a round sum is advanced to the branch, and then, at the end of the month the disbursements are refunded by the head office, thus keeping a permanent balance at the branch. A staff of inspectors is employed, whose duty it is to visit the different branches, confer with the managers, and make reports to the central office.

The manager of a branch shop is stimulated to put his whole energies into the business by bonuses given on increased turnover, and by the prospect of promotion to a more important branch or to the head office. The many branches of a multiple-shop company naturally vary in size and importance, and this allows of the grading of their men, according to capacity. Each manager competes with his fellow-managers in producing the best results, and the fittest, from the company's point of view, survives.

The type of trade which the multiple shop caters for is the middle-class and the better working-class trade; hence they are found mainly in the industrial centres of population. Their business is mainly on a cash basis, and is confined to a limited range of commodities. Trades which are devoted to the supply of the primary needs of the community, such as the provision trade, the clothing, and boot and shoe trade,

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provide the multiple shop with its most successful sphere of operations. Some idea of the extent to which these great companies have invaded the trade in food and drugs may be obtained from the following table, showing particulars of the capital of five of the largest concerns:

	Capital
	£
Lipton's	2,250,000
Home and Colonial Stores ..	1,275,000
Maypole Dairy Co.	1,000,000
Eastman's	1,215,000
Boots'	2,250,000

These five businesses control between them nearly four thousand branches in all parts of the kingdom, employing a capital of almost £8,000,000.

Many of the multiple-shop companies are not simply distributing agents, but are also engaged in production as well; Lipton's has its own tea plantations, the Maypole Dairy Co. has factories for the making of margarine, while in the boot and shoe trade the multiple shop is in many instances merely the selling agency for the large manufacturer. Another type of retail trading closely allied to the multiple-shop type is carried on in businesses acting as agencies, and often "tied" to some great firm. The best-known instance of this type is the "tied" house in the licensed victualler's trade, where a brewery controls a chain of public-houses devoted solely to the sale of its products. To a certain extent the same custom exists in the tobacco and jewellery business. In the latter business particularly, the stock of the jeweller is all supplied on credit, and though ostensibly the business is independent, in reality such independence is entirely fictitious, and he is simply a salesman on commission. Such shopkeepers lead a precarious life; with no

capital they succumb to the first wave of depression in trade, their stock is usually of the cheap and flashy type, and they do more harm than good to the bona-fide retail trade of their neighbourhood.

Co-operative Stores.—Still another type of large-scale retail trading is furnished by the co-operative stores. These are organizations of consumers who co-operate in order to secure for themselves the profits of distribution. They compete in almost every branch of retail trade with the independent shopkeeper, and in many places, particularly in the industrial districts of the North of England, control a large part of the retail trade. The members of a co-operative society are under no obligation to deal at their stores, but it is to their own interest to do so as far as possible. The profits are distributed among the members in proportion to their purchases, and hence the greater the amount of their purchases, the greater the profits, and consequently each member's share, will be.

The whole of the retail dealers' gross profit can hardly be secured by the members; a portion of it must be devoted to the payment of a salaried manager. The risks of the business, also, are borne by the whole body of members. These risks are somewhat smaller than they are in the case of a private shopkeeper, since individual members often purchase things which do not exactly fit their needs in order to avoid any loss, though there is the loss in satisfaction, which may be equal to the loss in money. On the other hand, these societies afford an opportunity of securing a training in business management which the members would otherwise never obtain.

The returns furnished to the Board of Trade show the extent of the operations of these societies. At the end of 1913 there were in existence in the United

Kingdom 1,382 co-operative retail distributive societies, with sales totalling £83,607,043, of which almost 13 million pounds was profit. The greater part of this was distributed as dividend on purchases to the members, the average rate for the United Kingdom being 2s. 5½d. in the pound.

Advertising.—One of the most striking features of modern retail trade, whether on a large or a small scale, is the extensive use of advertising. This is especially the case in the large departmental stores, and in the mail order business the publicity department forms the backbone of the whole concern. Advertising appropriations frequently run to tens of thousands of pounds, talented writers and artists being employed under the direction of enterprising specialist organizers. That this enormous expenditure is profitable is proved by the increasing use of the means of publicity afforded by advertising. The aims of the advertiser are to draw the attention of the public to the existence of his business, and, having done this, to demonstrate forcibly the advantages of his wares and his methods of dealing. His success in the attainment of these objects will depend on his capacity for organization, on his choice of correct methods of appeal, and the use of the most appropriate media, and, what is most important, on the quality of the goods advertised.

The characteristics of a good advertisement may be enumerated as (1) the power to strike the eye of the average person; (2) to secure his attention and impress his mind; (3) the statements should be honest and truthful; (4) the advertisement should do its work with a maximum of efficiency at a minimum of expense. The attention may be arrested by means of repetition, originality, or artistic excellence, but this is of no use if the impression produced is only

momentary; it must be of sufficient duration to influence the subsequent actions of the person who has been attracted by the special feature of the advertisement in the first instance. To retain the prospective customer's interest, which is the object of the advertiser, his advertising campaign must be carefully thought out, systematically planned, and carried out on a scale as lavishly as he can afford. Small firms find it safer not to rely on themselves, but to employ a regular advertising agent, a specialist in advertising, who can usually obtain better terms and better positions. This is a matter of importance, since the buying of newspaper space is by no means a simple operation, and, if necessary, such an agent will also draw up the announcements.

Types of Advertisement.—The newspaper advertisement is the predominant type of publicity device, and here careful consideration of the relative advantages of the different organs of the press from the advertiser's point of view is necessary. He must compare the merits of the cheap press and the higher-priced papers, the magazines and the newspapers, the dailies and the weeklies, and the metropolitan and the provincial press. It is obvious that the goods advertised should be of a nature which will appeal to the readers of the paper chosen. Even when the medium is selected, further attention must be given to the type of the announcement. If it is pictorial, a magazine or an illustrated weekly may be selected, since the paper used is suitable for pictorial representations. Advertisements placed near the general reading matter are very effective, but those disguised as ordinary reading matter often produce an effect on the mind of the reader quite opposite to the effect the advertiser

wishes to produce. The form of the advertisement is also of importance. Generally speaking, in retail advertising frequent changes in the appearance are essential, but in the case of goods such as proprietary articles, where it is necessary to create an impression by repetition, similarity in form must be adopted. There is no advantage nowadays in the provincial newspapers, with one or two exceptions, over the metropolitan papers, particularly the cheaper press. The latter circulate throughout the whole kingdom, and frequently enjoy a larger circulation in many districts than the local paper itself. The local press, also, as distinguished from the papers of the larger provincial towns, is slow to adopt an enterprising advertising policy, the announcements therein being characterized by an unvarying monotony.

In conjunction with newspaper advertising the distribution of free samples of goods, by coupon or otherwise, may be employed. This generally gives better results than are obtained by the distribution of similar samples by hand, and the hand-distribution of circulars, booklets, etc., is also inefficient, much of it being sheer waste. Apart from the press, the number of publicity devices is considerable, and is continually growing. There are the posters, generally of considerable artistic merit, on the hoardings and railway stations, the electric signs on buildings, and transparencies in tramcars, while the retailer advertises from his shop by advertisements on his packages, by price lists packed along with the goods in parcels, by tasteful and novel window-dressing, making use in this connection of various mechanical contrivances, and at times demonstrating the use of some one of his special lines of goods publicly as a window attraction.

Many different methods have been employed by advertisers to test the results both of the various types of announcements and the different media. Advertisers who sell direct to the public in response to their announcements, as is the case in the mail order business, do not find much difficulty in this. A distinctive number for replies is given to each type, and in this way the remunerative advertisements are discovered and the unprofitable ones weeded out. It is not always possible, however, to "key" advertisements, and the request to mention the newspaper when replying is generally ignored. Some firms add "Department A, etc.," "Box 2, etc.," to their address, each letter or number representing some particular advertisement or medium; others adopt the coupon system, which is useful, but is objected to by some purchasers who do not wish to mutilate their magazines or papers. It will be seen, therefore, that the gauging of results in advertising cannot attain a high degree of accuracy.

Economic Value of Advertising.—At the first glance, advertising seems to be an addition to the cost of the distribution of commodities, which would mean higher prices unless compensated by some other means. But advocates of advertising claim that it is the simplest, cheapest, and most efficient method of selling, and assert that the services thus rendered far exceed the cost incurred. By the dissemination of information, it enlarges the market, not for luxuries, but for useful articles, as it is estimated that 90 per cent. of advertising is concerned with the latter class of goods. Assuming that the advertising is efficiently managed, the producer who employs this method of selling experiences an increased demand for his product. The result of increased production, according to the law of increasing returns, is a diminution in the cost of

each unit of product, and, as a consequence, a lowering in price. This benefits the buyer, while the producer reaps his reward in increased sales. But the non-advertising firms, not participating in the increased demand due to advertising, carry on their production at a disadvantage, and, as a consequence, cannot sell at the prices of their advertising competitors; and thus the cost of advertising is borne indirectly by them. It is both cumbrous and costly to have dead stock, and the efficient circulation of commodities is a mark of the economic well-being of business; thus, the cost of advertising is an economic outlay when it brings to the notice of purchasers goods which otherwise would have remained unknown and unsold. The effects of advertising, also, are widespread, since special efforts devoted to the advertisement of one article exercise beneficial effects on others. In fact, an enterprising advertising campaign on the part of one firm may considerably benefit the whole district in which such firm is located, as was the case with a well-known West End firm, whose enlightened policy conferred material benefit on many other firms in the same thoroughfare.

QUESTIONS.

1. Trace the development of a department store from an original drapery business.
2. What do you understand by a distributive co-operative society? Account for the progress of such societies in the North of England.
3. Show to what extent the operations of retail trade on a large scale obey the law of increasing returns.
4. Why are such trades as ironmongery and greengrocery comparatively free from the competition of the stores and the multiple-shop concerns?
5. "The cost of advertising appears in the higher prices paid by the consumer." Is this true?

MONEY AND EXCHANGE

EXCEPT among the most backward races of the world, it is impossible to find a person who produces all that he needs for his personal consumption. Man produces what he is best able to produce, and this is determined either by his ability or by any other advantage he may possess. He looks to others to supply most of his personal wants. The vine-dresser, aided by climate and soil, produces much more wine than he can consume, just as the weaver produces more cloth than he can wear, and each of these devotes himself to the production of the article which he can produce to the best advantage. Thus, by this division of labour, we may expect to obtain the maximum production of wine and cloth. But it would be impossible to arrange production in this way if there were no means of exchanging the surplus product of the one for the surplus product of the other. Thus, the need for exchange arises from the division of labour; if one man digs coal, another raises cattle, another wheat, the products of the one will soon begin to be exchanged for the products of the others. Each will be willing to give up that part of his product which he does not want for his own consumption for a corresponding part of the product of the other; there will be an exchange of the less useful for the more useful. Each party to an economic exchange should be a gainer, since each

gives up something for which his desire is weak for another thing for which his desire is stronger. If a deaf man were to exchange his ear-trumpet for the crutches of a cripple, both parties would lose, and it would be a thoroughly bad bargain. The great advantages of exchange are (1) It permits the division of labour to be carried out to a greater extent; (2) it enables each producer to be engaged in producing that for which he is best fitted; (3) it maximizes the utility of goods and services.

When goods are directly exchanged for goods, the transaction is one of barter. Such exchanges were common enough in earlier times, but they would be cumbrous and unwieldy in modern society. If a carpenter has made a table and wants bread, he must first find a baker who wants a table, and even if he were successful, his table would be worth so many loaves that most of them would be useless before he could eat them. But if some article were selected which everybody would agree to take in exchange for whatever they had to dispose of, the carpenter would find no difficulty either in disposing of his table or obtaining bread. Such a third commodity, universally acceptable, would be money, and the carpenter exchanges his table for money which he knows the baker will accept for his bread; in other words, he sells his table and buys bread. Immediately producers and consumers are brought together, the need of this agent becomes evident. Anyone with money at his disposal can procure whatever he wants, because money represents general purchasing power. What is chosen as money is immaterial, but generally it is a common article and one in frequent use. At different periods different articles have been used as money. Among

the ancient peoples of the world we find cattle, slaves, or corn fulfilling this function, and at other times skins, tobacco, dried fish, shells, tea, and salt have been used. The substitution of money exchange for exchange by barter is one of the greatest agencies in civilization, and the modern development of industry has been only rendered possible by the corresponding development of money.

Functions of Money.—The definition of money given by Professor Walker, "Money is, that money does," suggests that an examination of the functions of money will be more calculated to convey an accurate meaning of the term than would be given by a preliminary definition. The primary function of money, as has already been seen, is that of a medium of exchange. In the passage of commodities from producer to consumer we see the intervention of money at every stage. Goods pass from the grower to the transporter, the manufacturer, the dealer, and finally to the consumer, the movement between all these agents being affected by means of money. Thus, at the same time, a continuous stream of money is flowing in the reverse way to the goods—from the consumer to the grower. In all these transactions money acts as the intermediary; it is not wanted for its own sake, but as a means of procuring goods, and in facilitating movement it acts in exactly the same way as a vehicle. Since we cannot eat, drink, or wear money, its function as a medium of exchange has sometimes been disparaged; it has been asserted that money is useless, that we could dispense with it, and that commerce could go on very well without it. This view loses sight of the fact that in exchanges the intervention of money is not accidental, but is the essential fact, and that exchange by means

of money is widely different from exchange by barter. If money were not an essential agent, it would be impossible for money disturbances to affect trade and industry, and though the effects of the use of money in trade are complex and obscure, there is no doubt about their existence.

When it is said that money is essential as a medium of exchange, it is not implied that the money exists in the form of coin. Suppose Jones, a silk merchant in London, sold a motor-car worth £500 to Dubois in Paris, and the latter in return sent £500 worth of silks to Jones. The transaction would then be closed, and it appears to be one of pure barter, since there is no need for any money to pass from one to the other. There has been no intervention of coin or of substitutes for coin. Nevertheless money has intervened in the exchange, since the value of the goods exchanged was expressed in terms of money. When value is thus expressed in terms of money, such an expression is called the price. In this case each knows the value of what he receives because it is measured by the money price. The motor-car and silks are reduced to a common denominator, just as in arithmetic two-thirds and three-fifths may be compared when they are converted into fifteenths. This is the second function of money—it is a measure of value. The use of money furnishes a means of ready comparison of the relative values of commodities. In the former example, by the use of money the carpenter knows how much bread, meat, clothes, etc., he can obtain for his table, and the exchange value of any commodity is known when all are measured in terms of the same thing.

In the above two functions it is assumed that ex-

changes are effected immediately, and the element of time is left out. It is this element which gives rise to the third function of money—a standard of value, or a standard of deferred payments. A great proportion of business transactions now are credit transactions, and, of course, the terms are expressed in money. This makes a new requirement of the money article—viz., that it shall be reasonably stable in value. When goods are sold, at the moment of sale the money is presumably worth the goods, otherwise no sale could take place; but at the time of payment the money may be worth more or less than the goods. If a man borrows £1,000, to be repaid after twenty years, it will be a serious matter for him if the value of £1, in relation to commodities generally, has in the meantime risen 50 per cent., as, when he comes to repay the loan, he must, in effect, pay £1,500. It is necessary therefore to select as the money substance some commodity whose value is fairly stable over long periods of time.

Closely connected with this is the fourth function—that of a store of value. No one desires to accumulate a store of money which he knows will deteriorate by keeping. When a man desires to provide for old age, he wishes to do so by storing a commodity which will remain fairly stable in value. In countries where hoarding is customary, either ornaments made of the precious metals or the coins current in the country is the form the store usually takes. In an organized business community a store of wealth would be accumulated in the form of money, and invariably as a deposit at a bank or in some other form of realizable investment. The depositor does not insist on the actual money deposited being returned to him when he desires to withdraw his store, yet in depositing

money he has been guided by the knowledge that he will be able to withdraw something of the same value as that which he had deposited.

Properties of Money.—It is now necessary to consider the commodities which have been generally adopted as money. A variety of articles have been employed at one time or another for this purpose, but economic forces have gradually determined the materials most suitable as exchange media, and the development of trade has finally selected two—viz., gold and silver. Throughout the commercial world values are expressed in terms of these two standards. While not attaining perfection, these two metals are the most suitable for fulfilling the primary function of money—that of a medium of exchange. They possess, in a wider degree than any other commodity, the qualities which it is desirable that a perfect money material should possess.

We may now enumerate the attributes of a good money material, and can judge to what extent the precious metals have these qualifications. Firstly, the money should be generally acceptable. This acceptability may be enforced by law, though if an unsuitable commodity were selected the law could be evaded by discontinuing its use and resorting to barter. It should also be convenient to carry about; it should not deteriorate by keeping, and should not be liable to rapid wear and tear by use. These conditions are fulfilled by the precious metals, and, in particular, by gold.

Again, the money material should be uniform in quality and capable of easy division. Hitherto jewels would have satisfied the conditions required—i.e., acceptability, durability, and portability—but it would be impossible to secure uniformity of quality, or

to divide them without destroying their value. The most important attribute—stability of value—is the most difficult of attainment, and all we can do is to accept the material which most nearly approaches perfect stability. It is impossible to deny that gold fluctuates in value, yet, considered relatively to other articles, the value of gold is stable. This is due to the fact that demand and supply in relation to gold are fairly constant. Although the annual supply may appear large (the total gold production of the world in 1913 amounted to 92½ million pounds), yet, on account of its great durability, this supply is small in relation to the enormous stock in existence, and it would need a great addition to the annual output to exert any considerable effect on the total stock. The demand for gold also remains stable, because it is a substance highly prized for other than currency purposes.

The fact that gold possesses the above qualities in a greater degree than any other commodity led the British Government in 1816 to adopt a gold standard of coinage, though even when the best metal is selected, it is a matter of difficulty to maintain the coinage, so to speak, in good repair. There is a certain amount of unavoidable loss through ordinary wear and tear. The Mint report for 1912 showed that 870,000 sovereigns were received from the Bank of England, and through deficiency in weight they were worth only £862,390—a loss of £7,610, or 2.09d. per piece. Besides ordinary wear and tear, gold coins are easily “sweated” by those fraudulently inclined, with profit to themselves, but with loss to the State. A loss of weight exceeding 3 grains from the standard weight, in the case of a sovereign, is *primâ facie* evidence that the coin has been illegally dealt with.

Gresham's Law.—For depreciation due to the foregoing causes provision may be made, but the history of the money system of any country provides instances of cases where issues of new coins have been made, and, within a short period, these new coins have almost entirely vanished from circulation. This phenomenon is expressed in the principle known as Gresham's law. In its briefest and most common form, this law states that "bad money drives out good money, but good money will never drive out bad money." This statement, while it seems somewhat paradoxical, is to a large extent true. The essential feature of a coinage is that it is meant to be circulated, and the majority of people receive coins without considering whether each is perfect in weight and appearance. It is sufficient for them to be assured that others, in turn, will be quite willing to take the coins from them. On the other hand, dealers in money, such as bankers and bullion brokers, carefully scrutinize the coins they receive in payment. They are aware of the alternative uses for the metal, and know that while light or worn coins will circulate for a long time as currency, yet they are of less value for the alternative purposes than new, full-weight coins. The alternative uses are mainly for export and for use in the arts; for the former purpose full-weight coins are selected, since in making international payments currency always goes by weight, and if light coins are tendered, the exporter must himself bear the loss. When gold is required for the arts, as in the making of gold jewellery and plate, an easy method of procuring the metal is to melt down coins. For this purpose, full-weight coins are naturally selected, and thus the work of the currency is mainly performed by the light coins which are rejected for

the above purposes. As recently as 1869, Jovons estimated that, in the United Kingdom, 31½ per cent. of the sovereigns, and 50 per cent. of the half-sovereigns, were below the legal limit of weight, and consequently the law was in operation then.

Many influences, however, may be at work to counteract the operation of the law. One of these is the force of habit; people are accustomed to passing the coins, whether light or heavy, and never take the trouble to consider the quality of the money they receive and pay. This is particularly the case with the working classes; and the shopkeepers with whom they deal cannot afford to grumble at the quality of the coins with which they are paid. The law may be also modified by taking precautions to limit the number of coins issued. To conduct the internal trade of the country, a certain quantity of currency is requisite, and if this quantity is not exceeded there is no reason why light-weight coins should not circulate in the same way as any other coin.

Types of Metallic Currency.—Metallic currency consists of stamped pieces of metal, such stamp certifying the weight and fineness. The metals chiefly used are gold, silver, and bronze. At one time or another many systems of issuing these metals as currency have been adopted. The earliest form of metallic currency was currency by weight. Under this system the metals circulated in exactly the same way as other commodities, and this method is used at the present time in settling international payments. In early English times the single legal tender system prevailed in this country. Silver was the only metal coined, and the silver penny was the only coin. The modern English system is known as the “composite legal tender system,” which we shall examine below. The only other system of practical importance is that known as the “bimetallic

system," in which both gold and silver are made unlimited legal tender, and the ratio at which they are to circulate is fixed by the State.

English Metallic Currency.—As we have mentioned, our currency is regulated on a system of composite legal tender. Any form of money is said to be legal tender which may be lawfully offered in payment of a debt. According to the above system, one metal only is coined and used as legal tender to any amount, but for the sake of convenience other metals are also coined and made legal tender, but only for limited amounts. If two metals were coined and made unlimited legal tender, and caused to circulate at a fixed ratio, it would be a matter of great difficulty to keep both in circulation together, as bimetallic countries have found in actual practice. To obviate this difficulty, therefore, England adopted the compromise of the composite legal tender. Under this system gold alone is coined freely and is full legal tender, and thus our system is sometimes known as a monometallic system. It is a system which has been more or less closely copied by nearly all the commercial nations of the world.

Gold is the only unlimited legal tender in this country, and is consequently the sole standard of value. Other metals which are coined possess their value because they are exchangeable for a certain quantity of gold. Silver is legal tender in amounts not exceeding forty shillings, and bronze in amounts not exceeding one shilling. Bank of England notes are also full legal tender in England except by the Bank and its branches. Besides being limited as legal tender, silver and bronze coins are also reduced to the rank of mere tokens. A token coin is one the nominal or face value of which is greater than the metallic value. One might expect, therefore, that Gresham's law would

operate when these coins were circulated. This would probably be the case if the Government did not rigidly limit their issue and their capacity as legal tender, and at the same time prevent their issue by private individuals. Since gold is too valuable to be used in small payments, token coins are necessary for the purpose of supplying small change, and by limiting their legal tender no one is ever called upon to receive token coins in payment of large sums.

The gold coinage in this country is free, and is carried on at the Mint in London. Any person may take gold bullion to the Mint and demand sovereigns for it at the rate of £3 17s. 10½d. an ounce, or 1,869 sovereigns for 480 ounces of gold. In actual practice no one ever does this, and the Mint receives its gold for currency purposes from the Bank of England, which only pays £3 17s. 9d. per ounce for gold. But, at the Mint, a few days would elapse before sovereigns were received for the gold offered, whereas the Bank would pay out sovereigns immediately. The difference of 1½d. in the two prices represents the interest for this period of waiting. The coins themselves are of standard gold, which is an alloy containing eleven parts pure gold and one part alloy, the latter being copper. Standard gold thus is eleven-twelfths, or twenty-two carats fine, whereas most of the continental nations use a standard gold nine-tenths fine—a distinction of importance in international transactions. The weight of a sovereign should be 123.27 grains troy, but they are considered legal tender so long as they do not fall below 122.5 grains troy. As the State now assumes the responsibility for the loss in the coinage due to wear and tear, the condition of our gold coinage furnishes little cause for complaint. The activities of the Mint may be gauged from the fact that during 1912

the amount of gold coins issued totalled over 30 millions in sovereigns, and over 3 millions in half-sovereigns.

The coinage of silver is regulated by the Act of 1816, which still forms the basis of our coinage system. It was enacted therein that silver, then worth about 5s. an ounce, should be coined at the rate of 5s. 6d. an ounce. At the present price of silver, therefore—about 2s. 3d. an ounce—this will leave to the Mint a profit of about 100 per cent., after allowing for expenses of coinage. As a matter of fact, the average price paid for silver bullion in 1912 by the Mint was $27\frac{1}{4}$ d. per ounce. Our bronze coins are also token coins, and are issued under similar conditions to the silver coins. These coins at one time were made of copper, hence their designation of “coppers”; but since 1860 an alloy of copper, tin, and zinc has been employed. A striking feature of our bronze coinage has been the enormous demand which has been shown for this type of coin during the last few years. More than 77 million bronze coins were struck at the Mint during 1912. The increased demand is probably due to the necessity of making very small payments, such as tram and bus fares, penny-in-the-slot gas-meters, automatic machines, etc. In many countries bronze is not employed in the coinage, its place being taken by nickel coins, which are, in some cases, perforated so that they are not likely to be confused with the silver currency.

QUESTIONS.

1. Define bimetallism, token coin, legal tender.
2. The Bank of England pays £3 17s. 9d. per ounce for gold, and the Mint price is £3 17s. 10½d. Account for this disparity.
3. What do you think would be the effect on business generally of a large increase in the output of gold ?

BANKING ORGANIZATION

Substitutes for Money.—Gibbon likened the discovery of money to the discovery of letters, the former expressing our wants and our property, the latter expressing our ideas. Hitherto we have confined our attention to metallic money, and our currency system has been designated one of gold monometallism. This is not strictly correct, since both silver and bronze are used, as we have seen, as token coins. And also, in normal times, an enormous number of transactions are carried out without the intervention of metallic money at all, paper substitutes being used. If a manufacturer sells 1,000 yards of cloth at 5s. a yard, he would prefer to receive as payment bank-notes to the value of £250, which he can keep easily in his pocket, rather than 250 sovereigns, which would be troublesome to carry because of their bulk and weight. With the development of trade, the adoption of paper substitutes has been a necessity, since the whole of the stock of metallic currency would be insufficient to transact more than a fraction of the business of the country. Trade would speedily come to a standstill if business men were restricted to the use of metallic money. Paper money must perforce be employed. Several types are in existence, suitable for all kinds of payments, from the sixpenny postal order to the cheque for a million pounds.

Paper money is a convenient kind of currency for

several reasons. It is easy to carry about, and to transport from one place to another; a £500 note is no heavier than one for £5. It can be sent through the post in a letter, and therefore does not need the careful packing, insurance, etc., that is necessary in the case of metallic money. Then, there is greater security against loss; one coin is just like another, and, when lost, there is small chance of its recovery, whereas payment of a lost bank-note can be stopped. The greatest advantage of the use of paper is the economy in the use of gold, since experience shows that the amount of gold which it is necessary to have in hand is much less than the amount of notes issued. The holders of the notes might possibly present them for payment all at the same time, but this is highly improbable.

Although the major portion of the currency is composed of paper, still it is quite correct to state that gold is the standard of value. The paper represents a mass of obligations and promises to pay gold either on demand or at some future time, and the ready acceptance of the paper implies confidence that the promises can be carried out. In addition to the risk that too many demands for payment may be made at the same time, there is also the danger, in the case of Government notes, of over-issue. If this takes place, its influence is seen in the enhanced prices of commodities, and therefore the regulation of a note issue calls for the unrelaxing vigilance of the issuer. For the payment of the balance of international indebtedness, also, paper money is of no use; such payments must ultimately be made in gold or goods.

Credit.—Credit, considered in the abstract, is the disposition of one man to trust another; considered in

relation to money, it is a right given in the present to the future possession of money. When an individual buys goods on credit, the seller gives the buyer the goods on condition that he receives the right to their cost in the future. The buyer on his part accepts the obligation to discharge his debt at some future date. Thus the act of exchange is incomplete; credit interposes an interval of time before its completion. As it is advisable that all obligations and rights should be in writing, the various forms of paper money are used as evidences of these obligations and as a means of transferring these rights. Nevertheless, the receiver of either a bank-note, a cheque, or a bill, only accepts them because he is fairly sure that he will be able to exchange them for gold whenever it may be necessary. Thus, the immense volume of our credit transactions is superimposed on a gold foundation.

Credit transactions are of two main types: sales for payment at some future date, or a loan direct. The thing sold or lent is sold or lent for the purpose of consumption. A miller buys corn, and pays for it by means of a bill payable at some future date. During the time that bill has to run the seller is running a risk that he may not receive payment, and before agreeing to accept payment in this way he will take into consideration the purchaser's character for honesty, the amount of his wealth, and the efficiency of the law in enforcing payments. On the other hand, the buyer or borrower must provide for payment when his term of credit expires; hence he must employ the material or cash in some productive way. By the creation of credit, the basis of trading, which in its absence would be restricted to the amount of money in circulation, is widened considerably. Giving credit is

equivalent to increasing the amount of money in circulation. This is still further increased by the transfer of credits—*e.g.*, the retailer pays the wholesale dealer for his goods by cheque, the amount of which goes to the credit of the latter at his bank; he, in turn, pays the manufacturer in the same way, thus transferring the amount credited to him to the credit of the manufacturer, the whole operation being carried out without the intervention of money at all. This economy of currency is rendered possible through the medium of the banking organization, which arranges the distribution of credit. Credit, moreover, though not a fixed quantity, is not unlimited in extent; indeed, in times of financial stress it becomes very difficult to obtain even a limited amount of credit. As has been stated, every credit transaction rests on the belief that, if necessary, the obligations incurred will be liquidated in gold. The amount of gold available for this purpose is a factor of the utmost importance, and when a suspicion arises that this amount is insufficient for the needs of trade, credit immediately contracts, and the danger of a trade crisis looms unpleasantly near.

The various documents that can be used for the purpose of creating and transferring credit—instruments of credit, as they are called—may be divided into two groups. The first consists of instruments which only circulate for short periods, such as cheques, bills of exchange, promissory notes, etc. The second is composed of bank-notes and Government notes, which are payable to bearer and freely circulate for any period of time.

Banks of Issue and Notes.—Under modern conditions we are so apt to consider the banker's function as an intermediary in the loan of capital that we sometimes

forget what was once considered the most important of his duties—viz., the issue of notes. By the issue of notes the banker creates currency; by the exercise of his other functions he deals in credit. If a banker can induce his customers to take his notes in satisfaction of their debts, he can economize his store of metallic money to the extent of the notes he puts into circulation. When these notes are freely circulated, the influence of custom is so strong that people do not inquire whether the banker issuing them is in a position to fulfil his obligations or not. There are several reasons why these notes should form a convenient means of circulation when compared with other credit instruments such as bills, etc. They are transferable, payable to the bearer at sight, they are subject to neither discount nor interest, and are usually issued for round sums. When they are issued by a well-known bank, such as the Bank of England, they do in actual practice take the place of standard money in the circulation.

It has often been a matter of debate as to whether it is better to leave the issue of notes to the discretion of the bankers or for the Government either to undertake the management of the issue itself or to delegate this management to others under stringent regulations. If the notes are to be regarded purely as currency, the balance of advantage is secured from Government control. Uniformity of issue will be secured, and the issue as far as convertibility is concerned will rest on the credit of the whole nation. Further, the Government should not seek to make a profit on its notes, and hence a larger reserve can be kept, and in most cases the successful issue of notes involves a degree of monopoly, and monopolies in general should

be controlled by the State. The conditions under which the notes are issued is another question of grave importance. Are the notes to be payable in gold on demand, or are they to be issued without any such proviso ? While an issue of inconvertible notes may supply the monetary needs of business and perform all the functions of money so long as the amount issued is restricted, there is always the danger that a Government, driven by financial necessity, will escape from its difficulties by abusing the power of issuing notes. This lessens the value of the currency and destroys the stability of the standard of value, since if the notes are issued in excess of the needs of the circulation, a larger amount of notes would be needed to purchase a given quantity of goods—*i.e.*, prices would rise, and consequently the value of the currency fall. The amount of notes issued would also depend entirely on the will of the issuing authority, and assuming that they are in excess of the needs of business, each fresh issue would affect prices, and commodity values in terms of the paper currency would be subject to continual fluctuations. The most prudent course to adopt in the management of a note issue is to ensure perfect convertibility on demand.

The question which then arises is as to the method whereby this convertibility is to be ensured. It is not a matter of the ultimate solvency of the issuer, but of immediate ability to redeem its notes on demand. There are several ways of doing this, of which the most obvious is the most certain—that is, to deposit gold to the same amount as the notes issued. If the issue amounts to any great sum, this means that an equivalent amount of gold is to be kept aside, useless, and this is a method far too wasteful for modern

business. The method of providing a backing for a note issue which is most general is the partial deposit system. Under this system a limited amount of notes is issued without the deposit of gold, and any excess above this amount must be provided for by an equivalent amount of gold. This is the method adopted under the Bank Charter Act by the Bank of England in the regulation of the English bank-note issue. The German method is very similar, the only difference being that the limit to which notes may be issued without a corresponding deposit of gold may be exceeded under certain conditions, whereas under the English system the limit is strictly fixed. Another device is to require a cash reserve to be kept, equal at all times to a certain proportion of the amount of the issue. This method has the objection that the legal minimum proportion tends to become a practical maximum, and while in normal times no stringency is felt, in times of disturbance it results in an exceptional contraction of credit.

The issue of bank-notes in England is regulated by the Bank Charter Act of 1844. According to that Act, the Bank of England was to be divided into two distinct departments, one of which, the Issue Department, was to be entrusted with the management of the note issue. Notes might be issued against securities to the extent of 14 million pounds, but all notes issued beyond this amount were to be secured by the deposit of gold. The Bank, further, was given the power, after obtaining an Order-in-Council, to increase the issue of notes against securities to the extent of two-thirds of the issues of other note-issuing banks, which through any reason had been allowed to lapse. They have taken advantage of this on ten occasions

since 1844, and on June 10, 1914, the issue against securities, termed the "fiduciary issue," stood at £18,450,000. The Bank of England has the sole right of issuing notes in the City of London, and its notes are exempt from stamp duty.

The Act also provides that no person other than a banker could issue bank-notes in the United Kingdom, and only such bankers as were issuing their own notes on May 6, 1844, could continue their issues. If from any cause such a banker were to cease to issue notes, he could not afterwards resume the issue. A limit was also fixed as to the amount of notes which these banks could issue—viz., the average amount in circulation for the twelve weeks preceding April 27, 1844. Since the Bank of England has a monopoly of the note issue in London, it follows that, when an English country bank of issue opens an office in London, or amalgamates with a London bank, the issue of its own notes automatically lapses. Thus, regarding the banks of issue outside the Bank of England, their numbers were limited, no new ones could arise, and the amount of their issues was strictly curtailed. In June, 1913, the London, City and Midland Bank absorbed the business of the Lincoln and Lindsey Banking Company, Ltd., with an authorized issue of £51,620, and of the Sheffield and Hallamshire Bank, Ltd., with an authorized issue of £23,524, both of which issues have naturally disappeared.

At the passing of the Bank Charter Act of 1844 there were 72 joint-stock banks of issue and 207 private banks of issue; in 1914 there are, excluding the Bank of England, five of the former and eight of the latter. The total authorized issues of the whole thirteen only amounts to £505,202. For the week

ending June 3, 1914, the note circulation of the Bank of England was £52,729,065. A comparison of these figures illustrates forcibly the commanding position held by the latter bank. In Scotland there are eight joint-stock banks, with an issue of £2,676,350, and in Ireland there are six, with issues of £6,354,491.

The Bank of England is not authorized to issue notes less than £5 in value, and the issue against securities cannot be increased except by the suspension of the Bank Act. In August, 1914, the outbreak of war caused a serious drain on the currency, and the Government provided an emergency currency in the shape of Treasury notes for £1 and 10s. These notes were made legal tender, and they were issued through the Bank of England, where they were convertible into gold, though there is no compulsory gold backing, as in the case of Bank of England notes. They were in the first instance issued to provide a temporary currency for the banks, though the amount they were allowed to take was limited to 20 per cent. of their liabilities on current and deposit accounts.

It is highly probable that these notes will constitute part of our paper circulation when the circumstances leading to their introduction have passed away. For some time past the £5 notes, which form the lowest denomination, have been falling into disuse in the circulation. Business men prefer to use cheques, and the amount is too large for the poorer classes. It is among the latter class of the community that the new notes will be most extensively used. They have the advantages of being cheaper and more portable than metallic coins, they save the wear and tear of the gold coins, and their use will enable the circulation of commodities to be carried on by the use of a reduced

amount of gold. The objections to the issue of notes of small denominations are: (1) They are more liable to be issued in excess than the notes for larger amounts; (2) they displace gold which would otherwise form a part of the ultimate national reserve; (3) in times of panic they would constitute the most dangerous part of the circulation. The amount of these notes originally issued in August, 1914, was £16,697,266, which had risen to £43,519,019 in May, 1915. Against the latter amount gold was deposited to the amount of £28,500,000, or in the proportion of 65½ per cent. of the amount issued. It is interesting also to note that postal orders were made legal tender pending the printing of these currency notes.

Banking Organization.—The Bank of England forms the centre of the banking organization of the country. Its enormous capital, and the prestige which attaches to the management of the account of the State, are the two factors which are the main contributors to this result. At the time of its establishment it was quite as much a political as a financial organization. The Bank of England also was practically invested with a monopoly of joint-stock banking, since any other bank consisting of more than six persons was forbidden to issue notes, a function which was then considered of primary importance. This monopoly was somewhat modified in 1826, the Bank being granted the reduced privilege of being the only joint-stock bank of issue within a radius of sixty-five miles of St. Paul's.

In 1833 a clause was inserted in the Bank Charter Act of that year, authorizing the establishment of joint-stock banks in London, such banks not to have the right of issuing notes. The result of this Act was seen in the establishment of the London and West-

minster Bank in 1834, and soon afterwards of the London Joint Stock Bank, the Union Bank, etc. With the right of note issue forbidden, these banks devoted their attention to the development of deposit banking, and by offering to pay interest on deposits—a practice which the Bank of England had never countenanced—rapidly attracted to themselves enormous funds. At the present time many of them, in the amount of their deposits and the magnitude of their transactions, are on an equality with the Bank of England itself, and in a few cases even exceed it in these respects.

The early joint-stock banking companies had not the advantage of limited liability. Each shareholder was liable in full for the debts of the company. Even in 1855, when trading companies, under certain conditions, were allowed to register themselves as limited liability companies, the banks were made an exception. It was believed that there should be ample security for the debts of the bank, in consideration of their peculiar relations with the public. However, a few years later the privilege of limited liability was also extended to banks; but in the case of banks issuing notes an exception was made concerning the note issue, for which the shareholders of the issuing banks are fully liable. Since 1834 joint-stock banking has advanced with marvellous rapidity, and though they are not numerous, numbering forty-four in England and Wales, nine in Scotland, and nine in Ireland, the table on p. 203, taken from the *Economist* of May 23, 1914, will illustrate their financial magnitude.

Under modern conditions hardly anyone keeps much of his own money; it is much more convenient to hand it over to a banker, from whom it may be drawn as

insurance, etc. There are two ways whereby bills are utilized for the purpose of making foreign payments; such payments may be made either by accepting or by remitting bills. When an English merchant imports goods from abroad, he instructs his foreign creditor to draw a bill on him in payment. When he has accepted this bill it may be sold to another foreign merchant who wishes to pay for goods he has received from England. The latter then remits the bill to his English creditor, who presents it for payment to the English merchant who imported goods from abroad in the first instance. In this way the two sets of transactions may be settled by the creation of one set of bills. Of course, an English merchant, who has to make foreign payments, may buy a foreign bill and remit it to his creditor abroad, but this practice is not so common as the one outlined above. Usually the foreigner prefers to remit sterling bills on London rather than for us to draw upon him, since bills payable in London are accepted in all parts of the world, and they form a kind of international currency.

The number of bills drawn on London is very much greater than the number drawn by London on places abroad, because London has been selected as the most convenient centre for the settlement of the debts of the commercial countries of the world. It is estimated that the total amount of bills on London during 1912 amounted to 1,805 million pounds, and, according to the report of the German Reichsbank at the end of 1913, 41.7 per cent. of its foreign bills were English. The reasons for London's predominance in this respect are as follows: (1) It is the most important commercial capital and distributing centre, and banking tends to follow commerce. (2) British merchants have acquired

a character for integrity and honesty, and British bankers are known to be highly skilled, cautious, and competent. (3) London is a free market for gold, and the foreigner knows he can always obtain payment in gold for a sterling bill. (4) Its immunity from invasion has caused it to become the world's "strong-box," and therefore it serves as the world's clearing house, where international debts are settled. Owing to the fact that London draws comparatively few bills on foreign countries, it is obvious that the foreign exchanges will be of much greater interest to foreigners than to the English merchant. The latter sells his goods for sterling money, and requires payment in bills on London which also are drawn in terms of pounds, shillings, and pence.

To the foreigner sterling bills are foreign bills, and the rate of exchange—*i.e.*, the price at which bills on one country are sold in another—is of great importance to him, because upon it depends the cost of the bill. It is perhaps difficult to see why the claim to receive a certain sum of money in another country should sometimes be worth more and sometimes be worth less than the face value. The value of a bill of exchange is determined in exactly the same way as the value of any commodity. If there are more bills on a particular centre offered for sale than there are buyers, the price will naturally fall, but if more are wanted than are offered for sale, the price will rise. Another difficulty occurs in the mode of expressing the price of a bill—*e.g.*, the price of a bill for £100 is not expressed as £101 or £99, according as it is higher or lower. The prices are fixed by means of alterations in the rates at which the currencies are converted. Supposing a trader in London wishes to remit £100 to Paris. His

hundred sovereigns, according to the Mint par, are equivalent to 2,522 francs, but as the demand for bills on Paris is, at the time, slight, he is able to purchase 2,528 francs in Paris with his £100. The rate of exchange would be 25.28, and bills on Paris are cheap in London. But if there was an active demand for such bills in London, and the supply was limited, the rate might be 25.16—*i.e.*, he could only purchase 2,516 francs with his £100, and consequently the bill would be more expensive. Therefore, in the case of Paris, a high rate is said to be favourable, and a low rate unfavourable, to us.

Under ordinary circumstances, if the rate of exchange in London on Paris falls to 25.12, it will be immaterial whether a bill is bought or payment is made by remitting gold. In the latter case, we have already seen that a deduction of 10 francs would have to be made for the expenses of shipping £100 or 2,522 francs' worth of gold; hence in Paris £100 sterling would be equivalent to 2,512 francs. If a bill were bought at the current rate of exchange, £100 would have to be paid in London for the right to receive 2,512 francs in Paris; exactly the same result as would be obtained by shipping gold. On the other hand, if the rate rose to 25.32, then 2,532 francs would have to be paid in Paris for the right to receive £100 sterling in London, and here also the additional 10 francs is the charge for shipping gold. Thus, we see that the Mint par is the pivot around which the rates of exchange revolve, and the extent of the movements on either side is limited by the cost of transferring gold. These two limits are known as the "specie points," and when the price of bills touches either of these points, under ordinary circumstances a movement of gold will follow. Specie points, unlike

the Mint par, cannot be exactly fixed, since so much depends on the charges for shipping, etc., which vary; for example, although specie points in New York are 4.82 to 4.89, between 5 and 6 dollars to the pound sterling were paid at the beginning of the war in 1914.

All business in foreign bills in this country is conducted on the Royal Exchange in London. There are no provincial exchanges for this business, as there are for Stock Exchange operations. Buyers and sellers of bills meet at the Royal Exchange twice a week, on Tuesdays and Thursdays, and as a result of their transactions lists of rates are issued and published in the following morning's papers, under the heading "Course of Exchange," of which the following is a type:

COURSE OF EXCHANGE, LONDON, JUNE 18, 1914.

Paris, Cheques	.. ..	25-17½	25-20 francs and centimes for £1.
3 months	.. ..	25-36¼	25-41½ francs and centimes for £1.
Berlin, 3 months	.. ..	20-68	20-70 marks and pfennigs for £1.
Brussels and Antwerp, 3 months		25-55	25-60 francs and centimes for £1.
Austria, 3 months	.. ..	24-41	24-45 crowns and hellers for £1.
Amsterdam, Cheque	.. ..	12-2¾	12-2¾ florins and stivers for £1.
3 months	.. ..	12-4½	12-5½ florins and stivers for £1.
Copenhagen, 3 months	.. ..	18-49	18-53 crowns and öre for £1.
Switzerland, 3 months	.. ..	25-41¼	25-46½ francs and centimes for £1.
Petrograd, 3 months	.. ..	24½ ⁹ / ₈	24½ ¹¹ / ₈ pence for 1 rouble.
Madrid, 3 months	.. ..	44½ ⁷ / ₈	44½ pence for 1 peso.
Lisbon, 3 months	.. ..	45½	45½ pence for 1 milreis.
New York, 60 days	.. ..	48½ ⁹ / ₈	43½ pence for 1 dollar.

The above are the rates quoted in London for bills payable at the places named. The Course of Exchange should not be confused with the table of Foreign Exchange rates, which are cabled from the foreign centres and are published daily.

On referring to the above table, we find that the rates quoted fall into two groups. In the one group, including Paris, Berlin, etc., quotations are made in terms of the foreign currency, and in the other, including Petrograd and Madrid, quotations are given in sterling money. This fact leads to a modification in the axiom, "High rates are for us, and low rates against us," which is only true in the case of places quoted by London in their own currency. In the case of Petrograd, which is quoted in pence to the rouble, a high rate would be in their favour, and a low rate favourable to London. Another point to be noticed is that two rates are quoted for each place. One of these rates is for ordinary commercial bills, while the other, which is the higher, is in respect of bank bills. The group quoting in foreign currency to the pound sterling, quote a lower rate for bank bills and the higher rate for commercial bills—*i.e.*, bank bills are dearer than commercial bills. If a mercantile bill is purchased and remitted to Berlin, the recipient, wishing to realize the proceeds, will probably offer it to his banker for discount, and he will naturally charge a higher rate of discount on such a bill than he would on a bank bill to cover the increased risk; for this reason, trade bills do not command so good a price as the others in London.

Sight Rate and Long Rate.—Up to now, we have disregarded the element of time as a factor in exchange operations, and a transaction has been considered as a payment in one country in order to receive the

immediate equivalent in another. In actual practice, the majority of bill transactions are in bills of three months' currency, yet although the "sight" or cheque rate is only quoted in the Course of Exchange in respect of one or two places, that does not mean that cheques on other countries are not to be obtained in London. The "sight" or "short" rates referred to in the money columns of the press are not the London rates, but the rates current abroad. It should also be noted that where a country quotes in terms of its own currency, the long rate is lower than the sight rate, but when a country quotes in the currency of another, the opposite is the case—*e.g.*, sight rate on Paris is 25.17½, but the long rate is 25.36½, because we quote in French currency.

There is a close connection between these two rates, the long rate being based on the sight rate, rising and falling with it. The long rate is the rate at which a bill of a certain amount can be bought so as to realize the same amount as a cheque bought at the sight rate, after allowance has been made for discount and stamp charges. In fixing the long rate, the principal consideration is the rate of discount or interest in the place where the bill is payable, since it is not payable until a certain time, generally three months, after the date of purchase. Thus, while demand and supply are the main factors in determining the sight rate, in determining the long rate the foreign rate of interest must be considered in addition. Another element of the long rate is the cost of the bill stamp, and there is also the question of risk to be taken into account. Before the three months have expired, both drawer and acceptor may have become bankrupt, and something must be allowed for such a contingency. Con-

sidering the quality of the bills usually dealt in, the element of risk is only slight, though if the state of credit at any particular centre be disturbed, this last element must receive careful consideration. Owing to the foregoing considerations, it may be readily seen that the long rate may move independently of the short rate, but the short rate cannot move independently of the long rate.

The long rate is fixed so that the ultimate cash value of a draft at the sight rate and at the long rate is the same. Supposing a London merchant wishes to remit £100 to Paris, he has the choice between remitting a cheque at the rate of 25.20 or a three months' bill quoted at 25.41. If he buys a cheque, he obtains one for 2,520 francs, and his creditor presents it to the bank in Paris and receives 2,520 francs. If he buys a bill, he pays 2,541 francs for it, and remits it to Paris. This is taken to the bank in Paris for discount, and assuming that the rate there is 3 per cent. per annum, or $\frac{1}{4}$ per cent. for three months, a deduction of about 19 francs is made, and the cost of bill stamps may account for another 2 francs. Thus, the bill realizes (2,541 - 21) francs—that is, exactly the same amount as the cheque. Generally speaking, the two modes of remittance amount to practically the same thing, and any difference would be only very slight. Some bills are dealt in which are neither sight bills nor three months' bills, but have perhaps thirty days to run. The rate on these is termed a "t.q.," or "tel quel" rate, and it is deduced from the long rate in proportion to the term they have to run.

Influences affecting Rates of Exchange.—From the long rate alone, it would be difficult to say whether the exchanges were rising or falling, owing to the fact

that other influences might be at work which would tend to obscure the causes of the rise or fall. The most potent of these influences is the rate of discount prevailing in the place where the bill is payable. A rising exchange is favourable to us, because it signifies a probable influx of gold, and consequently cheaper money, while a falling exchange signifies, ultimately, dearer money. Further, the demand for foreign bills arises from the need of making remittances to foreign countries. If our obligations to a foreign country are greater than theirs to us, the price of foreign bills in London will be high, and the rate of exchange unfavourable to us, and in favour of the foreign country which has money to receive from us. In order to turn the exchange in our favour, it is necessary to create an increased demand for bills on London in the foreign centres. This is done by raising the Bank rate here. As we have seen before, the market rate would follow, and the rate for discounting bills in London would rise above the corresponding rates abroad. As a result, Continental capitalists and bankers will invest in London bills, to take advantage of the rates ruling there, and thus the exchanges may turn in our favour.

Bankers' investments in bills form another factor in determining the price of bills. London bankers hold very few foreign bills, but continental bankers always have a good proportion of bills on other centres. Thus, if the rate of interest in London rises, a demand for bills on London arises at the same time in the various Continental centres. On these he may make a profit, either by keeping them till they mature and then selling at sight rate, or, if the rate of interest falls, by selling them at once. For example, if the sight rate of Paris on London were 25·20 and the market

rate of discount in London 5 per cent., we may assume that the long rate would be about 24·88. Then, if a banker in Paris buys a three months' bill on London for £100, holds it till maturity, and then sells it at sight rate, which is then the same—viz., 25·20—he makes a profit of about 5 per cent.

Cost of bill	=	2,488	francs.	
Proceeds of sale	=	2,520	„	
Profit ..	=	32	„	or 5·1 per cent. on his outlay.

Assuming that sight rate on London is 25·20, but that the discount rate falls to 4 per cent., the long rate would rise.

Sight rate	..	..	..	..	25·20
Three months' interest at 4 per cent.	..			..	00·25
Long rate	..	..	..	..	24·95

Thus, if the banker sold his bill at this rate, he would make an immediate profit of (2,495 f. – 2,488 f.) 7 francs. It is very unlikely, however, that the sight rate would remain unchanged, and any change in this would affect the long rate, and consequently the profit of the operation.

Another way in which the exchanges are influenced is by what are termed “arbitrage” operations. These are transactions by which advantage is taken of the difference between the rate of exchange at one place and the corresponding rate at another. Certain bankers, etc., are connected with foreign houses or agents, and a mutual understanding exists that each can draw upon, or be drawn upon by, the other. Profits can be made in this way by buying bills in one centre and selling them in another when there is

sufficient difference in the rates ruling in these centres. As far as sight rates are concerned, arbitrage operations in these are not often possible, since the movements on each side are practically simultaneous and identical; if there should happen to be a difference, it is seized upon, and arbitrage operations speedily cause it to disappear.

In actual practice, arbitrage operations are very complicated, and contain a large element of pure speculation. A thorough knowledge of the working of the foreign exchanges, of the constantly varying rates of discount, and of the different amounts of stamp duty in different countries, is necessary. Very often a dealer wishing to remit to one country may find it more profitable to remit bills on another place, in place of buying a bill on the former country; thus, a dealer in London, wishing to send a remittance to Paris, does not buy a draft on Paris, but remits bills on Brussels instead, or he may remit a draft on Denmark to Berlin in the same way.

The following examples of arbitrage operations will illustrate their nature:

- (1) Sight rate of London on Paris is 25·23, of Paris on London, 25·19.

A in London buys a draft on Paris for £1,000, forwards it to his Paris agent, who collects	25,230 francs.
Paris agent buys a draft on London for £1,000, sends it to A, who collects it.	
Cost of draft in Paris	25,190 ..
	<hr/>
Profit	40 ..

Such an example as the above would hardly occur in practice, the sight rates between the above places being usually the same.

- (2) Suppose exchange on London in Vienna is 23·97 kronen.
 „ „ London in Brussels is 25·23½
 francs.
 „ „ Vienna in Brussels is 105 francs
 for 100 kronen.

$$\text{Then } \text{£}1 = 25 \cdot 23\frac{1}{2} \text{ francs} = \frac{25 \cdot 23\frac{1}{2} \times 100}{105} \text{ kronen in Vienna.}$$

$$\text{£}1 = 24 \cdot 03 \text{ kronen in Vienna.}$$

Thus, London may buy direct exchange on Vienna at 23·97, whereas indirect exchange through Brussels may be obtained at 24·03.

QUESTIONS.

- 1 Show by calculation the connection between the following, making allowance for stamp, etc.:

Paris, cheque	25·15
Paris, 3 months	25·325
Paris, market discount ..	2½ per cent.

2. What are the causes of the fluctuations in the foreign exchanges ? How are they dealt with ?
3. How are inland bills of exchange used in the cancelling of indebtedness ? What are accommodation bills ?
4. Explain: "Course of exchange," "Mint par," "arbitrage," "promissory note."

THE WHOLESALE TRADE

Character and Extent.—It is a matter of considerable difficulty to draw an accurate distinction between wholesale and retail dealings. No rigid line of demarcation, separating the one from the other, exists. Neither the magnitude of the dealings nor the nature of the terms of dealing can be accepted as a certain test, since the wholesale dealer frequently sells in small quantities, and on both cash and credit terms. However, trade may be classed as wholesale when the majority of the transactions refer to considerable amounts, are on a credit basis, and are not carried on with the ultimate consumer.

With the rapid increase of the production of material wealth there has of necessity arisen a greater amount of work to be done in the distribution of this wealth, and a corresponding increase in the number of persons who get their livelihood by engaging in "commercial" occupations. The occupation returns of the Census Report do not give the most satisfactory statistics regarding such occupations. In these the commercial classes are placed in the fifth order of occupations. They comprise merchants, salesmen and buyers, brokers, agents, factors, commercial travellers, accountants, auctioneers, commercial clerks, bankers, finance agents, bill discounters, and insurance officials. Merchants, salesmen, and buyers are only classed

under this order when it is impossible to class them according to the commodity dealt in, so that the numbers under these heads are quite unreliable. The classes of makers and dealers also are so much intermixed that it was found impossible to get a separate classification which would be even fairly reliable. The following table gives an idea of the growth of numbers of the commercial classes in the Census Group V., and the growth of the numbers of commercial clerks according to the returns of the last four censuses.

	1881.	1891.	1901.	1911.
Commercial occupations	316,865	416,365	590,629	790,163
Commercial clerks ..	181,457	247,229	363,673	477,535

Qualifications of the Wholesale Trader.—At first sight the ideal mode of distributing commodities appears to be the direct transfer of goods from the producer to the consumer, or, at least, to the ultimate distributor—*i.e.*, the retailer. The wholesale merchant seems to be a middleman whose functions might be easily dispensed with. This view is not confirmed by the actual practice of business, but, except in certain cases,* experience shows that the functions of the wholesale dealer are increasingly necessary under modern conditions.

The qualities and training of the merchant are quite different from those of the producer. His general functions include: the enlargement of the market and the discovery of new ones; the study of the requirements and tastes of the consumer; the balancing of his powers of purchase and of payment; and a knowledge of the ever-changing circumstances influencing demand. He must, as far as the character of his supplies permits,

* *E.g.*, direct selling by the manufacturer.

anticipate demand, and weigh carefully considerations both of time and space in spreading those supplies; in brief, the skilful merchant must be the personification of intelligent anticipation. The more production becomes specialized in methods and in diversity of product, the wider is the field of distribution.

The idea that the wholesale business is simply a kind of clearing house for the producer and the retailer is quite fallacious. The merchant's work includes something more than the mechanical routine of sending orders to the manufacturer, followed by the receiving of the goods, their display, their despatch to the retailer, and the collection of his accounts. He requires a higher degree of ability than would be needed for such comparatively simple operations. The essential qualities for a successful merchant may be summed up as follows: financial ability; judgment of qualities, both of goods and men; knowledge of existing business conditions, both general and local; faculty of forecasting the future; and a talent for organization.

As a financier, the wholesale dealer should conduct the largest business his means will permit, at the same time maintaining his credit at the highest point. His buying should be regulated by a careful calculation of his ability to meet his bills when they fall due. But perhaps his financial capacity will be most severely taxed in his management of the terms of dealing with his customers, whose loyalty he desires to retain whilst not granting too long a time for payment nor too large an amount of credit. As the functionary for the co-ordination of the demand and supply of goods, the merchant is guided by the wants of his own customers. The manufacturer does not usually carry a stock, but as a rule depends on the wholesale dealer

to organize his market for him. Hence the latter must have some knowledge of the qualities of the goods dealt in, their weights, dimensions, etc., what new inventions or what new designs will prove saleable, and whether the manufacturer's capacity for production is equal to the probable demand. In addition, there must be facilities for the convenient delivery of the goods ordered, the times of delivery being fixed so as to ensure a full stock at the time required. Besides these qualities, the wholesale merchant is expected to organize his business machinery so as to secure the maximum promptness and accuracy with the least unnecessary expenditure of energy or money. In particular must he check all waste of time, since punctuality is becoming to a greater extent than ever the essential feature in a business transaction.

The increasing complexity of business has imposed another economic function on the wholesale dealer. The retailer relies on him to a certain extent for information and advice concerning general business movements, and, owing to his natural desire to oblige a customer, this confidence is seldom misplaced. The wholesale dealer is bound to take a broad view of trade; he has access to recent and reliable information, and is usually a man of superior education and training. These advantages are placed at the service of the retailer, who finds the opinions of the man from whom he buys very valuable. A mere stroll through a wholesale warehouse will supply information to an intelligent shopkeeper. As he walks along, new styles and novelties are brought to his notice, all of which he appraises with an eye to their selling possibilities in his own district. An intelligent examination of the trade journals, which deal largely with topics concern-

ing wholesale dealings, will also supply many suggestions to the small trader.

The granting of credit facilities is one of the most delicate tasks of the wholesale trader. He is compelled from the nature of his business to employ a greater amount of capital and to hold a greater quantity of stock than the retailer. As he thereby runs a greater risk of loss, it behoves him to grant credit facilities with the utmost care, even though greater liberality in that direction would produce an increased volume of business. Every new customer raises this problem afresh, and if it has to be satisfactorily solved, the wholesale trader must add accurate judgment of human nature to his other qualifications. A customer of unimpeachable integrity, who is trading with adequate capital and according to strict business methods, constitutes an ideal risk. But few satisfy these conditions, and where any doubt exists, the question of granting credit calls for serious consideration. To assist the dealer to a decision, information is obtained from many and varied sources, such as references from bankers or other business men, reports of commercial agencies, investigations of travellers, a signed statement of the customer, or a personal interview.

Notwithstanding all this information, it is always difficult to fix the amount of a retailer's credit, and even when fixed, it is frequently impossible to adhere to it rigidly, because of the pressure of competition. The prompter the payment, the better the discount, but even under these conditions it has been observed, in a typical wholesale house, that only a comparatively insignificant percentage of the accounts were paid so promptly as to secure the best discount, while 25 per cent. of them were not entitled to any discount at all,

though the majority of the latter class were quite solvent, and could be considered as certain to be paid. Generally speaking, the wholesale dealer is much more accommodating in the matter of credit than the manufacturer; he is willing to risk retailer's credits that the latter would refuse. This is a very strong point in favour of the retention of the wholesale man in commercial dealings; by guaranteeing the retailer's accounts the wholesale dealer has often enough kept him in business in a period of depression when otherwise his only prospect was bankruptcy. Such favours, however, have had the undesirable effect of placing the retailer under the control of the wholesale dealer, and in this way, in a degree, nullifying the effect of free competition.

Organization of Wholesale Business.—While the functions of giving credit and supplying information are important parts of the wholesale trader's business, his vital functions are the collection and distribution of commodities. He is the pivot of large-scale demand and supply, and the wholesale markets constitute a kind of trading focus. The selling organizations of the wholesale and the retail trade are much the same in principle, the main difference being that in the latter many functions are performed by a single individual which in the former are distributed between many. The scale of wholesale business makes a subdivision of functions necessary, though here simplicity should be striven for, as the object is to handle orders rapidly and efficiently, and it is doubtful whether a highly elaborate method produces this result.

Wholesale business is largely specialized, such specialization being determined by the natural grouping of commodities—*e.g.*, hardware, textiles, agricultural produce. It is therefore essentially a "one-line"

business—*i.e.*, a house dealing in textiles will seldom add hardware as another line. When this is done, the wholesale house loses its special character and becomes a “general” house. The “special” business obtains the mastery of the principles of distribution in one line, and thus gets the advantages due to the concentration of both capital and energy. It is always possible, however, to add side lines in goods of a similar nature to the special line, in order to accommodate customers and incidentally to increase business—*e.g.*, a drapery warehouse may add a department for millinery. Wholesale businesses are concentrated at some large central distributing point, and the dealer reaches his customers by means of travellers, catalogues and lists sent by post, or by the visits of the retailer himself to the warehouse.

In the organization of a wholesale warehouse, the two main features are the subdivision of functions and responsibility, and central financial control. Such a warehouse is divided into departments, and at the head of each is either a partner in the business or a confidential employé, who in many cases has risen to this important position, step by step, after many years of service with the firm. The size and number of the departments vary in different warehouses, though in all are buying and selling, forwarding and packing, and financial departments. The buying and selling department is further subdivided according to the different types of goods dealt in—*e.g.*, in a Manchester warehouse there will be a lace department, a dress-goods department, etc. The financial department may also include, in addition to the counting-house, the managing department, occupied by the heads of the firm.

The heads of the buying and selling departments are

styled "buyers," and it is largely on their ability that the success of the business depends. Each is expected to have special qualifications for his particular part of the business, and to show a certain profit on the working. He must keep in touch with all novelties, must be readily accessible to customers, be willing to listen to suggestions from travellers, and maintain a constant watch on the stock of his department. Under him is a staff of salesmen, each of whom should consider himself a potential buyer, and his department as the training-ground for the higher position. These departments occupy the greater part of the warehouse, the space being devoted to the display of the goods dealt in.

All packing and forwarding is done as a rule in the basement of the warehouse, since this situation offers the best facilities for the rapid and easy transfer of goods, and it is usually connected by either lifts or pneumatic tubes with the other departments. The financial side of the business is controlled from the counting-house, to which the buyers send all particulars of the purchases made and where the sales orders are first dealt with before being passed on to the salesmen for execution. This side of the business may also be subdivided into the cashier's department, where all payments are made and sums received according to order, records of these being kept, and the accountant's department, where all the other books of the firm are kept. The offices of the heads of the firm are also located in the counting-house.

Dealing with Orders.—The sole aim of the organization outlined above is naturally the expeditious and economical handling of the orders received. These may have been obtained either through the medium

of the travellers sent out by the firm, or through the circulation of catalogues and price lists, or directly from the buyer, after a personal visit of inspection and selection in the warehouse. The system of dealing with orders varies in detail from warehouse to warehouse, though the general features are the same. For example, in a large establishment, the customers' accounts are classified, either geographically or in some other way, to enable each class to be rapidly dealt with by specially assigned clerks.

When the orders are received they are sorted according to the customer's ledger account. If the account is unsatisfactory the order is retained for the consideration of the manager, who has to decide whether it shall be executed or not. If the customer's account is satisfactory, the order is entered, and the checking of this entry with each invoice before being sent out will prevent any order from being accidentally omitted. The order is then put into intelligent shape regarding numbers, qualities, etc., of the goods, if necessary, after which it may be dissected, and copies made of it for the convenience of the different departments. These are sent on to the salesmen, who proceed to execute their particular sections of the order. This part of the operation is carried out in different ways. A separate slip may be sent to each department, containing only the particulars referring to that department; or the order may be sent to one department, where a copy of that section referring to them is taken, and after initialling it is passed on to the next department, where a similar procedure is gone through, and so on until it is returned to the office, after having made the tour of the departments concerned.

Finally the goods are all assembled and are sent to

the packing-room. Here the packer, who has previously received a packing-sheet, which, in addition to particulars of the goods, ought to contain instructions as regards the method of packing, if necessary, takes charge of them. His first business is to check the goods from his sheet. This checking is of importance, as it is done by parties who have had no share in the selection of the goods. When the goods have been packed, and the invoice prepared, the prices on the latter are examined, and the transaction is completed by the forwarding of the invoice to the customer.

Methods of Purchase.—While the methods and organization of the wholesale trader in respect of the sale of goods is of undoubted importance, nevertheless, the purchase of his wares is the basic operation. The more favourable the conditions of purchase, the better are the terms on which he can sell. Broadly speaking, there are two methods of purchase in the wholesale trade—directly from the manufacturer or producer, or indirectly through the medium of a merchant or other third party. Further, considering the wholesale dealer as one who buys to sell again to the retail dealer, his operations are chiefly confined to the purchase and sale of food-stuffs and manufactured goods. The wholesale dealer in raw materials enters the scheme of distribution at an earlier stage than his colleague who deals in manufactured goods. Most of our food-stuffs and raw materials are imported from abroad, and hence the organization of the dealings in these commodities may be better treated under the *Import Trade*.

Raw Materials and Food-Stuffs.—Coal is practically the only raw material produced in this country in which the market is made up of producers, wholesale dealers, and retail dealers, and, moreover, this organi-

zation is only found in dealings in household varieties. For steam coal, furnace coal, shipping coal, or coal for manufacturing purposes, the system of direct selling is predominant. Contracts are entered into, covering periods of varying duration, between the users and the colliery owners, who dispose of the greater part of their output in this way. The agents of the collieries also attend the various coal exchanges, where much of the buying and selling of household coal is carried on, though the retailer frequently buys direct from the colliery. The seasonal nature of the demand for coal gives the wholesale dealer an advantage if he has got accommodation for storage, since he is in a position to make advantageous contracts with the colliery for his supply, which he can store and subsequently dispose of to the retailer when the demand increases.

The business of dealing in food-stuffs is particularly the grocer's business. Both in organization and scope, the wholesale side of this business is of a most intricate nature. This is due to the fact that it includes so many different articles, and so many brands and varieties of the same article. The wholesale grocery business of this country is centred in London, where all the big firms are to be found in Mincing Lane and Eastcheap. Sales are held periodically at the Commercial Sale-Rooms of such imported commodities as sugar, coffee, cocoa, tea, spices, etc. These are public wholesale auctions, open to everyone, but in reality only representatives of the wholesale houses and recognized brokers and agents take part in them. If any outside individual wishes to purchase any quantity of goods he would find it best to employ a broker, while for small amounts the independent buyer can do better by dealing with a large wholesale house than by bidding

at the public auction at the sale-rooms. In the provision trade the Home and Foreign Produce Exchange is the chief centre for the transactions between the wholesale traders and the importers. Produce exchanges with similar functions are also found in Liverpool, Manchester, and other provincial centres.

Besides his functions as a pure distributing agent, the wholesale dealer in groceries sometimes exerts an influence on the supply. He may do this by controlling the output—*e.g.*, of a jam factory—and causing the product to be delivered in packages bearing his particular trade-mark. Some wholesale grocers also lay down expensive plant for the preparation of commodities for the market, such as the roasting of coffee.

Manufactured Goods.—The methods of purchase of food-stuffs and raw materials on a wholesale scale are generally different from those in vogue in dealings in manufactured goods. The underlying principle in the former is that of competitive bidding, confined to an exclusive class of traders, whereas in the latter the market is free and open to everyone, and the methods of dealing are based on personal inspection and bargaining. In dealing in manufactured goods there is thus not the same need for an exchange as a central distributing point, and consequently there are no rules for the regulation of buying and selling. The absence of fixed standards leaves an opportunity for deception and for price fluctuations, though the latter are confined within narrow limits in all businesses which have any degree of organization.

The two main branches of the wholesale trade in manufactures are those dealing with textile fabrics and hardware. The infinite variety of the former makes

the grading of them impossible, and herein lies the distinction between fabrics and raw materials, the latter readily lending themselves to grading. As regards cotton fabrics, the distribution is largely in the hands of the home trading houses, which stand between the manufacturer and the retailer. In this particular trade there is a central distributing point, dealings in cotton cloth taking place on the Manchester Royal Exchange, though the methods employed are those of personal inspection and individual bargaining. Some merchants, however, purchase the cotton cloth in the "grey" state, subsequently sending it to other firms to be bleached, printed, and finished. The cloth in its finished state is then disposed of either to the wholesale dealer or, if the merchant has a wholesale warehouse, to the retailer.

In the woollen industry, the rise of the ready-made clothing trade has provided a regular outlet for the products of the manufacturer in his own district. There is consequently not a wide scope for the special middleman in this industry. Retailers, also, prefer to deal with a wholesale warehouse which stocks cotton, silk, and linen goods as well as woollens. The commercial side of the industry, as represented by the piece merchants, also undertakes some of the functions of the producer; they suggest the type of fabric, and order the dyeing to suit their market. These merchants in the home trade then sell to the wholesale warehouse. While the greater part of this trade is centred in Yorkshire, much of the large-scale home trade in the finest suitings gravitates to London.*

In the hardware trade, the wholesale dealer or "factor" occupies a relatively strong position. This

* "Woollen Industry," Clapham.

is mainly due to the fact that he buys his goods from a number of different factories. He thus has facilities for the collection and distribution of the innumerable little things which form a large part of the ironmonger's stock-in-trade. If these separate items were ordered from the manufacturer by the retailer, delivery could not be expected with the same promptitude as from the factor, who is in a position to collect the different items from his warehouse and forward the whole in one parcel at the same time.

The Manufacturer and Wholesale Trade.—The usual machinery for transferring commodities from the producer to the consumer consists of dealers, wholesale and retail, assisted by an army of agents, commercial and financial. But conditions are rapidly changing, and the manufacturer is attempting to establish himself in the retail trade, by sales agencies and other methods. The increasing intensity of competition has narrowed the margin of profit, another factor tending to the elimination of the wholesale dealer. On the other hand, the manufacturer aims at securing a steadily increasing rate of output for his factory, and this he can most easily attain by the orders of the wholesale dealer, so long as he continues to place them with the same manufacturer, which he is not bound to do. But there are very many factories which, however eager they may be to dispense with the wholesale dealer, cannot support an extensive sales department in a market often scattered throughout a whole country. Such establishments are bound to rely on the wholesale man for the disposal of the produce, and frequently a large wholesale house will market the produce of many factories.

Another factor which tends to lessen the dependence

of the manufacturer on the wholesale dealer or "jobber" is the growth of the large retail stores and multiple-shop organizations. Their buying capacity is equal to that of the wholesale house, and as they can buy in sufficiently large quantities, the terms on which they purchase will be the same as the terms given to the wholesale house. From the manufacturer's standpoint, the risks of business are less when he trades with a few wholesale dealers than when he does business with a great number of retailers.

The wholesale dealer has, however, by no means lost his hold on trade. In trade with the large retailer and in certain branches of high-class trade his position is threatened, but it is estimated that the big retail stores buy from 20 to 25 per cent. of their stock from the wholesale houses, and the smaller retail shops from 40 to 50 per cent. It is also often worth the while of the retailer to purchase from the wholesale dealer, on account of the convenience afforded. Naturally the latter is justified in adding a slight charge to the cost price for these advantages, such charges varying from $2\frac{1}{2}$ to 10 per cent. of the goods handled. This also includes a share in the general expenses of the business, and the accounts of the Co-operative Wholesale Society show that the expenses of a wholesale business range from $1\frac{1}{2}$ per cent. on purchases in the case of grocery to 5 to 8 per cent. in the case of other goods.

It is highly probable that the wholesale dealer will retain his hold on the small man's trade for a long time to come. Even if the retailer deals with the manufacturer directly, he always tends to buy with caution, and therefore he frequently buys in insufficient quantities. When he wishes to replenish his stock temporarily, he goes to the wholesale warehouse for the

purpose. These extra orders amount in the aggregate to quite a considerable sum, often constituting as much as 30 per cent. of the total business of the year. Since the wholesale dealer and the retailer are both engaged in purely commercial transactions, there is a close bond of sympathy between them. The retailer expects, and usually receives, greater consideration at the hands of the wholesale dealer than from the manufacturer. The latter is more exacting in the collection of his accounts, and is more prone to proceed to extreme measures and force the small man into bankruptcy than the wholesale dealer. This is undoubtedly due to the recognition of the interdependence of the wholesale and retail trades on the part of the dealer. Nevertheless, the tendency at present is in the direction of the gradual, the very gradual, elimination of the wholesale dealer as such, and the assumption of his functions, wherever possible, by the selling departments of manufacturing businesses.

QUESTIONS.

1. What are the functions of the wholesale trader? Illustrate your answer by reference to any branch of this trade.
2. Trace the course of a package of goods from its entry into the wholesale warehouse to its despatch to the retail shop.
3. Name some commodities dealt in in the home trade, and give particulars of the methods of dealing in the case of one of them.
4. Correct or justify the statement that the wholesale dealer is a "parasite on industry."

COMMERCIAL SIDE OF A MANUFACTURING BUSINESS

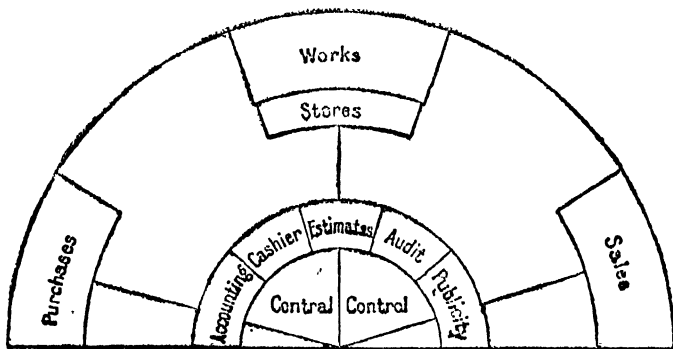
IN every manufacturing concern there is always more or less scope for the exercise of commercial functions. In some businesses every operation from start to finish is carried through without the intervention of any outside agent. The purchase of the raw materials, their manufacture, the sale of the finished product—all these functions are fulfilled by some branch of the firm. But every firm, even if its buying and selling is done by intermediaries, must organize a part of its staff to ascertain correctly the cost of production of its goods and to record its financial transactions. The circumstances of each particular business will decide the scope of the commercial side. For a small business, manufacturing some staple line, it will probably be found economical to employ a merchant or other agent in the sale of the product, and even in businesses of considerable size it may be doubtful economy to dispense with the service of such intermediaries. The reason for this is that the training, qualifications, and methods of the efficient merchant are altogether different from those of the manufacturer. The latter needs primarily a good knowledge of the technique of manufacture, a knowledge which is distinctly specialized, in contradistinction to the knowledge of the merchant, which is non-specialized.

General Organization.—When the manufacturing and the buying and selling organizations are run together, the whole concern should be under one control, in the person of a manager who is familiar with both the technical and the commercial sides of the business. He selects efficient subordinates to control the separate departments, and from these he receives reports enabling him to keep in touch with the general details of the whole business. Such a type of organization renders possible the fixing and enforcing of responsibility, and at the same time secures administrative efficiency. The size of the business determines the number of the departments and also their location. If several factories are under the control of one business, the central control may be established at one point, with subsidiary office organizations for each factory. Such a central point it would be both convenient and economical to locate at some large business centre, for the purpose of marketing the product easily.

The commercial functions are non-specialized; the underlying principles are more or less the same in all branches of manufacture, and as a consequence they are more elastic. It is desirable to establish some of the departments near to the factory, though others may be at some point at a distance from the factory. The latter comprise the purely commercial departments—*e.g.*, the buying, selling, and publicity departments; the former will include the stores and estimating departments. The diagram on p. 260 will indicate the chief departments necessary to the commercial side of a manufacturing business.

The unity of the business is secured in the central office of the firm. All questions affecting the general policy of the business are dealt with here by the

directing officers of the concern, and in this section is located the sole financial control. The department exercising this control is the cashier's department, through which all receipts pass and by which all payments are made and records of the same kept. This work entails a considerable amount of trust and responsibility, but it is often of a merely routine nature, because the payments are made according to the order of one or another of the more responsible officers of the business. Closely connected with this



department is the accountant's department. The accountant is responsible for the organization and development of the system of book-keeping so as to accord with the nature of the business. But he should be something more than a mere book-keeper; he must also be an authority on the financial aspect of all the business transactions of the firm. In the larger businesses there may also be an audit department to check all business operations and to discover all mistakes, leakages, and losses. If there is a credit department, the head must be familiar with the financial standing of all firms likely to desire credit. As it is

imperative that his judgment should be correct, the collection and tabulation of the information necessary would be the task of this department. The correspondence may be dealt with in the separate departments, communications of special importance being referred for the personal consideration of the general manager.

Purchases Department.—The purchasing department performs one of the two purely commercial functions of a business. The importance of this department can hardly be over-estimated, since errors in buying are difficult to rectify in subsequent operations. Bad buying handicaps manufacturing costs, and consequently reacts on the final sales. The functions of the purchasing department vary according to the nature of the commodity. In a large steel works the policy is to control the sources of the supply of iron ore, in which case buying is a matter of routine; in businesses engaged in the working up of raw materials, such as wool, etc., they are bought indirectly through brokers; and in other cases the system of direct buying is followed. In the latter instances the buyer should have at his disposal a comprehensive and up-to-date collection of catalogues and price lists, arranged systematically, so as to keep in touch with the sources and conditions of supply. An acquaintance with the legal principles governing the relations between buyer and seller is of use to an efficient buyer. He must also have a knowledge of the factory output if the co-ordination between its demand and the supply of materials is to be satisfactorily attained. When certain lines of goods are regularly consumed, buying can be effected in large quantities, and hence does not present much difficulty. By inviting tenders the firm obtains a competitive

price, and can arrange terms of delivery to suit its own convenience. All such contracts should be ratified in writing on official order forms.

The buying is done mainly in response to the requisitions of the factory, although at the same time the manager of the factory should take into account the financial aspect of every transaction, and endeavour to strike the mean between undue economy in quantity and extravagance in price. The commodities bought will be chiefly raw materials and equipment, and all the knowledge concerning these is concentrated in this department. Besides information regarding sources of supply and prices, there should be records of past requirements, former quotations, the market prices of standard raw materials and their variations, and estimates of future requirements.

Stores Department.—When goods have been purchased, particulars of the order are handed to the stores department, so that when delivery is made the quantities and qualities of the goods may be checked. The working of this department should be governed by definite rules, and should be kept, as far as possible, apart from the purchasing department. The store-keeper's responsibility is limited to the receipt of goods, their subsequent issue in response to orders from some responsible official of the works, and the maintenance of an adequate stock in all lines. The internal arrangement of a stores department necessarily varies in different types of works, but the essential element is orderliness. Attention to this will save both time and damage to goods.

Estimating.—With the internal organization of the works the commercial side of the business has only a slight connection, yet before the finished product is

issued from the factory for sale, there is at least one commercial department which is concerned with it. This is the estimating department. Whatever mode of sale be employed, the cost of production of the goods sold must be estimated, and in works where the greater part of the output is sold under contract, the work of this department is of the utmost value. The making of estimates is one of the most difficult problems the manufacturer has to face, but it is an essential task, since it indicates to the sales department the minimum price that can be accepted, and enables the latter to fix the selling price beforehand.

Formerly, and to some extent now, "rule-of-thumb" methods were considered sufficient; but no business of any standing can afford to risk these at present, and an elaborate and often intricate system of estimating cost of production is employed. The stress of competition has killed guesswork, and substituted systematic and accurate calculation. If the same work has been executed before, the costs previously ascertained generally form a safe basis to work upon, though the underlying idea should be to ascertain, not what it cost before, but what it can be made to cost now. It is obvious that to attain this object both technical knowledge and accurate records are indispensable, and estimates of cost should be got out, not only for outside contracts, but also for any articles manufactured by the firm for stock.

The basis of the work of the estimating department is some system of cost accounts. Such systems should be as clear as is compatible with accuracy and completeness, and they will naturally vary according to the type of business. The essential factors of cost of production are the value of the raw materials used,

the cost of the labour involved, and the proportion of establishment expenses incurred. The first two items are known as the "prime cost," the last as "oncost" or "overhead charges." The prime cost can generally be estimated with considerable accuracy, but in the case of materials, the quantity and quality required call for careful consideration. The oncost includes a proportion of the general expenses incurred by the business as a whole—*e.g.*, advertising, office staffs, rates, depreciation, etc. The practice of dealing with this varies; sometimes it is calculated by the addition of a percentage, ascertained by previous experience, to the total cost of materials and labour. Since the elements of expenditure included under this head have to be incurred, irrespective of the amount of output, then every increase in the amount of work turned out automatically reduces this percentage. Another method is to add a fixed percentage to the cost of labour employed in manufacture. This is the simplest method, and is satisfactory enough in a business manufacturing only a few standard types of goods. Whatever system of estimating cost be adopted, it should be borne in mind that in addition to information concerning the cost of production, it should furnish a basis for future estimates and indicate directions in which it is possible to effect economies.

Tenders.—On the work of the estimating department the preparation of the tenders sent out by the firm is based. A tender is either an offer to supply certain materials or to perform certain services. Before tendering, the general conditions of the specifications should be carefully examined, as in the case of non-adherence the firm may be penalized or, in an extreme instance, the contract may be cancelled. A tender

should be drafted in clear and concise language, accompanied by full details, and, when necessary, neatly executed drawings. Essential clauses of the tender are those containing conditions designed to protect the firm tendering from losses arising from causes over which they have no control, though these should not be so numerous as to damage the chances of acceptance. If, when a tender has been accepted, a contract has to be signed, the representative of the firm ought to see that it corresponds in its terms to the original specification.

Publicity.—A business manufacturing goods for direct sale to the consumer must also organize a publicity department, which naturally will be conducted in close co-operation with the sales department. The determination of the advertising policy is the work of this department, whether such policy is carried out independently or in conjunction with one of the regular advertising agencies. Even if the latter method be adopted, the advertising matter will be prepared by this department. The advertising medium selected, the general type of the announcement, and similar details, come within its purview, while some system for the checking and the comparison of results should be devised by this branch of the business.

Sales Department.—The sales department of a manufacturing business is the most purely commercial, in the usual acceptance of the term. The purpose of this department is to create a system whereby the product of the factory may be put into the hands of the consumer as economically and efficiently as possible. But it is a matter for serious consideration whether it would be advisable or not to graft on to an existing manufacturing business such a department. The

management of a flourishing manufacturing business may not be capable of running a sales business with equal success, owing to the difference in the qualifications required in the latter. The business of distribution is distinct from the business of manufacturing both in organization and functions. Systematic organization is more necessary here even than in the purchasing department.

However, an intimate connection must be maintained between the technical and commercial sides of the business. The test of factory efficiency is the amount of output in a given time, but the speeding-up of the factory would be useless, if it were impossible to dispose of the product. The demand of the market regulates the output of the factory, and therefore production will be ruled by the department which is in close touch with the market. As a consequence, the prevailing tendency is for the manufacturer to engage, to a greater extent than formerly, in the purely commercial functions. Business conditions generally have compelled him to give increasing attention to the problem of creating a demand for his products, where formerly he rested content when he had produced a reliable article at a reasonable price.

There are three distinct methods of disposing of the product open to the manufacturer. He may deal with the wholesale dealer or jobber, or with the retail dealer, or he may eliminate these and deal directly with the consumer. In the first case, the manufacturer is relieved of all the trouble and anxiety of selling his goods, and in such a business a sales department is superfluous. The wholesale dealer organizes his market and bears his responsibility so far as the sale of the goods is concerned. Large dealers in commodities

produced by the staple industries even assume some of the functions of the manufacturer, as, for instance, the woollen merchants when they select the patterns, colours, etc., for the piece goods they order from the maker. The manufacturer, too, naturally wishes to dispose of his product in considerable quantities, and he can effect this through the medium of the jobber. In the hardware trade, a manufacturer may be supplying a single line of goods and form one of a large number of makers all supplying wholesale dealers in general hardware. Wholesale dealers, also, generally carry a fair amount of stock, which the manufacturer seldom does.

Sales Agencies.—When the manufacturer decides to discard the wholesale dealer and deal directly with the retailer, a carefully organized sales department of the business is necessary. Such a department takes over and exercises the functions of the wholesale trader. With his disappearance, the profits hitherto taken by him may fall to the manufacturer, or be shared between the manufacturer and retailer, or even pass in part to the consumer in lower prices, though this result of the eliminating process frequently remains unfulfilled. A business may either organize its sales department independently, or, in conjunction with other manufacturing businesses, establish a common sales agency. In the latter case, all marketing of the product is carried out by a central agency through which the retailer must make his purchases and by which prices are fixed. For the perfect execution of the last function, the members of the agency must comprise all the manufacturers in a particular line. The German kartell supplies the best type of such an organization. The only sales agency which has come into prominence in this country is the Central Thread Agency, which

markets the sewing-cottons of J. and P. Coats, Ltd., and which formerly sold the goods of Messrs. Coats, Chadwick, Clarke, and Brooks, before their amalgamation.

Another method of eliminating the wholesale dealer is by the establishment of exclusive and limited agencies. Under this system the manufacturer appoints retail agents in the districts where he intends to sell his product, a single agent to each district, and each agent is given the sole right of sale in his own district. For the protection of the agent, the manufacturer ensures that there will be no competition in the territory covered by him. These agents may be paid either by salary or commission, or by both. Even on business going direct to the firm, but not passing through his hands, the agent would expect a commission, provided that such orders came from his area. The manufacturer, on his part, should support and encourage his agents; he should endeavour, by liberal advertising, to make his commodities widely known, and at the same time, by careful supervision of the processes of manufacture, to build up a reputation for quality of output. One great advantage of the agency system to the manufacturer is that he is enabled to control the sale of his output without the expense of maintaining a separate establishment. Minor points in the organization of agencies are: The areas allotted to the different agents should be of manageable size, the boundaries should be clearly delimited, and the agency agreement should be carefully drawn up so as not to cause disputes and friction.

Sales under Trade Mark.—Perhaps the best example of the progressive efficiency of the manufacturer in his appeal to the consumer is afforded by the enormous sales of “branded” goods. These are goods sold under some distinctive mark or trade-name, such as

Quaker Oats, Monkey Brand Soap, etc. The practice of making up goods into convenient closed packages under a special trade-mark at the factory has numerous advantages. Besides protecting the manufacturer by the sale of his goods under his own label, this package system facilitates the handling of the goods by all concerned. The packages, also, being of uniform weight and price, considerably lessen the possibilities of fraud, and in this way the interests of the consumer are protected. It has also materially lightened the work of the retailer, by rendering unnecessary the numerous weighings and measurings of commodities from the bulk.

The essential feature of the marketing of a branded commodity is to familiarize the public with its appearance, and to cause them to identify the particular brand as a guarantee of good quality. A constant appeal must be made to the consumer by means of extensive advertising. The advertising value of the packages in which the goods are sold is no mean asset in this respect. Since the trade-mark is intended to indicate the quality of the goods, the greatest care should be exercised in its selection. It should be chosen after consultation with an expert, whose knowledge will also be useful in obtaining legal protection against infringement, and the more original and simple the distinctive mark is, the more effective will it be. For all goods sold in this way, the manufacturer must assume responsibility for quality and condition, and it is to his interest to allow no soiled nor damaged goods to get into the hands of the consumer. Should this unfortunately happen, it is the wisest plan for the manufacturer to replace such goods freely and promptly, since any doubt cast on the reputation of the quality of his goods is certain to have a damaging effect on the sales.

Another system of selling, which may include both manufacturer, wholesale dealer, and retailer, is known as the contract system. Under this system an agreement is entered into by the parties concerned for the sale of goods at fixed retail prices. Penalties are imposed for breaches of the agreement, while advantages are offered as a reward for adherence to it. Owing to the practice of cutting prices by the retailer, a system of price protection has been established, whereby further supplies are refused to any retailer guilty of selling below a certain fixed minimum price. By this means the Proprietary Articles Trade Association in the drug trade has practically stopped the practice of selling patent goods at or below cost as leading lines. On the other hand, when the retailer can show that prices have been maintained, the manufacturer may allow him a rebate in addition to the ordinary trade discount. The tendency of this method of selling is to make the retailer quite subordinate to the manufacturer and to increase the power of the latter in keeping up prices.

At the present time the consumer occupies a more important position in the scheme of distribution than he formerly did, and it becomes increasingly necessary for the manufacturer to reach him directly. To do this, the manufacturer must become a retailer, and the factory organization must undertake the distribution of its own products. This entails a correspondingly detailed sales organization, which may be established on the lines of a number of distributing points or shops, or by the employment of a corps of canvassers, who call on the consumers. An example of this is furnished by the selling organization of a brewery, which uses the public-houses under its control for the sale of the product. Many retail boot shops also are purely dis-

tributing departments of the boot factories of Leicester and Northampton.

Mail-Order System.—If the output of the factory can be sent through the post, the manufacturer can use the post-office as his distributing medium. This method is known as the mail-order system. As a convenient means of reaching the consumer, it is more generally employed in the United States than in this country. Probably the immense distances separating many of the consumers from the nearest great shopping centre account for its prevalence in America. Yet this, the most recent method of direct selling, is gradually coming more into vogue in this country. Such goods as dress materials are frequently sold direct “from the factory to the wearer” in England.

In selling by the mail-order system, the market of the manufacturer is only limited by the extent of the postal area. This area may be cultivated either by means of advertising or by the distribution of catalogues, lists, and booklets. The process is undoubtedly expensive, and the expenses of selling increase with the price of the article. Whatever system of publicity is employed, a large proportion of the inquiries in response produce no further result in the shape of definite orders, about 10 per cent. being considered a satisfactory proportion of orders to inquiries. In order to deal with such a large number of inquirers—each a potential customer—it is obvious that some type of card-index system must form the basis of any method of mail-order dealing. An enterprising advertising policy is an essential factor in a successful business of this type, and perfect confidence in the fair dealing of the firm must be cultivated in the mind of the customer. This may be done either by being always ready to forward goods on approval or by a guarantee

that the money will be returned if the goods are found to be unsatisfactory. A manufacturer's mail-order business will be generally confined to the marketing of a single line, and this has the great disadvantage that when once the customer has been supplied, further orders cannot be expected for the time being.

The fundamental problem for the sales department of a manufacturing business is to devise the most effective means whereby the manufacturer may secure a more independent position in the market, and be less bound to depend on intermediaries. This department has to consider whether to be content with developing a greater measure of control over prices and the mode of selling, or to extend the sales organization and become an active competitor with the existing members of the wholesale and retail markets. The selling policy and the factory policy must be closely connected; the latter is based on the results of the former, and this will be the more successful in proportion as it creates a constant demand for the products of the factory, which is the ideal aimed at by the manufacturer. Finally, it need not follow, as a consequence of direct selling by the manufacturer, that the consumer will benefit to any extent, since the consumer's interests are not always respected under such a system.

QUESTIONS.

1. What are the conditions, favourable or otherwise, under which a manufacturing business may undertake commercial functions ?
2. Compare the relative advantages of the mail-order, sales-agency, and multiple-shop systems in disposing of the products of the factory.
3. If the wholesale dealer were dispensed with, what would be the probable effect on (1) prices, (2) the organization of industry ?

INLAND TRANSPORT

A SYSTEM of inland transport is a necessary factor in the distribution of the commodities produced in any country. The home trade, both wholesale and retail, and to a large extent the foreign trade, are both dependent on economical, speedy, and regular transport facilities. Such facilities assist in the multiplication of the wealth of a country, by virtue of the power of controlling movement which they put into the hands of man. The methods of inland transport which are at present employed are many and varied, though in a modern commercial State goods are carried either by rail, river, canal, or road. As regards the inland transport facilities of the United Kingdom, the railways hold the predominant position, the other three methods occupying an entirely subsidiary place.

Railways.—The nature of the railway business is most peculiar. It exhibits a mixture of competition, monopoly, and regulation. The purchase and sale of transport, considered as a commodity, is influenced by many considerations which do not affect the purchase and sale of other commodities. Railways receive special privileges, and, as a consequence, incur special obligations.

The nature of the railway business renders competition difficult. If two parallel lines of railway were constructed between any two points, for the purpose

of supplying a competitive service, the waste of capital involved would considerably outweigh any advantage which might accrue from the competition. To a limited extent, however, competition does take place, directly and indirectly. Direct competition may come into operation between two points, connected by two different railway lines, which pass through different districts. Traffic between either of these terminal points and any intermediate place would be on a non-competitive basis. There may be indirect competition when different districts, served by different railways, compete for the supply of the same market. Each railway must then grant facilities to the consignors of goods in its own district, equally as good as those granted by its rivals, in order to put the locality it serves on level terms with competitors in the common market. Indirect competition with other means of transport, especially transport by sea, materially modifies the monopoly of railway transport. It has been estimated that sea competition probably affects three-fifths of the railway stations in the United Kingdom, directly or indirectly.

Railway Monopoly.—Between a great many points in the country there is only one line of railway, and this line, being the only seller of transport between such points, is naturally in possession of a monopoly of the business. If the railway company only provided the track and allowed independent carriers to use it, supplying their own motive power and waggons, the business might be conducted on competitive lines; but such a procedure would be both unsafe and uneconomical. The fact that the company undertakes the whole of the business of carriage, however, further strengthens its position as a monopolist.

the whole of the shipments over a certain period. Such a policy is issued for a lump sum, and the value of each separate shipment is declared when it is made and the amount entered on the policy.

Since the essence of marine insurance is the guarantee against loss, it is important to inquire how such loss may be caused. A loss may be such as to affect the interests of owner, shipper, and charterer, or it may be of such a character as to affect only some of the parties. In connection with such losses, in marine insurance the term "average" is employed, but here it has a special technical meaning. It may either refer to a contribution towards losses which have been incurred for the benefit of all parties concerned, or to a payment in respect of a partial loss of the thing insured. The reference in the first case is known as "general average" and in the latter as "particular average."

The simplest form of general average is exemplified in the case where a captain of a ship is compelled to throw overboard (*i.e.*, jettison) a part of the cargo or a part of the ship itself, in order to avoid danger to the whole of the ship and cargo. It is clearly unfair that the owner of the goods sacrificed should suffer the entire loss, especially if the sacrifice results in the safety of the remainder. Hence, when a general average loss is incurred, the owners of the ship and the cargo, including the owner of that part thrown overboard, are liable to make a *pro rata* contribution to cover the loss sustained. But the sacrifice must be intentional, reasonable, and necessary, and result in the safety of the property that was in danger. General average is usually calculated according to a set of rules drawn up by the representatives of various countries, and known as the York-Antwerp Rules.

A particular average loss is a partial loss of the thing insured, where such loss is not incurred for the general benefit—*i.e.*, is not a general average loss. This falls exclusively on the owner, or if insured against, on the underwriter, and there is no right of contribution against other persons. For example, if part of the cargo were damaged by the sea breaking into the hold in bad weather, the loss must be borne by the owner of the damaged goods. Most marine insurance policies cover general average, and when it is desired to cover particular average as well, an “all risks” (A.R.) or a “with average” (W.A.) policy is taken out. A policy covering only general average (G.A.), which will be issued at a lower rate of premium than an “all risks” policy, is sometimes termed “free of particular average” (F.P.A.). The preparation of the statement of claims in respect of losses incurred as above, known as the “average statement,” is a technical and difficult business. This work is in the hands of experts known as “average adjusters,” who apportion the contributions under general average and adjust all the claims on the underwriters.

Lloyd's.—The centre of the shipping interests of the world is Lloyd's. This institution originated in a coffee-house kept by a Mr. Lloyd about the end of the seventeenth century. This particular house was largely frequented by persons interested in shipping, and a large amount of marine insurance business was transacted there. In 1770 the brokers and underwriters of Lloyd's formed an Underwriters' Association and left the coffee-house for the Royal Exchange. After a period of a hundred years of gradual development and improvement, the Association was incorporated by Act of Parliament, 1871.

Lloyd's to-day is the headquarters of two separate and distinct interests; it is an insurance centre and a centre for shipping news. In connection with marine insurance, Lloyd's does not, in its corporate capacity, transact such business. This is left to the individual members who undertake this business, and who are personally responsible for the risks they accept. The committee of Lloyd's, so far as is in their power, guarantee the reliability of the members, since they require from each new member a deposit of securities of from £5,000 to £7,000 in value, which is held as security in the event of default or failure. These securities are held against marine risks only, though the underwriters undertake insurance against all kinds of risks, many of which have not the slightest connection with marine insurance.

As a centre for the collection and distribution of shipping news, the organization of Lloyd's is unrivalled. Their agents are found in every seaport in the world, and the duty of these agents is to transmit information of all sailings, arrivals, and casualties to the head office in London. A "Daily List" and a "Weekly Index" of shipping is published by Lloyd's, and the extensive information at their disposal enables any member to trace the history of almost every single merchant ship in the world. A further important duty of their agents is the protection of wrecks and salvage operations.

QUESTIONS.

1. Enumerate the main features of the two types of freight contracts.
2. Show how improvements in the means of communication have affected (1) liner, (2) tramp traffic.
3. What is the meaning of "average" in connection with marine insurance? What is a "floating" policy?

IMPORT AND EXPORT TRADE

THE foreign trade of the United Kingdom embraces all the commercial transactions between the inhabitants of the British Isles and the inhabitants of all countries lying outside our borders, thus including the trade with the British colonies and dependencies. There are two main subdivisions of foreign trade: the import trade and the export trade. The former includes all trade in goods brought here from abroad; the latter, all trade in goods sent by us to foreign countries. These may be further subdivided either on a geographical basis—*e.g.*, the South American trade, the China trade, etc.—or according to the commodities dealt in—*e.g.*, the cotton trade, the corn trade, etc.

The amount of our foreign trade may be accounted for partly by our geographical position and partly by our lack of adequate natural resources, with the exception of one or two commodities such as coal and iron. Our insular position and the possession of excellent harbours supply an adequate, cheap, and efficient sea transport, but climatic considerations oblige us to rely on other countries for a supply of raw materials for our manufactures and food-stuffs for our population. A perfectly self-sufficing country has no need for foreign trade, but the idea of a self-sufficing United Kingdom is chimerical under present-day conditions. A plentiful supply of coal forms the basis of our foreign trade. Besides supplying the material for bulky export cargoes, this mineral is the foundation of our iron and textile

industries, the products of which form the greater part of our exports. The shipbuilding and shipping industries also depend for their prosperity on cheap fuel, and the possession of this enabled us in the past to build up a foreign trade to an extent hitherto unheard of. One result of this has been to cause the financial operations of commerce to be concentrated in this country, and London forms a clearing-house for all important international transactions. The progress of civilization has, in more recent times, caused other nations to enter into competition with us, and our long-continued supremacy in the trade of the world has been challenged from many sides. From the point of view of self-preservation, therefore, it behoves us to study the principles underlying our world commerce, and to acquire a knowledge of the methods adopted and the machinery employed therein.

Extent of Foreign Trade.—The following table shows the value of the principal articles exported from and imported into the United Kingdom during the year 1913. The classification adopted is that of the Board of Trade, and the year 1913 was selected owing to the abnormal conditions prevailing in the latter half of 1914. The values are given to the nearest hundred thousand pounds, hence there may be a trifling discrepancy between the class totals and the sum of the separate values. The exports also refer only to the produce of the United Kingdom and amount to 525·2 million pounds, but the imports include 109·6 million pounds of foreign and colonial produce, which was re-exported, thus making a grand total of exports of 634·8 million pounds. Further, 1913 was the best year known for British trade, our exports for that year constituting a record.

Commodities.	Imports.		Exports.	
	Million £.	Million £.	Million £.	Million £.
I. Food, drink, and tobacco		290.2		032.6
Grain and flour ..	85.50		003.5	
Meat, including animals	56.70		001.2	
Other food:				
(a) Non-dutiable ..	81.20	}	024.4	
(b) Dutiable ..	58.70			
Tobacco	08.00		003.3	
II. Raw and mainly un-		281.8		070.0
manufactured goods				
Coal, coke, etc. ..	00.03		053.6	
Iron ore, scrap iron,				
and steel	07.40		000.4	
Other metallic ores ..	10.20		000.1	
Timber	33.80		000.3	
Cotton	70.60		—	
Wool	37.70		004.6	
Other textile materials	19.80		000.4	
Oil seeds, nuts, oil ..	41.60		004.4	
Hides	15.00		001.8	
Paper - making ma-				
terials	05.80		000.9	
Miscellaneous	39.80		003.0	
III. Articles wholly or mainly		193.6		411.3
manufactured ..				
Iron and steel	15.20		054.3	
Other metals	32.10		013.2	
Hardware and outlery	07.40		008.0	
Electrical goods	01.60		005.4	
Machinery	07.30		037.0	
Ships (new)	00.03		011.0	
Woodwork	03.60		002.0	
Yarns and textile				
fabrics	46.90		181.8	
Wearing apparel	06.00		016.4	
Chemicals	13.00		022.0	
Leather manufactures	13.40		005.6	
Glass, earthenware ..	04.50		005.2	
Paper	07.60		003.6	
Railway and motor-				
cars	08.30		011.3	
Miscellaneous manu-				
factures	26.50		034.2	
IV. Miscellaneous, including		003.1		011.3
Parcel Post				
Total		768.7		525.2

GEOGRAPHICAL DISTRIBUTION 305

The following table shows our chief sources of supply and also our best customers, the values being given in the same way as in the foregoing table:

Sources of Supply.	Imports.	Our Customers.	Exports.
	Million £.		Million £.
1. United States	144·5	1. India	71·6
2. South and Central America	072·6	2. Germany	60·5
3. France	055·3	3. United States	59·4
4. Holland	051·1	4. South and Central America	58·5
5. Germany	050·9	5. Australia	49·6
6. India	048·4	6. France	41·6

NOTE.—The above are the figures for 1918.

It is also interesting to note the proportion of trade carried on with foreign countries and other parts of the Empire respectively. The values of each type are shown below:

	Imports.	Exports.
	Million £.	Million £.
1. Foreign countries	578·6	427·6
2. Colonial and British possessions	190·1	207·2
Total	768·7	634·8

The Export Trade.—This branch of foreign trade may be carried on by any one of the four following: The manufacturer or wholesale merchant, the commission agent, the packing and forwarding agent, or a branch of the foreign importing house located in this country. The cases where the manufacturer exports his own products are comparatively rare, and most of the export trade is in the hands of one or another of the other classes, who, having specialized in the business,

can conduct it more economically. The businesses engaged in this trade are organized on geographical lines, and this form of differentiation appears likely to remain permanent, different houses dealing with different parts of the world, no mercantile house carrying on business with all foreign markets. But, both in respect of commodities and of markets, the wholesale merchant is generally quite willing to enlarge the scope of his operations if he believes it to be profitable to do so. Many Manchester home-trade firms do much colonial business as well, and a firm shipping chiefly cotton piece-goods will also do business in other textiles at the same time. A merchant who has the organization for dealing in one type of goods, can readily adapt it for dealing in other varieties. Such firms possess valuable knowledge of the country and the market with which they trade regularly, which information could be readily utilized in introducing any fresh commodity.

Commission agents and packing and forwarding agents perform quite subsidiary functions in the export trade, and incur neither the same risks nor the same responsibilities as the merchant shipper. Some shipping houses undertake only one branch of trade, such as the Birmingham hardware houses; others, such as the London houses, will export innumerable varieties of goods. The risks of the merchant are considerable, because he has a direct interest in the goods in which he trades. He receives them from the maker and accepts responsibility for payment. The commission agent has not the same direct interest in the goods; his duty is to procure them, see that they are safely loaded, and that all the requirements incidental to a shipping transaction are complied with. For small shipments it is most economical to employ a forward-

ing agent, because of the intricacy of the business. He can pack small parcels along with other goods, and thus save on freight charges, but he has no interest either in the sale or the purchase of the goods.

A large wholesale shipping house dealing in several ranges of goods or with a number of different markets must be divided into departments. This refers only to the organization of the warehouse, since, in addition, a house of considerable size will possess a packing department and counting-house. As in the case of a wholesale home-trade warehouse, each department of a shipping warehouse is under the control of a buyer. His business is to know the market thoroughly, and so to conduct his department as to show a profit. Under him are warehousemen whose duty is to check all goods coming in, and to examine them before they are passed on to the packers. The location of the warehouse is a matter of importance, a convenient situation meaning considerable saving both of time and expense. Small shippers often hire accommodation on the premises of some large packing-house, but where this is not the case, a building as near as possible to the docks, railway stations, and banks should be selected.

Export Orders.—The general tendency towards specialization of function has made the merchant system of trading stronger in this country than anywhere else in the world. The export merchant obtains his orders in much the same way as his colleague in the home trade, with the exception that the areas covered by the representatives of the former are much larger than those covered by the representatives of the latter. Export houses may be represented by commercial travellers, or agents, or they may establish a branch office abroad in connection with the central

warehouse of the firm at home. If commercial travelers are employed, strict compliance with the regulations of the country in which they work regarding licences, samples, and passports should be insisted upon. In the case of agents it is no easy matter to select suitable individuals or firms, and it is necessary to exercise constant supervision over them. The establishment of a branch house can only be justified when the volume of trade is considerable. Whichever type of representation is employed, information regarding the goods of the exporter has to be furnished. This is done by means of patterns, samples, catalogues, price lists, etc., and these must be prepared with care. Food-stuffs, such as grain, are sold by sample; manufactured articles, such as piece-goods, by pattern. In making up patterns, the particular styles in favour in the market in question should be studied, and the sets made up as tastefully as possible, so as to arouse the buyer's interest. When catalogues and price lists are sent, it is useless to send them out indiscriminately; a better method is to forward them to the agent in bulk for him to distribute at his discretion. Catalogues also should be printed in the language of the country for which they are intended, with prices, weights, and measures according to the system in use there.

An "indent" is an order from a buyer abroad to a merchant in this country. Such orders necessarily contain many more particulars than home-trade orders. The indent generally states the quantity and nature of the goods ordered, mode of packing, marks of packages, date of shipment or arrival, method of payment, and sometimes the price and the firm or firms from which the goods must be procured. An

“ open ” indent contains no instructions as to the firms supplying the goods, a “ closed ” indent specifies the firm or firms.

On the receipt of an indent from a firm with which the merchant does not regularly do business, the first thing to do is to make strict inquiries regarding the firm’s financial status. Should these prove satisfactory, the indent is then dissected, and if a closed indent, the orders transmitted to the firms named therein. If it is an open indent, the merchant, who usually has a regular list of manufacturers, asks for quotations before apportioning the different items among them. As a result of this, it is frequently necessary for the merchant’s buyer to interview the manufacturer personally and bargain for favourable terms. When agreement is arrived at, the merchant gives full instructions to the manufacturer regarding the date, time, and mode of delivery. This mode of dealing causes the manufacturer to be largely dependent on the merchant, who is in closer touch with the real customer; but, on the other hand, the manufacturer escapes all the shipping formalities, and runs no risk of non-payment, since he receives his money from the merchant immediately he has finished his share of the contract.

The making up and packing of the goods may be done either in the merchant’s warehouse or by one of the large packing-houses. This is an operation calling for the greatest care, and all instructions, even to the minutest details, should be rigidly adhered to. In the case of piece-goods, a careful examination of them should be made as they are received from the manufacturer, and the making-up department then folds, stitches, and stamps them, making them ready for delivery to the customer. If the customer is a retailer,

the goods where possible should be made up in neat boxes, properly labelled, rather than in tied parcels, with the object of giving the salesman the minimum amount of exertion in his actual sales. The chief points to be considered in packing goods for export are: The type of the goods, the method of levying Customs duties at the port of destination, and the mode in which they are likely to be handled on arrival.

Goods are usually packed either in bales, cases, or crates, the customary method varying from trade to trade, and according to the market to which they are shipped. Bale packing is done by means of steam or hydraulic presses, and, while in the press, the bales are secured by means of iron hoops. The material used is either single or double canvas, linen, oilcloth, or tarpaulin. This method is quite suitable for dry-goods such as textile fabrics, and is preferred in countries where the Customs duties are charged on the gross weight of the package; but if the finer qualities of goods are packed in bales, they are liable to be crushed in the press, and may present a damaged appearance when unpacked. Such articles are more fittingly packed in cases—a more expensive method, but one giving greater protection to the goods, and keeping them in better condition. In the case of more valuable goods, such as silks, furs, plate, wooden cases lined with tin or zinc, and secured with iron bands, are used. The tin lining is also soldered, making the case air-tight, and effectively protecting the goods from damage. Crates are used for machinery, bicycles, etc.; while fragile articles, such as glass and earthenware, are packed in straw in casks. Whichever mode of packing be adopted, all heavy goods should be securely fastened, so that there is no risk of movement during transit,

and all goods liable to deterioration from dampness or rust should be enclosed in special packing material. Space should be economized as far as possible, owing to the method of calculating freight on the measurement ton, which sometimes leads to freight being paid on empty spaces. Packages must not be too bulky, and the weight per package should not be more than 5 to 10 cwt., owing to the difficulty in handling and transporting heavy packages in many foreign countries. The exact size of the package should be ascertained by measuring the goods before packing, in the exact position they will occupy when packed.

The marking and numbering of the cases is done by means of stencils. The customer's instructions should be carefully adhered to so as to facilitate his identification of the goods. Usually there is a distinctive mark, such as a diamond or circle, the firm's initials, the indent number, and the port of destination. The measurement, gross and net weights, are also frequently shown on the outside of each package.

Shipment of Goods.—The goods having been packed and made ready for shipment, notification thereof is sent to the export merchant, who may either attend to the business of shipping himself or employ a shipping agent, who, for a small commission, will see to the loading and forwarding of the goods to their destination. Whoever does the work must know the steamship lines plying to the country to which the goods are consigned, so as to be able to arrange for space to be reserved. A shipping advice note is sent to the shipping agent or steamship company, giving full details of the marks and numbers of the packages, and a full description of the same. It also indicates the steamer on which the shipper wishes the goods to be

embarked, and the firm or person to whom they have to be delivered. From the information thus furnished the steamship company is enabled to make out the bill of lading. A shipping note is also sent either to the superintendent of the docks or to the commanding officer of the vessel. This is simply an instruction to receive and place the goods on board a certain ship, and attached to it in each instance is a receipt, known either as a "mate's receipt," or a "dock officer's receipt." The former is the usual type in the case of goods received by water—*e.g.*, in London, from lighters and barges—the latter, for goods which have arrived by rail or other land transport. When any remarks as to damaged goods are inserted in these receipts, they are termed "foul," otherwise they are "clean."

Having got the goods shipped on board the steamer, bills of lading are now prepared. These are drawn up in sets of three, one of which is sent to the consignee by mail, a second is frequently sent by the ship carrying the goods, and the third is retained by the merchant. Each requires a sixpenny impressed stamp before being signed, and, in addition, a fourth copy, unstamped, is made out for the captain. The bills of lading, with the mate's receipt or dock receipt attached, are then taken to the shipowner, who checks them by the cargo list, and causes them to be signed by the captain or other officer of the shipping company. The amount of the freight is then paid, when the shipping company gives a freight note and returns the signed bills of lading. When a mate's receipt is "foul," it is customary for the shipper to give a "letter of indemnity," so as to secure a "clean" bill of lading. In such a document the shipper undertakes to indemnify the captain against any claims made in respect of

damaged goods, in consideration of his signing a "clean" bill of lading. Such a letter is attached to the "captain's copy" of the bill of lading.

The freight is the charge made for the conveyance of the goods from the port of shipment to the port of destination. It is generally calculated on the total cubical contents of each shipment, calculating 40 cubic feet=1 ton by steamer, and 50 cubic feet=1 ton by sailing vessel. For heavy goods such as machinery, the basis of calculation is the ton of 20 cwt. There is also a charge of from 5 to 10 per cent. added for primage. Primage was originally a charge made by the captain for his services in connection with loading, but it is now considered as part of the freight.

When the freight charges have been paid, bills of lading obtained, and the marine insurance policy has been taken out, the total of shipping formalities is even yet incomplete. It is necessary, within six days of the final clearance of the vessel, to fill in the Customs "specification" and deliver it to the Customs officials at the port of shipment. There are two forms—one, on white paper, for goods of British or Irish origin; the other, on pink paper, for goods of foreign origin. This specification gives details of the name of the ship, the port to which the goods are consigned, and their quantity, nature, and value. Our export statistics are compiled by the Board of Trade from the particulars furnished in these documents. For some countries, such as Canada, Australia, Bulgaria, Turkey, and Japan, certificates of origin are required for goods shipped thereto. The form of these certificates is prescribed by the country concerned, and they certify the country in which the goods have been produced or manufactured. In the United Kingdom they are

issued by the Chamber of Commerce of the town where the goods are produced, bearing the seal of the Chamber, and must be signed by the shipper or his representative. They are sent to show that the goods are of British manufacture—a point of importance in a country where a preference in import duty is given on British manufactures.

Shipping Invoices.—After the despatch of the goods three copies of the invoice are prepared. Shipping invoices differ in several ways from those used in the home trade. More details have to be supplied, and it is essential that they should be exact in every particular. The type of invoice depends primarily on the terms of sale, of which the more common are the following: (1) *Loco*: this comprises the actual cost of the goods as delivered at the warehouse or port of shipment. The charges for packing, carting, shipping, etc., are stated separately, and added to the invoice. Prices quoted on a loco basis are easily calculated, but this type of invoice is now almost entirely out of date. (2) *Free on board, or f.o.b.*: this includes all expenses until the goods are placed on board ship at some stipulated port, all further charges, once the goods are safely on board, being borne by the consignee. This type of invoice is becoming less common, the firms using it consisting of those old-established houses whose customers seek them, not they the customers. (3) *Cost and freight, or c. and f.*: The price in this case is the f.o.b. price with freight charges added. (4) *Cost, insurance, and freight, or c.i.f.*: Under these terms the goods are delivered free to foreign countries. This is the commonest form of export invoice, but it involves the most careful calculation so that no part of the charges incurred is over-

looked. Goods sold on these terms also are generally invoiced in the currency of the country to which they are shipped. (5) Free delivered, or "franco," which indicates that all charges, including duty, are covered by the price. A "franco domicile" invoice is now very popular, since it saves the purchaser all risks and trouble.

Other terms on which goods are sold are "f.o.r." (free on rail), "f.a.s." (free alongside steamer), "ex quay," "ex warehouse," "ex ship," "ex bond," the latter meaning that the buyer has to take delivery from the quay, the warehouse, the ship, or out of bond. Another type of invoice which some shipping firms have frequently to deal with is the consular invoice.* These are made out on forms prescribed by the Customs authorities of the country to which the goods are exported. A declaration, the form of which is printed on the back of the invoice, must be made that all the particulars are accurate before the Consul of the district from which the goods are exported. Usually three forms are required, and they may be obtained from the respective Consuls for a small fee. The first is retained by the Consul, the second is handed to the shipper, and the third is forwarded to the Custom House at the port of entry. Consular invoices are mainly required for the Central and South American countries, but not for the Argentine nor Uruguay; they are also required for the United States.

Payments for Exports.—The payment of export invoices is a matter of arrangement between the parties concerned. "Open" or "remittance" terms allow the customer to remit the amount of the invoice when it suits him during a given period. Sometimes the remittance is due on receipt by the importer of the bill of lading (cash against documents). Another arrange-

* Sometimes called "consular certificate."

ment is for the shipper to draw on the customer for the amount in question; this implies that the customer pays all bank charges in connection with such drawings. By drawing a bill of exchange the exporter can retain control of his goods until they have been paid for, and the foreign merchant is not obliged to part with his money a month or two before he receives the goods.

A "draft" or "bill of exchange" against goods sold on c.i.f. terms is usually drawn at sixty or ninety days' sight, and if drawn on an importer in a distant country it will be, like bills of lading, in triplicate. To the first draft is attached the invoice, the bill of lading, and the policy of insurance; to the second and third are attached the remaining copies of the invoice and bill of lading; then the bill is termed a "documentary" bill, or D/A (documents attached), to distinguish it from a "clean" bill, which is drawn without attaching these documents. The export merchant notifies his customer when he has drawn on him, and then he can hand the bill with the documents attached to a bank for collection, the bank advancing him from 60 to 80 per cent., or any other agreed percentage of the amount. Such bank will have a branch in the place where the importer carries on business, or agent, and to this branch the bill is forwarded for presentation to the drawee for his acceptance. When the bill matures and is paid, the branch bank hands over the documents to the drawee, and the English bank pays the balance of the amount due to the exporter. When the drawee happens to be a firm of good standing, arrangements may be made for the surrender of the documents as soon as the bill is accepted (D/A). In case of the consignee refusing to accept the draft, or failing to pay it at maturity, it is customary to give the bank a "letter of hypothecation." This contains particulars

of the bills and the goods against which they are drawn, and authorizes the bank, if the bill is dishonoured, to sell the goods, the cost of such sale and any loss therefrom to be borne by the drawer. Exports may also be paid for by the remittance by the customer of bills payable in London, or by drawing a bill upon him, and sending it through the post for his acceptance and return, when it may be discounted here.

The Import Trade.—The amount of this branch of our foreign trade is greater than that of the export trade, as is seen in the official statistical returns. This may be partly accounted for by the fact that export values are f.o.b. values, whereas the values of imported goods are c.i.f. values, which include the charges for marine insurance and freight in addition to the cost. But a discrepancy would still be found if the values of imports and exports were calculated on the same basis. This is due to the payments made for the services rendered to other countries by British ships, and to the interest payments on British capital invested abroad. Such items as these obviously cannot appear in our export statistics, hence they are styled “invisible exports.”

The greater part of British imports consists of raw materials and food-stuffs, which are drawn from every part of the world. In most of the overseas ports it will be found that special lines of cargo are shipped from each one, in sharp distinction to London, where cargoes of every conceivable character are regularly dealt with. The operations of importers are naturally complementary to those that are found in existence in the export trade. Most of the staple lines of goods arrive here through the agency of merchants, and in many cases in response to direct orders. The greater part of our imports, particularly of raw materials, is

sent here on "consignment"—that is, the goods are sent by the owner abroad for sale on his own account. Herein lies one of the differences between the import and the export trade, since in the latter it was seen that the usual procedure was to export goods in response to orders received, and not to export on consignment.

When goods are imported on consignment the merchant importer takes charge of them on arrival, conducts the sale, and remits the proceeds, less his own commission and expenses, to the consignor. Before their arrival, the latter will have forwarded an invoice and bill of lading to the merchant, enabling him to obtain possession of the goods when they arrive. On the arrival of the vessel, the merchant, or consignee, presents the bill of lading to the agents of the shipping company. Then, presuming the freight and other charges have been paid, he receives a delivery order for the goods, after which steps can be taken to obtain delivery. If the goods are landed immediately, and before the application for a delivery order, then the dock or warehouse company hold them until they receive a freight release. Even then the consignee may not remove the goods until certain Custom House formalities have been complied with.

Customs Regulations.—Since there are no export duties in the tariff of the United Kingdom, the Custom House regulations are not of so much consequence in that branch of our foreign trade as in the import. Imports may be either dutiable or non-dutiable, the procedure in the case of the latter type being much less rigid and strict than in the case of the former. Certain formalities are common to all imported goods, whether dutiable or not. Within twenty-four hours of arrival it is the duty of the ship's master or his

representative to furnish a "ship's report" to the Custom House officials. This contains, among other particulars, a full list of the cargo, the number of packages, and their marks and the names of the consignees. It is made out in duplicate, one copy being given to the officer at the dock where the vessel discharges her cargo, the other being retained at the Custom House. No part of the cargo can be landed before this entry has been deposited, but as soon as the ship has been reported, the cargo is landed on the dock or wharf until claimed by the consignee.

Before removing the goods the owner must make out the Customs "entry." For duty-free goods, this is simply a statement of the quantity, marks, numbers, description, and value. Two copies are required, one for the use of the examining officer on board the ship (the warrant), and the other (the bill) for the statistical department of the Custom House. The consignee then receives a "landing order," signed by the Customs official, and if this document and the entry are found to be correct, he can remove his goods when he wishes. If the consignee is unable to give definite particulars in his entry, he may fill up a "bill of sight," which indicates the particulars he is unable to furnish. Under this he is permitted to land the goods, but he must, within three days, make out a correct entry by adding the particulars previously omitted to the bill of sight.

In the clearance of dutiable goods a much stricter supervision is exercised, and all the operations are carried out under the eye of the Customs officials. The mode of entry is similar to that for free goods, but in many cases the dutiable goods are intended to be stored in a bonded warehouse, and then the entry is termed a "warehousing entry." When the consignee

wishes to remove the goods direct from the ship, he makes, in addition to the above entry, an entry for home use, on which is indicated the total amount of duty payable. Neither in the latter case, nor in the case where the goods are warehoused, can they be removed until the duty is paid.

The system of warehousing, whether of free or dutiable goods, is very convenient for importers. The treatment of goods is facilitated, in the way of sorting, bulking, and sampling, and the warehouse forms a convenient place for the inspection of goods by intending purchasers. For a short period, goods may be warehoused free, but if the period is overrun, rent is charged, and as the dock company is not responsible for losses caused by fire, it is advisable to take out a short-period policy of fire insurance. Bonded warehouses are provided for dutiable goods which are not immediately to be delivered. These are under the closest supervision of the Customs officials, one of whom must be present when any operations on the goods stored therein are in progress.

When goods are warehoused in the dock authority's warehouse, the owner receives in return a document which is called a "dock warrant." This contains a description of the goods, an acknowledgment of the receipt of them, and a statement that they are deliverable to the owner or to his order. A warehousing company will give a similar document, called a "warehouse-keeper's certificate," in return for goods lodged with them. Both these documents are documents of title to the goods specified therein—*i.e.*, they represent proof of the possession of the goods in question, and the holder may transfer his right to the goods by endorsing the document and handing it over to

another person. The owners of the warehouse are bound to give up possession of the goods on the presentation of such a document properly endorsed. These documents of title refer to the possession of goods after landing, and the bill of lading is a document of title to the goods while they are in transit. Bills of lading may be transferred by endorsement in exactly the same way as a dock warrant, and the holder is deemed the owner of the goods. Thus, by the transfer of the bill of lading, a cargo may change hands several times during the course of a voyage.

Payments for Imports.—The financing of the import trade varies according to the nature of the transactions. If the imports are against orders, the importing merchant may arrange to accept the seller's draft on himself, or instruct a bank to accept it on his behalf. The latter procedure is termed "opening a credit." A credit may be opened by obtaining a "letter of credit" signed by the bank, authorizing the foreign firm to draw on them up to a certain limit; this is an "open" credit, since there is no necessity to produce the documents against which the bills are drawn. A "documentary" credit would state that the documents against which the bills are drawn must be attached to them when presented.

When foreign or colonial produce is shipped to this country, for sale on commission, the consignor usually obtains financial assistance when he ships the goods. He may do this by drawing on the consignee and obtaining an advance on the bill of exchange from a local bank which has an office in this country. The draft, bill of lading, and marine insurance policy are deposited with the bank as security for the advance, and these documents are forwarded here for presentation to the

consignee. The latter, having accepted the draft, sells the produce and hands the net proceeds to the bank here, receiving a draft on their foreign branch, which he forwards to the consignor. Thus, in the import trade, cash is paid out by the branch bank or agency abroad and received by the bank in this country, the operation in its nature being the reverse of the practice in the export trade, where cash is paid out here and received in the branch abroad.

Sale of Imports.—When the consignee has cleared his consignment, he may either take delivery at once or allow the goods to lie in the dock warehouse or a warehouse company's warehouse. Dried fruit is often cleared from the ship's side by paying the duty and having it delivered into vans immediately. Though some retailers import directly, there is nevertheless an enormous amount of warehousing. If the goods are warehoused, they are generally weighed and sampled at the warehouse before sale, this part of the business being carried out by brokers, who work on a commission basis. Before the sale by public auction, intending purchasers may visit the warehouse to inspect the goods, either in bulk or in samples. They are generally sold in certain recognized places—*e.g.*, in London, at the Wool Exchange, in Coleman Street; the Commercial Sale-Rooms, Mincing Lane; and according to the customs of each particular trade. The general regulations of such sales, the terms, requirements regarding deposits, date of prompt (delivery), lot money to be paid to broker, are under the control of an association of brokers in the trade, and a breach of these regulations may mean the cancellation of the contract.

Catalogues of the lots to be offered are prepared by the brokers, and buying takes place by competitive

bidding. When a sale has been effected, and the buyer has made payment, he receives the dock warrant or a delivery order from the broker to enable him to take possession of the goods. The broker then makes out an "account sales" showing particulars of the goods sold, the prices realized, and the net proceeds after deducting the various expenses of the sale and his own commission.

Market Organization.—It is in connection with the sale of imported produce that the organization of the market has been brought to the present stage of development. Imported produce is either sold through the medium of the exchange or, as has been previously noted, at sales by public auction. Commodities such as grain and cotton are sold by the former method, wool and colonial produce by the latter. The reason for this differentiation lies in the possibility or otherwise of grading the commodity dealt in by the members of the exchange, so that sales may be effected without the examination of the whole of any specified lot. This is possible in the case of grain and cotton, though the grades for grain are not so uniform as the grades for cotton, owing to the markets for cotton being comparatively few in number. The object of the grading authority is to discover the particular characteristics which give different parcels of the same commodity varying values, and goods are graded on the basis of soundness, colour, freedom from impurity, and suitability for the purpose for which they are destined to be used. There are peculiar difficulties in the way of grading many commodities with the same facility as grain or cotton. In the case of goods such as wool, dried fruits, tobacco, etc., special parcels may have an individual value, which would be lost by

mixing with other lots in the warehouse. Such goods are usually sold by public auction.

Exchange dealings are carried out by alert and expert traders, whose profits are the result of a small percentage on a large and rapid volume of trade. The distinctive advantages of such dealings are: (1) They conduce to the establishment of stable prices. (2) They distribute the trading risks among a specially expert commercial class. (3) They relieve the producer and the consumer from the trouble and risk of carrying a large stock. (4) They furnish a ready means of payment to the producer and a regular supply to the consumer. The traders concerned may be merchants, commission agents, or brokers, though this distinction is not always strictly maintained, as many merchants frequently sell on commission.

When the marketing functions are conducted by a special class of buyers and sellers, whose business is to deal with one another, then the market is said to be developed. Owing to the risks of marketing on a large scale, these dealers are grouped in specially exclusive organizations for their mutual aid and protection. Such bodies draw up rules and regulations governing the purchase and sale of particular commodities, manage the market generally, and possess the necessary authority for disciplining their own members. As a necessary consequence of these functions the management of the dealing centre—*i.e.*, the exchange—is vested in these organizations.

The membership of every exchange includes both merchants, commission agents, and brokers. When the merchant acts as dealer, he undertakes all the risks incidental to the purchase and sale of goods. He thus has a direct interest in the whole series of trans-

actions when dealing on his own account. Since he selects and purchases his goods on his own responsibility, a thorough knowledge of the over-changing conditions of the market is necessary; and as he generally undertakes also the collection of his accounts abroad, he must be acquainted with the terms of exchange and the conditions of credit in the country with which he deals. When acting as agent, buying or selling on commission for a client abroad, his responsibility is considerably less. The indent will contain full instructions concerning the purchase and shipment of the goods, and his function is to carry out these instructions—to buy, pack, and ship on behalf of his client, in the case of exports, and to sell and forward the proceeds of the sale to his client, in the case of imports. The function of the broker is simply to buy or sell on behalf of his client, who may be either a merchant, commission agent, or the actual importer of the goods. His responsibility is at an end when he has bought or sold on the best terms possible.

The time is yet far distant when the business world will be able to dispense with agents of some type. The tendency is rather towards the increase in the volume of commercial transactions, and therefore towards the increase in the demand for the services of these intermediaries. In the produce market they are indispensable; they study the crop reports, watch cargoes, take samples, collect statistics, and furnish market reports. The duties, too, of the agent are of an exacting nature, demanding a quick judgment, strong will, and a talent for negotiation. He must be familiar with the routine of the office and the sale-rooms, and be able to win the confidence of his clients. All these special qualifications are at the service of his employers.

and the transactions effected through the medium of the agent are probably more economical than would be the case if each of his clients were to buy and sell independently. On the other hand, the employment of agents tends to keep the buyer out of touch with the seller, and it is sometimes asserted that the agents work the market with a view to their own advantage rather than that of their clients, and in this way encourage speculative dealings.

Typical Markets—Cereals.—Cereals, of which wheat is the most important, are dealt in at most of our ports. In London, which is the chief market, they are bought and sold on the Baltic, which is the exchange for grain, oil, timber, and shipping, and on the Corn Exchange, Mark Lane. Cargoes may be sold several times before they arrive here, the quotations including cost, insurance, and freight, the latter often being quoted the same for any British port. The broker occupies a much less prominent position in this market than in others, such as the wool market, the transactions taking place between the merchants or their private agents. Consignments of North American wheat are sold by standards, which are indicated by the certificates given by the Canadian or United States Government officials at the port of shipment. Nevertheless, the buyer is not precluded from taking samples of a consignment, a privilege of which he generally avails himself. Australian and Indian wheat are also sold by standards, though in the latter case the standards are fixed here. Russian wheat is sold according to actual sample, and Argentine wheat through the branches or agents of the foreign merchants according to the average quality of the shipment. There is also a considerable amount of home-grown grain, which is

marketed periodically at the various local markets, being purchased by the large wholesale dealers or their agents. The finer qualities of English barley, used in brewing and distilling, are usually bought direct from the farmer by the agents of the brewers and distillers. At each importing centre the regulation of the trade is in the hands of the local Corn Trade Association.

Iron and Steel.—In the iron trade the sale of the manufactured article is largely in the hands of merchants and agents, and it is the prevailing custom to regard the distributing functions as totally distinct from the manufacturing. The imported iron ore is usually bought direct from the mines on c.i.f. terms, and delivered to the smelters. Pig iron for foundry purposes is graded under numbers 1, 2, 3, 4, but the bulk of the production is in No. 3 quality, and the greater part of the trade is in Cleveland iron. The business is in the hands of Glasgow and Middlesbrough merchants, and the sales may be either of special brands or of G.M.B. (good merchantable brand), where no particular brand is specified. The terms of business are stringent, being practically cash on delivery, so that the merchants must have considerable funds at their disposal.

The steel trade is a direct trade, and the merchant is dispensed with. Steel rails are sold direct to the railway companies, plates to the shipbuilder, and girders to the builder and contractor. The trade in other metals, such as copper, lead, tin, is centred in London. The London Metal Exchange fixes the world-prices of these metals. As the home production is insignificant, the transactions deal with imported metals mainly. These on arrival are warehoused, and subsequently sold by brokers on the Metal Exchange.

The selling brokers sell the lots by "calls"—that is, when a certain metal is called, the transactions are confined solely to that metal until they are exhausted, when another is called. The sales are by auction, and the dealings are generally carried out by brokers.

Cotton.—Most of the cotton imported into this country arrives either at Liverpool or Manchester, where it is sold on the Liverpool Cotton Exchange or the Manchester Royal Exchange. Nearly all the cotton coming to Manchester arrives in response to direct orders, and Liverpool still remains the only "futures" market. When the Liverpool merchant receives the cotton which has previously been bought by his agent in the United States, he hands it over to a selling broker for sale. He takes samples and submits them to a buying broker, who acts as the representative of the spinner. To obviate the expense of double brokerage entailed by this system, the spinner now frequently buys direct on c.i.f. terms, and some selling brokers also import on their own account.

Wool.—Almost all the colonial wool imported into England is sold by auction at the Wool Exchange, Coleman Street, London, though the present tendency is towards the elimination of London by holding sales in Australia, and it is estimated that 75 per cent. of the total produce is now sold in that country. In London the wool sales take place six times yearly. The selling brokers warehouse the wool on arrival, take samples of the consignments, and circulate catalogues in which the wool is divided into lots, while most of the bidding at the sales is done by the buying brokers, who have previously received the catalogues and inspected the wool either in sample or in bulk. Since fully two-

thirds of the wool comes here "in the grease," containing from 20 to 75 per cent. of impurity, the buying broker arranges to buy on the "yield"—that is, the amount of wool when cleansed from all foreign matter. His principal usually fixes a "limit," or a price for the wool delivered clean at his works. There is also a certain amount of British wool sold at local auctions at Bradford, Leicester, etc., and some is bought direct from the farmer by private treaty. Since wool is a product which varies in value from fleece to fleece, and even in different parts of the same fleece, the possibilities of grading it in the same way as cotton, grain, and iron are very limited.

Dealings in "Futures."—In the transactions considered in the foregoing paragraphs only one type of contract has been taken into account—viz., the contract for immediate delivery. This is the simplest form of dealing, and it is employed where specific lots are purchased, or where the inspection of samples is necessary. Where uniformity of grading is possible, contracts may be made for the delivery of the goods at a specified future date. Such contracts are technically called "futures," and may be defined as "contracts for the future delivery of some commodity, without reference to specific lots, made under the rules of some commercial body, in a set form in which the conditions regarding the unit, quality, and time of delivery are stereotyped, and only the determination of the total amount and the price are left open to the contracting parties."

In this country "future" contracts form a large proportion of the dealings in the Liverpool cotton market. Apart from their purely speculative possibilities, they provide insurance against the risks of price

fluctuations. For example, if the merchant has imported cotton, he sells futures to insure himself against any loss he may suffer through a fall in price before the arrival of his cargo, since what he loses on the cotton imported he will gain on the futures. Similarly, a manufacturer who has purchased yarn for future delivery at a time when raw cotton is dear, instructs his broker to sell futures to cover himself, in the anticipation of a fall in price. Thus, in cases such as these, futures will minimize the speculative element involved in the purchases. Contracts in futures in cotton are expressed in multiples of 100 bales, and refer to a standard grade—middling, in the case of American, fully good fair, in Egyptian. The prices are quoted in hundredths of a penny, and apply for two months—*e.g.*, in March, 1915, the quotations were: June—July, 5·11d.; July—August, 5·17d.; October—November, 5·32d., for futures in American cotton.

Futures in grain are dealt with much more extensively in the United States than here. This is due to the development of the use of elevator receipts as warrants, thus enabling the ownership of the grain to be readily transferred, without a transfer of the grain itself. In grain, however, there is still a lack of uniformity in the grading, and therefore either the contract grade or the grade above constitutes a satisfactory delivery. The contracts are made in fixed units of amount—*e.g.*, 5,000 bushels—and the date of delivery is generally within one month. Such contracts naturally make speculative dealings possible, by enabling dealers to sell “short”—*i.e.*, to sell goods which are not in their possession at the time of sale, in the expectation of making delivery by buying at a lower price. Similar dealings take place in the pig-iron

trade in this country, under the regulation of the Scotch Pig-Iron Association. They have been made possible by the establishment of the warrant store of Messrs. Connal and Co. at Middlesbrough, and their warrants are dealt in in the same manner as has been outlined above in the case of grain dealings. These warrants are made out for units of 500 tons of Cleveland No. 3, and they are bought and sold daily in the market in Glasgow, and also on the London Metal Exchange.

QUESTIONS.

1. What are the functions of a broker ? Explain the difference between the business of a cotton broker and that of a wool broker.
2. To what extent is it true that our foreign trade depends on our coal-supply ? What factors will affect its development in the future ?
3. Explain the following: "Consular invoice," "forwarding agent," "letter of hypothecation," "warrants," "G.M.B."
4. Give examples of two transactions in cotton "futures," one of which is speculative, the other legitimate. Is there any difference between the two ?
5. In what way are imports of tea and timber dealt with on arrival in this country ?
6. Show how the importer in India pays for a cargo of cotton piece-goods shipped to Bombay.

THE STOCK EXCHANGE

Market Conditions.—The Stock Exchange is the best example of a modern highly organized market, and the nature of the commodities dealt with therein has been responsible for its attaining the present pitch of perfection. Stocks and shares, particularly Government stock and the shares of the very large public companies, are dealt in in every quarter of the globe, and the London Stock Exchange is only one section of what is practically a world-wide market. The extent of the market for any article is mainly governed by the degree in which that article possesses certain qualities, and those articles for which there is a wide market must, in the first instance, be things in universal demand. For certain securities, such as the shares in small manufacturing or mining companies, the market will be purely a local one; for others, such as the shares of a prominent British railway company, the whole of the United Kingdom will constitute the market; while for Government securities, Suez Canal shares, and similar “international” securities, the extent of the market comprises the whole world.

Another necessary qualification for a wide market is that the article should be capable of being easily and accurately described, so that the different types may be readily graded. To a certain extent this may be done with grain, iron, and cotton, but stocks and shares

are by nature perfectly graded. Each share in a company is exactly the same as any other share of the same issue, and it can make no difference to a purchaser which he receives. A third quality which should be possessed by any commodity for which there is to be a wide market is that of portability; it should be able to bear a long carriage, and its value should be considerable in proportion to the bulk. It is obvious that securities, more than any other article that is bought and sold, fulfil this third condition. Hence the markets for any goods which satisfy these conditions, to a greater or less extent, are organized on the model of the Stock Exchange.

The more perfectly organized the market is, the stronger is the tendency for the same price to be paid for the same thing at the same time in that market. This is clearly seen in the case of the better-known stocks and shares. All the Stock Exchanges are connected by telegraph, and the rise or fall in price of any security at one centre is immediately made known in the others. If the news of a rise in one place does not at once affect the price in the others, telegraphic orders to sell are transmitted immediately to that place, with the result that the price speedily tends towards the same level as in the other markets. A dealer on the Stock Exchange in ordinary times will sell well-known shares even though he has not got any himself. He knows that such shares are always coming into the market, and he has no doubt that he will be able to purchase sufficient to execute his contract when it is necessary. Not only is there a continual movement of commodities in a wide market, there is also a continuous movement of prices, though this as a rule is small, and the wider the market, the smaller are the fluctuations of price. Generally speaking, all the securities which

give approximately equal yields, and whose risks are about the same, command the same price.

London Stock Exchange.—The London Stock Exchange is not an institution of great antiquity, but owes its existence to the development of industry on a large scale, and more particularly to the enormous growth of joint-stock enterprises. Before 1802, when the Stock Exchange was opened, transactions in shares were carried on in the various coffee-houses. The inconvenience of this led to the formation of a company having for its object the provision of accommodation for the business of dealing in stocks and shares. The whole concern was inaugurated, and is carried on, as a private enterprise, and the conditions of admission to membership are stringent. The management is in the hands of a committee, thirty in number, who hold office for one year, and are elected by the general body of members. They have large disciplinary powers, and may either suspend or expel a member. No one is allowed to do business on the Stock Exchange unless he is a member, or the authorized clerk of a member, and the general public are not admitted even as spectators. As in the medical and legal professions, no member is allowed to advertise, and the issue of circulars to anyone other than clients is also prohibited.

The members of the Stock Exchange, familiarly known as the "House," are divided into two classes—jobbers or dealers, and brokers, the former being in the majority. The jobber is the great peculiarity of the London Stock Exchange; there is no one on any other Exchange who performs functions corresponding exactly to his. He forms the pivot of the market, because he is the central price-maker. The forces of demand and supply work through him, and he quotes

the resultant prices. In his own sphere (and each jobber only deals in a distinct range of shares—*e.g.*, Home Rails) he is a specialist, and it is his business to quote prices and to buy or sell securities even though he does not see any immediate opportunity of selling elsewhere what he has bought, or of buying elsewhere so that he may deliver what he has sold. The broker acts as agent of the general public, and as the intermediary between the investor or speculator and the jobber, the latter never coming directly into contact with the public. All orders to buy or to sell securities go to the broker, and are transmitted by him to the jobber. Another class of dealers are the “outside brokers,” who, as the name implies, are not under the control of the Stock Exchange. They do business either through a member of the House or carry out transactions without making use of the Stock Exchange at all.

Method of Dealing.—If a person wishes to purchase stock or shares, he first instructs his broker as to the amount and perhaps the price, and the latter will then go into the House and seek out a jobber in that particular section of the market concerned with the required securities. Without mentioning whether he wishes to buy or to sell, the broker asks the jobber at what price he will do business in the security named. The jobber thereupon quotes two prices, *e.g.*, 140—140½, the higher price being the one at which he is willing to sell, and the lower, the one at which he is prepared to buy. If the broker is satisfied, he mentions the amount he wishes to buy or sell, and the bargain is entered and the transaction complete. A contract note is then forwarded by the broker to his client, showing the price at which the business has been done, the broker's commission, and any other expenses.

The stockbroker makes his profits by charging a commission to his clients, and not by the fluctuation in the stocks and shares. The jobber makes his profits by quoting a double price in all his dealings, and the difference between the two prices is known as "the jobber's turn." The amount of the turn varies according to the volume of the transactions; in the case of very small quantities it would not pay him to quote the ordinary turn, and therefore he quotes a higher turn. He may also do this when the quantity is a large one, if there happens to be a considerable element of risk, or when the amount of stock likely to come on the market is not large. When the jobber has quoted a price, however, he is bound to do business at that price up to a reasonable amount, which varies according to the nature of the stock or shares.

Securities may be bought and sold on the Stock Exchange either for cash or for "the account." In the former case they are paid for and delivered at once; in the latter case the transactions are completed at the next Stock Exchange settlement. For the general mass of securities there are two settlements in the month, and the period between one settling day and the next is known as "the account." For Consols, the settling days are once a month, and these are fixed by the Committee of the Stock Exchange.* For ordinary securities three days are devoted to the fortnightly settlement, but for mining shares one day in addition is allotted, being the day before the three days of the ordinary settlement. The first of the three settling days is known as the "carrying over" or "contango" day; the second, the "ticket" day; the third, the "pay" day.

* This rule may be applied to the new War Loan.

On contango day, it has to be decided whether the bargain has to be completed, or whether arrangements are to be made to continue it to another settlement. The latter course may be desirable when a buyer of securities believes that they will rise in price in the course of a few days, and therefore he does not wish to take delivery of them, in the expectation that he can shortly sell and profit to the extent of such rise in price. For the privilege of carrying over the Stock to the next account, a charge is made which is called a "contango." A contango is, in fact, two separate transactions: in the first, the buyer sells back his stock at the price fixed at twelve noon on contango day, such price being known as the "making-up" price; in the second, he buys back the stock at that price for the ensuing account. If he has bought £1,000 stock at 99 and the making-up price is 98, he pays the difference of £10 on the £1,000 stock, and postpones the payment of the remaining £980 to the next account. He has also to pay interest for this fortnight at a rate known as "contango rate." Similarly, the delivery of securities which have been sold though they may not be in the seller's possession, can be postponed, the consideration paid in this case being termed a "backwardation."

On the second or "ticket" day, the broker who has made the purchase of stock issues a ticket stating the amount of stock purchased, the price, and the full name and other particulars of the buyer. The name of the broker is also at the bottom of the ticket, implying that he is responsible for the payment of the amount stated, whenever the transfer is delivered to him. This operation is carried out on the last day of the settlement, the "pay" day, when the buyer receives

his securities and pays the money involved. In many Stock Exchange transactions there is no intention that there should be any transfer of securities; they are purely speculative. Consequently, in such transactions, dependent, as they are, on the rise and fall of prices, only the differences are paid and received. These differences are paid by means of crossed cheques, on a clearing banker, and hence we notice an inflation in the amounts dealt with by the clearing-house on Stock Exchange settling days.

As the right of entry to the Stock Exchange is forbidden to the general public, an official list of the more important securities dealt in, and their prices, is published daily. When a bargain is concluded between a broker and a jobber, either may have it "marked," and the price is posted publicly. These prices are furnished to the principal morning and evening newspapers by the Exchange Telegraph Company, and are termed "tape prices." This name is derived from the strips of paper used in the self-recording instruments of the Telegraph Company, on which are printed the prices and the times at which they have been recorded. The official list consists of two sections—one recording "business done," the other, "closing prices." The former consists of the actual bargains "marked" during the day; the latter, the price of the last bargain made. If no dealings have taken place in any particular security, the closing price is of little value, as it is simply a calculation of what the price is likely to be. It should also be noted that the right of inclusion in the official list is only granted to companies which comply with certain regulations.

Types of Securities.—The kinds of securities which are dealt in on the Stock Exchange may be divided

into three classes—stocks, shares, and bonds. Stock consists of the amounts of money representing the capital of a trading company, or the loans issued by a Government or municipal corporation. These are dealt in on the Stock Exchange in amounts of any magnitude, according to the convenience of the purchaser. Consols are bought and sold in any sum, provided that fractions of a penny do not occur, while other stocks are dealt in in multiples of a pound or of five pounds, etc. “Guaranteed” stocks are those upon which the interest is guaranteed, usually by the issuer, though on the stocks of railways in India and in France the interest is guaranteed by the respective Governments.

“Inscribed” stock is that for which no certificate is issued, but the holder’s name and the amount of stock he holds is entered or inscribed in a register. Thus, British Government stock is inscribed in the books of the Bank of England.* Such stock can only be transferred by personal attendance at the Bank of England of the proprietor or of his representative by “power of attorney.” In other cases a stock certificate is issued, and this must be produced whenever the stock is transferred. The stocks dealt in on the Stock Exchange consist of those of the Home, Foreign, and Colonial Governments, of municipalities, and of the world’s leading railways, and English stocks are always quoted per £100 of stock.

When the capital of a company is divided into a number of fixed portions, usually equal in value, each portion is called a share. Shares cannot be further subdivided, differing in this respect from stock. As we

* The new War Loan, however, is also issued in the forms of Bonds to Bearer.

have seen before, shares are of different types, even in the same undertaking, and all types are bought and sold on the Stock Exchange, from the semi speculative ordinary and preference shares of the more prosperous industrial and commercial undertakings to the purely speculative oil, rubber, and mining shares.

Bonds are promises to pay a certain sum of money with interest, and they are often given by Governments and corporations as security for loans. They are generally redeemable, either at some fixed time or else when they are drawn publicly by lot, though in some cases they are irredeemable. One advantage of bonds is that they are usually payable to the bearer, and therefore can be passed from hand to hand in the same way as a bank-note. Most of the international securities are issued in the form of bonds payable to bearer, and thus they can be readily transferred from one country to another. Coupons are generally attached which have to be surrendered in exchange for the interest payments as they fall due. If the coupons are exhausted before the time for redeeming the bond arrives, application must be made for a fresh supply.

The main difference between this type of security and stocks or shares is that the holders of the latter usually have no right to the return of their capital except in the event of liquidation, whereas the bondholder receives his capital when the time for which the bonds were issued expires, or when the number of his bond is drawn in one of the periodical drawings. The numbers of the bonds which have been drawn are advertised in the leading newspapers, and it is necessary that these lists should be carefully examined, since, in some cases, when the next coupon from a drawn bond is presented, the amount is paid and then deducted from the total

amount of the bond. In this way the bondholder is receiving his capital back by instalments, while he imagines the payments are the interest on the bond. If a banker has custody of the bonds, he will usually inform his customer if one of them happens to be drawn, although he is under no obligation to do so.

Investment and Speculative Dealings.—All Stock Exchange transactions fall into one or the other of two main classes—transactions which have for their object the investment of capital, and those which are of a speculative nature. The former type provides the backbone of the Stock Exchange business, since it is conducted on a sound financial basis. The investor buys securities and pays for them at the following settlement, or sells securities which he actually holds because he requires the cash that will be realized. The choice of investments is largely a matter of the temperament of the investor, some being prepared to take a higher degree of risk than others, and expecting, naturally, a higher return for the increased risk. “The greater the yield, the greater the risk,” is invariably true, though there are very few investments which do not involve some element of speculation. The enormous number of securities supplies a selection sufficiently varied in quality to suit the tastes of every conceivable type of investor, from the most conservative to the boldest and most enterprising.

The speculative business of the Stock Exchange is carried on by the regular operators, who buy stocks they don't want and sell stocks they never intend to deliver. These are the notorious “bulls” and “bears.” A “bull” is a speculator who buys securities which he does not intend to take up and pay for, in the expectation of selling them at a higher price and making a

profit by the difference of the prices. A "bear" is the opposite to a "bull"; he operates for the fall. He is a speculator who sells securities which he does not possess, with the expectation of buying them back at a lower price, the difference in the prices representing his profits. If bull operations have been in the majority during the course of an account, it is said to be a bull account, while a predominance of bear operations causes a bear account.

Another form of speculative operation is known as "option" dealing. An option is the right to buy or to sell certain securities at an agreed price during a given period. For this privilege a fee is paid, and the right may be exercised at any time during the stated period, which may range from a fortnight to three months. Options are of three types—when they confer the right to buy they are "call" options; when they give the right to sell they are known as "put" options; and a combination of the two, whereby the purchaser of the option may either buy or sell, is called a "put and call" or a "double" option. In the last case the price paid for the option is considerably higher than in the others.

The professional operators enjoy their most profitable times when there is an active participation in Stock Exchange business on the part of the outside public. Many of the sensational rumours concerning Stock Exchange affairs are circulated with the object of inducing the general public to enter the market. When large numbers of people can be induced to launch into speculative transactions and try their fortunes in the stock market, all the essential conditions for a market "boom" are present. On such occasions the great gains obtained by a few individuals,

and the rumours of still greater gains, arouse in the public the desire for participation in them—a desire which is seldom fulfilled. When the general public cannot be induced to speculate to any great extent, the business on the Stock Exchange contracts so considerably that the conditions become quite unremunerative for those who are regularly engaged thereon.

Speculation.—It is impossible to say how much of the business of the Stock Exchange is of a speculative nature, but competent authorities estimate it as at least 80 per cent. It has been often urged that such transactions should be subject to regulation or taxation, on the ground that they are merely gambling, and have little reference to actual trade. This is not invariably true.

When a person makes a bet that a certain card lies at the top of a pack, or that a moving ball will come to rest opposite a certain number, it is quite a matter of chance as to whether he wins the bet or not. This would be unquestionably a gambling transaction. But when a bet is made on the result of a race, and the person making the bet has a good knowledge of the capabilities of the competitors, enabling him to form an opinion as to the probable result, such a bet is not a purely gambling transaction. The element of chance, supreme in the first case, is of less influence in the second, though in both cases the one party to the bet gains just what the other loses. In speculation, the actions of the speculator, when he buys or sells securities or produce, are guided largely by his knowledge and experience, and thus the element of chance is reduced to a minimum. Further, he buys or sells goods which in any case are valuable, and he

is ready to assume the economic risks of changes in their value.

Stocks and shares are suitable media for speculation, since they are perfectly graded, all shares of the same type are alike, and they are subject to fluctuations in price. Their prices vary according to the fluctuations of demand and supply, and naturally the shares of a concern paying a high rate of dividend will command a correspondingly high price in the market.

Speculation in produce is a necessary consequence of the increased volume of trade. When exchange became world-wide, merchants were unwilling to assume the risks of the continual changes in the value of goods, and this risk-bearing function was assumed by the speculator. He is ready to take or deliver goods at different times, and on his ability to forecast future conditions depends his success.

If he expects a partial failure of the wheat crop, he will commence buying wheat in view of the probable shortage of supply. Other speculators will also enter the market as buyers, and under the influence of this increased demand the price of wheat will gradually rise. With increased prices consumption will be curtailed, and thus the shortage of the supply will be anticipated. In this way speculation tends to spread the effects of a rise in prices over a long period, prevents prices from rising rapidly to a great height through panic, and enables the consumer to adjust his demand to the available supply. The accuracy of the forecasts of the speculator may be shown by the correspondence between future speculative prices and future cash prices—*e.g.*, the future quotation for May wheat in March is little different from the actual cash price in May.

The speculator must have a perfect knowledge of all the influences affecting prices in his own market, and the publicity of market transactions gives the public early information as to changes in values. The extensive knowledge and experience needed for successful speculation also ensures expert management of such dealings. Any unusual development is speedily made known, and immediately affects business. In this way slight changes in the relations between demand and supply exert a greater influence on prices than formerly, whereas great changes are often allowed for beforehand, and influence prices to a less extent. On the Stock Exchange prices are made by the professional speculator, who serves as a guide to the investor, and, by conducting an active business in certain ranges of securities, causes such securities to be easily realizable in an emergency.

The evils of speculation are mainly responsible for the hostility towards this form of dealing. As is well known, speculation requires a continual movement in prices, hence attempts are made to manipulate the market. To do this honestly is difficult, and requires immense capital, courage, and skill, and therefore recourse is had to dishonest methods, such as the spread of false information, sales at prearranged prices, bribery of the financial press. Such methods are rendered more successful through the participation of the outside public, who have no real knowledge of speculative operations, and have no adequate means of forming an opinion on prices. When such people speculate, their operations are purely gambling transactions.

War and the Stock Exchange.—For the first time in its history the Stock Exchange found itself unable to

continue business, and closed its doors on July 31, 1914. The provincial stock exchanges followed suit immediately, as did the New York Stock Exchange. This was due to the large amount of securities which would be offered for sale on the outbreak of war, and the opportunity for unscrupulous speculators who could sell in the hope of buying at a lower price before delivery—*i.e.*, they would carry through a “bear” operation. The flooding of the market would inevitably cause a “slump” in prices—a proceeding which would mean ruin to the people who had speculated for a rise, on account of the probable enormous differences in prices. To prevent this the Exchange was closed. Besides stopping all business in securities, a serious position was created for the banks, who use a part of their deposits as loans against stock in ordinary times. At the time the Stock Exchange owed about 81 million pounds, mainly to the banks, who held as security stocks it would be impossible to sell at once for more than a fraction of such an amount. To meet this difficulty the Government arranged that the Bank of England should advance up to 60 per cent. of the value, on July 29, of the securities held.

From July 31, 1914, to January 4, 1915, the London Stock Exchange was closed, and on the latter date it was reopened on the order of the Treasury. This is significant, as hitherto the Stock Exchange had never been subject to Governmental interference in any form. Further, Stock Exchange business was to be conducted according to regulations laid down by the Government. Every bargain must be “marked” in the daily official list, in the higher class of securities dealings below a certain minimum price are forbidden, and the distinguishing numbers of any shares sold must

be specified, in order to prevent as far as possible "bear" sales. These and other regulations seem to point to the probability that, even after the war, the Stock Exchange will not entirely revert to its former position as a purely private institution.

QUESTIONS.

1. In what respects does the Stock Exchange differ from a produce exchange in organization and methods of dealing ?
2. What is meant by "contango," "inscribed stock," "account," "double option," "jobber" ?
3. A person holds American railway stock which he intends to sell three months hence. What can he do to protect himself against its depreciation in the meantime ?
4. When is a speculative transaction legitimate, and when is it a gamble ?

LIST OF BOOKS RECOMMENDED

- MARSHALL : Economics of Industry.
CHAUMAN: Elementary Economics.
HOBSON: The Science of Wealth.
SPENCER: Student's Guide to Political Economy.
BOWLEY: English Trade in the Nineteenth Century.
WARREN: Commercial Knowledge.
SPARLING: Introduction to Business Organization.
CLEMSON: Methods and Machinery of Business.
DICKSEE AND BLAIN: Office Organization and Management.
JEVONS: Money.
WITHERS: The Meaning of Money.
SYKES: Banking and Currency.
CLARE: The Money Market Primer.
WITHERS: Stocks and Shares.
HIRST: The Stock Exchange.
KNOOP: Railway Economics.
PRATT: Inland Transport.
OWEN: Ocean Trade and Shipping.
SMITH: The Ocean Carrier.
ASHLEY: British Industries.
CHAPMAN: The Cotton Industry.
CLAPHAM: The Woollen Industry.
JEANS: The Iron Trade.
MACROBTY: Trusts and the State.
PITMAN: The Grocery Trade.
 " The Ironmongery Trade.
 " The Drapery Trade.
Harmsworth's Business Encyclopædia.
*CORDINGLEY: The Counting-House Guide.
*HEELS: The Theory and Practice of Commerce.
*GREBBY: Methods and Machinery of Business.
*HOOPER AND GRAHAM: Commercial Practice.
 (i.) The Home Trade.
 (ii.) The Import and Export Trades.

* These are good for examples of documents used in business.

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