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COMMERCE AND THE COMMERCIAL OFFICE

HOW THE ACTIVITIES OF
THE COMMERCIAL WORLD ARE ORGANIZED

AND HOW THE WORK OF
THE BUSINESS OFFICE IS CONDUCTED

BY

WILLIAM CAMPBELL

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"OFFICE PRACTICE," ETC.



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PREFACE

THIS book deals chiefly with the methods and practices followed in the work of business offices and in the conduct of business affairs. Sections III–VI are occupied entirely with that purpose. But, as its title is meant to indicate, the book also presents a view of Commerce that reaches beyond the narrower routine of buying and selling, of paying and being paid, of documents and records customarily handled in the daily round of business dealings. The first two sections and the last section of the book are intended to supply that wider outlook. Sections I and II are general, and introductory to the more particular treatment they lead on to. Section VII, dealing with money and its place in the life of the community, presents an aspect of a social and economic institution that has gained importance in recent years, and that continues to hold interest for the business man and the student.

Some justification for the issue of a new work on business methods and commercial institutions may be claimed from three features this book displays. The first is improvement on the usual arrangement of the matter set forth. The numerous subjects that a book on Commerce must treat of have been grouped under appropriate section headings, and an attempt has been made to place the sections in connected and easy sequence. The second feature is the breaking of new ground in parts, and the introduction of freshness and new variety into examples illustrative of business forms and transactions. The third feature is the evidence, that is shown throughout most of the book, of the treatment being based upon and illumined by experience of actual business operations, and of its not being a mere restatement of theory acquired at second hand.

The whole of this manual should be found useful to students preparing for the examinations in "Commerce" of the Royal Society of Arts, the London Chamber of Commerce, and the Union of Lancashire and Cheshire Institutes. Amongst the test questions placed at the ends of the chapters many are

included from the examination papers of these bodies. The author gratefully acknowledges permission to use these papers, and he has appended the initials of the particular body to each question selected from those it has set.

Owing to the preparation of the book having been taken up at intervals over a period much longer than had been intended, some repetition of treatment crept in at several stages. That has been cut out in revision, except where a somewhat different approach to a point has been considered worth retaining, by way of emphasizing or clarifying the imparted information.

In passing this textbook on for publication the author expresses the hope that it will prove as helpful to students and to other readers as by diligent effort he has tried to make it.

W. C.

NOTE

An appendix has been added to the book as a record of war and post-war changes, and regulations that have been imposed on trade and commerce since the book was first written. It should be consulted and the changes it mentions should be kept in mind as the different parts of the book to which they refer are being read.

The first 192 pages of the book were actually printed when production was suspended on the outbreak of war. The following amendments should therefore be made to these pages. (Opportunity has been taken to make a few corrections.)

Page 11, line 18. Read "The War of 1914–18 . . ."

Page 12, line 9. Read ". . . as iron ore, china . . ."

Page 12, line 19. Read ". . . by road, rail, sea or air, postal . . ."

Page 15, line 13. Read "In the Table shown below . . ."

Page 16, line 19. Read "The Table below . . ."

Page 32, lines 10, 11. Read ". . . the War of 1914–18 . . ."

Page 44, last line. Read "In some areas, however, . . ."

Page 69, line 2. Read ". . . given out later, if necessary."

Page 74, line 21. Read "are priced from the Stores Ledger before they are passed on."

Page 76, lines 18, 19. Read "the selling price of the job as the year's total selling costs bear to . . ."

Page 122, lines 5, 6. Read "dealers on the Stock Exchange who need . . . on the resale of which they hope . . ."

Page 139, line 11. Read "In the wars of 1914 and 1939 a large part . . ."

Page 181, line 9. Read ". . . ordered has been . . ."

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COMMERCE AND THE COMMERCIAL OFFICE

SECTION I—WHAT COMMERCE DEALS WITH

CHAPTER 1

ACTIVITIES OF COMMERCE

WE often speak of the "Commercial World," but what do we mean when we use the words? When we hear them used, what images rise in the mind? Like many others frequently on the tongue, the words "commercial world" probably do not cause us to picture anything very definite or distinct. They may leave us with only some hazy notion of traffic and tumult, of buildings thronged with busy inmates, of individual or combined effort in supplying people with what they want—or don't want. They may call to our minds persons scrambling to seize a profit, others toiling for a scanty subsistence, and many getting through with greater or less interest a not too hard, perhaps, or too monotonous daily round. Let us try to make clearer to ourselves the realities to which the words give name.

OUT IN THE BUSINESS STREET

Threading our way in the busy city to an address where a little matter waits for our attention, we are held up at a crossing by a stream of vehicles, petrol driven on inflated rubber tyres. Amongst them we see a couple of enormous wagons piled with merchandise, a few delivery vans with smaller packages, a sprinkling of motor-cars, the occupants themselves occupied each with his present affairs, a bus or two, the passengers making for their several objectives with their various errands in mind. In the side streets are other wagons and vans loading or unloading materials for manufacture, foodstuffs for

consumption, and finished articles for wear or use—what in business we call by the general name of "goods."

The signs on the buildings and the nameplates on the doors tell us something of the kinds of business carried on. Looking about, we find selling offices or agencies for goods manufactured in distant mills, and wholesale warehouses dealing, perhaps, in carpets and furnishings, in leather and fancy goods, or in articles of clothing. Here we notice an accountant's name and there a solicitor's. The corner building is occupied by a bank. We see a paper and twine merchant's premises, conveniently situated here for supplying the business houses around; and for the same reason a stationer's shop. There is a café close at hand, and at the time of our visit to the street workers are leaving their places of employment for the café and their midday meal.

Down a near-by road are a block of humming workrooms and a factory building from which we catch the whirr of running machines. In another direction we discern the front of a railway passenger station, also a goods depot where loads of merchandise are entering or leaving. Not far away, if we were to explore, we should discover ships lying at dockside or wharf, cranes swinging the cargoes speedily into or out of their holds. There would be transit sheds and storage warehouses with loading facilities for road and railway wagons. In the vicinity we might find the Dock Authority's office, offices of shipowners and brokers, sale-rooms for imported produce, and His Majesty's Custom House.

TAKING AN INSIDE VIEW

While our imagination has been wandering the street crossing has cleared, and we now pass to the other side. Our destination lies only a little way ahead on the right. As we are about to enter, a postman precedes us and leaves some letters with the commissionaire at the door. This is a wholesale drapery establishment. On the ground floor we find a display of fashionable goods, and stocks on counters, in fixtures, and on stillages. Taking the lift, we reach in turn the first, second, and third floors to find them similarly stocked, but with articles of other kinds. The warehouse is evidently divided into a number of selling departments, each for its own class of goods. There

are customers about visiting one department and then another for what they need for their shops either in this or in other towns for which this one serves as wholesale centre. In the passages are basket trucks for bringing in goods bought, and for taking away for dispatch goods that have been sold. Several of the departments are in rather disarranged condition, for the assistants are to-day more than usually busy, not only serving the customers who call, but also filling the more numerous orders that the postman brings or that arrive in the company's own post-bag.

There are now in the departments several callers who are not customers, but who have appointments with or are waiting to see the buyers. They are the agents or local representatives of manufacturers at home or abroad. Some of them are at the moment with buyers, in their offices or buying rooms, showing samples and quoting prices, or taking orders from samples previously submitted. Our own little business here is with the counting-house, which we find situated on the first floor, and behind the selling area. It is in the counting-house that customers' and suppliers' accounts are kept and paid, that records of purchases and sales and of all the business expenses are written up, that inward letters and orders are opened and distributed to the sections they concern, and it is in the counting-house that many of the outward letters to customers and suppliers are typed and prepared for the post. The dispatch dock from which customers' goods are sent away, and the receiving dock for goods coming in, are situated in the basement of the premises and are reached from the street behind. A telephone ring that we hear on our way out reminds us that departments are in telephonic communication with each other; also, of course, with the Post Office telephone service outside.

Our footsteps are now directed to an omnibus stopping-place as we steer our way along the somewhat crowded footpath. Half or nearly half of the passers-by are young women, for in these days women and girls form a large proportion of the employed in commercial and industrial life. Amongst the men are managers and salesmen, porters and messengers, book-keepers and clerks. Amongst the women many are typists and clerks of various kinds, for in these days, again, a very large

part of business is carried on by writing. Some are saleswomen and warehouse assistants, some may be telephone girls, and some come from insurance offices and banks.

SEEN FROM THE TOP OF A BUS

Travelling on the top of a bus along one of the main thoroughfares of the city, we pass a number of imposing buildings. There are banks, insurance offices, headquarters of several well-known manufacturing concerns, and suites of offices let off to professional firms. We pass the printing office of a daily newspaper, a theatre, a church, and a hospital. We notice restaurants here and there, some hotels, an important post office, the town hall, and a court of justice. Presently we are in a shopping centre with several large stores and many smaller shops, windows attractively dressed. Now the crowd has changed. It is mostly womenfolk drawn hither to spend some of the earnings of their menfolk in the city. Floor upon floor inside the stores is crammed with articles in great variety displayed in tempting fashion. How can the lookers-round who have been enticed within suppress the urge to buy?

Beyond the shops we travel into a meaner district. Our bus runs under a main-line railway bridge, and an electric train is speeding outwards to the suburbs as we pass. Here we see the store-yard of a timber and builders' merchant, there a patent-food works, farther on the premises of a letterpress printing company, farther still a clothing factory and the local gas works. It is mostly lighter trades that are located here. Heavy ones, such as steam-boiler making, railway-wagon building, and steel rolling mills are farther afield, where they can get more room at lower cost, and the convenience of railway sidings. We are now nearing a residential suburb. We have just left behind a football ground with its stands for thousands of Saturday spectators, and we are coming to the greyhound racing course. In the distance we get a view of the aerodrome or air station of the district. Now we have passed streets and streets of private houses and are in the middle of a bunch of smart local shops, with a cinema on each side of the road. We alight near a recreation ground and the public park.

WHY ALL THIS STORY?

By now I imagine you saying, "Yes, that's all very nice; but what has suburban park or football ground, church or theatre, hospital, town hall, or private dwelling to do with commerce and the commercial world?" Let me state the answer to you thus: The individuals who make up the community need the houses to live in; and they, or some of them, want the theatre, the football enclosure, and the dog-racing track. As houses are built and places of entertainment are run for profit, the supply and management of these wanted things are clearly part of the activities of commerce. Without the necessity for houses, and for shops, warehouses, factories, and places of amusement to supply our wants, there would be no builders' and timber merchants' businesses, no brickfields, no iron-girder works or portland cement mills. If each of us did not want clothes to wear, or if many of us did not desire new garments often, there would be little need for imports of raw wool and cotton, for textile mills and dye works, for clothing factory, drapery warehouse, or retail outfitter's store. If the dwellers in the houses and the promenaders in the park did not require food to eat there would not be any need for butcher and baker, grocer and fishmonger, for wholesale meat or fish market, grain or provision exchange. Railway and road transport would not be wanted to distribute these commodities, nor ships to bring meat and wheat, fish and fruit, timber and petroleum into our ports. Unless we desired many amenities over and above the bare necessities of existence, there would be no demand for furniture and carpets, pictures and ornaments, gramophones and wireless sets. There would be no call for cricket bats, tennis rackets, and golf clubs, nor for "push-bikes," motor-cycles, Austin Eight or Rolls-Royce cars.

Our railway system, road motor transport, docks, and shipping services have all arisen out of development in the exchange and distribution of commodities for our individual needs, out of the necessity for personal contact between distant business firms, and out of the desire of most of us for the luxury of travel. Post, telegraph, and telephone services have been similar in origin. Our banking methods have evolved with the increasing need for safe deposit of money, for facility in

effecting commercial payments, and for assistance in the supply of funds for carrying on business. Insurance, too, is an accessory which has developed along with the expansion of industry, mutual contribution to a common fund giving each contributor the right to have certain losses made good out of the fund, should any such loss fall upon him at any time. Advertising, with its extensive use of newspaper and printing-press, is another auxiliary of more recent growth. Without the local authority's road-making, street lighting, and water supply, and without the vigilance of the police, commerce would be much more difficult to conduct, just as it would be without the maintenance of national peace and order by the Government, and the administration of justice by the courts. Even churches and hospitals are linked to business activity, being built and repaired by commercial contract, and maintained by funds drawn from business enterprise.

A PICTURE WITH A PURPOSE

Bring into our picture a glimpse of country life, of ploughing and harrowing, sowing and reaping, of potato or turnip field, waving crops or grazing cattle, orchard for fruit and forest for timber. Add something of the smoke and grime of the industrial areas, of coal mines and blast furnaces, foundry and engineering works, spinning and weaving mills, potteries, chemical works, and shipbuilding yards. We have then a rough sketch of British industry and commerce as a whole. The sketch has been drawn to show how industrial and commercial activities are almost co-extensive with human life, and at no point unrelated to it. In fact, the wants of the individual are at one and the same time the source and the end of all our business exertions. To supply our individual wants is the proper purpose of our industrial system. Instead of each member of the community striving single-handed and imperfectly to make for himself all the things he needs, he works as a unit in a vast and complex aggregation of effort, which is organized to produce more economically and more efficiently, in quantity sufficient for the needs of all, and to distribute the product to all according to their wants.

At any rate, that is what the system is in theory expected to do. The fact that it does not always give everyone the

opportunity to take his part and to get his share shows that its working is not always what it should be. In these days, for ordinary people to live contentedly, earnings must be tolerably good, and for business to be brisk, spending must be active. But if many do not get the chance to earn they are deprived of the power to spend, and that keeps business and employment bad. Nor for employers and proprietors themselves does the system always provide bright and pleasant going. Heads of well-established houses or director-managers of successful companies sometimes succeed in amassing fortunes. On the other hand, small owners often hang on precariously for a while, only to come down at last. And big concerns also crash at times, bringing hardship upon creditors, employees, and shareholders all alike.

INDUSTRY, TRADE, AND COMMERCE

What is it that each of these terms denotes? The words are part of the common stock of our everyday speech; but we use them in a somewhat vague and general way, and do not apply them to mark off with any degree of exactness distinct features and distinct activities of the business world. Literally "business" and "industry" have very much the same signification. To say that a person is "industrious" just means that he keeps himself "busy"; but with this little difference, perhaps, that "industrious" implies steady application with some useful purpose in view, whilst "busy" may carry a hint that the person, though continually active, is not spending energy and interest for any very serviceable end. Of the four terms, "business" is the one with the most general meaning, as it may be used for any of the remaining three. "Industry" is the one with the most exact application. It mostly indicates activity in the processes of production and manufacture, or in organizing these, whilst "trade" in its narrower sense is confined merely to the buying and selling of commodities after they have been produced.

When communication between distant parts was much less opened up than now, "trade" contained the idea of carrying goods, by *treading* a beaten track or "trade route," to a distant point where an entrepôt, or centre of interchange, had become established. "Commerce," on the other hand, seems

originally to have indicated more the activities of merchants engaged in the actual process of exchange, the bargaining about quantity, quality, and price, the agreeing about terms and manner of payment, and the receipt of and discharge for the sums due. In our day "commerce" still carries much the same meaning, a little wider than that of "trade"; but it is the least definite of all the terms Often it is used by us simply as a substitute for "trade" or "business," when we unconsciously seek a less homely and a more imposing name. We use it, again, when we want to denote some of the less familiar or some of the more intricate of our trading operations. For example, the selling of a pound of tea, or a bar of soap, or a yard of calico over a humble shopkeeper's counter we should describe as "trade." The process of importing tea or raw cotton, and the disposal of these on arrival, or the steps taken in exporting boxes of soap or cases of Lancashire textiles we should probably call "commerce," especially when we think of them as accompanied by formalities connected with customs, bills of lading, marine insurance, and foreign exchange.

That the meanings of the words are not clearly defined becomes plain when we consider some of the phrases in which they ordinarily occur. We speak of a man having a "trade" when we mean that he earns his living by working at a handicraft like that of blacksmith or cabinet-maker. That is the sense of the word in "trade school," "trade union," or "trade board"; but such occupations should come under the head of "industry" if the definitions attempted above were always to hold good. A "trade mark" is quite likely to be the exclusive property of a business engaged primarily in some *industrial* process; and the Government department known as the "Board of Trade" is interested not only in the trades that buy and sell, but in many industrial matters, as well as in many of the affairs of commerce.

A similar observation is true of "Chambers of Commerce," the members of which may be industrialists engaged chiefly in manufacture, or commercial men occupied solely with goods already produced, or bankers who are not directly concerned with goods in any state. In a city like Manchester, the Chamber of Commerce may be so far interested in questions of production as to maintain a testing department to give certifi-

cates on the quality and texture of particular samples of the city's staple product; and the authority and impartiality of the Chamber may be appealed to for the settlement of disputes between the productive and the marketing sections of the industry. To the man whose whole endeavour and aim is to sell or trade in the goods he carries, we give the name of *commercial* traveller, when it would be more consistent to call him *trader's* travelling salesman. We speak, too, of the transport *industry* and of the carrying *trades*, though transport is neither trade nor industry in the stricter meanings of the words.

The fact is that all the activities of the commercial world are inextricably interwoven. We cannot now have any trade without the use of money and some mixture, however small, of financial, legal, banking, and transport activities that are not strictly the buying and selling of goods. Without trade we should not have any of these other interests whatever, just as, without the desire to trade and facilities for it, there would be no outlet for the products of organized industry and therefore no incentive to engage in such production. Moreover, every manufacturer or producer is to some extent compelled by circumstances to be a trader also. If he were not, how could he purchase the materials he uses or dispose of the commodities he turns out? It is this close interrelationship of each activity with others that lies behind our somewhat indiscriminate usage of the terms we have been examining, and prevents us from attaining any final clarity in their definition.

THE BEGINNINGS OF INDUSTRY

The most primitive form of occupation, and one followed by all living beings, whether man or beast, is the search for food. At first with man, as it still is with the beasts, this occupation would be merely *collective*. It would consist of gathering edible plants, roots, or fruits just as Nature offered them, also of catching flesh, fish, or fowl, which would be cooked when the art of making and keeping fire had been acquired. There are a few primitive types of mankind who are still in this hunting stage, and live mainly or entirely in that way. With ourselves that kind of occupation is perpetuated by the

North Sea trawler hand or the Canadian lumber man. But long ago the ancestors of most of the peoples of to-day found that by working the soil and tending the crops a harvest could be reaped of such greater abundance that it compensated for the care and labour so expended. That is the *cultural* stage. Along with it would begin the domestication of animals, or perhaps before it, for tribes of nomadic people have lived and some still live without settling on the land, driving their flocks and herds from place to place as pasture after pasture is grazed bare. From time immemorial cattle, sheep, goats, pigs, and fowls have been bred and reared not only for their flesh, but for hide, fleece, or feathers, as well as for the milk or eggs they give. Bees, too, for ages have been kept for their honey; but since sugar came into general use honey has become less common. This stage is represented to-day by the fruit-grower, the agriculturist, and the stockbreeder.

Early man, again, used hard stones for hammer heads, and chipped and afterwards ground them into shape for use as axes. For cutting implements he learned to strike off flakes of flint, and from the same material he chipped spearheads to use in hunting. He learned to dig pits in our chalk beds for the large flints to be found embedded in them, and he used clay fashioned and baked into a rude kind of pottery for the cooking of his food. In some such way man started so early what we now call *extractive* industry, following up the use of flints by copper, which with the aid of fire he made into implements of bronze. From such lowly beginnings have grown all our quarrying and mining operations, our use of coal for making fire, of lead, tin, and iron for an immense variety of articles, and of silver and gold for ornament and money.

With timber, stone, brick, and mortar we had long practised the *constructive* industry of building houses and castles, churches and prisons, river jetties and docks. Using a little metal for hard-wearing parts, we had constructed carts and carriages and boats of wood; also machines like the potter's wheel, the treadle lathe, the spinning wheel, and the weaver's hand loom. But it was not until towards the end of the eighteenth century when we invented highly improved methods of manipulating iron, discovered the effective application of steam for generating power, and began to devise machines of iron and

steel in greater and greater variety, that the age of *manufacture*, as we know it, set in.

Until then spinning and weaving had been a domestic and family occupation, taken up probably in addition to other pursuits or when work on the land was not needed. The making of the other articles had been to a great extent only workshop handicrafts dependent on local needs. Transition to the "factory system" developed quickly, so much so that it came to be known as the "industrial revolution"; and industry has been undergoing an almost continuous evolution in one direction or another ever since. Local handicrafts and some overseas trade had been carried on under difficulties here or elsewhere since ancient times; but with the expansion of manufacture, first in this country and then in others, the exchange of commodities, with its accessories of railway and steamship, banking and finance, began to grow apace. It continued to do so until the general depression that followed the European War inflicted a very serious check on business activities almost everywhere.

OCCUPATIONS CLASSIFIED

1. **Industry.** We have already divided industry into (1) collective and cultural, (2) extractive, and (3) constructive and manufacturing operations. Extractive occupations take and exhaust natural supplies which Nature does not renew. The workings of coal mines and oil wells are examples. The difference between them and the collective and cultural is that the latter draw upon plant and animal life—taking things that *grow*, like oranges or cabbages, the wool of the sheep, raw rubber or the fish of the sea—the supplies of which Nature continues to renew. Cultural occupations differ from the merely collective in expending care and labour on the cultivation of plants and fruits and on the rearing of flocks and herds during the time of growth and fruition. Constructive occupations have to do with the making of machines, the erection of buildings and bridges, the laying down and maintaining of roads and railways, and such-like.

Manufacturing processes cover the greatest diversity of occupations. Many of them supply articles for personal use and consumption, such as bread, jams, sugar, sweetmeats, soap,

boots, clothing, furniture, crockery, cutlery, gramophones, and picture films. Many of them produce materials or articles to be used again in manufacturing or constructive processes. These comprise cotton yarn, dyestuffs, leather, bar iron, steel rails, printers' type, paint, bricks, timber, and glass, with innumerable other things. Of the products of extractive and constructive industries a few are for personal and domestic use, like household coals, dwelling-houses, the electric refrigerator, and the motor-car; but most of them, as iron, ore, china clay, railway trucks, pumps, engines, and dynamos, are used as raw material or as tools in other productive operations.

2. **Commerce.** As we have seen previously, this includes (1) trading activities, or the buying and selling of the products of industry, together with the conduct of preliminary negotiations, the receiving and giving of payment, and the keeping of the requisite accounts. Wholesale and retail trade and the importing and exporting of commodities come under this head. The division includes also (2) auxiliary operations such as (i) transport by road, rail, or air, and postal and telephonic communication; (ii) banking and financial functions for the supplying of capital, the provision of money and credit, and facilities for transfer of money from place to place; and (iii) insurance services for risks of loss at sea, or by fire, accident, burglary, and other causes—where, in effect, a group of persons all subject to a similar risk contribute to make good to any one of them such loss under the risk as may be suffered by that one. These are the three kinds of activities that are usually named under the head of Commerce as auxiliaries to trade, because these are highly organized. But they are auxiliary to industry as well as to trade, and there are in fact several others in the same sub-class. The provision of works, warehouses, shop and office premises is one; the installation and maintenance of plant and machinery and of all permanent equipment is another; the procuring of space and arrangement of matter for advertisement in newspapers or elsewhere is a third; the supply of stationery, office appliances, and packing materials is a fourth.

3. **Direct Personal Services.** All selling of goods retail, and all work done for individuals, such as motor-car repairs and household decorations, are direct services. They are direct in

the sense that they are rendered to individual members of the community without passing through intermediary hands or processes, as is the case with other services. Under this head, however, are usually placed, not the shopkeeper's or jobbing workman's services, but those rendered personally by professional men like the doctor and teacher, or by family servants like the chauffeur and the domestic maid. With them would usually be included, also, the services of solicitor, architect, and accountant. In these last cases, however, the services are often rendered to business firms or companies, and then they should be classed under the head of Auxiliary.

4. **Services of Government.** Whether local or national, the services of the ruling authority (supported out of the rates and taxes levied on the community) are also auxiliary, in so far as they are made use of by industry and trade. As we have previously suggested, national and local government creates and maintains conditions or supplies conveniences, such as lighting, water, and sanitation, which facilitate the conduct of business. But such services are enjoyed by business establishments only because they are available for the benefit of all members of the community, whether as individuals or as trading establishments or as social institutions.

We have now, however, to note again that our divisions are not mutually exclusive, that it is sometimes doubtful where one begins and another ends; also that the same business may include activities of several types. To sum up, the classification of business occupations may be tabulated thus—

I. INDUSTRY—
   1. Collective and cultural.
   2. Extractive.
   3. Constructive and manufacturing.

II. COMMERCE—
   1. Trade, wholesale and retail, import and export.
   2. Auxiliary services, including—
      (i) Transport and communication,
      (ii) Banking and finance,
      (iii) Insurance,
      (iv) Advertising,
      (v) Supply and maintenance of premises and equipment.

III. Direct Personal Services—
Rendered to individuals by
1. Traders and workmen,
2. Professions.

IV. Services of Government—
Rendered by
1. Local Authorities,
2. Departments of State.

QUESTIONS

1. Explain in some little detail what you conceive to be the primary cause or causes of all our industrial and commercial activities, and what main purpose or purposes these activities serve.

2. Make a diagram or table showing into what groups you would divide industrial and commercial activities, and what subdivisions you would place in each group.

In your answer bring out clearly the place occupied by trade. What, in your opinion, would be the predominant occupations of the inhabitants of a newly settled country? Give reasons.

3. Classify, under the headings of (*a*) Extractive Industry, (*b*) Manufacturing and Constructive Industry, (*c*) Commerce, (*d*) Performance of Direct Services, the following occupations: Farmer, Potter, Soldier, Fisherman, Actor, Sailor, Textile Worker, Civil Servant, Banker, Forwarding Agent.

Name six industries that owe their existence to the natural resources of a country. (*L.C.C.*)

4. "Commerce embraces all those activities engaged in surmounting the hindrances to exchange." Explain this statement, and say under what main heading the various operations of commerce may be grouped.

5. What is meant by (*a*) Direct service occupations, (*b*) Commerce, (*c*) Trade? Give three examples of each. (*R.S.A.*)

6. It is said that commerce and industry are interdependent. Explain this interdependence by reference to any form of industry with which you are acquainted.

7. State in your own words what you consider to be the purpose of commerce, and indicate how (*a*) the salesman, (*b*) the bank manager, (*c*) the book-keeper in a merchant's office each help in the attainment of this purpose. (*R.S.A.*)

8. Mention various ways in which the Government of a country can help its traders.

CHAPTER 2

SUPPLY OF FOOD

BEGINNING from the latter part of the eighteenth century, Great Britain developed into a pre-eminently manufacturing country. Its population came to be engaged largely in manufacturing rather than in agricultural pursuits, a very considerable portion of the goods made being exported to other lands. For a long time now this country's agricultural industries have been inadequate to the needs of the population. Consequently much of its food supplies must now be imported from countries that produce more of certain commodities than they consume. A few figures will indicate the extent to which our imports of food have grown.

FOODS NOT PRODUCED HERE

In the first Table below we take seven kinds or groups of articles of everyday consumption. Of these, according to Government returns of trade, the United Kingdom imported and retained in the year 1938 the quantities that the Table shows. Tea, coffee, rice, raisins, and currants are some of our commonest articles of food, yet none of them is produced in this country. A few oranges may be grown here as hot-house fruit; but there is no commercial production. Bananas, of which we grow none, have only come here since cold storage was provided in ships, but they have rapidly reached a leading place amongst the

NET IMPORTS IN 1938 OF ARTICLES OF FOOD OF KINDS NOT PRODUCED IN THIS COUNTRY

Description	Quantity	£
Tea	4,112,482 cwt.	26,179,266
Coffee	279,170 ,,	1,028,932
Rice	2,600,176 ,,	1,144,906
Raisins and Currants	2,676,382 ,,	4,375,985
Apricots, Grape-fruit, Peaches, and Pineapples, tinned and bottled	2,411,075 ,,	3,388,259
Oranges, fresh	10,391,681 ,,	7,355,681
Bananas, fresh	21,523,591 bunches	4,692,440

fruits our people consume. Of foreign origin, also, are the tinned and bottled fruits included in the Table. The figures shown have been arrived at by taking for each commodity the quantity and value of our total imports, and by deducting therefrom the quantity and value of what we have reshipped abroad.

Sugar is a commodity of which we import vast quantities in the unrefined state, all we used having formerly come from abroad, and much of it produced by extraction from the sugar beet. During recent years, however, we have encouraged beet-growing at home, and we now have a number of sugar factories operating on beet of our own cultivation. Nevertheless, by far the greater part of the sugar we use is still imported. As nearly all of it comes in raw, it is prepared for market in our own refineries, and large quantities of the refined output are then exported. The value of all our net imports of food, drink, and tobacco for the year 1938 was £419,070,975.

FOODS OF WHICH WE PRODUCE PART

The second Table below shows what we imported in 1938 of twelve kinds of food that we also produce extensively at home. We make use of considerable quantities of home-grown apples in addition to the large imports given in the Table. Of the homely potato we grow in our own fields four or five million tons a year; yet we import some. Besides the production of sixty to seventy million fowls on our own poultry

NET IMPORTS IN 1938 OF ARTICLES OF FOOD OF KINDS ALSO PRODUCED IN THIS COUNTRY

Description	Quantity	£
Wheat	100,423,944 cwt	38,107,158
Potatoes	2,923,190 ,,	2,052,501
Onions	4,578,462 ,,	1,956,164
Apples, fresh	6,912,576 ,,	5,837,842
Pears, fresh, canned, and bottled	2,125,208 ,,	2,929,425
Beef, chilled, frozen, and canned	13,266,513 ,,	26,867,212
Mutton and Lamb, frozen	7,239,324 ,,	20,212,690
Bacon, Hams, Pork, etc	9,055,550 ,,	39,205,521
Fish, all kinds	3,578,295 ,,	9,711,848
Butter	9,429,515 ,,	50,365,419
Cheese	2,911,009 ,,	9,614,992
Eggs, in shell	276,974,000 doz.	12,373,875

farms we use annually ten to twelve million pounds' worth of eggs received from other countries. Our own fishing boats land each year over £15,000,000 worth of fish, yet we import each year another £9,000,000 worth, fresh, salted, and canned. As regards wheat, though our own yearly production is about one and a half million tons, we import more than three times that quantity. The Table shows heavy imports of meat, notwithstanding the fact that we keep in the United Kingdom over 8,000,000 cattle, 25,000,000 sheep, and 4,000,000 pigs.

In the manufacture of food, as distinct from the growing of it, the milling of flour is mostly a home industry, and the baking of bread is entirely so. The biscuits we use are our own manufacture. Jams, too, are made by ourselves; and in these, as well as in biscuits and cakes, we do some export trade. We import large quantities of canned fruits; but we now ourselves can quantities of those grown here. The milk we use in liquid form is produced at home, of course, though we import the condensed variety, and we condense and can some in this country. From surplus supplies of milk our farms and dairy factories make butter and cheese, yet imports provide each year some 9,000,000 cwt. of the butter we use and about 3,000,000 cwt. of the cheese we eat.

MARKETING OF MUTTON IMPORTS

Let us take mutton as a representative article of food. Our chief sources of imported mutton are New Zealand, Australia, and the Argentine Republic. Before export the meat is slowly frozen by exposure to air reduced to a low temperature, and it is carried here in cold storage. This import trade has grown since the introduction of refrigerating appliances about 1880 and has been helped by their improvement since. Of the three countries named, New Zealand is the most important source of supply, sheep being reared there as much for the carcass as for the fleece. In Australia, on the other hand, wool has been the first consideration and the production of mutton only secondary.

In New Zealand a Meat Producers' Board, instituted by Act of Parliament, has control of all mutton exported. Export is permitted only under licence, the licences being granted by the Government on the recommendation of the Board. As all

contracts for freight are made by the Board, it is in a good position to bargain with the shipowners. It is also able to regulate times and quantities for export. In that way it keeps its British and other markets provided with an even supply and so helps to steady prices. An important function of the Board is the imposition on the freezing companies of a uniform system of grading and marking of the carcasses by quality and weight. Regular consignments and the maintenance of standard grades facilitate sales. They make it possible for wholesalers to order up either present or future supplies by description and without seeing the goods, feeling confident, nevertheless, that deliveries will be fully in accordance with the grades specified. Lastly, having a good and well-marketed article to offer, the Board is in a position to advertise it as good and to push its sale energetically thereby.

In the Argentine the mutton is graded under their own marks by the packing and exporting companies, and they control shipments by means of a freight committee. A feature of the South American trade is that collection, freezing, shipment, and wholesale marketing on this side are mostly in the hands of only a few companies exercising control at both ends. One huge undertaking even controls through its subsidiaries numerous retail shops in this country. The Southern Dominions, on the other hand, consign most of their exports here to be sold by agents. Grading in Australia, as elsewhere, is done at the freezing works and is subject to State inspection; and though regulation of mutton production is not so complete as in New Zealand, the rearing of the sheep for wool is highly organized. More than half of the mutton and lamb we consume comes from abroad, and most of it is landed at London. It is sold wholesale at the famous Smithfield Market in London and in the wholesale markets of other centres, to some of which, as in Manchester and Birmingham, Smithfield has given its name.

MARKETING OF HOME-GROWN MUTTON

In this country sheep are reared mostly in the hilly districts and mostly for their mutton, the fleece being looked upon more as a by-product. Some live animals come from Ireland, chiefly to lairages at Birkenhead. They are usually killed on arrival,

for dispatch, probably, to the wholesale meat market at Manchester. That market is an important northern centre for distribution to the retailer and it serves a population running into millions in Manchester itself and the surrounding districts. In our smaller towns wholesale meat markets do not exist; but in our more populous urban areas they have become established as a necessary part of the organization of supply to the growing populations around.

Sheep are sent alive by farmers to numerous local live-stock markets held periodically in producing areas. There they are bought by dealers for dispatch to wholesale distributing meat markets, of which other important examples are in Birmingham and Leeds. Again meat wholesalers and cattle dealers may buy direct from the farms, or farmers may send their stock to distributing centres to be sold for them there by agents on commission. If the distributing centre is not very distant from farmer or cattle dealer, the sheep may come alive on foot, by road motor, or by railway. In London live consignments arrive at the Metropolitan Cattle Market at Islington. They are killed in the adjacent abattoirs and find their way perhaps to Smithfield. But if the farmer is far removed from the wholesale market his sheep are killed by dealers in the producing area, or perhaps by a producers' co-operative slaughter-house, and are sent by rail as carcasses.

In the local markets for live stock, sales may take place by private treaty; but in the larger of these markets, and especially in the North, sales are made by auction. Some live-stock markets are under control of the local authority, but many belong to auctioneering firms. On the whole, to sell by auction in a fairly large market is preferable to private sale, as free and open competition, among the greater number of buyers and the greater number of sellers meeting in such a market, is more likely to yield a price that is fair to the seller and the buyer alike. There are amongst retailers some who buy their meat alive, holding stocks and killing them as required. In country places they will use their own slaughter-houses, which are under local inspection for sanitation and humane killing; but in large cities they, as well as the wholesale dealers, kill their stock or have it killed for them in the public abattoirs that the city authorities provide.

HOME AND FOREIGN COMPETITION

The home trade in mutton and lamb is at a disadvantage in competition with the imported commodity, owing to its defective organization and want of systematic grading and marking. Its chief advantage is the freshness of the meat; but that is offset to a great extent by the product arriving in small and varied lots; also by the want of any national or general organization to supervise production and preparation for market from the point of view of economy and saleability to the public. Again, the fact that the product is fresh means that it must be disposed of at once, sometimes causing glut and sometimes scarcity of supply. On the other hand, the imported mutton, being frozen, may be held in stock and only passed on to the market in regular supplies. Even where public abattoirs are used here, each dealer handles his own comparatively small stocks. It is only in a few co-operative slaughtering establishments that supplies are treated economically in bulk in a manner comparable to what the imported commodity has undergone.

For reasons such as the system of grading under the National Mark has been stated for home-grown mutton and lamb. Such a system of marking by Government graders in important centres has been introduced for voluntary use in the marketing of home grown beef. And native beef is, of course, subject to the competition of the imported chilled commodity, just as native mutton suffers the competition of the imported frozen supply.

THE WHEAT WE IMPORT

Wheat is another representative commodity on which we depend for food. Compared with the large quantities we import in the grain only a small supply comes to us in the form of flour, so that nearly all the milling of the wheat we use is done in this country. Canada is now our most important source of supply, with Australia next amongst the British Dominions. Of other countries the Argentine Republic and the United States send us large consignments. Variable quantities arrive from Russia and India. Wheat from Australia and the Argentine comes in sacks or bags, whilst that from the United States

and Canada is handled mostly loose. The organization of handling the product has, however, been developed further in Canada than it has elsewhere.

1. Handling Abroad. Whereas in this country the grain is first reaped by machine, then usually stooked, stacked, and threshed afterwards, the practice on the North American Continent is for harvesting and threshing to be carried through as a combined operation. Another feature of the practice there is the system of bulk handling of loose grain in high buildings known as "elevators." When threshed the grain is loaded on the farmer's wagon and conveyed to the local elevator situated on the railway that serves the district. From the wagon it is drawn up by suction to the top of the elevator, whence it passes through a spout down to a floor lower in the building. There it may be stored separately, but it is more usually bulked with grain of the same grade from other growers. From the local elevator it will be railed sooner or later to some intermediate elevator situated at an inland point where supplies converge on the way to port. In due time it will reach one of the large terminal elevators, probably at the head of the Great Lakes. From there it will be shipped, still loose and in bulk, to Europe. The farmer's local elevator may be independently owned, or it may be one of a chain of elevators worked by a company in conjunction with a terminal. In Canada, particularly, it may belong to an association of farmers who pool their output and control it co-operatively right up to place and time of shipment.

2. Sale by Certified Grade. A further feature of the North American wheat trade is the system of grading by standards of quality and bushel weight. Examples of Canadian grades of wheat are Nos. 1, 2, and 3 Northern Manitoba, and Nos. 1, 2, and 3 Alberta Red. There are inspection points on the route to port, at one of which the grain is examined by Government officials and certificates of grade are then issued. The grower may sell his wheat for cash to the local elevator company when he delivers it there, its assumed grade being agreed between the parties at the time. As an alternative the grower may hand it to the elevator company to be sold for him on commission at the Winnipeg Grain Exchange. Or, again, he may elect to hold the wheat at the elevator until he can get

a better price. Against the security of an elevator receipt showing that he holds so much wheat of the grade stated in the certificate, he is entitled under Canadian law to claim an advance from his bank.

3. **The Canadian Pool.** Latterly, however, a large proportion of Canadian wheat has come to be pooled, so that it is transported, stored, and sold by co-operative institutions acting together in the interests of the producers as a whole. When it reaches the terminal it passes into the control of the single selling agency which handles all the pooled wheat of Canada. Many of the elevators, local and terminal, belong to the pool, and all grain of the same grade coming to the pool is bulked. So that the pool may be worked efficiently, and so that it may have command of plenty of stock or prospective stock to bargain with, each member is required to enter into an undertaking that for the next five years or so he will send to the pool all the wheat he has to sell.

When a member of the pool delivers wheat to his local elevator he gets at once from the pool a substantial payment on account. The final balance found to be due to him is paid over when the season's crop is disposed of and the accounts cleared up. Settlement is made at the season's average price for each grade, so that all members receive the same price for the same grade. The pool arranges with the banks for the use of funds, out of which it makes the advances to the growers. This extensive pooling scheme with its single selling agency has been developed with the view of strengthening the producers' bargaining power, and of holding the wheat in store when supply exceeds demand. Growers stand in need of payment as soon as possible after their wheat is ready. For that reason the wheat was formerly rushed on to the market quickly after harvest, with the result that prices were unnecessarily depressed to the growers' disadvantage. Competition amongst themselves of numerous sellers anxious to dispose of their supplies would cause prices to fall against them.

In Australia pooling arrangements have been tried for some time; but conditions there are different and no provision is made for official grading. In Argentina collecting and shipping of wheat is, like the trade in mutton, in the hands of a few large exporting companies.

DEALING IN "FUTURES" AND "HEDGING"

It is one of the benefits of the grading system that an authoritative certificate for a stated quantity of a specified quality warehoused at a certain elevator can be used as security for a loan until the commodity it represents is sold. Another benefit is that a commodity officially graded can be bought and sold by its description, whether in "spot" transactions for delivery to be taken and payments made at once, or in "futures" where delivery, if taken at all, is not to be made until some stated month ahead.

Wheat is a commodity the production of which in any given country takes place only once in each year. As the quantity collected at harvest time has to serve for a year's demand, it must be greatly in excess of immediate needs, and much of it must be held for future sale. At the same time it is a commodity produced in widely separated areas of the world, where it is harvested at different times of the year. Scarcity or abundance or the prospect of these in a later harvested area will, therefore, affect the world supply and raise or lower the price that can be got for earlier harvested stocks. A grain merchant or an elevator company, having bought a quantity of wheat from the grower for cash, does not know what the market price will be in the future when the purchase can be sold. It is possible that the price then obtainable will be lower than the cost of the grain, or too low to cover the cost and the expense of storing. For that reason the wheat may be sold at once (but only for delivery and payment in the future) at a price to cover what the grain cost to buy plus charges for storage in the meantime.

In the United States and in Canada, however, it is customary for the wheat merchant to "hedge" the risk of incurring loss through a later fall in price. When he *buys* wheat for cash, probably on money advanced by a bank, he may enter at the time of purchase into a contract on the "futures" market to *sell* a similar quantity for a specified future date and at a price fixed when the contract to sell is entered into. There are organized futures markets in wheat at Chicago and other centres in the U.S.A., and at the Winnipeg Grain Exchange in Canada. The peculiarity of these "futures" contracts is that

they are seldom completed by delivery of the wheat. A futures market is carried on by operators who are not dealers in the actual commodity. They are in the market to make profit out of fluctuations in price, and their contracts are settled by merely paying or receiving the differences by which the price of the commodity rises or falls between the making of the contracts and their completion.

The merchant or the grower, when he delivers grain from store to an actual buyer, may be forced to sell it at less than he anticipated and so fail to make the profit he expected. In that case the price of the grain will have fallen in the market. Having, however, previously made a futures contract to sell about the same quantity as his actual sale, and on the basis of the earlier higher price, he will have the excess of the earlier price over the later one to draw from the futures operator under the rules that the market imposes. That will compensate him for the absence of profit on his actual sale of the wheat. If prices rise, the merchant or grower will gain on his sale; but he will lose correspondingly on his futures contract.

By hedging in a futures market for any commodity the merchant or the grower, to protect himself from possible loss through a fall in price, sacrifices the chance of a gain through a rise. He shifts the chances of both loss and gain on to the shoulders of operators in the futures market. The market is carried on by experts who themselves bear the risks and hold themselves always ready to give a price either to buy or to sell ahead; or it is carried on by brokers who find for the futures seller an operator ready to buy, and for the futures buyer one who wants to sell. Future contracts are made only for certain months of the year, and they must be completed by a stated day of the month specified. But payments of differences are made periodically at short intervals; and by settlement at an earlier date any contract may be closed before it runs its full time. In the case of wheat, if storing is financed by advances arranged privately with the banks, it is usual for purchases of stocks to be hedged by way of further security to the banks. But where wheat is stored and sold through the machinery of the pool, the transactions are not hedged. The risks then fall upon and are spread over the members of the pool as a whole.

THE WHEAT WE GROW AT HOME

In our own country wheat is grown in most of the districts where suitable agricultural land is available. East Anglia, however, with its drier climate, produces a much greater proportion than any other area. When his wheat is threshed the farmer may send it to a grain merchant with whom he is accustomed to deal, relying on him for fair treatment. In other instances he may employ an agent to sell it for him on commission, or he may dispose of it to a farmers' co-operative society which buys the wheat from him and sells to him feeding stuffs and implements he needs. Again, the farmer may take a pocket sample to his local market or corn exchange, and sell the wheat there to a merchant or a miller at the best price he can bargain for. The merchant who buys it there takes the sample with those of his other purchases and submits them for sale elsewhere. He may offer them direct to millers or larger merchants, or he may show them on city produce exchanges (such as the Corn Exchange at Mark Lane, London, or those at Manchester, Birmingham, and Leeds) where millers and merchants meet. Home-grown wheat for use in the United Kingdom is not dealt in at grain exchanges at the ports, like the Baltic Exchange in London and the Atlantic in Liverpool. These are engaged solely in placing imported grain on the home markets or in transactions for the export of such consignments of home-grown grain as are shipped to other countries. They will be mentioned again when we come to treat of imports.

English wheat is usually transported in sacks. Where crops are small, those from different farms may be assembled in a local grain warehouse by the merchant who buys them. Where they are large, consignments will be dispatched direct from the farms to millers on the merchants' instructions. Previously grain was sold in different districts by different units of measurement, so that there was no uniformity throughout the country. Now, by the Corn Sales Act of 1921, the bushel of *wheat* is defined as 60 lb. and contracts for the sale of corn in this country are, with some exceptions, void in law, unless made by weight, and with reference to the unit of one hundredweight of 112 lb. There is no grading system in force for home-grown wheat, all sales being effected by sample. Good-quality

wheat grown here is in demand for biscuit making, and much of good as well as of poorer quality is used for poultry food. For bread baking English wheat is commonly mixed in the milling with a much larger portion of Canadian, as the latter in the baker's hands absorbs more water and turns out more loaves to the sack of flour.

THE GOVERNMENT AND FOOD SUPPLIES

1. **Protecting the Public.** The Food and Drugs Act and other statutes impose quite a number of regulations on the sale of food to the public. Some of these regulations refer to the purity, some to the weight, and some to the origin of the articles to be sold. By the Weights and Measures Acts, weights and measures are not to be used in trade until they are officially stamped as correct, and they must be kept in efficient condition so that buyers shall not have weighed or measured out to them less than they pay for. For example, a quarter-pound packet of tea must not weigh less than 4 oz. exclusive of the wrapping. Bread, unless it comes under the designation of "fancy bread," is priced at so much for the quartern or 4 lb. loaf, and smaller loaves must correspond in weight and price to that. Prosecutions can be set on foot by the inspectors of local authorities when they find loaves being sold under the legal weight, when they find meat being delivered to the householder of less weight than stated on the accompanying bill, or when they find weights and measures in use that are incorrect.

Milk and butter are required to contain not more than the permissible maximum of water, not less than a minimum of their natural fats, and no adulterative additions. Butter, cream, jams, and similarly perishable foods must be free from chemical preservatives. Margarine must be labelled as such when sold and when exposed for sale in shops, so that purchasers may not be deceived into thinking they are getting butter. Imported meat must not be exposed for sale except under an indication that it is imported. Eggs, butter, and other articles coming from abroad must be marked to show the country of origin.

2. **Protecting the Home Producer.** Restriction is placed by the Minister of Agriculture on the quantity of bacon imports so as to keep the price in our markets at such points as will

encourage production by the pig and bacon industries at home. Quotas are also laid down for wheat imports; and a levy is payable to a Wheat Fund on every hundredweight of flour sold in this country by millers and importers. Out of that fund the Wheat Commission (which controls the scheme) pays to the home grower of wheat a subsidy sufficient to bring the price he receives per hundredweight up to the amount fixed annually by the Minister of Agriculture. A scheme restricting imports is also in operation for beef.

In addition to imposing a customs duty on imports of raw and refined sugar, the Government paid for ten years ended in 1935 a subsidy to the sugar-beet factories in this country. Then a new arrangement was put in force whereby the excess price allowed for their product to the beet factories comes out of the price to be charged for all refined sugar sold here, whether produced by the beet factories or not. Standing commissions, marketing boards, and committees have been formed under the Agricultural Marketing Acts of 1931 and 1933 for the purposes of regulating imports (if any), home production, and prices of various agricultural commodities, of which milk, bacon, and potatoes are examples. Marketing board schemes are compulsory, and the boards have power to fine producers who do not comply with the regulations imposed.

3. **Grading and Marking Schemes.** We have seen how the production of mutton and wheat for export is highly organized in some of the British Dominions and elsewhere. Butter is another of our imported foods which receives much official attention by inspection, grading, packing, and marking in New Zealand, Australia, Denmark, Ireland, Holland, and other Empire and European countries. In Denmark particularly the co-operative plan of marketing butter and bacon has been extensively developed by the producers. With the object of helping our native food industries to hold their own against the competition of imports produced and marketed in highly organized conditions, the Ministry of Agriculture has inaugurated a number of schemes for the grading and marking of home produce. Schemes have been provided for beef, eggs, fresh and canned vegetables, and fruits, cheese, and flour. The National Mark is placed on officially graded home products or on their containers. It consists of an outline map of England

and Wales, with a circle in the middle bearing the words "Produce of England and Wales" on its circumference, and having the design of the Union Jack within.

Our grading and marking schemes are not compulsory, but are offered to producers for adoption voluntarily, because of the greater ease with which a graded commodity can be marketed, and because of the preference that the public is expected to show for articles of good quality produced at home. The grading and marking of beef is done at certain centres by officials appointed by the Government; but for other products, packing-station proprietors are authorized to grade the goods themselves and mark the containers. Standing Rules and Orders have been issued by the Ministry of Agriculture for England and by the Secretaries of State for Scotland and Northern Ireland. These define the grades to be adopted, none but good-quality produce being allowed to bear the mark. For beef there are the three grades of Select, Prime, and Good. Eggs are dealt with in four grades, according to weight, after they have passed an effectual test for freshness. For some of the other articles only one grade is marked.

4. **Credit Facilities for Agriculture.** Farming industry does not provide the same opportunities as manufacture for the raising of permanent capital or working funds by mortgage or charge on assets. Farm buildings, even if they are the farmer's own, are of a lower average value than those of manufacturers, their plant is less extensive, their live stock and growing crops are subject to the vagaries of the weather and the ravages of disease. Yet the farmer has to wait longer than the manufacturer for his produce to take marketable form and so become convertible into cash. Because of these unfavourable financial circumstances the Government has by the Agricultural Credit Acts of 1931 and 1933 put at the disposal of the farmers special facilities for raising funds.

For the purpose of *long-term* loans secured by mortgage on farm lands acquired or to be acquired by the borrowers the Agricultural Mortgage Corporation was formed in November, 1928, with a share capital subscribed by the banks, a loan advanced by the Government, and debentures issued with the help of the Treasury. The published accounts of the company show that it has been successful in its purpose and that it has

been of considerable usefulness to the agricultural industry. Owing to the demands made upon it, two increases within a short period have had to be made in the debenture issue.

For the purpose of securing *short-term* advances by the banks for financing the season's operations, the 1931 Act provides for an "agricultural charge" to be given on a farmer's live stock and crops. The rights of the lending bank and the duties of the borrowing farmer are defined by the Act, whilst the conditions are made more favourable than they formerly were for the banks to aid agriculture in that way. Such a charge ranks in priority to all claims other than those for rent, rates, and taxes. The borrower is at liberty to dispose of the assets charged; but he is bound to repay the bank out of the proceeds of sale, and failure to do so renders him liable to penal servitude. Registration of an agricultural charge at the Land Registry is compulsory; and, though inspection of the register is allowed, publication in the Press of the registration of any charge is prohibited under penalty.

QUESTIONS

1. Explain why foodstuffs in general make up so large a part of the imports of this country. Name six kinds of food that we import in large quantities. Why is it that importation is more necessary for some foods than for others?

2. From what countries do our imports of mutton chiefly come? How and since when has it become possible for these supplies to arrive in wholesome condition from countries so far distant? Explain the chief features of the organization of supply that have enabled imported mutton to get so extensive a hold on the English market.

3. What is meant by "grading and marking" in reference to produce? Explain how it is that these facilitate the sale of the produce and at the same time procure for the producer a better price.

4. (*a*) Other considerations being equal, which is the better course for the producer, and why—to sell his produce by private bargaining, or to have it offered by auction on a large public market?

(*b*) If growers of the same kind of produce co-operate to regulate the supplies offered from time to time, can they benefit thereby, and if so, how?

5. (*a*) What countries are the chief sources of our supplies of imported wheat? Explain how wheat is a raw material used in manufacture here.

(*b*) In a country where the wheat grown is officially graded and certified, how can a grower use his certificate for financial help before his wheat is sold?

6. Describe the working of the Canadian Wheat Pool.

7. Describe the operations in a "Futures" market. Explain what is meant by "hedging." (*R.S.A.*)

8. Trace in a general way the usual methods of carrying home-grown perishable foodstuffs from producer to consumer in this country. Can you suggest any improvement of the methods now adopted? (*L.C.C.*)

9. Indicate several ways in which the public is protected by law in this country in regard to food offered for personal consumption.

10. (*a*) What steps has the Government of this country taken to protect home-grown produce from the damaging competition of supplies from abroad?

(*b*) How does the Government encourage and help the home producer to market his produce in the most saleable form and condition?

11. What means have been legally instituted here for assisting the farmer, (*a*) in raising permanent capital, (*b*) in obtaining working funds until his produce is ready for the market?

CHAPTER 3

THE RAW MATERIALS OF NATURE

HAVING sketched how the commercial world supplies the most insistent of our needs, namely the food we must eat to live, we now turn to others of our wants. Some of these, like clothes to keep us warm or houses to shield us from the weather, are almost as much necessities as food; but some, like books or pictures, gramophones or motor-cars, we get or we go without according to our means. Nearly all of these additional things that we want are, in the forms in which we use them, manufactured goods. But everything that we use comes at first from resources that Nature provides. The industry we expend upon these resources consists of collecting or extracting them from earth or sea, of transporting them to where we can make use of them, and of changing their raw shape and state into others suitable to our needs. It is the raw materials and the minerals out of which or by means of which our manufactured goods are produced that are the subject of this chapter.

COAL AND THE COAL INDUSTRY

1. Location. The most extensive of our coalfields are (starting from the North) between the Forth and the Clyde in Scotland; in Durham and the south of Northumberland; in South Yorkshire, Derbyshire, and Nottinghamshire; in South Lancashire on the other side of the Pennine Range; in and about the Midland counties of Stafford, Warwick, and Leicester; and in South Wales. The Cumberland coast, North Wales, and an area in Gloucestershire and Somerset contribute smaller shares of the country's output, whilst near the Kentish coast there are now deep workings of seams considered to be continuous with those of northern France. The coal we use is a native product; any importation that may take place now and again is so small as to be negligible.

2. Output. In 1913 the coal output of Great Britain was 287,000,000 tons. Over 90,000,000 tons of that went in exports, mostly to European countries, and in bunker coal for

shipping. The remainder was used at home for manufacturing and domestic purposes. Within the next twenty years, however, the output had shrunk by 80,000,000 tons, of which about half was due to decrease in exports and bunker requirements. One of the chief causes of the shrinkage has, therefore, been a falling off in foreign demand due in part to greater development of Continental coalfields and to their competition with us in their own and other countries' markets; also in part to the general decline in international trade arising out of the political and economic conditions that followed the European War. The decrease in home demand has resulted from the protracted depression in trade with its accompanying restriction of manufacturing activities in which coal is used. In some degree the decrease of output has been due to a general substitution of imported oil fuel for coal in the generation of motive power. Oil-driven road-motor transport has entered into severe competition with the steam-driven railway train, and many ships are now either fuelled with oil or propelled by oil combustion engines.

3. **Historical Importance.** From the point of view of the employment it directly and indirectly provides, coal mining is and has been one of our most important industries. It was on the foundation of our natural wealth of coal and of iron ore that, from the close of the eighteenth century onwards, we built up our industrial prosperity and gave the lead in manufactures to the world. The industry is an ancient one; but it was when we invented the steam pump, and by its use kept the mines clear of accumulating water, that we were able to win coal and ironstone in quantities and from depths that were until then impracticable. About the same time we discovered how to apply coal and its product coke to the smelting, puddling, and casting of iron and the making of steel. We could then bring into use machines of iron and steel which, with the perfecting of the steam-engine to drive the machines, made processes of manufacture easier and still easier, increasing progressively the potentialities of production.

4. **A Basic Industry Still.** As an industry upon which manufacturing processes are built, coal mining must continue to be one of our most important national occupations. Except where imported oil fuel can be substituted with advantage, our

coal supplies are essential for generating the heat needed for driving power in manufacture and transport. Heat produced by coal combustion is also essential for the preparatory melting and purifying of ores and for the fashioning of the metal, not only into the tools and machines of manufacture, but also into constructive materials for buildings, bridges, railway lines and plant, ships, and other needs of our commercial and social life. It is essential, again, for processes such as the production of dyes and chemicals, the manufacture of glass, the refining of sugar, the baking of bread, the commercial preparation of manufactured foods, and the more humble purposes of home cooking and heating. Even if we use gas instead of coal as the direct means of obtaining heat and motive power, it is from coal heated in retorts that the gas has first to be produced. If we use electricity, coal again is required in this country in the absence of suitable water power to drive the generating dynamos. Our very necessary system of communal water supplies is made possible only by the use of pumping machines driven by coal-produced steam and of piping for the manufacture of which, as well as of the pumps, furnaces of coal or coke must be used at several stages.

5. **Production.** As the coal strata do not lie exposed on the earth's surface, the process of making the supply available for use must begin underground, sometimes at considerable depths; and sometimes, as at Whitehaven, it is carried on under the sea. A shaft must be sunk, and roads or passages must be run out from the shaft at the level of each seam to be worked; haulage arrangements underground, in the shaft and overhead, must be installed; and a ventilating system must be established with a fan running at the pithead to draw out foul air from the workings and to let fresh air flow in. In the modern colliery electric hewing machines and electric lighting must also be provided.

When the colliery is ready and working the "tubs" of coal that come to the top are weighed so that each may be booked at the agreed rate of pay to the miner whose tally it carries, and so that record may be kept of the output of the pit. The coal raised is passed over screens to sort out large from small, the largest, if it comes from a seam of good quality, being sold as best house coal. As much as possible is loaded straight into railway wagons, even if they are not to be dispatched at once,

because coal breaks up and makes more dust and small with every extra handling.

6. **Distribution.** If the colliery is situated in or close to an urban area, the owning company may sell what it can at retail price to householders either in cartloads or in bags by roundsmen. The rest will go at wholesale price, in truckloads to retail dealers in towns and cities or to works in manufacturing districts, in trainloads to railway engine sheds, gas works, and electric generating stations at various points, and to steamship owners and export merchants at the ports. Sales will be effected either by the colliery company's own salesmen or through agents selling or buying on commission. Buyers either will know already the quality of the colliery's product, or will take a truckload as a sample. At times a second middleman between colliery and consumer may come in on a small commission. The town dealer sells in ton loads or in single bags to householders, according to their requirements. Coal may reach a seaport by coasting vessel or by canal barge; and heavy works are sometimes established where they can have a canal or river wharf, so that they may receive supplies by cheap water transport. Usually, however, the coal must be conveyed to its destination by railway. Where, as in the case of London, the nearest coalfield is many miles distant, the cost of transport adds considerably to the price per ton.

7. **Economization.** The coal measures consist of deposits (accumulated throughout vast periods) of decayed vegetation that grew in a prehistoric world very different from ours. These deposits are not unlimited, and if our descendants continue to make use of them a time will come when they will be exhausted. In this slow process of exhaustion coal differs from electricity, and from other natural forces which we can use, such as the driving power of wind, the flow of stream or river, and the movement of the tides. It differs also from our food resources, for fruit, vegetables and grain, beef, mutton, bacon, and fish are all supplies that Nature renews with the cycle of the seasons. Nevertheless, it is computed that the coal in this island workable by present methods is sufficient to last some hundreds of years yet. But we do not know whether our successors of the twenty-fifth century will want to use coal, or whether they will be able to work deeper seams than we can.

There would be little justification, therefore, in our sacrificing present reasonable needs for hypothetical needs of distant generations to come. It seems, then, that all duty requires of us in our present state of knowledge is to exercise ordinary careful economy in using the supplies available.

It is said, however, that present methods are very wasteful, though that contention is made more from the desire to improve our utilization of the mineral than from any regard for posterity. As the clouds of depression that hang stubbornly over the coal industry show little sign of dispersing quickly, it is thought that a thorough overhaul is needed not only of methods of supply, but also of the manner of using the supply. When coal is heated in the making of coal gas, coke is obtained which can still be used as fuel, and tar is obtained which is now applied extensively in maintaining road surfaces. Ammonia and other useful chemicals are obtained as well. On the other hand, when coal is used in its natural state for heating under works boilers or in domestic fires, all these valuable by-products are lost.

8. Reorganization. According to the Report of the Royal Commission on Coal, 1925, one ton of coal can be made to yield fifteen gallons of fuel oil with coke and other products besides. The Report suggested that the coal burned in open fires, if previously treated, would provide sufficient fuel oil and motor spirit to make us independent of the greater part of our foreign supplies. These processes, if they could be organized extensively on a paying basis, would use up much small and low-grade coal now wasted. Moreover, by collecting the rich products now emitted during combustion and leaving behind a solid fuel that is smokeless, they would prevent much pollution from reaching the atmosphere and would ameliorate fog conditions in the towns.

As regards conditions of supply, the Report recommended that the surface landlords' property in underlying minerals should be acquired by the State. The royalty payable to landlords on every ton of coal raised would then be payable to the State. Underground workings could then be planned on a freer scale unhampered by the necessity of keeping within the boundaries of estates from whose owners the workings had been leased. For a similar reason the Report recommended

absorption by the larger and better-equipped undertakings, which are more economical in working, of such of the smaller pits as are worth continuing.

Coal production was viewed by the Commission as likely to become more and more part of a vast industry for coal *utilization*, which should be put under the supervision of a national co-ordinating body. Such a national-scale scheme would include the generation of electricity, the manufacture of gas, the production of coke, of fuel oils, tars, dyes, and various commercial chemicals. Increase in the value of the total product, with savings by efficiency in production, transport, and marketing, would, it was hoped, make possible the maintenance of workers' wages and a reasonable return on capital. The Coal Mines Act of 1930 instituted temporary schemes for allotting quotas of output to each district and to each mine. It also provided for the setting up of a Coal Mines Reorganization Commission to facilitate amalgamations and absorptions, and for a Coal Mines National Industrial Board to deal with questions of wages.

9. **Present Position.** There have been big developments in the large-scale generation and distribution of electricity, which have progressed apart from reorganization of the coal industry, the country having been divided into several large areas for the purpose. There have been a few big amalgamations of colliery companies also. A prospectus appearing in the Press at the time this is being written gives a fair description of one of these large reconstructed undertakings. Its issued share capital is £8,000,000, with £1,500,000 debenture stock in addition. It holds all the issued share capital of twelve subsidiary companies. It operates some fifty coal mines and has a productive capacity of 10,000,000 tons a year, with estimated available reserves of 800,000,000 tons. It is equipped with modern washing, coal-breaking, and screening plant. With its subsidiaries it owns some 18,000 railway wagons, including many twenty-ton steel wagons, which secure railway and dock rebates. The company has its own subsidiary wagon-building works. Another of its associations is a patent briquette manufactory which uses up annually 700,000 tons of small coal. Still another subsidiary is a distributing or marketing organization with old-established connexions abroad.

Some coal-utilization plants have now been got into work in the country. The Minister of Mines reports that quantities of spirit extracted from British coal have been used by the Air Force, and quantities of fuel oil by the Admiralty, both with satisfactory results. The industry has apparently taken a turn for improvement, and Parliament has provided for the acquisition of mining royalties by the State. But the vision of the Royal Commission of 1925 of a national coal-utilization organization, making scientific and economical use of the wealth of our coalfields, and absorbing large numbers of the men that the depression threw idle, is yet far from having materialized.

IMPORTS OF RAW MATERIALS

Most of the raw materials for our manufactures come from abroad. The Table below shows for the United Kingdom the values of gross imports, re-exports, and net imports of raw materials for the year 1938. Of some of the commodities, such as timber, wool, hides, ores, and paper-making materials, we have an insufficient home supply, though more of the first three might be produced here. Of others, such as raw cotton, raw silk, and rubber, we have no native production. It will

IMPORTS OF RAW MATERIALS FOR THE YEAR 1938 INTO THE UNITED KINGDOM

Description	Gross Imports	Re-exports	Net Imports
	£	£	£
Iron and Other Ores and Scrap	26,971,229	945,096	26,026,133
Non-metallic Mining and Quarry Products	4,736,374	345,575	4,390,799
Wood and Timber	42,900,021	289,647	42,610,374
Raw Cotton and Cotton Waste	29,586,905	1,253,575	28,333,330
Raw Wool and Waste	42,693,710	12,565,528	30,128,182
Raw Silk and Other Textile Materials	13,834,995	841,172	12,993,823
Oils, Seeds, Nuts, Fats, etc.	30,610,925	546,658	30,064,267
Hides and Skins (Undressed)	18,249,432	9,568,028	8,681,404
Paper-making Materials	16,045,205	62,888	15,982,317
Rubber	11,513,418	2,693,425	8,819,993
Other Raw Materials	10,460,657	1,144,341	9,316,316
TOTAL	£247,602,871	£30,255,933	£217,346,938

be noticed that the textile industries, using raw cotton, wool and silk, take a third of these imports, whilst the next largest values come under the heads of timber, oils and seeds, metallic ores, and paper-making materials. Amongst the non-metallic mining products are asbestos, chiefly from South Africa; asphalt, mostly from the United States, Mexico, and the West Indies; also fertilizers, sulphur, sand and granite. Nearly all the iron ore comes from America, Spain, Sweden, Norway, and North Africa. Next in value under this head is tin ore, South America and Nigeria supplying most of it. Then come copper from Canada and Spain, pyrites, manganese, and zinc. The timber arrives chiefly from Russia, Finland, Sweden, Poland, Canada, and the United States; raw cotton chiefly from the United States, Egypt, Peru, Africa, and India. Australia, New Zealand, South Africa, and South America send us most of the raw wool.

Japan and China are the chief sources of raw silk. Of the other textile materials the largest in value are flax and jute. Flax comes mostly from Belgium and Latvia, jute from India, and hemp from Italy, East Africa, and the Philippine Islands. The oils class includes £5,000,000 for crude petroleum, mostly from 'Iraq, Iran, Dutch West Indies, and Venezuela, whilst the remainder of this class is largely seeds and nuts which, when crushed, yield various oils and fats. A large part of the hides and skins is undressed furs, and the rest includes ox, calf, sheep, and goat skins. Of paper-making material the bulk is wood-pulp from Finland, Sweden, and Norway. Rubber is mostly from British Malaya, Dutch East Indies, and Ceylon, and, like petroleum products, it is used largely in motor transport in one of the most characteristic developments of the present time. The chief items under the last head of Other Materials are bulbs, fresh flowers, bristles, and animal hair. The bulk of the large re-exports of raw wool goes to France, Belgium and Germany; and of the total of hides and skins re-exported nearly all is for undressed furs.

RAW COTTON SUPPLIES

1. **Quantities and Sources.** In 1938 the United States of America sent us 444 million pounds' weight of raw cotton, Egypt 258 million pounds, British India 174 million pounds,

Peru and Brazil 192 million pounds, British Africa 110 million pounds, leaving 29 million pounds from other countries. In addition we imported 52 million pounds of linters—a short fuzz forcibly detached from the seeds—and 583,840 cwt. of cotton waste. The total value as shown on page 37 is still one of the biggest items in the sum of all our raw-material imports, though the 1938 figure is well below the average of preceding years. We see, then, that the manufacture of cotton goods is, like the production of coal, one of the most important industries of the country. Looking at it from the export side we find also that in 1938, out of a total of 365 million pounds' worth of articles manufactured here and exported by us, cotton yarns and piece goods amounted to nearly £50,000,000—again one of the largest constituents of the whole. Like the coal-mining industry, however, the cotton manufacturing industry is struggling through bad times, and production is very much less than it used to be.

2. Cotton Growing. No cotton is grown in the British Isles, though, as stated above, a considerable part of our annual supplies now comes from countries within the Empire. The development of the Empire supply has been helped on by the work of the British Cotton Growing Association, which was formed in Manchester in 1902. That move was taken chiefly with the object of making the cotton industry here less dependent on America, which even now sends us more than any other country. Supplies and prices were affected by weather conditions in the southern States, where the American crop is grown, by the depredations of the insect pest known as the "boll weevil," and at times through the "rigging" of the market by American operators in the commodity.

The climate needed for cotton growing is a subtropical one. The plants are nearly all grown from seed sown each spring. They need plenty of moisture, but not heavy rains, as these damage the crop. Some cotton fields, however, have been established in dry areas, as in Peru, and do well under an adequate irrigation system where river water is plentiful. The plants need a good deal of attention in thinning out of growth, and the soil must be kept free from weeds and well hoed. The necessity for this continuous cultivation tends to prevent the extension of cotton growing, partly because other crops can

be grown with less attention, and partly because of the difficulty of finding a sufficiency of cheap enough labour. The cotton down, or "lint" as it is called, is picked from the bursting bolls in the autumn. It is then "ginned" to free it from seeds, and it is packed for shipment in large bales held together by hoops, but not always covered so carefully as to keep the contents clean.

3. **Qualities.** The very best raw cotton is known as "Sea Island," because it is grown in the islands off the coast of South Carolina and on adjacent parts of the mainland. It is a cotton of thin and long fibre or "staple," which can be spun into yarn so fine that a hundred miles or more of it would weigh only 1 lb. Raw cotton of that quality is in small supply and commands a high price. It is used for the finest fabrics, the finest sewing thread, and in lace making. Some of similar quality is now grown in the West Indian Islands, the original seed having been introduced there from the Sea Island region.

The next quality is known as Egyptian, because most of that variety is grown in Egypt, where rich alluvial soil and efficient irrigation from the Nile produce crops of excellent quality that are ginned and packed with care. The bulk of our raw cotton supply, however, is what is known as American Upland, of shorter staple than Sea Island or Egyptian. Most of the Indian growth is of short and coarse staple, used in the mills that have been set up in India and Japan, but not much favoured in this country. American supplies are collected in and shipped from the southern ports of the United States, such as Galveston and New Orleans in the Gulf of Mexico, and Charleston on the Atlantic seaboard. The Egyptian crop comes through Alexandria.

4. **Our Raw Cotton Market.** Though cotton fabrics are produced in other parts of the United Kingdom, Lancashire manufactures most of them. For that reason raw cotton imports arrive at Liverpool, and at Manchester by the Manchester Ship Canal. They are transported thence by rail or road to the spinning mills. It was chiefly to save on the rail charges of those days for the carriage of raw cotton that the Manchester Ship Canal and docks were made.

Again, because Lancashire is the predominant manufacturing area, most of the buying and selling of raw cotton is

carried on in Liverpool and Manchester. Dealings take place on the Manchester Royal Exchange; but there transactions in the manufactured product are more numerous than in the raw material. It is on the Cotton Exchange at Liverpool that most of the business in raw cotton is concentrated. Sales are not made by auction; but an elaborate system of grading has been evolved to provide every facility for buying and selling by description. There is a "spot" market for supplies to be delivered from the dock warehouses at once. A sale "to arrive" is for bales that are afloat on the sea at the time the sale is made. There is also an extensive "futures" market conducted on lines similar to those previously described for wheat. Contracts for futures are entered into now for completion at specified later dates, with official registration of the contracts, publication of prices, and settlement by payment of differences from time to time. By the rules of the Liverpool Cotton Association futures contracts are made on the basis of American "middling" grade. The prices of that and other grades are stated in decimal form at so many pence and hundredths of a penny per pound, and a rise or fall between, say, 6·25 and 6·10 pence is described as a rise or fall of 15 points. The prices ruling from day to day are published in the Press.

SUPPLIES OF RAW WOOL

1. **Their Extent, Sources, and Uses.** According to the Table on page 37, net imports of wood and timber—softwoods to be used mostly for building purposes and hardwoods for furniture—were the most valuable in the raw material class in 1938. The second place in value of net imports in that class was taken by raw wool at approximately £30,000,000 for the year. The quantity making up that value was over 880,000,000 lb., which was supplemented by the clips from the considerable flocks in this country.

The importance of raw wool lies in the fact that it is the basis of two extensive home industries, namely the manufacture of worsted and woollen cloth, and the manufacture of hosiery and knitted wear. The former is located in the West Riding of Yorkshire and in smaller areas in the west of England, the south-east of Scotland, and other parts. The latter is

carried on largely in the Midland district, of which Leicester is the centre. As we have already seen, the main sources of our overseas supply of wool are Australia, New Zealand, South Africa, and Argentina. Raw wool from abroad comes mostly to London, if it has not been sold before arrival. For supplies that have already been bought abroad, Hull, owing to its proximity to the West Riding mills, is an important port of entry.

2. Organization Abroad. In Australia, where wool growing is more highly organized than in any other country, four-fifths of the clip is merino wool. It is grown on sheep that carry a heavy fleece of long staple and fine quality but are not of much value for mutton. In New Zealand, on the other hand, production has moved away from merino variety to cross-bred sheep that give excellent mutton and at the same time yield a wool clip that is valuable, though not of the high value of the Australian merino. In South Africa the production of wool has been much improved during recent years, and the clip is largely of merino quality.

Shearing in Australia and New Zealand is done by machine, in South Africa by hand. From the shorn-off fleece all inferior portions are removed to be sold by themselves. In Australia it is the rule and in New Zealand it is usual for the fleeces so trimmed to pass through the hands of an expert, who classes them according to their condition and quality. Fleeces of the same class are then baled together, marked with the description and the name of the grower's station, and dispatched to port. Clips from smaller stations may be bulked either before or after classification, so as to make up larger and more attractive lots and secure a better price.

Formerly most of the wool grown in Australia and New Zealand was shipped for sale by auction at the Wool Exchange in London, in Antwerp, or in some other import market. During the last few decades, however, the practice has been extended of holding auctions to follow on at one port of shipment after another. Of these ports Sydney, Brisbane, and Melbourne are the chief in Australia; Wellington, Dunedin, and Christchurch in New Zealand. In South Africa, also, auction sales are now held at Capetown, Port Elizabeth, East London, and Durban. When the wool reaches port it is

warehoused by the broker appointed to sell, who extracts samples and catalogues the bales, the dates and order of the sales being arranged by the brokers' association.

Before the sales at any port commence, representative bales are placed on display to be inspected by prospective buyers, who come from many distant countries to attend. Payment of purchases is made by the local banks under arrangement with the home banks of the purchasers. The wool is then released for shipment to ports convenient for the mills or warehouses of the buyers.

Considerable quantities of wool, however, are still sent from the Southern Dominions to meet the demands of buyers on the London Wool Exchange. The bales so consigned are placed on view at dock warehouses in the morning on sale days, and the auctions take place in the afternoon at the Exchange sale-rooms in Coleman Street, E.C.2. Six sales are usually held at intervals during the year, each lasting from two to three weeks. Sales of imported wool, chiefly from South America, also take place in Liverpool. As wool does not lend itself easily to exact grading, all sales are effected by sample and inspection, there being no sale by description and no futures market in raw wool here.

Growers in Australia are organized into territorial associations, and selling brokers have their local associations also. Their several growers' societies are assisted and their activities co-ordinated by the Australian Wool Growers' Committee. The brokers, too, have their National Council of Wool Selling Brokers, and matters of common interest are dealt with at conferences between the two national bodies. In New Zealand the Government has set up a Wool Committee, the chairman of which is appointed by the Minister of Agriculture, two members being nominated by the Sheep Owners' Federation, and two by the Wool Brokers' Association. In each country some of the wool-broking businesses are run by companies or societies financed by the sheep farmers themselves. Though organization in South Africa is not yet as far advanced as in the Antipodes, development is progressing on similar lines.

3. **Wool Marketing at Home.** In this country we have little of the well-organized conditions of the Dominions either in the growing or in the marketing of our native wool. Farmers

here dispose of their wool in two ways—by private sale or at public auction. Private sales may be made to local dealers, or to larger merchants either direct or through local agents. Wool merchants pay on delivery of the wool, warehouse or grade it, financing operations from the time of purchase from the grower until it is sold to and paid for by the manufacturer. Particularly in Bradford they may also scour and comb it into "tops" or loose ropes of wool fibres. These are prepared to suit the various requirements of the worsted spinners, who are the topmakers' customers, and who carry the process of manufacture a stage farther by turning the tops into yarn. For woollen cloth as distinct from worsted all the processes of manufacture from scouring to weaving and finishing may be carried on in the same mill.

Public auctions of raw wool are held annually at numerous points within producing areas in the Midlands and the South. In the North, however, the method of selling wool by auction is not resorted to, and in the South there are a few districts where sale by private treaty is the rule.

As the farmer is not an expert, either in judging the value of his wool from the manufacturer's point of view or in sorting it into classes to fit in with manufacturing requirements, he is in a weak position when bargaining for its sale. For such reasons the auction method of disposal is theoretically the better one for securing to him a fair and competitive price. But local auctions are too numerous for a representative body of buyers to attend them all, and many are too small to attract buyers in sufficient numbers to make competition amongst them keen. At a central auction market with a series of sales the grower could withdraw his lot when a price reserved was not reached and could offer it again when prices improved. But where the price obtainable at a local auction was too low, he would either have to hold his wool for another year or incur the expense of sending it elsewhere. Further, both in private and in auction sales, the separate lots on offer are, normally, insignificant and badly sorted compared with the larger quantities and more perfect classification of consignments from abroad. All that adversely affects the price which the home grower can command.

Since the war, however, sheep farmers here are learning to

improve their position by co-operative marketing. There are now several producers' selling societies in existence. Members are instructed on the best methods of preparing the wool for market. They are expected to send their clip to be disposed of by the society on their behalf, and in some cases they are bound by contract to do so. Some of the societies, again, sell their members' wool by private treaty, whilst others send it to be sold for the society by a broker on the London Wool Exchange. So far, however, sales of home-grown wool are a very small percentage of the turnover on that Exchange. Usually the society bulks the supplies its members send in, so that efficient classification can be made by the expert grader the society employs, and so that lots big enough to attract good prices can be offered in each grade.

A committee elected by the members manages the society's business with the expert advice of its selling broker and its grader. Each member is required to subscribe to the capital that the association needs for providing the assets necessary to the carrying on of its work. On delivery of his clip to the society's warehouse each member receives a substantial part payment, settlement being completed when, at the end of the season, the balance due to him has been ascertained. The payments advanced to the members before their wool is sold are made out of credit provided by the society's bankers, the society being much more competent to arrange favourable terms with the bank than members would be individually. In that way the farmer draws the best part of its value as soon as his wool is ready, and the society is able to hold supplies for his benefit until an opportune time for sale arrives.

QUESTIONS

1 Write a short account of the coal industry in this country, (*a*) showing the importance of the position it has held and still holds in relation to manufactures, (*b*) indicating its place in regard to household and export demand, and (*c*) outlining its probable course of development in the immediate future.

2. Sketch the organization of a staple industry such as the coal industry, indicating the links in the chain of production and distribution from the extraction of the raw material to the sale of the product to the consumer. (*U.L.C.I.*)

3. (*a*) Name six kinds of raw material that are imported in large quantities by the United Kingdom, and state as well as you can from what countries they chiefly come.

(*b*) Why is it desirable that we should import these commodities, and why do we take them in such quantities?

4. Explain what you know about raw cotton—where and how it is grown, where and how it is dealt in when imported here, and what place it occupies with us as a raw material of manufacture.

5. What is meant by dealing in "futures"? Explain your answer by reference to the cotton or wheat markets. Do you consider such dealings useful to business? (*U.L.C.I.*)

6. Give to the best of your knowledge a detailed description of the organization that exists for the marketing of imported wool in this country and in the countries abroad from which our main supplies come.

7. Describe and criticize the facilities that exist for the disposal of our home-grown wool. Explain how producers here have been trying by co-operation to improve their position as sellers on the home market.

CHAPTER 4

MANUFACTURED GOODS

WITH the exceptions of air and water and of some of the foods we eat, very few of the things that serve us in civilized life are used by us in their natural states. We have learned to change not only the situation of Nature's supplies, but also their form and constituents into others that better satisfy our needs. The processes of changing form and make-up we call *manufacture*, particularly when they are carried out on an extensive scale. Originally the word must have meant what it signifies literally, the making of things by hand. Nowadays it is applied to all kinds of mechanical operations performed in works and factories—operations whereby articles are produced to meet the many collective wants of the community, as well as the innumerable wants of its individual members.

MATERIALS FOR MANUFACTURE

In writing of raw materials we were incidentally led to some indication of the purposes for which they are used, so we have already had occasion to name several manufacturing processes and several kinds of manufactured goods. In particular, mention has been made of the textile and hosiery industries in relation to raw cotton and raw wool; of coal gas and coke, and of fuel and motor oils, in relation to coal. In the chapter on food supplies the making of butter and cheese from milk was referred to, the milling of flour from wheat, and the baking of bread from flour; also the canning of fruits and vegetables, and the production of sugar from the sugar beet. As this country is engaged chiefly in manufacturing operations, the greater part of the raw materials that enter into finished products comes from other lands. A list of the principal materials that we import for manufacture was given in Chapter 3.

Many of our manufacturers, however, do not occupy themselves with the making of goods that are ready and suitable for personal use. Instead, they produce commodities that

become the material out of which other goods are made. For example, the flour of the miller is used by bakers for making bread and similar goods, and sugar is used in the making of jams and sweets. Hides are tanned into leather, and leather is turned into boots and shoes, into saddlery and travelling bags, and into driving belts for workshop machines. Trees felled in the forest are sawn and dressed into timber to be used in the erection of buildings, in the construction of carriage and wagon bodies, and in the fashioning of articles of furniture for home, office, and hotel. Some of the forest growth is crushed into wood pulp, and from that paper is made for wrappings and for printed news sheets and books. From wood pulp again a viscous substance is obtained from which rayon yarn is produced, to be woven or knitted into wearing materials of great variety.

Similarly the yarns that are spun, with much intricate manipulation, from raw cotton and raw wool are woven into cloth for household drapery, and woven or knitted into materials for garments to wear. But, again, before these articles can be fabricated, the products of chemical and dye manufacturer must be used to scour the wool and dye the yarns, or to bleach, dye, or print the cloths when they are woven. Iron ore when smelted into pig-iron becomes the material for making castings and malleable bars and sheets of iron, or its highly useful variant—steel. Iron and steel, however, are not final products. They are used, for example, in the making of hand tools like hammers, shovels, and saws. They are used again in the making of power machines, as lathes, engines, and cranes, or for making accessories or parts such as boilers, wheels, and chains. But these are still only bigger tools with the help of which we contrive in time to produce such things as we can individually and collectively consume for nourishment, comfort, and enjoyment.

VARIETY OF MANUFACTURES

In the chapters on Food and Raw Materials we selected two or three representative commodities and sketched the stages by which they are prepared for market and offered for sale. The manufactured goods we use are much too numerous and much too varied for any few articles to be presented as typical of the whole. For a general survey of the extent and diversity

of our manufactures our best course, perhaps, is to pass them in review by classes according to the purposes for which they are intended.

1. **Manufactured Foods.** Of manufactured eatables we have already noticed flour and sugar products, as bread, pastries, and confectionery. Fresh fruits soon decay, yet they all mature during three months of the year, so that the supply is then greatly in excess of what can be consumed. We preserve them for food by drying them, as is done with currants, raisins, and prunes; by boiling them in sugar to make jams; or by sterilizing them and keeping them in bottles or tins sealed to exclude the air and the germs of decay it carries. Similarly, the food value of some vegetables is retained by their being dried, as peas or beans, whilst these and others are sometimes canned or bottled. Milk is a very perishable food; but its nourishing properties are preserved in the tinned, condensed form and in the forms of butter and cheese. We cure pork and sell it as bacon; and fish of several kinds, of which there is often excess supply, we also keep for market in cured or salted states. In the cultivation and preparation of these foods we make use of many manufactured articles such as agricultural implements and machinery, and the machines and appliances needed for milling, baking, dairying, refining, canning, ice-making, and so on.

Salt, a common and necessary seasoning for our foods, becomes, like sugar, available only through manufacturing process. The same is true of condiments and spices, of sauces, relishes, and pickles. Many so-called "patent foods," some of which so persistently advertised will readily come to mind, are sold partly prepared or partly cooked. Cocoa has to be ground, coffee roasted and ground, and tea blended, before they are ready for use. Then we consume many brewed or fermented drinks, aerated and flavoured waters, also tobacco and numerous medicines and drugs, all the products of manufacture. Perfumes, soaps, and cosmetics are of such intimate personal use that we may class them here along with food, drink, and physic. In addition to the foregoing for human consumption, there is a considerable production of prepared foods for cattle.

2. **Articles for Personal Wear.** These are mostly articles or garments of textile materials, and the spinning, weaving,

dyeing, and sewing processes by which they are produced form a very extensive section of our manufactures. The basis of all is yarn of one kind or another. Much of the yarn is spun from the fluff that grows in the seed bolls of the cotton plant, and much from the wool that is shorn from the fleece of the sheep. Some is obtained from the fibrous stalks of the flax plant, and some is a fine filament secreted by the silkworm for the winding of its cocoon. Since the beginning of the present century much has been produced as yarn of rayon or artificial silk, partly by chemical and partly by mechanical process from an organic component of plant and vegetable matter.

Cotton, wool, linen, and rayon yarns and cloths are all manufactured in this country. The making of the first three appears to have been carried on in different parts of the world before the dawn of history. The spinning of woollen and linen yarns and the weaving of woollen and linen cloths were established industries in Europe before cotton was known here, and their development in Britain was helped by the settling in this country of refugee artisans from Flanders. But since the introduction of cotton manufacture to this part of the world in the eighteenth century the use of linen has gradually declined. At first cotton yarn was woven here on a linen warp and then, as mechanical manipulation of the fibre improved, it was woven on a warp of its own yarn. In Europe now flax is cultivated more extensively in Russia than anywhere else.

The primitive home of the making of cloth from cotton seems to have been in India. And, though the rudest implements continued to be used, the skill of the workers, transmitted from one generation to another, was such that they were able to produce material of surprisingly fine texture before we took cotton manufacture up. Then the mill-produced wares of Lancashire captured the Indian market; but now in turn cloth made in India's own mills on Lancashire machines is capturing the market from us.

Silkworm culture originated in ancient China, and was long confined to that country. Then early in the Christian era its secrets were carried to Japan, and a little later to Constantinople, whence they spread in time to other parts of Europe. Silkworm culture has been tried in this country, particularly in consequence of the immigration of French and Flemish

religious and political refugees, but without permanent success. The yarn we now use in the making of silk materials is imported, Japan, China, and Italy being our chief sources of supply. In these countries the housing of the silkworms, the feeding of them on mulberry leaves, the unwinding of the silk from the cocoons, and the spinning of the filament into yarn suitable for weaving form an important industry. France is also engaged on a large scale in the culture, spinning, and weaving of silk, the city of Lyons being the centre of the industry there.

Rayon or artificial silk is a material the manufacture of which is of very recent development. The yarn is produced from a sticky fluid obtained by dissolving cotton fibre or wood pulp in chemicals. As it can be made more cheaply than real silk and is of attractive appearance, it has come to be used as a substitute for silk; and it has even supplanted cotton as the material of many articles of personal wear. In consequence our mills are turning out large quantities of attractive cloths woven either wholly of rayon yarn or partly of that and partly of cotton yarn. In the manufacture of hosiery and knitted articles, also, great quantities of rayon yarn are now used where wool was used before. The introduction and the development of the sewing machine has during the best part of a century gradually caused clothes sewn from woven materials to become a factory production almost entirely.

Boots and gloves, handbags, purses, and note-cases are commonly made of leather; furs of skins. Rubber enters into the composition of waterproof coats and of elastic materials. Finger-rings and ornaments are made of silver, platinum, or gold set with precious stones. Watches, pencil cases, spectacles, buttons, pocket knives, fountain pens, umbrella frames, straw hats, and coins are also examples of the comparatively few non-textile articles in the personal-wear class.

3. **Household Goods.** A large proportion of household goods belongs to the textile group of products. Examples are carpets, hangings and upholstery, bed furnishings, table linen, towels, and cleaning cloths. A large proportion, again, is the product of metal trades, such as fire grates, stoves, cookers, radiators, baths, fire-irons, buckets and cans, shovels, and garden tools, mostly of iron and steel. Cooking utensils are of aluminium (the use of which has greatly increased of recent years), of

enamelled iron, or earthenware. For table use we have china, crockery, and glass, cutlery of stainless steel with imitation ivory handles, forks and spoons of silver, perhaps, but more usually of baser metal compound. Larger pieces of furniture are made chiefly of wood, as dining-tables, chairs, sideboards, bedsteads, wardrobes, dressing-tables, and kitchen cupboards.

We have pianos and other musical instruments; but more usually now gramophone and wireless cabinets. On the walls we hang pictures and mirrors; on ledges and stands we place vases, ornamental figures, or electric reading lamps. We may use electrical appliances for heating, washing, ironing, and cleaning as well as for bells and lighting. The supply of such a variety of household articles—from the extraction of ores and clays, the felling of trees and the growing of textile fibres, through many stages of manufacture and distribution till the final users are reached—represents a very considerable part of the industrial activities of our population.

4. **Business Premises and Equipment.** First of all, for business establishments, as for private dwellings, buildings are wanted of stone, bricks, girders, iron, concrete, timber, slates, gutters, spouts, rails, and glass with the mining and quarrying, smelting, moulding and smithying, sawing, turning, and planing that these materials require. In erecting the premises cranes, scaffolding, ladders, mortar-mills, and tools and accessories of numerous kinds are needed. When the body of a building is erected, carpenters, plasterers, and painters get to work; and electric wiring, water pipes, cisterns, and heating appliances must be installed.

If occupied as offices, the rooms need to be furnished with desks, safes, filing cabinets, chairs, typewriters, multiple copiers, addressing and calculating machines, telephones, electric light, account books, stationery, binders, and reference books. Warehouses require lifts, counters, showcases, stands, shelves, drawers, wrapping materials, packing benches, cardboard cartons, wooden cases, weighing machines, trucks and delivery vans, perhaps parcel chutes, band conveyors, and ventilating fans. Retail shops and stores need these or some of them, with imposing window spaces, neon signs, sunblinds, carpets, mirrors, models, measuring machines, cash registers, and display fittings and materials of many attractive kinds.

Machinery in works is usually driven by belts from shafting to which power is transmitted by a steam-engine fed from a steam-generating boiler. Metal-working and wood-working machines are commonly kept in motion by such means. Others, however, like the winding gear of a colliery, may be coupled direct to a driving engine; whilst others, again, like the steam-hammer, may move by the direct action of steam within their own cylinders. Some mechanical operations are accomplished by hydraulic pressure or by compressed air. There are workshops in which gas or oil engines supply sufficient motive power; and machines in light trades, as in clothing, box-making, and stationery factories, are now commonly operated through electric motors from the local electricity mains. Heavy castings, forgings, and such-like are moved about in foundry, forge, or machine-shop by overhead travelling cranes. In smelting, casting, puddling, and steel-making, furnaces of different construction are used. For volatilizing and distilling processes, heated retorts are required. In bleaching and dyeing textiles, the cloth is steeped in vats that hold the bleaching or dyeing liquor. For nearly every different kind of manufactured article—whether it be pen nibs, steel screws, boots and shoes, woven cloth, printing and wrapping papers, sheet iron, galvanized vessels, steel tubes, motor-car parts, or pottery ware —machines and appliances designed for each special process are brought into use.

5. **Transport and Communication.** Among the manufactured articles supplied for transport we have the horse-drawn vehicles still in use for short-distance haulage of merchandise; but these diminish in number, whilst motor-vans and wagons multiply. For public passenger conveyances on the roads tramcars running on specially laid rail tracks and mostly with overhead conductor wires continue to be used in populous areas. In many places, however, these are being superseded by the electric trolley-bus or the oil-driven bus, without laid tracks. For private road travel motor-cars are built in ever-increasing numbers, with numerous motor and pedal cycles for individual locomotion. Since the coming of the oil-driven vehicle a very considerable long-distance traffic has developed on the roads, both for goods and passengers, and many heavy wagons and fast coaches are built for that.

The railways use up enormous quantities of material for permanent way and rolling-stock. Stretches of rail track are continually being relaid, stations frequently rebuilt, signal and telegraph posts and wires renewed. Carriages, wagons, and engines are always being repaired, and from time to time batches of new ones are built. These use large quantities of steel and iron, wood, paint, and glass. The carriages need lighting, heating, and even cooking installations, and the engines numerous mechanical parts and accessories. Where trains are run electrically, power houses, generating plant, and driving motors are required, with miles and miles of insulated conductor cable or rail.

Transport by sea means ships constructed of many component parts, with much variety of manufactured articles again. They take steel plates, bulkheads, steam boilers, turbines, engines, propellers, rudders, anchors, cables, capstans, hawsers, masts and rigging, deck boards, cabin furniture, refrigerating plant, wireless apparatus, lifeboats and life-saving appliances, and numerous other things. A huge liner in the building and fitting-up absorbs directly and indirectly an immense amount of labour and material. But that is not all. Ships need docks and wharves with electric cranes and hydraulic power, with transit sheds, warehouses, and cold storage, with roads for motor wagons, and lines for railway trucks. In these days, however, transport uses the air as well as land and sea; and there is every likelihood that the manufacture of aeroplanes and their equipment and the erection of aerodromes will continue to extend.

For communication apart from transport we have the buildings, mail vans, stamping machines, sorting racks, and other appurtenances of the letter and parcel post services We have the Post Office adjuncts of telegraph and telephone, with instruments and switchboards, poles and wiring, underground and submarine cables, all to be maintained or renewed as occasion demands. We have our national and local radio broadcasting stations and studios, and our home receiving sets; also our transmitting and receiving stations for radio telegrams and for empire broadcasts.

That in outline is a summary of the articles we manufacture and a sketch of the uses to which we put them. But the

enumeration is not exhaustive. There are still, for example the making of roads for traffic, the manufacture of gas for heating, and the generating of electricity for light and power. There are also the various means by which we are supplied with knowledge, entertainment, and sportive exercise—the building and furnishing of schools and cinemas, the making of books and films, of golf clubs, tennis rackets, musical instruments, and lots of things besides.

EXPORTS OF MANUFACTURED GOODS

We have previously stated that we are a pre-eminently manufacturing people, and that a large part of the goods we make are exported in return for food and raw materials (and necessarily some manufactured goods as well) from other countries. Below are the figures, as published by the Government, for exports in the year 1938 of products of the United Kingdom—

EXPORTS OF UNITED KINGDOM PRODUCE AND MANUFACTURES FOR THE YEAR 1938

	£
Food, Drink, and Tobacco	35,910,998
Raw Materials and Articles mainly unmanufactured	56,923,507
Articles wholly or mainly manufactured	365,372,065
Animals, not for food	680,447
Parcels Post	11,996,472
TOTAL	£470,883,489

Much the greater part of the raw materials exported is accounted for by coal at £37,000,000, with ores and other minerals at £4,000,000, all of which absorb much labour in hewing and raising, if not in actual manufacture. Of food, drink, etc., nearly all is accounted for by spirits, tobacco, fish, sugar, sweets, and various foods—again products mostly the results of manufacturing processes. The figures show, in addition, that exports of manufactured articles under the third head amounted to £365,000,000 out of a total (including Parcels Post) of £470,000,000. The Table on page 57, compiled from the same source, states how the £365,000,000 is made up. It will be noticed that £280,000,000 of that amount is accounted for by two main groups. The first, amounting to

nearly £179,000,000, includes iron, steel, and other metals, with articles into the composition of which metals mainly or in large part enter. The second group, totalling £101,000,000, comprises textile products and garments made from these. From the point of view of exports, then, our two main industries are the metal and textile groups. Mining makes a good third. But we must not overlook the fact that farming and building are also important occupations, though they do not contribute to any great extent to our export trade, the latter because it is called into activity by purely local demands and the former because ours is a comparatively thickly populated and a highly manufacturing country that uses more food and raw material than it can produce. Building and allied trades by their nature belong to a class that is sheltered from the competition of foreign producers; and for that reason they are better able to maintain prices and wages than those trades exposed to competition at home and abroad by the products of other lands. Many of the latter we protect by duties, levies, and quotas imposed on imports.

THE TEXTILE AND METAL INDUSTRIES

Like spinning and weaving, the fashioning of iron or other metal into tools and implements has been carried on from time immemorial. The occupation has existed from the time when man began to use bronze implements instead of stone, and then iron implements instead of bronze, till now when he uses steel largely instead of iron. But neither the textile nor the metal trades were very highly developed before the eighteenth century. Towards the end of that century improvements in the application of heat and power began to bring rapid and far-reaching changes in our ability to manipulate metal and to construct and drive machines. These changes raised manufacture from the level of simple though skilled handicraft to that of elaborate mechanical operations. In the textile trades invention after invention has dispensed with the spinning wheel and the hand loom, and has put in their place intricate and ingenious power machines that produce better goods at much less labour cost.

In the metal trades we have still with us the blacksmith working by hand at his hearth and anvil with his hammer and

EXPORTS IN THE YEAR 1938 OF ARTICLES WHOLLY OR MAINLY MANUFACTURED IN THE UNITED KINGDOM

Articles	£	£
CHIEFLY METAL PRODUCTS		
Iron and Steel and Manufactures thereof	41,598,968	
Non-ferrous Metals and Manufactures	12,326,400	
Cutlery, Hardware, Implements, etc	9,032,022	
Electrical Goods and Apparatus	13,434,431	
Machinery	57,906,966	
Vehicles (Locomotives, Ships, Aircraft, etc)	44,639,716	
		178,938,503
TEXTILE PRODUCTS		
Cotton Yarns and Manufactures	49,684,368	
Wool Yarns and Manufactures	26,815,755	
Silk Yarns and Manufactures	1,288,748	
Other Textile Materials	14,883,397	
Apparel	8,519,476	
		101,191,744
TOTAL OF METAL AND TEXTILE PRODUCTS		280,130,247
Chemicals, Drugs, Dyes, and Colours		22,048,681
Pottery, Glass, Abrasives, etc		9,618,627
Paper, Cardboard, etc.		6,931,582
Oils, Fats, and Resins (manufactured)		5,367,984
Leather and Manufactures thereof		3,943,482
Coke and Manufactured Fuel		3,301,709
Footwear		1,965,823
Rubber Manufactures		1,648,528
Manufactures of Wood and Timber		1,163,252
Miscellaneous Articles		29,252,150
TOTAL		£365,372,065

his tongs; but we have also had for a long time now the blast furnace, lighting our skies at night, for smelting ore into pig-iron. We have the foundry for making castings by pouring molten pig-iron into carefully prepared moulds of sand. We have the puddling furnace for turning brittle pig or cast iron into malleable material that can be shaped and welded by the hammer, and we have rolling mills that form it into sheets and bars. We use furnaces and retorts which, by regulation of the small but correct constituent of carbon and other slight ingredients, convert molten iron by Siemens, Bessemer, or other process into hard, tough, weldable steel of various qualities, superior to iron for many purposes.

These two groups of the textile and the metal trades—the

one producing clothes and household drapery, the other producing tools and machines, also the hardware class of articles for domestic and business uses—are the most representative industries of modern manufacture. During the nineteenth century they grew enormously with increasing demand at home and in undeveloped countries for the articles they produced. Success led to success and to the development of machinery still further. But latterly with us these two groups of industries have suffered heavily as manufacturing has spread to and extended in other lands. International trade has shrunk, because of the growing tendency of peoples to encourage their own manufactures and to discourage importation of other countries' goods.

QUESTIONS

1. Show by reference to several examples how raw materials of Nature pass into manufactured goods, some of which are then ready for the final consumers, whilst others become materials for further manufacturing processes.

2. Classify under heads, according to the purposes to which they are put, the numerous varieties of goods we manufacture, giving a few examples under each head.

3. Write (*a*) a short description of the manufacture of textile goods in general, or (*b*) a more particular description of the manufacture of any one textile product with which you are acquainted.

4. Show how a large part of industrial activity is directed towards supply of the equipment we now use in the manufacture and the distribution of goods.

5. Name some classes of goods that enter largely into our export trade. What general description is applicable to most of our exports of goods, and why do so many come under that description? What important industries are carried on by us that do not figure conspicuously in our export returns?

6. Write a brief account of the rise and development of the textile and metal industries and of their importance to the trade of this country.

SECTION II—HOW COMMERCE FUNCTIONS

CHAPTER 5

MANUFACTURING ADMINISTRATION

ARTICLES for personal or domestic use are purchased retail, and generally from shops or stores that exist for supplying the wants of the individual as such. The usual course of supply—though that is not always adhered to—is for the retail shopkeeper to procure his goods from wholesale merchants, who in turn obtain their stocks from the manufacturers or producers of the goods. In passing from the manufacturers or producers to the retail shops the goods do not change in form or composition. The only changes they suffer are changes (1) of location, and (2) in the quantity that passes in execution of any single order. For whereas the individual or the household buys (let us say) in single articles or in single pounds, the retailer buys in dozens or in hundreds, and the wholesaler in grosses or in thousands. Manufacturers, however, do not sell goods in the same condition in which they buy them. Their service in the scheme of supply is to take materials yielded by earlier productive or manufacturing processes, and to change their form or composition into others suitable either for later processes or for the needs of the ultimate users. Manufacturers, then, belong to the earlier and productive stage in the course of supply, and each stands, according to the particular point at which his process comes in, somewhere between the first producers of Nature's materials and the final distributive stages occupied by the wholesale and retail trades.

MANUFACTURERS' CAPITAL OUTLAY

In this age of mechanical production the manufacturer is, as a rule, an extensive user of machinery, the acquisition of which is costly. For that reason he ordinarily has to lay out large sums in equipping his works or factory, and even in buying or erecting suitable accommodation. And he has to

wait till the building and equipment have been completed before he can start on his own work of manufacturing, and can get a return for his outlay by selling the goods he makes. As will be explained later, the manufacturer need not hold so large stocks of finished goods as his customer, the wholesaler, must; but he will from time to time be obliged to hold some, and he will always need to keep on hand considerable quantities of raw materials. Moreover, for shorter or longer periods before he gets payment for goods sold, he has to find money for the wages of his workpeople. His business, then, cannot usually be conducted without substantial capital funds either of his own or in the money or goods of other people.

It is because of that necessity in almost every manufacturing business that makers of machinery and plant are often willing to supply their products on the hire-purchase or the payment-by-instalment plan. It was because of that necessity, when mechanical production started to extend, that manufacturing gradually passed into the control of those who possessed or were able to command substantial capital—that, in effect, the domestic industries of the country faded out and the factory system grew. That need of money for capital purposes was also in part the cause of development in our banking system, as banks with increasing demands for loans or overdrafts sought to rake in more customers with deposits, and so provide themselves with the funds that others of their customers would borrow. In part, too, the same necessity gave rise to the joint stock company with many shareholder proprietors, by which means much greater capital funds can be gathered together for a large undertaking than is usually possible under a proprietorship of only a few partners.

ECONOMY IN PRODUCTION

1. **In the Use of Equipment.** To compete effectively with others in his line of business the manufacturer must have efficient up-to-date machinery that will turn out his goods at the lowest possible making cost. It may, indeed, pay him at times to scrap some of his equipment, though it is not worn out, and to install the latest type, so that he can then produce as cheaply and as quickly as any progressive rival. But, as machinery is costly to acquire and the newest types usually

costliest of all, he must get out of his machines as much as ever he can. He should plan, then, to keep them running as continuously as possible, and to do that he needs to produce his goods in large quantities. In fact, a big machine that turns out big quantities quickly, and therefore cheaply, is not usually suited to deal economically with small lots on which it cannot be run up to full or nearly full capacity. And machines that, though not big, are nevertheless costly, are seldom a paying possession if they cannot be kept in fairly continuous use.

The policy for the efficient manufacturer is, therefore, to procure large orders on which his machines can make long runs. That is one reason why the ordinary manufacturer does not seek the small orders that single retailers give. He prefers the big ones that wholesale houses can place by bulking the numerous small orders they collect from the retail, or by providing for them beforehand. Again, where his goods are subject to seasonal demand, the manufacturer likes to secure a good part of his orders well in advance, so that he can proceed with the making of the goods before the rush of the season begins. Otherwise his machines would be glutted with work when the seasons were at their height, and they would be standing idle in the intermediate periods. At certain times there would be more orders than his hands could cope with, and at other times there would be little or nothing for them to do, and no wages or only meagre sums for them to draw.

2. **In Labour Cost.** Besides the cost of keeping machines, whether they are working or not, there are other standing charges the manufacturer has to face that do not vary, or vary little, with briskness or slackness of trade. Such are rent and rates, management and clerical charges, and to some extent the cost of cleaning, lighting, heating, and power. Machinery, too, often deteriorates more quickly when standing idle than when it is kept working. Further, when demand is at the peak, the more goods the manufacturer can get through his machines, the more orders he will execute and the greater profit he should make. It is a general custom, therefore, for workers to be paid "by piece," that is, at an agreed rate for the share each worker takes in the making of each article produced. That method of payment encourages workers to earn more money by working hard, and it gives the employer a greater output

per machine, also a greater total output against his irreducible standing charges. In this way his cost per article produced is lessened and kept down. Some employers, with these considerations in mind, pay a bonus that increases in proportion to the worker's excess of output over a stipulated standard. Some manufacturers, again, offer to execute at lower prices to their customers orders solicited early for the purpose of keeping their workers employed and their machinery running during the slack periods of the year.

Time was when a craftsman made the whole or nearly the whole of an article himself. Now it is usual for a number of workers to make only a part each. For example, not so long ago, and in backward places still, the tailor himself would chalk the pattern of the garment on the cloth to be made up. He would himself cut the material, stitch the cut-out pieces together, put in the lining, make the buttonholes, sew on the buttons, and press the garment when all else was done. Probably also it would be he who would show the material in the first place, and sell the garment to the prospective wearer. On the other hand, for many of the factory-made clothes of to-day the first step is for one worker to take an already prepared pattern of a standard lay-out, and with it mark a given length of material to show how it must be cut up. A second worker spreads more of the cloth in a number of layers each of the same length as the marked one, and places the marked length on the top. A third operator cuts up all the layers together by passing an electric cutter through the pile and along the tracings of the pattern, while a fourth person adds to the pile of cloth the quantity of trimmings needed for the number of garments it will make. Then the parts of each garment are fitted and machined together by a fifth worker, a sixth makes the buttonholes on a buttonhole machine, a seventh finishes off parts that must be sewn by hand. Lastly, an eighth worker presses the garments that have been made; and, when they are to be folded into boxes, the boxing is done by a ninth. As yet, however, the future wearers of the garments are ignorant of their existence. From the manufacturer's warehouse they must pass to the retail dealers' shops. Some of them may be exhibited in the shopkeepers' windows, and all of them must be shown, and probably shown again

and again, by the selling assistants before they come to be appropriated by the ultimate possessors.

To some extent the separation of the selling of an article from the work of making it has resulted from the development of factory manufacture. To a greater extent the spreading of the labour of making an article over a number of workpeople has resulted from the same cause. For the installation of various machines in any works, each one intended for a different kind of operation, breaks up the process of manufacturing into a succession of distinct steps. The tendency has been furthered also by the high degree of proficiency that a worker attains when mind and hand are kept applied for a long period to a single and continually repeated process. With only the one operation to occupy his thoughts and attention his mind acquires greater familiarity with the movements, and his hand greater dexterity in executing them, than they could were he occupied intermittently with different operations needing different niceties of skill. For such reasons *division of labour*, planned with perception and judgment, means speed in production and consequent saving in production cost. In some workshops division of labour and speeding up of production are pushed so far that parts to be worked upon pass through each shop on a moving band or chain. A man does to an article or part as it reaches him on the conveyor what he is required to do, while it remains stationary for a very few minutes, and before it is carried away to the next man and the next operation. In such conditions high wages can be earned by intensive labour; but any workman who cannot keep up with the pace set soon finds himself replaced by one who can.

3. **By Mass Production.** In "mass production" every complete and finished article and every part and process is made as simple as possible, and all are standardized. The product may be a cheap American watch or a popularly priced motorcar. Whatever the article is, the price to the user is made possible only by a vast and continuous output. The demand to support such an output arises first because of the low price asked, and secondly because the article and the price are kept prominently before the notice of the public, who are the potential buyers.

Now, where a manufacturer receives an order for a small

quantity of goods, its execution may involve the planning of how constituent materials are to be combined, or how they are to pass through a succession of processes, and this planning may be just as great for a small order as for a large one. Besides, machines or other plant may have to be prepared or altered for taking the materials through special operations or for producing special designs. This preparation, also, may take as much time and care for a small lot as for a big lot.

In mass production the initial planning, designing, experimenting, preparing, and altering may be extensive and costly; but, when completed, they are completed once and for all. After that, production is merely repetition work mostly done automatically by machines, each of which is constructed for performing just one kind of operation. The same routine and methods are followed every time, and the same patterns, tools, and so on serve over and over again until they wear out. Then they are merely replaced by others made in the same form, the designs of which do not need to be thought out and tested anew. Only when it is decided to supersede the old product by one of a new type is it necessary to start planning, experimenting, and tool-making all over again.

SELECTION OF WORKS SITE

When new works are to be established, the selection of a suitable site needs careful consideration, from the point of view not only of the cost of setting up the works in any suggested locality, but also of the cost of keeping the business going there, as compared with elsewhere. But in any given case choice will be limited. It will be limited in the first place by the number and variety of sites that can be found available at the time one is wanted. Then it may be restricted by the desirability of having the business in the region where demand for its products arises. That cause will operate when the products are such as are called for frequently and quickly, or when they are such that the cost of transport or service over greater distances would be too heavy. A gas works, for example, must be located within the area it is intended to serve. For such reasons many subsidiary businesses like box-making, letterpress printing, repairing and decorating trades, and all businesses dependent on the day-to-day needs of others, are

usually carried on near where the demand for them exists. Nowadays, however, with the availability of ready telephonic communication and of quick road-motor transport, the cost of land for building or of rent and rates for suitable premises is a question of perhaps greater weight. There is, therefore, now a tendency for city businesses of that kind to move outwards from central and costly sites into the suburbs or even into the not too distant country.

At one time the site for a mill or works might have been determined by the presence of a stream for the supply of motive power by water-wheel. Later, as water power was superseded by steam power, works that needed heavy machinery or made use of high-temperature processes were laid down near a plentiful supply of coal. Again, some manufactures developed near sources of supply of the necessary raw materials, as iron-works in the several areas where the ore was mined, or as wool-spinning and weaving mills in Yorkshire or on the Tweed, where flocks of sheep were reared close by. But, with the improvement of transport, these considerations are now of less importance than others; yet industries mostly persist in remaining where they have once become firmly rooted.

As regards large works using extensive plants and needing much space, there are three chief points that must be taken into consideration. The first is the *cost of a site* of suitable shape and contour and of adequate size. That usually requires large works to be established in the country or in suburban districts. The advantage of a suburban locality is that housing accommodation for the workers is available in the district, also travel facilities and urban conveniences. Large works set up right in the country would, on the other hand, have to provide houses and shops for employees. Some of them even provide parks, schools, libraries, and similar social amenities, particularly where the garden-city idea is adopted. The second chief consideration is that of the *transport facilities* that a site offers for moving goods by water, rail, or road. This usually means that heavy industries are located where railway siding accommodation can be had, preferably on or near to a main line of railway with connexions in all directions. The railway companies compete with each other in advertising available sites for prospective works and factories, so that they may

reap the benefit of the additional traffic that new works will bring. The third important consideration is that the site selected shall either be situated near a ready *supply of raw materials* or be centrally placed for *delivery of its finished products* to all parts that matter. This latter alternative often requires that a concern manufacturing a product of extensive general demand such as biscuits or jams, must set up factories in each of several thickly populated areas or must place there central warehouses from which to distribute the goods.

STRUCTURE AND LAY-OUT OF WORKSHOPS

When new works are to be erected and when enough land is obtainable at sufficiently low cost, the shops may be built all or nearly all only one story high. One advantage of single-story buildings is that more natural light can be used, because the roofing can be made largely of glass. Besides, not only is natural light better light for all ordinary purposes than an artificial substitute, but its greater use keeps lighting charges down. Also, on a spacious new site, should higher buildings be desired, they can also be arranged so that more light will have access through side windows or through walls almost entirely of glass than is possible where premises are jammed together in crowded towns. On the other side has to be set the objection that workshops with glass roofs or walls get too hot in bright weather for the comfort of the workers, and that then some protection may be necessary to intercept the sun's rays, and consequently part of the light as well.

A second advantage of single-story buildings is the saving of labour and power that would otherwise be expended in raising and lowering quantities of goods or heavy single articles to and from upper floors. Where, however, it is not possible or desirable to use single-floored premises, goods lifts or hoists and band conveyors or chutes will be provided. That is only an application of the accepted principle that mechanical appliances, though they may cost a good deal to install, are cheaper in the end than unassisted manual labour, provided there is sufficient volume of work to keep the appliances in fairly constant use. Heavy machinery would, of course, be placed on the ground floor to save as much as possible the moving up and down of the heavy articles on which such

machines would be used, and to save the additional structural cost that would be necessary if walls and upper floors had to support more than normal loads.

In selecting the site and planning the lay-out it would be wise to allow for expansion. If the site were too restricted, any considerable growth of the business activities would cause the premises to be extended upwards to an inconvenient height, or would necessitate the expense and disorganization of a removal to a new site altogether. Similar foresight should be exercised in allotting space to the various workshops or departments, so that pressure here or there may not soon force these to burst their set bounds. What space to allow different departments will be decided on previous experience of the working of the business; or, if that is not available, a careful estimate will have to be prepared of the room each is likely to need for the equipment it will require and the operations it will have to house. Some experiment and adjustment may be unavoidable before the final settling-down can be accomplished.

The lay-out decided upon should be such that successive processes will be carried through in shops that adjoin one another in the sequence the processes follow. Then the article or commodity being produced will pass in a continuous line from the first to the second, the second to the third, and so on. That, it will be understood, is a much more economic method of working than when the product, in the course of manufacture, has to move in all directions, backwards and forwards, through workshops located apart and not arranged in any sequence or order. The product, however, may not be one that can pass through a continuous line of processes, but may be one constructed of parts assembled from the several shops in which they have been made. Then erection of the complete machine should take place in an assembly department centrally situated in relation to the usual contributory workshops.

Receiving and dispatch departments, with their unloading and loading docks, must be placed by the entrance or the exit of the works; but the whole lay-out should, if possible, be so planned that departments using the receiving and dispatch docks shall be conveniently situated in relation to these. The stores department should adjoin the receiving docks and must at the same time occupy a central position, because all

productive departments will have almost continuous need to send there for immediate supplies of materials. An office for timekeepers will be placed by the works gate. Sales manager's office, counting-house, buying departments, and the commercial side generally will usually be given accommodation near the main entrance to the premises.

PLANNING OF PRODUCTION

Some kinds of work (like steel bridges to be constructed for particular sites, or like a pumping plant or a machine required for particular conditions) are ordered on advance drawings and specifications, which explain the component parts and the manner of construction. But even when articles are of a manufacturer's regular design, like an engineer's lathe, a coal wagon, or a motor-car, it is usual for illustrations, drawings, and specifications to be available for prospective buyers. In all businesses which manufacture articles such as these a drawing office is needed and skilled engineers and draughtsmen to prepare the specifications and drawings, or to get out designs for new types or models. Then, when an order is received for some special piece of structural or mechanical work, complete drawings have to be made, also working drawings of parts, showing all shapes and sizes, for the guidance of the workshops.

Before fixing his price for a special job or for an article of stock design, the manufacturer, in order to arrive at the probable cost, has to prepare an estimate or account of the quantities of materials to be used and of the labour to be expended on the job. Even where it is customary for a maker of textile or other goods to solicit orders from samples already made and submitted, the price he quotes with each sample is based on an estimate of the cost of material and labour that would be needed in executing an order. And, when the order is obtained, particularly if it is a large one, a list of quantities required of the various materials will have to be made, and orders placed for them. Where materials of the kinds wanted are subject to frequent or rapid change in price, and where the customer's order is not to be executed for some considerable time to come, the manufacturer will be wise to secure the materials without delay, even if they are not to be delivered until he needs them. As an alternative he may enter at once

into a "futures" contract as explained in Chapter 2, leaving his actual order to be given out later.

In some establishments it is customary or even necessary to test materials before they go into work, to see that they comply, as regards strength or composition, with the descriptions ordered or with the requirements of the job. For that purpose a laboratory in which the tests can be made will be attached to the works. In industries where chemical or mixing processes are carried out the laboratory staff will be responsible for the proper constituents in correct quantities going forward to each process, and for satisfactory results being obtained. Where engineering or constructive work is engaged in, it is necessary to plan progress and to draw up time-tables for the movement of various parts through the workshops concerned. And it is the duty of the progress staff to see that the time-tables are kept, if at all possible. Without close supervision of that kind the assembly and completion of a job might be held up for want of some minor accessory that had lost its way or missed its turn. Such delay of a job may mean a very appreciable addition to the cost of production, and it may also mean late delivery to the customer, with consequent trouble to him.

STORE-KEEPING AND STORES RECORDS

If the materials that a factory uses arrive in bulk and are only of a few kinds, there will probably be a continuous flow of materials into work, and they may simply be stocked wherever there is convenient room for them, without their being placed in the special care of any particular person. Even in such conditions, however, some check on pilferage is advisable, as well as on the quantities passing into manufacture. In a works or factory run on methodical lines there will usually be a stock-keeper in charge, and a fixed routine imposed under which he must not give out any material except on presentation of a signed authority stating what quantity is required and for what purpose it is wanted. If the articles or materials are of numerous kinds, especially if many of them consist of small units that may easily be picked up and secreted, it becomes imperative that they be kept in a store-room with general access barred, so that nothing can pass out except

through a responsible stock-keeper's hands. Besides, were any of the employees allowed to help themselves whenever they wanted anything from stock or store, much waste would be incurred, because, to make sure of having enough, they would habitually take a little more than they actually needed.

Again, if any person concerned were permitted to take what he wanted, no one person would be responsible for watching when the stock of any material or article was getting so low that a new supply must be put on order. That is another reason for placing a store-keeper in charge. Further, we do not always realize that materials are of just as much value as the money that they cost, and that they should be watched just as closely and carefully as we watch our cash. A usual method of keeping check on stores and stocks of materials is by means of record cards. These show the quantities of each kind received from time to time and the quantities given out, so that the excess of the one over the other should correspond to the quantity actually on hand. Small and varied articles would be stored in suitable bins or other receptacles, with a record card placed on each. The cards would have four columns, as follow—

(1) For dates when material is received and given out.

(2) For quantities received—entered from particulars that agree with the suppliers' invoices.

(3) For quantities given out—entered from requisition notes signed by workshop foremen.

(4) For balance on hand, the quantity to be filled in each time an entry is made in Column 2 or 3.

If on each card there is marked the minimum quantity of the relative article that should be kept on hand, the store-keeper will see from his cards when he ought to requisition the Buying Office for any new supply. It is the duty of the buying staff to know or to discover where to procure materials of the kinds and qualities required, to give out orders for them, and to see that the prices quoted and charged are the best that can be got.

It will be noticed that the accuracy of these bin-card records depends on the store-keeper, and that their purpose is to keep him informed when supplies of any articles must be ordered. It is a fairly common practice, however, for further stores accounts to be kept in a Stores Ledger, a separate account for

each kind of article or material in stock. These stores accounts are made to show values as well as quantities, and are kept independently of the store-keeper's bin cards. For materials coming in the particulars are obtained from the suppliers' invoices; for materials going out, from the foremen's requisitions which the store-keeper passes on to the store-accounts clerk. Stores accounts can be used to maintain a running check on the store-keeper, a few accounts being taken at one time, a few more at another time, their balances being compared with those of the bin cards and with the quantities that are actually in stock. Kept and checked in that way they also serve as a reliable record of the total value of stores on hand, when that information is required for the Profit and Loss Account and the Balance Sheet, or for other purposes; and they save the labour, that would otherwise be necessary at such times, of counting, measuring, or weighing, and of listing the whole of the stock then held.

TIME AND WAGES RECORDS

Workers in manufacturing trades are usually paid at a trade union rate of so much an hour for a week of so many hours, or at a piece rate settled with a works or shop committee. When extra time is worked, it is frequently paid for at a higher overtime rate. In some types of manufacturing business, like clothing trades, where low rates of pay used to be prevalent, minimum rates are fixed by a Trade Board appointed for the particular trade under the Trade Boards Acts of 1909 and 1918. Deductions are made, of course, for the National Health and Unemployment Insurance and Pension Funds.

It used to be that a time-keeper stationed at the works gate recorded in a Time Book the times when the men arrived. The men themselves probably filled up time sheets which, when signed by their foremen and checked with the time-keeper's record, were the basis on which wages were calculated, men coming in late suffering a quarter or half-hour deduction from full-time pay. Nowadays the time-keeper's book is replaced by a mechanical time recorder, like the Bundy or other clocks to be seen at omnibus stations or stages, where the conductors "clock" their journey times either on a roll kept

inside the clock or on a card inserted in a slot. All that is required now by the man at the works entrance is to watch that each workman does "clock in" when he arrives and "clock out" when he departs. For the Gledhill-Brook Time Recorder cards are used that are kept in racks close by the recording clock. An illustration is given on this page. When a man comes in, he takes his card from the rack on the near side of the clock and from the position on the rack that bears his number. He inserts the card in a slot in the clock frame,

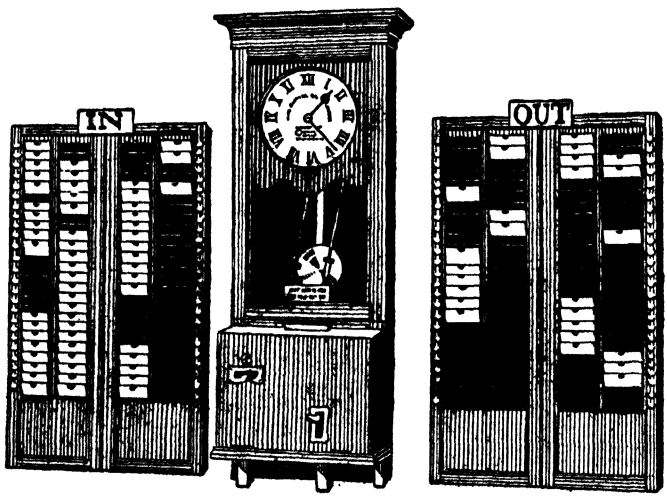


FIG. 1. GLEDHILL-BROOK TIME-RECORDING EQUIPMENT

where it is stamped with the exact time of arrival. Then as he passes in he places it under his number in a similar rack on the farther side of the clock, and it remains there until he reverses the procedure on going out. For other forms of time recorders cards are not used. Instead the worker causes his time to be stamped together with his works number on a roll fixed inside the clock.

A time card used in the manner just described is ruled to serve for a week. At the end of the pay-week (which may run from any point in one week to the same point in the next week) the full cards are collected, and new ones bearing only the workers' names and numbers are issued in their place. The time recorded on each of the old cards is added up in the Wages

or Time Office. From the card of each worker paid on a time basis the hours worked are inserted opposite the man's number and name on a Pay-roll or Wages Sheet, which can be typed on a pay-roll machine supplied for the purpose. Other columns on the wages sheet show the rate of pay, insurance, and any other deductions, the net wages payable, and the employer's insurance contribution. When the wages sheets are written up and added they show the total to be paid out in cash, also the total value of the stamps to be affixed to the workers' insurance cards. A cheque is drawn for the full amount, and pay envelopes are prepared, each marked on its face with the worker's number and the sum he is to receive. Then the cheque is cashed, the pay envelopes filled, and at the proper time they are handed to the workers as they file past the pay window in the order of their works numbers. Either from the amounts shown in the pay envelopes, or from pay slips distributed beforehand, the men learn how much is being paid them. They can then lodge at once in the Wages Office any complaints they want to make about real or fancied errors.

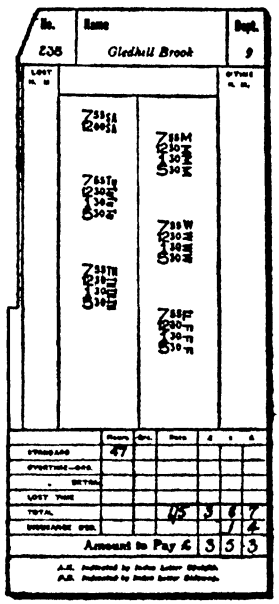


FIG. 2. WAGES TIME CARD FOR USE WITH GLEDHILL-BROOK TIME-RECORDING CLOCK

COST ACCOUNTING

Time and material records, however, serve a purpose other than the keeping of check on stores and the compiling of a weekly pay-roll. In manufacturing undertakings it is not sufficient merely to know whether the business as a whole is a paying concern. A yearly or half-yearly Profit and Loss Account does not tell which orders have been executed at a loss, or which classes of work may in the future be quoted for at more competitive prices and still show reasonable profit. If a manufacturer is to have the information necessary for the efficient conduct of his works, accounts must be kept to show

the cost of each job, or each batch of work, or each single process, completed. These cost accounts are written up by the Cost Office staff in cost books or ledgers that are independent of the ordinary book-keeping work. And the basis on which they are built up is the records of *materials* issued from stores for orders and of *time* spent directly upon the orders.

Let a time-recording machine be placed in every workshop, and let every job put in hand be allotted a distinctive order number. Also, let a card be issued by the foremen's authority to each workman whenever he starts on a new job, and be given up when he completes the job. Let these cards be clocked by the workmen for all the time they spend on the jobs that the cards represent, and let them be kept separate from the time cards that are used for pay-roll computations. A *Wages Abstract* or *Summary* can then be compiled weekly from the workmen's job cards to show, in a column for each job number, the total hours and labour cost so far expended on each job. The total of this weekly abstract can be agreed with that of the wages paid to the same workmen as shown by the pay-roll. Next, if the requisition slips on which stores are issued are priced by the store-keeper before he passes them on, a similar weekly *Abstract of Stores Issued* can be compiled from them to show the value of all stores materials so far used on each job or order.

The Wages Abstract and the Stores Issued Abstract, when completed and agreed, are handed on to the cost ledger clerk. In his ledger, which should be a loose-leaf one, he keeps a separate leaf or account headed with the description and number of each job, probably in a form something like the following—

COST ACCOUNT

DESCRIPTION OF WORK ..... No.. . . ..

WEEK ENDED	LABOUR		MATERIALS FROM STORE	DIRECT MATERIALS	PRIME OR DIRECT COST	INDIRECT WORKS COST	TOTAL WORKS COST
	HOURS	VALUE					

To this account the cost ledger clerk charges week by week the total in hours and value of wages and in value of stores materials, as shown on the weekly abstracts of wages and of stores. The column in the cost account for Direct Materials takes the week's total of any materials that have been purchased specially for the job, and that do not go through the stores. These three heads of charges together make up what is usually termed the *Prime Cost* or *Direct Cost* of the job, for which the fourth money column here is provided.

The heading of *Indirect Works Costs*, sometimes called "Works Oncost" or "Factory Overheads," comprises works expenses such as salaries of works managers and wages of foremen and clerks. The services for which these outgoings pay are not rendered directly to any of the orders passing through the works; yet they are necessary for the carrying on of the works as a whole. The heading includes also the wages of men engaged on repairs or upkeep of premises and plant, together with the cost of the materials they use; and it includes rent (if any), rates, cost of power, light and heat, and of all similar general charges applicable to the manufacturing and technical side of the business. Because these charges are not incurred directly on any order, the amount to be charged under this head to any cost account cannot be ascertained exactly. On the other hand, the charges entered under the first three heads are, or should be, exact.

Of the various ways of estimating what charge to make in respect of indirect productive costs, one is to take week by week a fixed charge of so much per hour of the labour expended directly on the job, the amount of the fixed rate to be so taken having been arrived at in the manner we proceed to explain. The final accounts of the business for each year show under several heads the total year's charge against the works for these indirect expenses. The wages records show, or can be made to show, the total for each year of the hours worked directly on orders passing through the works. If the total of the hours for a period of, say, the last three years is divided into the total of the indirect charges for the same period, there is obtained for the period the actual average rate of these charges per direct labour hour. That rate is adopted for use during the current year, and a new rate can be calculated for

next year when the present year ends. Such a rate as this is called a "man-hour rate"; but sometimes a "machine-hour rate" is advocated in its place, calculated not on the hours worked by the men, but on the hours run by the machines. That method could only be justified when in certain workshops much heavy plant was in use, so that the running of a huge machine became more costly than the time of the attendant worker.

When each week the indirect works charge is added to the prime cost, we get in the last column the total works cost for the week. And, when the order is completed and the amounts in the last column are added together, we get the final total of works or production cost for the job. But before we can arrive at the gain or loss actually made on the order we have to add to the total works cost an estimated proportion of all the expenses incurred in running the selling side of the business. This *selling oncost* might be taken as the same percentage of the year's total selling costs as the selling price of the job bears to the total sales of the year. Estimating selling oncost is, however, less satisfactory than the estimating of works oncost. For example, it is better to secure a good order at a small margin over production cost than not to get the order at all, so long as the margin obtained on the total output of the business is sufficient or more than sufficient to cover the total of selling costs. Selling costs include much more than salesmen's commission, and they are to a great extent irreducible standing charges, which run on whether business is good or bad. If the order were lost through holding out for a bigger margin over production cost, there would be so much less total margin on the business turnover out of which to meet its total of fixed selling charges. The loss of the smaller margin would affect for the worse the final result for the year. Carefully kept cost accounts are very useful for supplying the experience by which a manufacturer can decide whether, at a given price, a possible order can be taken with advantage, or must be rejected because it would entail a loss.

QUESTIONS

1. What place does the manufacturer occupy in the chain of activities by which the community supplies its needs, and how do his services differ from those of other parties engaged in the course of supply?

2. What is the relation between extractive and manufacturing industries? Illustrate their connexion by two examples of each. (*U.L.C.I.*)

3. Why is it that a manufacturer must usually have command of substantial capital funds? Indicate some of the means that, with the growth of factory production, have come into use for supplying the manufacturer with the capital he requires.

4. To what several considerations must a manufacturer's attention be continually directed with the view of making the most economic use of his plant and machinery?

5. What are the principal systems of wages payments found in this country amongst industrial workers? Enumerate the salient features of each system.

6. Examine from the employer's point of view the merits of a bonus system of wages payments. Give an example of one such system in some detail. (*R.S.A.*)

7. (*a*) Take the manufacture of an article of which you have some knowledge and describe how the process of production is split up into a number of separate operations performed by different workpeople.

(*b*) What causes have given rise to the "division of labour" in such manner, and what benefits does the adoption of such methods yield?

8. Select an important industry—cotton, coal, or some other—and show the economic factors involved in large-scale production. Explain also the economic gains that arise from the specialization of labour in the industry you select. (*U.L.C.I.*)

9. What problems are to be met with when it is decided to reorganize a factory, in changing over from the making of a variety of small articles to the mass production of a single article? (*R.S.A.*)

10. Suppose you were the managing director of a large manufacturing business. State in outline the methods you would adopt for its scientific management.

11. Discuss the principal factors that influence the location of business undertakings. Illustrate your answer by reference to industries in your own country.

12. Explain by what principles you would be guided and what ends you would keep in view if you had to plan the lay-out of a new works or factory.

13. Explain some of the matters that require to be planned and arranged in a manufacturing business before orders can be procured, and before orders obtained can be put in hand and the making of the goods completed.

14. Describe in some detail how you would keep record of materials received and issued from store in a manufacturer's works or factory. What purposes are stores records intended to serve?

15. Describe an efficient method of keeping time records and of computing and paying time wages in a well-conducted manufacturing business.

16. How and from what sources are a manufacturer's cost accounts

compiled? Of what benefit to the manufacturer is the keeping of cost accounts?

17. Enumerate the items that enter into the cost of production from the purchase of the raw material until the sale of the finished product. (*L.C.C.*)

18. What do you understand by Prime Cost, Factory Cost, Selling Cost, and Final Cost respectively? (*R.S.A.*)

19. Define and illustrate the term "overhead charges," and explain how you would distribute such charges over the various jobs or processes handled in a manufacturing business.

CHAPTER 6

THE WHOLESALE MERCHANT

THE wholesale merchant's services are those of a trader as distinct from those of a manufacturer. He occupies, as we have already seen, a place in the first stage of the distributive end of the course of supply. On the one hand he obtains his stocks of goods from manufacturers of final products suitable for personal use; and on the other he passes the goods on to shopkeepers, whose function is to retail them to the individual and the household. The wholesale merchant does not transform the goods he handles, but sells them in exactly the same condition in which he bought them. With him sales differ from purchases in two ways only. They are made, (1) usually in more numerous and smaller parcels than his purchases, and (2) usually at higher prices, the increase being payment for the help he and his assistants render in the work of distribution.

THE WHOLESALE WAREHOUSE

1. **Where Situated.** Because the retailer sells his goods for individual use, retail shops are opened in any locality whenever people settle there in just sufficient numbers to support the shops. A wholesale merchant's business, however, would hardly be set up in an out-of-the-way place. His warehouse will be of most service to the retailers, from whom he draws his custom, if it is situated where they can reach it easily and quickly. Besides, the greater the number of retailers that find it convenient of access, the bigger trade will the wholesaler do and the larger profit will he be likely to make for himself. The wholesale business, therefore, is usually established in a city that serves as commercial centre for towns and villages that lie on lines of communication converging on and radiating from the city.

Still, in these days when transport by road and rail is speedy and reliable, and when inquiry and answer can be made by telephone in a few minutes, the disadvantages that distance formerly entailed are largely overcome. It is true that the wholesale trader in a far-away centre will not get shopkeepers

to take the trouble and incur the expense of frequent long journeys to come and inspect his wares. But he takes his wares to them. He maps out the country into districts, and he puts in each district a travelling salesman who carries samples of his goods. And the orders taken from the samples are executed on terms as favourable to the buyers as those offered by local competitors who have not so far to send. In some trades, however, owing to the perishable nature of the commodities dealt in, or to the need for more frequent renewal of supplies, the area served will be smaller than in trades to which such conditions do not apply.

2. **In Different Trades.** In a large city where there are many wholesale traders, it is usual to find those of one trade located in one part, and those of a different trade in another part. Already we have noticed, in dealing with perishables, how in London wholesale butchers are to be found chiefly in the dead-meat market at Smithfield. Wholesale dealers in fish are found chiefly at Billingsgate; in fruit, vegetables, and flowers, at Covent Garden. Drapery warehouses are situated mostly round about Wood Street; provisions and groceries in or near Eastcheap. A wholesale dealer in hardware or stationery or drugs will seldom be found in the locality appropriated by drapery or food. But other considerations, such as rent of premises, special type of customer, or independence of the customer that calls, may cause a business to be established or to be moved outside the trade's usual haunts.

Customers coming to buy find buying more convenient when the warehouses they need are near each other than they would find it were the warehouses spread apart. Similarly the concentration of traders of each class is convenient to manufacturers' salesmen who want to sell. Just as wholesale trade in general has developed in the large town that serves as nucleus of an area, so wholesalers tend to group themselves by trades, each trade in its own part of the town. With buying and selling activities thus centralized instead of diffused the day's calls and the day's transactions can be got through more easily and quickly, and so more economically. But that arrangement would come about as much without conscious intention as with it. For, whenever a new business was started, the founder would seek premises in the locality where his kind of trade was

already being done; and he would do that with no end in view other than setting up his establishment in a situation to which the customers he wanted were most likely to come.

3. **Management and Personnel.** A wholesale business may be carried on by two, three, or more proprietors as partners. Some of the smaller businesses, particularly those specializing in certain kinds of merchandise, are run by single traders. But in wholesale trade the most general form of proprietorship is that of the company consisting of a number of shareholder members. There are two main reasons for that: (1) Because the business may be so large that sufficient capital can be raised only by getting members of the public to take up shares, and (2) because in the company form a limit can be set to the liability of shareholders—an advantage that cannot be enjoyed by partners or sole traders.

In the partnership form the higher management of the business is in the hands of the partners; in the company form it is controlled by a board of directors, some or all of whom will be managing directors giving their whole time to the service of the concern. Under the partners or the directors there usually are department managers or buyers, each responsible for the work of his department and the department staff. Usually, too, he has a "first man" or chief assistant to help him and to keep things going should he be absent. Each department deals in its own class of goods, and the buyer must be an expert in the goods his department handles. He is held accountable for the stocks he has on hand—whether they are of the kinds and quantities then in demand, whether he has an adequate supply on hand or ordered in advance of and during any season, and whether at the season's close he is left with too much unsold. He ought to know not only the quality and value of goods when he sees them, but also where to buy the best value at the best price, so that he can hold his own or more than hold his own with what his keenest competitors can do.

The orders that keep the various departments of a wholesale house going are procured by travellers, or are given personally by callers, or come by post direct from customers. Some of them result from advertisements placed in trade papers, and some from printed lists or catalogues prepared and posted

periodically to customers on the books. Besides these selling departments there is in every wholesale concern a counting-house for the keeping of accounts of customers and of suppliers, and for the receiving and making of payments. Counting-house and clerical work will be treated in detail in later chapters. Every wholesale house also has departments for receiving supplies of goods and for the packing and dispatch of customers' orders. The means of effecting delivery to customers varies. Where the commodities handled are of the most perishable kinds, retailers usually collect supplies in their own or hired conveyances from the wholesale markets. For foods that are less perishable, the wholesale dealers may keep motor-vehicles and themselves distribute their commodities to the shops, or they may arrange for delivery with transport contractors. For other goods, again, use may be made of the public facilities offered by railway and road carriers, unless the customers' shops are close at hand, when delivery will probably be made by the warehouse vans. Whether goods are delivered at the wholesaler's or the customer's charge depends on the terms usual in the particular trade, and sometimes on whether the customer's location is one to which competitors deliver free.

CONTACTS WITH MANUFACTURER

1. **Bulking of Demand.** Manufacturers, as we have seen, cannot produce for sale at popular prices articles that are in everyday demand unless they produce them in bulk. That is so especially where manufacture involves extensive use of machinery. Neither machine nor worker can make the most economical contribution to production if set to work on small and varied lots. Preliminary planning and preparation, and the getting of things going, take too much time and effort in proportion to what is needed for the actual making. It is the long run, after initial preparation, together with standardization where possible and the high-speed specialized machine, that enables the manufacturer to turn out his goods quickly and cheaply. He needs, then, a big order for each kind of article he is required to make, and it is one of the wholesale merchant's functions to keep him going with orders of the size he needs. That is one view; but, where the goods are produce of a perishable kind that come forward in bulk from growers,

either at home or abroad, as they ripen or mature, the wholesaler's service consists of breaking up that bulk and distributing the commodity in the smaller lots that retailers can take, for the retailers in their turn to pass the commodity on in such still smaller quantities as their individual customers desire.

A further point worth noticing under this head is the wholesaler's ability to sort out the orders he receives, putting all of one class or quality together to be handed on in sufficient bulk to the manufacturer or producer who, in the wholesaler's opinion, is best able to supply goods of the class required. That enables manufacturers to specialize to some extent in the kinds of goods they prefer to make or in those they find themselves most fitted for making. The wholesale merchant, offering goods of many kinds, can pick up orders for this and that and the other kind at less proportionate selling cost than a manufacturer could do if he went to the retailer with only one kind to show. Also, if the retailer, with only his small order to place, were to buy direct from the manufacturer, he would not have the same facilities as the wholesaler for choosing the best source of supply. There is, therefore, a quite useful service in this respect for the wholesale trader to render as middleman between manufacturer or producer and the small or ordinary-size retail shop. This method of supply settled into a regular system as experience taught what was, in the conditions of the time, the best course to follow. Still, it must be remembered that more handlings than are necessary make goods dearer than they should be.

2. **Anticipating Demand.** In the case of produce to be grown, the demands of the eventual consumers, to be satisfied at all, must be anticipated and, as it were, bulked in advance. But in the case of manufactured goods, the bulking is usually done in anticipation also. As the manufacture of goods takes time, not only in the making but also in the securing of raw material supplies, neither retailer, wholesaler, nor manufacturer can wait until demand from the public begins to be felt. Before it begins the retail shopkeeper must have stock ready to show and sell, the wholesale merchant must have procured supplies still further in advance, and the manufacturer must have been given time to collect his raw materials and carry through the processes of fabrication.

With produce, then, such quantities are put into growth at the proper season as the grower can expect to sell, keeping in mind, with the advice of the local or national association of his trade, whether last year's crop was in excess or short supply. For goods to be made the manufacturer commonly gets out samples either of his own designs or of designs requested by the wholesalers he supplies. From these samples the wholesalers place orders, for delivery at the time when they will need the goods. Before doing so, however, they probably submit them to their retail connexions, particularly where the samples are those of a coming season's goods. The wholesale thus takes from the retail what orders it can for delivery on dates to suit the opening of the season's retail trade. That procedure gives the manufacturer firm orders that he can proceed with whilst his factory is slack. It relieves the wholesaler of some of the risk he would take in ordering up stock of many styles and qualities before he knew whether his customers, the retailers, would buy them or not. And, though the risk is thereby handed on to the retailers, it is a risk his share of which each retailer would have to bear almost to the same degree if he kept his order back till later. Ordering earlier rather than later does, however, bring to the retailer this advantage—that he is assured beforehand of sufficient supplies with which to start the new season, supplies which it would be difficult to secure at once if not ordered until the season was upon him and demand then at its height.

3. The Holding of Stocks. Manufacturers that supply the wholesale work mostly on orders received. Many of them do not make for stock except to keep their factories going between seasons. They leave the holding of finished stocks to the wholesaler, as part of the function he undertakes to perform in the scheme of supply is to keep reserves of stocks on which the retailer can draw as his own supplies run low. It must not be supposed, however, that wholesale merchants hold supplies of everything that may be asked for. They do not hold more than they consider adequate to meet customers' wants for goods in regular demand, and they keep further supplies on order to come in as they expect to need them.

Nevertheless, many manufacturers that produce goods of their own designs do hold some stocks of the finished articles.

A few of them, though supplying their products through the wholesale, advertise them extensively in newspapers and periodicals that the public reads. Their doing so necessitates their holding considerable stocks on hand, in order to keep faith with the public to whom they advertise. A manufacturer advertising in that way cannot expect retailers or wholesalers to stock regularly all or any of the lines he chooses for publicity. And if a retailer and his wholesaler were both out of stock, persons asking for the manufacturer's goods through them would be stopped from repeating their demands. They would resent having to wait until the goods they wanted were made, as they would have to if the manufacturer advertising them did not undertake to keep supplies on hand.

CONTACTS WITH RETAILER

1. **In Providing Supplies.** To the ordinary retail trader it is more convenient to buy his goods from the wholesale house than from manufacturers, even if they were willing to serve him. Many a wholesale house holds a greater variety in styles and qualities of goods suitable for the retailer's trade than several manufacturers together could show. Besides, the ordinary retailer's business is not big enough for him to obtain the same assortment of stock by giving out to manufacturers the necessary number of orders of the size that they would want. He is able to procure supplies in smaller parcels from the wholesaler than he could from manufacturers, except from such as, being manufacturers, take upon themselves the duties of wholesalers also. Again, the wholesale centre he uses is, in most cases, nearer and more accessible to him than many of the manufacturers' places would be, and so he can call at the warehouses more frequently and their travellers can call on him more frequently than those of the manufacturers would. Moreover, he need not confine his buying to any one warehouse, but may have the run of several and so increase appreciably the range of goods placed at his disposal.

2. **In Allowing Credit.** In retail trade sales are mostly ready-money transactions; but in wholesale trade credit transactions are the rule. Wholesalers, however, do not open credit accounts with new customers until references have been taken, nor until satisfactory answers to the subsequent inquiries have been

received, unless a new customer's standing in the trade is so well known that references can be dispensed with. When that precaution has been taken before credit is given, experience of the manner in which accounts are paid is such that only in comparatively few cases does the question of limiting or stopping credit afterwards arise.

It is less trouble to both seller and buyer for the invoice to be posted on afterwards and for a settlement of a month's purchases to be made at one time, than it would be for the buyer to wait or call back for the invoice and pay before the goods were sent. Further, purchases from the wholesale are larger than those that customers of the retail make. It takes some little time to enter up the average sale, to calculate the value, and to make out the invoice. Also a good customer makes numerous purchases in the course of a month, many of the orders being sent by post or given to the traveller, with little certainty about their being executed exactly or of what the invoice or invoices will amount to. Insistence on payment being made for each purchase at the time would be too irksome for good payers to put up with, so it is not done except with customers whose credit is not good, or with occasional buyers who have not arranged for credit accounts. As the wholesaler wants good payers to buy as much as they will, he does all he can to make and keep the course of business smooth.

That is the position in regard to the usual monthly account. For longer credit, beyond the usual period, that some customers take or are granted, there are other reasons. One of these is that with the view of encouraging business, wholesale merchants are often willing to grant extended credit, where they consider the risk is not too great. Many retail traders have not large capital resources, and the allowing to these of three or four months' credit on their purchases gives them the opportunity of selling all or nearly all the goods before they need to pay for them. The wholesaler who regularly allows a customer long credit is really supplying to that customer, in the form of goods, some of the capital the customer needs for carrying on his business. Such customers, of course, pay for the benefit of credit by a loss of the discount that other customers get for earlier settlement. In any case, it would not be wise to allow credit for a longer period than the customer

needs to sell and get payment for the goods, for where longer credit than that is habitually taken the business cannot be in a healthy condition.

MANUFACTURER AS HIS OWN WHOLESALER

Frequently a manufacturer in a small way sells direct to the retail, sending his traveller round to seek orders from the shops in his trade. Quite frequently, also, manufacturers in a big way of business pass the wholesale houses by and go to the retail themselves. If, however, manufacturers attempt to supply both wholesale and retail, the wholesale houses resent their competition, and usually place their own orders elsewhere. Big manufacturers whose policy is to supply the retail direct are very often the makers of "branded" goods—that is, of goods to which they attach some distinguishing mark or name —and they advertise their brands of goods widely to the public. In selling direct to the retail they take upon themselves the duties of wholesale merchant in addition to those of manufacturer. A manufacturer who relies on wholesale houses for the procuring of his orders and the distribution of his products may find that other manufacturers' goods are taken up and offered to the retailers in preference to his. It may be that another's goods, though of similar kind, are of a slightly cheaper make and are easier for that reason to sell. Or it may be that the other manufacturer offers some extra inducement to attract orders his way. When manufacturers take upon themselves the merchanting of their products, one reason for their doing so is probably to make themselves independent of preferences and influences that may be at work in the wholesale houses, and to be sure that their goods are effectively shown to the retailers and through them to the public.

A general wholesale house runs many departments for many kinds of articles, and in consequence its travellers have many kinds of goods to sell and many kinds of samples to take orders from. Shown by the wholesale merely as a few units in a varied and extensive array of articles, the samples of any one manufacturer will not attract special attention, unless they are something new or out of the ordinary. But, if they are carried round by his own traveller and shown by themselves, they come

much more prominently to the retailer's notice, and are therefore more likely to bring in orders. Besides, the manufacturer who sells to the retail specializes in the handling of his own kind of goods. He is therefore likely to be more efficient in presenting them. Also, his traveller, not being encumbered with a large collection of miscellaneous samples, gets his calls over more quickly. Particularly at the beginning of a season, he easily runs ahead of the wholesaler's representative, and gets his goods shown first. That is a second reason why some manufacturers cut the wholesale houses out, and why for certain classes of goods there has for a long time been a tendency for the makers themselves to deal with the retail section of their trade. In some trades, notably the boot and shoe trade, the tendency has gone farther, and retail shops are carried on, and departments in stores kept in stock, either by the manufacturers of the goods or by distributing businesses under the manufacturers' control.

When the ordinary course of factory to wholesale and wholesale to retail is followed, the manufacturer must keep travellers or agents to sell his goods to the wholesale, and the wholesale must keep its travellers to sell to the retail. But when the wholesaler's services are dispensed with, there is only the one set of salesmen, namely those calling on the retail, to maintain. That is a saving in selling expense, which is probably a third reason for direct trading. There are also similar savings in other selling expenses, as in account-keeping, packing, and carriage, duplication of which is no longer necessary. Nevertheless, the manufacturer who becomes his own wholesaler needs to provide warehouse premises and extra staff, for he must hold wholesale stocks to be distributed in much smaller and more numerous parcels than would be required of him were he manufacturer only. The additional services he thus undertakes mean that he adds to his expenses as a manufacturer further expenses as a wholesaler. Besides, the selling expenses he incurs are likely to be proportionately greater than those of the ordinary wholesale houses, because on any given ground his traveller has a smaller variety of goods for which to take orders, and because the manufacturer as wholesaler commonly contracts heavy advertising charges in order to keep the retailers and the public interested in his, rather than in

other manufacturers', goods. The prices at which he can sell to the retail must, therefore, be considerably higher than those he would have charged to the wholesale, and they may not be appreciably different from what the wholesalers charge for similar goods.

VARIETY OF WHOLESALER'S ACTIVITIES

We have previously noticed that there are wholesale warehouses for different trades, and that they very often group themselves in different parts of the wholesale centre, according to the trades they deal with. We have also noticed that some wholesale warehouses specialize in articles of certain kinds, whilst others, particularly in the drapery trades, are general houses dealing in a great variety of kindred goods. Many of the specialist type of wholesale house are those of manufacturers who are wholesaling the goods they make. But even amongst these there is a tendency to take up goods of other kinds that they do not make. The reason is that such additional goods can be shown along with their own, and that orders can be obtained for them also, without appreciably increasing the total selling expenses of the business. On the other hand, wholesale houses often enough take up the manufacture of a few of the articles they sell; but only of articles the manufacture of which does not involve difficult or intricate processes.

Some of the goods offered by wholesale houses are imported articles of the manufactured type. They may have been ordered direct from the manufacturers abroad, and buyers here make visits to the Continent for that purpose. But more probably the orders were given to the foreign manufacturers' selling agents here. Some of the imported goods are produce which the wholesale merchants obtain through the produce market of the port at which the goods enter this country. What proportion of the wholesale trader's goods are imported varies with the nature of his trade, and according to whether similar goods are or are not readily procurable at home. But since this country adopted the policy of discouraging imports by imposing tariffs and quotas, the quantities of competitive foreign goods coming here have decreased.

Again, many wholesale houses run "shipping departments"

for the export of their goods to customers overseas, the connexions so far as purely wholesale houses are concerned being mainly with retail establishments in British territories. Exports to other than British countries are made chiefly by the manufacturers themselves, or by merchants engaged wholly in shipping business, who are neither manufacturers nor warehousemen. Besides, as we have seen in Chapter 4, the greater part of the goods we export are not of the final types of product, suitable for personal or household use, that wholesalers and retailers handle.

QUESTIONS

1. At what position in the course of supply does the wholesale merchant render his services, and what is the general nature of the services he renders in helping the members of the community to obtain the things they want?

2. Where, in relation to the situations of its customers' businesses, is a wholesale warehouse usually to be found? Why is it usually to be found there, and why is it not invariably there?

3. Describe in outline the organization and management of the warehouse and the business of an undertaking in the wholesale trade.

4. In what several ways are the services of the wholesale merchant useful to the manufacturers or producers from whom he obtains supplies of the goods he deals in?

5. (*a*) Explain and illustrate the function of a wholesale warehouseman.

(*b*) How would the abolition of wholesale dealers affect (i) retailers, (ii) manufacturers?

6. The wholesaler is an intermediary between the manufacturer and the retailer. Describe the ways in which he renders services to them, and indicate any special business risks he shoulders.

7. What is meant by the term "middleman"? What useful functions do middlemen perform? (*U.L.C.I.*)

8. Why does the small retailer usually buy his goods from a wholesale warehouse and not direct from a manufacturer? (*L.C.C.*)

9. (*a*) What do you understand by "credit"? How is business assisted by a credit system?

(*b*) In what circumstances and in what way is a credit transaction of advantage to the purchaser of goods? (*L.C.C.*)

10. Enumerate the services a retailer expects to receive from the wholesalers with whom he deals. (*R.S.A.*)

11. As the manager of a small department in a wholesale house, write a brief account indicating what staff you employ and what duties the members of the staff perform. (*L.C.C.*)

12. (*a*) Why do some manufacturers dispense with the wholesaler and supply the retailer direct?

(*b*) What changes does that bring about in the conduct of the manufacturer's business?

13. Consider how the branding of goods by manufacturers can be made to facilitate the sale of their goods at home and abroad. (*R.S.A.*)

14. What do we mean when we say that a particular wholesale house is of the "general" or a "specialist" type? How, if at all, are wholesale houses concerned in import or export trade?

15. Selecting some industry or trade for illustration, show how retail trade, wholesale trade, and manufacture are all interdependent. (*U.L.C.I.*)

CHAPTER 7

RETAIL TRADE

RETAIL shops, quite as much as wholesale warehouses, tend to cluster together. But whereas the wholesale group is made up of businesses in similar or related trades, the retail cluster consists of business of all kinds, their only common feature being that they are retail. We found that the wholesaler usually carried on his business in the locality that shopkeepers in his class of goods frequented in greatest numbers. For a like reason the cluster of retail shops grows into a shopping centre in that part of a town or suburb where the possible customers of the shops by habit or convenience congregate most thickly and continuously. Unlike those of the wholesale, however, the customers of the retail buy goods of all kinds that the individual or the household uses. And that is why the retail cluster includes shops selling foods, clothes, furniture, hardware, jewellery, drugs, tobacco, gramophones, books, and articles of many other kinds.

RETAIL AND WHOLESALE COMPARED

1. **Position of Premises.** That position means very much to the retail trader can be seen if we notice where the multiple shop concerns open their branches. It is almost invariably in the most frequented thoroughfare, and usually on the most frequented side. The retail business depends on its appeal to the whole of the public; the wholesale on its appeal to only such small minority of the people as are its potential customers. That the position in which wholesalers are established should be a crowded street is not of great importance, so long as it is accessible. What is of value to the individual wholesaler is that his premises shall be within or near the group to which his class of customers come. The enterprising retailer, however, seeks the position where most of the public will see and be interested in his windows. Other things being equal, the more people passing his shop and the more people interested in the goods he exhibits, the bigger trade he will do and the more

profit he will make. That is why the successful shopkeeper can be squeezed for a very big rent, or for a high price for premises if he buys them. And that is why rent, also rates which are based on rent, always appear as large items in his trade expenses. If he did not pay to secure the position he needs, someone else quickly would.

2. Selling Prices and Costs. A shopkeeper will buy many dozen pairs of stockings in no more time than it takes a customer to buy one or two pairs from him; he will buy several easy-chairs with less prolonged consideration of his needs than a customer takes to decide on one. Besides, his customer expects many little conveniences thrown in—a bright and nicely fitted-up shop to buy in, a pleasant carpeted showroom in which to try on hats or coats, a dainty carrier bag for taking away even the smallest purchase, delivery by van or messenger if the customer does not deign to carry the article home, the sending of a selection on approval, and the sending again to bring all or all but one back when the customer's mind is made up whether to buy or not.

If the size of the shopkeeper's purchases is taken into account, the selling cost to his wholesaler is comparatively small, even though the latter's selling costs in total may be heavy. The shopkeeper's selling cost per article is, on the other hand, comparatively large, because of the time and attention to be spent by him or his assistant on the average sale, and of the several conveniences to the customer that he has to provide free of charge. He cannot continue to carry on unless the prices he gets cover, not only the cost of the goods he sells, but also the cost of selling them, together with all other expenses, and then leave something over for himself. Amongst his other expenses are his rent and rates, which we have already noticed, also heavy lighting bills, the cost of display in window-dresser's wages, in window-soiled goods, and in the upkeep of presentable counters, showcases, stands, models, and other display furniture and fittings. It follows that in retail trade selling prices must be fixed at a higher margin over cost than it is the wholesaler's custom to take.

3. Cash and Credit Sales. In wholesale trade the relation existing between the parties is such that credit transactions are more convenient than cash, to both the buyer and the

seller. They are therefore the rule. In the retail trade on the selling side conditions are different—so much so that the safest course in most transactions is to take payment at the time. The most usual practice, then, in retail shops is to sell for ready money. Of the wholesale trader's customers the majority buy frequently, very many of them being, in fact, on the list of regular calls made by one or another of his travellers. On the other hand, retail shops are so numerous in populous districts that very many people do not tie themselves to any one, but buy wherever they think they can be suited best. Customers, too, in the retail are much more numerous than in the wholesale, so that, in large towns particularly, few customers may be known or recognized by the staff when they come to buy.

Again, the wholesale takes references from new customers, and gets reports about them that tell, as a rule, whether they pay well or badly. Similar reports about nearly all the customers of the retail would be unobtainable, and would be much less reliable if they could be obtained. Further, the customers of the wholesale are usually so bound to their businesses that they can neither ignore nor run away from their obligations. Not so the customers of the retail, most of these being free to move irresponsibly from place to place as fancy inclines them or as circumstances call. A shopkeeper who gives credit finds every now and again, especially in an urban area, that a customer has vanished, leaving his debts behind him.

A fair proportion of shopkeepers, however, do give credit—some because they deal with people who like to pay bit by bit, and some because their class of customer often expects credit without question, and would go elsewhere if it were refused. A shopkeeper facing competition would be foolish to insist on payment before he sent the goods if he knew the money was safe; and particularly so if the buyer was likely to become a frequent purchaser. The difficulty for the shopkeeper is to discriminate between those who will pay without trouble and those who will not; yet he has to try. If customers want credit as a matter of course, they should not take umbrage at being asked for references to traders who already give it to them. But sometimes they do.

4. Cost of Giving Credit. Selling for cash in the retail trade is a more economic practice than selling on credit. The shop-

keeper who gives credit has to pay for the time spent in keeping record of sales not paid for and of recording payments when they are received. There is also the value of the stationery needed and the postage on accounts when they are rendered. In addition there are the time, stationery, and postage on letters to indifferent payers, and the cost of attempts to enforce payment when letters are ineffective. Lastly, there is the loss incurred on debts that are never paid. All these add to the cost of conducting a trader's business. Relieved of these expenses he could sell a little more cheaply, and customers who always pay cash would benefit. It is not just that the milk distributor must charge a little too much to customers who pay so that he can cover the losses he incurs through others running up long bills and failing to pay them in the end. Some businesses are carried on entirely on the weekly-payment basis. Goods are supplied on receipt of a deposit, and a collector calls on his weekly round for a small sum off the balance—or for a new order when the payments already received justify an addition to the balance. In that class of trade the customer is, of course, charged at prices that cover the risk of bad debts and the expenses of weekly collection. Agreement for small weekly payments may be used by unscrupulous traders to entice the needy into buying goods for which excessive charges are often made.

These facts are recognized in some of the latest developments of retail trade. Multiple shops do not give credit, as a rule, and the bazaar type cuts out not only the cost of giving credit, but the expense of delivery to the customer and of other little services or practices which help to make retail distribution costly. The money that most members of the community spend comes to them as wages received weekly. That they should pay with the wages received on Friday or Saturday for what they buy during the following week keeps them straight in money matters, and relieves them of the anxiety or annoyance of getting in arrears. The person who receives his salary monthly may object, and may say he needs to be fed during the month until he gets his money at the end of it. And there are hard cases where at times enough money does not come in to buy bare necessaries. But, on the whole, ready-money transactions appear to be the most satisfactory both for the shopkeeper and for his clientele.

PAYING BY INSTALMENTS

Very often articles like pianos, furniture, motor-cars, vacuum cleaners, and radio-gramophones are offered for sale to be paid for by instalments, usually so much a month. All these articles are of more value than the usual size of purchase that the ordinary person makes. They cannot very well be paid for by the working man or woman out of the wages of one or even two or three weeks. They are offered for payment by so much at a time so as to induce people who would like them to buy now, although they have not yet the money to pay for them outright. But this manner of payment is also offered for many more ordinary things; for example, a suit of clothes, a bicycle, or a set of Dickens's novels. There is, indeed, little to distinguish it from ordinary credit selling, except (1) that the amount of each payment and the time when it is to be made are settled beforehand, and (2) that the offer is usually open to anyone who cares to accept, sometimes without the first instalment being required in advance.

To this method of selling or of buying no valid objection can be raised, provided (1) that the seller on his part is willing to take the risk of getting in all the instalments, (2) that on the buyer's side there is a reasonable expectancy of sufficient income to meet the instalments, and that the usefulness of the article will outlast the period during which he has to pay. The method is an extension to the purchases of private life of the facility of obtaining credit that has always been accepted as permissible and helpful in the modern commercial world. A colliery proprietor has long been able to acquire the use of railway wagons, and the owner of a clothing factory to obtain sewing machines, on a "hire-purchase" contract. The coal trucks or the sewing machines are delivered at once. Their cost plus interest on the balances still due from time to time is paid by equal instalments at appointed dates spread over a fixed period.

By that form of contract the articles supplied are themselves the security for payment, for they remain the property of the seller until the final instalment has been paid. The ownership of the goods as distinct from the possession of them does not pass to the buyer until all the agreed payments have been

made, and in default of any payment the seller can again take possession of the goods, subject now to the provisions of the Hire Purchase Act of 1938. It would seem, however, that the terms of the hire-purchase contract have not proved sufficiently alluring to possible purchasers from the retail trade, and that they have not for that reason satisfied retail traders keen to increase their sales. For many similar present-day transactions are described as sales on "deferred payment," and in these the ownership of the goods passes to the buyer when the agreement is made, instead of when it is completed by full payment. Then the transaction is simply a sale on credit, payment of which, it is agreed, shall be made and taken by instalments at fixed future dates. Default by the debtor does not give the creditor any right to take back possession of the goods.

Two conditions, we have suggested, should be present to justify entering on a purchase of this kind. If the article will not last out the time fixed for payment, the buyer will get into arrears in the supply of his needs. Before the old and worn-out article is paid off he will be in want of a new one to replace it. If there is no security of future income the risk of having instalments to meet should not be taken, unless the need is very urgent. Necessary furniture for a home, a new instrument for a professional musician, or a motor-car for business use are examples of purchases that in favourable circumstances may reasonably be paid for by instalments. But would-be possessors of luxury articles, who have little assurance that their incomes will continue, would do well to deny themselves until they will be able to pay without taking up a burden of future liability.

The retailer's function is to supply members of the public with what they want. It is not in his own interest in the long run to push on to customers goods they do not need and cannot afford to buy. Yet we are all urged to buy this and that at once, to furnish out of income, or to pay whilst we use and enjoy. "Yours for five shillings" the advertisement says, though in the end the cost may be pounds. Such salesmanship has only the seller's immediate gain in view and not the customer's final satisfaction; yet it is by maintaining customers' goodwill that the soundest of business connexions are built. That the seller knows of the risks of this kind of trade is

evident from the fact that the instalment price often includes the cost of insuring the buyer's life. Then, if his income ceases through death, the balance due can be collected out of the insurance payment.

One argument in favour of this method of selling is that it anticipates demand and increases employment. That contention, however, leaves out of view the fact that demand can be increased only in the first few years of such trading. People who have mortgaged their incomes for next year and the year after will not have money to spare for the things they would otherwise buy in these years. Employment will be increased only until the advance demand of the period has been exhausted. After that even instalment sales will fail to carry demand beyond the limits of normal supplies. Trade that has been inflated by more than the period's usual demand will slump.

Any considerable number of sales on deferred-payment terms requires the trader to have or to procure capital sufficient to include the sums he has outstanding. Many retailers have not enough capital of their own to do that kind of business on an extensive scale, for they have to pay their creditors long before their customers pay them. Yet it is quite usual for dealers in furniture and such-like goods to be obliged to take payment by instalments. For that reason finance companies have sprung into existence to help such traders with funds. They pay the trader an agreed part of the total value of each instalment sale, and they either themselves collect the instalments as they fall due, or leave the trader to make the collections for them.

DIFFERENCES IN RETAIL TRADE

At one time the shoemaker, the tailor, the cabinet-maker, and the tinsmith made the goods they sold, just as the baker mostly does now, and the dressmaker and milliner partly do still. That is one reason why goods of different kinds came to be sold in different shops. Each trade was an occupation in itself that the shopkeeper learned by serving apprenticeship to it. Not long ago the grocer bought all his goods in bulk, weighing them out and wrapping them up as he sold them in small quantities. Now most of the articles he deals in come already put up in packets, tins, or jars of size suitable for the householder's use. Shoes and clothes, tinware and furniture, are all

or nearly all factory products, the shopkeeper to-day being merely a retailer of these goods and not a maker of them. The draper and the hardware dealer have now only to learn the various uses and qualities of their goods, and where to procure them; but they have not to learn how to fashion them out of rolls of cloth or sheets of tin. The reason why articles of different kinds are still sold in different shops is that many of them would not mix well. Potatoes or pans could not conveniently be sold along with collars and ties, or fish at the same counter as bread and cakes.

For some goods, particularly for eatables, there is a continuous and more or less even demand on the retail week by week. For others, such as clothing of all kinds, the demand is not only intermittent, but irregular in extent. With the former much of the retail stocks are replenished at short intervals; with the latter they have to be held for longer periods and are disposed of much more gradually. Food shops can be run on a smaller average stock than most of the others. Season and fashion play an important part in some trades; but Christmas-time makes as big a difference in trades that handle things to eat as it does in any other. Such conditions determine what stocks retail shops of different kinds must keep, and they affect the stocks that must be held by the respective sections of the wholesale. It is noticeable that the shop with the wide frontage and range of many windows is the drapery type of establishment. In that trade more than in others customers like to see the goods before they walk in to buy, and business depends much more on effective display both without and within the premises. A further distinction not to be overlooked is that the requirements of localities differ. What sells in the town is not always suitable for the country, and what the working girl can afford would be an object of derision to the ultra-fashionable lady.

SHOPKEEPERS LARGE AND SMALL

In size retail shops vary in all degrees, ranging from the single-man business, with one window and one counter, to the huge store with windows following windows, floor above floor, and each department jostling the next. The small man does everything—buys the goods and sells them, dusts shop and

packs parcels, dresses his windows and writes up his accounts. But in the big establishment work is all sectionalized. Packers and account-keepers are separated, window-dressers do not sweep floors, selling assistants do not buy. Still, whether large or small, the businesses have all the same kinds of work to get through. The only distinction is that in the large-scale undertaking there is so much of each kind of work to do that it is handled in a different manner, and that a separate staff—often a large one—is allocated to it.

The large business has many advantages. Its huge turnover enables it to buy in large quantities at lowest possible prices. Because it can buy large it can pick up big lots going cheap that the small man can never touch. It must be situated centrally in a thickly populated area, and with its wide connexion so assured it can launch out on advertising expenditure that would be ruinous to the small shop, or even to the business of moderate size. With its numerous departments all appealing to the visitor, it can more easily sell to the same customer a second kind of article than the ordinary shop can sell the same kind of article to a second buyer. In times of depression or of excessive competition its greater resources give it power to hold out against difficulties that the small shopkeeper may not be able to withstand. A large business can start a new venture and bear the losses out of the profits of other trade should the venture not succeed. The small man launching out would probably have to risk his all and have no margin of resources to fall back upon.

The small man, however, can often hold his own and work his business up little by little until it becomes a big one, too. In the small business the proprietor knows his customers and they know him. He sees and hears all that goes on and gives it his personal attention; but in the big store the proprietors or directors have to rely mostly on others. And it is usually much more difficult to get others to adopt a man's own successful methods than it was for him to carry them out himself. In the big business directors may never deal with customers except to smooth out some trouble or to negotiate some special transaction. Dealings with customers are left to salespeople, many of whom have not the keen interest of the proprietor himself. Yet it is on the satisfaction of customers that the

business has been raised and must continue to stand. In the huge undertakings reliance on reports causes clerical work and routine to multiply, sometimes beyond the point at which usefulness ceases to be worth the cost. For clerical work is an expense that has to be met out of profits, and if carried to excess it becomes a useless charge on the trading. Moreover, the bigger the business gets the larger does the executive grow, and the more difficult and costly does management become. Only a master mind can keep all in perfect supervision. There are so many managers, each absorbed with his own ideas and bent on his own ends, to be kept working efficiently and in unison for the good of the business as a whole.

DEPARTMENT STORES

1. Arrangement. Department stores are large retail establishments divided into many departments, all arranged in one building or in adjacent premises, the division being somewhat similar to that in the general wholesale house. The goods offered for sale are, however, more attractively displayed than in the wholesale, for the appeal of the department store is made to the public. In the wholesale it is made to the shopkeeper, who pays so much attention to display in his own shop that in going to buy he is probably not so much interested in how the goods are or are not set out as he is in the kinds he can get, their quality, and their price. The department store is, in fact, a collection of many shops into one business dealing in all kinds of goods for which the public keep up a general demand. Each department has its own buyer and staff, and it sells goods that none of the other departments handle. The business has usually grown little by little from a smaller beginning, having taken adjoining premises as it continued to expand. As the department store depends largely on extensive advertising, it maintains an office department to collect the matter for its numerous advertisements and to throw them into shape; also to keep record of the spaces used in publications, and to check and pass the accounts for these when they come in.

2. Buying. The benefit of departmental buying is that each buyer is an expert who understands his own goods thoroughly and who can buy them advantageously, so as to keep his

department at least abreast of rival departments in other stores. The large store giving big orders buys as much as possible from manufacturers, or secures produce as near the source as possible. By doing so it cuts out intermediate profits, and it may pass on some of the saving to its customers. Usually all departments of a similar kind and their buyers are under the supervision of a merchandise manager. His duties are to watch the buying, to see that purchases are of the right kind and quantity; also to see that the right goods are advertised and displayed at the right time and in the right manner. He is interested in watching that stocks do not accumulate, either through faulty buying or through unexpected failure in demand; and he should take steps to clear them if they do. It may be that a number of departments are taken under the particular care of one of the directors, whilst another director supervises others. All, of course, are subject to rulings and decisions made and taken by the directors as a body at the periodical meetings of the Board.

3. **Selling.** Subject to supervision, department buyers are usually in charge of the selling arrangements. To give them an interest in the success of their departments and an incentive to do better, they are commonly paid in addition to their salaries a commission on so much of each department's turnover as exceeds a stipulated amount fixed as the minimum that the department should do. Sometimes the attempt is made to separate the buying and selling responsibilities, but if different persons are responsible they must work hand in hand. Buying and selling in most trading businesses are too closely related to be carried on the one independently of the other. That way trouble would certainly lie. Some departments dealing in drapery, clothing, or hardware may have workrooms or workshops in which to effect alterations and repairs, or to make up materials to customers' instructions.

Customers like the freedom of the stores, where they can roam around at will amongst the varied merchandise, looking at whatever takes their fancy. Lifts and carpets make the exploration comfortable, resplendent fittings and fixtures make it pleasant, the wealth of form and colour in the wares makes it interesting. That is the chief attraction of the stores, which causes a shopping visit to be an enjoyable outing to many

people. The thicker the throng through which they elbow their way, the happier some of them are. Restaurants give them the opportunity of rest and refreshment, and keep the expedition from becoming too fatiguing. The large and varied stocks usually held, which owing to extensive turnover are frequently renewed, give customers a wide choice, and are a not inconsiderable inducement taking shoppers there. At points in the departments cash desks and cashiers are placed where the counter-check system is in use. Where it is not, cash registers will be found. In some establishments pneumatic tubes are installed to convey the check and cash to a cash office out of sight, and to bring back the bill and the change. At the service of customers is a fleet of motor-vans making daily deliveries in many districts. Beyond the delivery districts the post, the carrier, and the railway will be used.

MULTIPLE SHOP CONCERNS

1. **Head Office and Branches.** The multiple shop concern is a business that comprises a number of retail branches controlled from a head office. There may be only a very few branches, or there may be hundreds. The head office may be a factory where the goods dealt in are made, such as boots and shoes or ready-made garments. It may, however, be merely warehouse and offices, supplies being purchased from sources outside the business. Or it may be partly one and partly the other; but, in any case, orders for outside purchases must as a rule be placed by the head office and not by the branches themselves. Sometimes, however, the head office orders supplies to be delivered direct to branches. Where the branch shops are spread over a very wide area, the cost of transport from a central depot that served all would be heavy. In such circumstances district supply depots may be set up, supplies being delivered there in bulk and distributed thence by motor-van to the local shops according to their requirements. Economy in supervision and in distribution of supplies can be effected by the shops being started in such order of situation that they form a "chain." Progress can then be made from the first to the second, the second to the third, and so on, without it becoming necessary in delivery of goods or inspection visits to double back repeatedly on one's tracks.

Multiple shops concerns are now engaged in most kinds of retail trade. We find them selling boots or books, meat or fish, provisions or drugs, jewellery or tobacco, clothing or confectionery, fruit or dairy produce. We find them running cafés and lending libraries, coal depots, and boot-repairing workshops. There seem to be very few articles in retail trade to-day that they cannot handle. Some of them are either carried on or controlled by manufacturing companies; others manufacture some of the articles they sell and buy the rest. It may be asked why manufacturers cannot regularly distribute their products through retail shops of their own, and so save the public some of the cost of intermediate handlings. One answer is that a single manufacturer's products are usually of too limited variety to keep a retail shop going. Another answer is that no one manufactory can ever have the exclusive use of all the best brains, and that it is, therefore, not likely always to turn out the goods to which the public will most readily take. Should a group of shops be tied to that manufactory for supplies, there will be times when the shop displays must fall behind those of rivals in variety or quality, in novelty or smartness.

2. Control of Branches. Each branch is placed in charge of a manager or manageress. When the business has many branches, each district has an inspector or supervisor appointed to it. His duties are to watch what goods the branch offers and how they are displayed, to keep an eye on the staff and its discipline, and on the service that the employees give. He reports to the general manager, to whose authority he is subject. In this type of business it is not usual to allow credit to customers, so that the cash taken each day represents the trade done. The money is paid into a local bank next morning, and it is transferred weekly or daily to the bank where the head office keeps its account. The cheques in payment of creditors' accounts are drawn on the head office bank account, whether they are for supplies to the shops or for raw materials to the factory.

A feature of the control of all such businesses is the report, signed by the manager, that must be sent to the head office every evening. The report shows the day's takings, and along with it are sent either the duplicates of the shop checks or the

day's cash roll, according to whether the counter check-book or the cash register is in use. At the head office the takings are checked with the duplicates or cash roll, and are compared with the bank pay-in, a duplicate of the paying-in slip, signed or stamped by the bank cashier, being enclosed with the next day's report. Any serious discrepancy in the figures is taken up either with the branch manager, or through him with the branch cashier. Each branch is given a cash float of a few pounds for the purpose of change, so that the exact total of the takings can be banked day by day. It may be that the manager is allowed to retain so much of the week-end takings as will pay the branch wages. If not, a money order for the amount of the week's wages and petty expenses must be posted from the head office, or a cheque to be cashed by arrangement with the local bank. In any case a wages sheet, on which each employee has signed for the wages he or she received, must arrive at the head office every Monday.

The daily report will be accompanied by an order for any supplies the branch requires, and it will contain a note of any matter to which the attention of the head office is desired. Where all supplies go out from the head office, it is usual for them to be invoiced to the branch at selling price, but the head office or other supply depot also keeps record of the purchase price for the purpose of preparing periodical trading accounts for each branch. Charging out supplies at selling price makes it easier to check branch stocks from time to time. If to the stock at selling price which a branch held on a given date there is added the net supplies at selling price sent to the branch since, and from the total there is deducted the sales of the period, the result will show what stock at selling price should be on hand when the check is made. Stock will be taken to see if the required amount is actually on the branch. In some businesses it is practicable by means of a ticket to give a number to each article before it is dispatched to the branch. Record of these numbers is kept at the head office. At the branch the number of each article sold is put on the sale check, and it is marked off on the head office record when the duplicate of the check is received. The head office records thus show the numbers of all articles not accounted for at any time. The charge notes for supplies received from the head

office should be signed by the branch manager and returned as acknowledgment of receipt of the goods. He should treat in the same way any invoices he gets for supplies from outside sources.

3. **Policy and Results.** A multiple shop business running many branches does a big turnover. It is therefore able to give large orders to manufacturers, and so buy more cheaply than the single-shop business can. In that respect the multiple shop concern resembles the department store. But whilst the department store has to resort to many devices in order to draw customers to the centre where it is established, the multiple business takes its goods out to the customers, and opens shops in the city suburbs and surrounding towns. A person who has been accustomed to buy from his local branch of such a business is likely to go to a branch of the same business in another district when he is staying or visiting there. He gets the goods he has been used to, and no matter at which branch he buys them, he finds the price and the quality always the same.

Still, the multiple shop business has heavy expenses to cover. It selects the best sites for its premises. In consequence it has high rents to pay, and rates on the same scale. To make its shops attractive it faces them with costly window fronts and fits them up with expensive fixtures and accessories. It keeps them well lighted and has heavy electricity bills to meet. Again, the control of a business from a distance by means of reports and supervisors is more difficult and more expensive, and very often less efficient, than when the proprietor is on the spot. A handicap from which these shops suffer is the somewhat rigid control imposed from headquarters, which leaves the local managers little about which they can exercise their discretion. Moreover, every new shop in its inception is a doubtful venture. Some of them will turn out to be bad ventures, and the losses of these, so long as they remain open, must be met out of the earnings of those that do well.

Multiple shops of the bazaar type, however, deliberately cut out some of the usual expenses of the retailer. Their fronts and fixtures are not so costly, their appeal to the public being made chiefly on the value they give at the price. They do not keep delivery vans, do not let goods out on approval or return, and as they always sell for cash they incur no expense

in keeping customers' accounts. For that reason their kind of business has been called "cash and carry" trade. They build up a huge turnover on the small coins that customers more readily part with, and they do not deal in articles of high value. They restrict stocks to only a few styles and prices in each kind of article, always keeping a full range of these on hand. In that way they relieve themselves of one of the greatest problems of the ordinary retailer, namely, that of trying to carry a representative stock of the many different styles, qualities, colours, and prices that customers may come in and ask for.

MAIL-ORDER BUSINESS

Many of the big retail stores, especially those doing a general trade, conduct a "mail-order," "post-order," or "country-order" department in addition to their counter trade. Their advertisements in widely circulated newspapers and magazines show illustrations of the goods they sell, each illustration bearing a number by which the article can be ordered through the post. They also print large quantities of catalogues that are sent out season by season to customers on their mailing list. Some of the establishments engaged in this manner of trade are "mail-order" only. These conduct their business from a warehouse, which may or may not be attached to a factory where the advertised goods are made. Some such slogan as "direct from manufacturer to wearer" may be used persistently to encourage trade.

One weakness in this method of selling goods is that would-be customers cannot see or handle the articles before they order them. To meet that difficulty the advertisements commonly say "money returned if not satisfied"—provided, of course, that the article comes back in good condition. Another difficulty in the way of this kind of trading is the trouble of the customers' having to put their requirements in writing, a proceeding that is irksome to many people, even when a printed blank order sheet is provided. A third inconvenience is the necessity of sending the money with the order, or of having to pay the postman cash on delivery before the parcel he has brought can be opened and its contents examined. For reasons

such as these mail-order buying is most suitable for people living in out-of-the-way places who cannot often journey to any of the bigger towns. In Canada and the United States—both lands of long distances and sparsely peopled areas—Toronto and Chicago give us examples of huge businesses that have been built up on letter-order trade. Our own country has done and still does very considerable retail business with residents in British territories who like to order from the homeland. But as customs duties in the Dominions and Dependencies tend to increase, trading direct with Great Britain declines.

THE CO-OPERATIVE SYSTEM

Mention must be made of the co-operative societies engaged in retail trade, for with a membership of millions and a yearly turnover of £250,000,000, they take a good slice of the shopping business of the country. They are registered under the Industrial and Provident Societies Acts with limited liability; and they are constituted on the principle that the members form themselves into a society, with the object of supplying themselves through the society with the commodities they require. Each society takes a town or district as the region of its operations. A person applying for membership is required to subscribe for at least one share of £1 in the capital of the society, but payment may be made a little at a time. Goods are sold at prices similar to those charged by other shops, and members are not prevented from making purchases in other shops if they wish to do so. Also, persons who are not members may buy at the "store"; but the dividend is payable to members only. It is declared at so much in the pound on sales, after the accounts of each quarter have been made up, members being then free to draw their dividend out in cash or to leave it in at interest. Some part of the profits is usually set aside for educational, social, and perhaps political activities.

The business of the society is controlled by a committee elected by the members, and to this committee the manager and the secretary are responsible. Except in the biggest societies the committee consists of persons who have their own affairs to attend to during the day, and for that reason its meetings are held in the evenings. In most towns the society

has a central store run on the departmental plan for various kinds of goods, the branch shops set up in surrounding parts selling only food as a rule. The "co-ops" take up any kind of business they can handle; for example, they deliver coal, distribute milk, bake and distribute bread, and make loans to members for house-building or house-purchase. A large society may maintain a fleet of motor-coaches. The members are mostly working-class people, and it is that class the societies are organized to supply. Still, the numbers of other shops in existence show that the "co-ops" do not get anything like all the business, even from the class of their own members. A committee of the members, meeting in their spare time, cannot be expected to manage a group of shops as keenly and efficiently as trained shopkeepers whose special work that is, and who have been doing it all their lives. Such conditions set limits to the growth of co-operative retailing, unless the methods are modified. There are signs, however, that the societies are copying some of the ways of the department stores and multiple shops, and so coming into more direct competition with them.

Each society, trading in its own district, is independent of the societies in other districts. Yet they all maintain some kind of contact by means of conferences attended by delegates from each. They also have a common relationship to the wholesale society from which they procure most of their supplies. The chief wholesale societies are the Co-operative Wholesale Society, Ltd., with headquarters in Manchester and branches in London and other cities, and the Scottish Wholesale Co-operative Society, Ltd., with headquarters in Glasgow. Both wholesale and retail societies are parts of the one system. Just as the members of a retail society are its individual customers who supply its capital funds, so the retail societies are the members of the wholesale institution, each contributing as member to the capital of the wholesale society, and as customer buying goods from it. The wholesale co-operative societies have a turnover of some £150,000,000 a year. The retail societies keep their banking accounts at the wholesale society's bank, and there is a separate Co-operative Insurance Society, Ltd., for the use of the retail societies and their members. The wholesale societies are engaged extensively in manufacturing many

of the goods they sell, having works situated in various parts of the country. There is also a number of separate productive societies engaged in production only, and supported by the wholesale or retail members of the system. Further, there are many agricultural co-operative societies that supply farmers with implements and feeding stuffs, or that sell the produce of their farmer members for them. By the use of many millions of pounds contributed in small sums from over a nation-wide area, and by the power that the handling of such great resources gives, the co-operative movement has grown from humble beginnings to its present vast dimensions.

QUESTIONS

1. It is said that there is a wide gap between the producer and the consumer. What methods are adopted with the object of bridging this gap?

2. What are the functions of the retail trader? Illustrate your answer by reference to either (*a*) the drapery trade or (*b*) the boot and shoe trade. (*U.L.C.I.*)

3. (*a*) Explain what effect the situation of premises has on the trade that can be done by a retail establishment.

(*b*) How is it that a draper's shop to be successful must be situated in a main shopping street, while a baker's shop may show profitable sales if conducted in a side street? (*L.C.C.*)

4. In selecting the locality for (*a*) a departmental store, (*b*) a retail grocery business, (*c*) a factory undertaking, what points would you bear in mind?

5. (*a*) What factors govern the pricing of goods for retail sale when the retailer can fix his own price? (*L.C.C.*)

(*b*) Why is a wholesaler's rate of profit on an article usually less than that of a retailer on the same article? (*U.L.C.I.*)

6. What are the advantages and disadvantages of cultivating credit sales in retail trade? (*U.L.C.I.*)

7. Explain (*a*) the different kinds of credit trading that are practised in retail trade; (*b*) why, in business, prices are usually lower for ready cash than for credit transactions. (*U.L.C.I.*)

8. Instalment trading—where the price of an article sold or purchased is paid by instalment—may be conducted in two distinct ways —by deferred payments or hire-purchase. Compare the two. (*L.C.C.*)

9. Account for the expansion during recent years of the instalment system in the sale of goods. What objections may be raised to this method of selling? (*U.L.C.I.*)

10. (*a*) Consider the hire-purchase system from the point of view of the buyer.

(*b*) Examine the problems that arise for the retailer when he decides to add a hire-purchase system to a business of the usual type. (*R.S.A.*)

11. (*a*) Compare the main characteristics of the wholesale and the retail trade.

(*b*) State clearly the reasons you would advance to show that the retailer is indispensable to the community.

12. Show how differences in the kinds of goods handled, in the localities served, and in seasons' requirements affect the conduct of business amongst retail shopkeepers of ordinary size.

13. "Despite the ever-increasing number of multiple shops and departmental stores, small retail shops also continue to increase in number." Account for this increase in retail shops in the face of such intense competition.

14. Institute a contrast between the department store and the small specialized shop as regards (*a*) cost of doing business, (*b*) ability to resist competition and expand. (*R.S A.*)

15. To what causes do you attribute the success of large departmental stores? What features in their business organization do you consider commendable? (*U.L.C.I.*)

16. "The department store is primarily a woman's store." Comment on this statement, and give an outline of the main features in the organization of a large establishment of this kind. (*R.S.A.*)

17. (*a*) Mention some of the chief differences between the branch multiple shop and the shop of a small trader.

(*b*) Outline the staff organization of a typical multiple shop system, and point out the advantages which this system possesses over other types of retail business.

18. Compare and contrast the features of a large-scale multiple shop business with those of a large-scale departmental store business. (*U.L.C.I.*)

19. (*a*) Analyse the conditions which make for the success of the "fixed-price" chain store in retail trade.

(*b*) How far, in your opinion, does the multiple shop system in retail trade lead to standardization, simplification, and specialization in the business carried on? (*R.S A.*)

20. It has been asserted that recent development of multiple shops has been vertical, while department stores have expanded horizontally. Explain carefully what this means, and illustrate your answer by examples. (*R.S.A.*)

21. (*a*) Is it possible or desirable for a manufacturer to act also as a retailer of his products? Give reasons for your answer.

(*b*) Enumerate the conditions which encourage manufacturers to sell direct: (i) to the retailer, (ii) to the consumer. (*R.S.A.*)

22. (*a*) Consider the general effect on the retailer of the growth of multiple shops.

(*b*) In what ways has the tendency towards business on a large scale in retail trade affected the work and prospects of the wholesale trade? (*R.S.A.*)

23. (*a*) What do you understand by the "mail-order" system? To what class of customers is this system particularly suitable?

(*b*) Do you consider the postal-selling or mail-order department of a large store can compete effectively with the local retail trader? (*L.C.C.*)

24. (*a*) What are co-operative societies, and what do you consider to be their advantages? (*L.C.C.*)

(*b*) What are the relations between the local co-operative stores and (i) the members, (ii) the Co-operative Wholesale Society?

25. (*a*) Describe the management and control of a retail distributive co-operative society.

(*b*) Explain carefully the difference between a distributive and a productive co-operative society. (*U.L.C.I.*)

26. There has been a remarkable change in the organization and methods of retail trade in recent years. Discuss the various ways in which this development has taken place in Great Britain.

27. Describe the organization of any two of the following forms of business, and show how in each case the tendency is to eliminate the "middleman": (*a*) the multiple shop, (*b*) the co-operative distributive society, (*c*) the departmental store.

CHAPTER 8

AUXILIARIES TO TRADE

SERVICES that are auxiliary and complementary to trade and manufacture are the subject of this chapter. Amongst these services are transport and communication, and banking and insurance. In so far as they are auxiliary they could only be set up as separate undertakings when trade had already grown to some considerable magnitude. Before that stage was reached there could not have been enough demand for any such service for the organizing of it as a separate undertaking to have been worth while. But when these services did become established, they would react on trade and manufacture, and would help towards further development. Certain necessary or desirable operations would become easier to perform, and the transactions to which they were incidental would then be more readily carried to completion. Expansion of trade would in turn make improvement in the auxiliary services practicable, and these improvements again would help on expansion of trade further still.

TRANSPORT AND COMMUNICATION

1. **How Transport Developed.** In the most primitive form of transport man carries the burden to its destination by his own bodily energy alone. Any day in our streets we can see that method of transport still used for the shopper's basket or the traveller's suitcase. There are, too, undeveloped lands where a train of native porters with packages on their heads is still the usual means of conveying quantities of goods from place to place. But, progressing in civilization, man early trained the animals to help him, and the ox and the ass, the horse and the camel, became his beasts of burden. He found, besides, that two pairs of arms could take a load more freely if they placed it on a hand-barrow or carrier with shafts in front and behind. Also, by using a tree trunk as a roller on which to move anything very heavy, he hit on the idea that ended in axle and side wheels. With a wheel between the front

shafts of the barrow one man would push as much as two men could carry without the wheel, and with a wheel at each side bearing all the weight he could push more still. So a new era in transport set in; and not in transport only, for the wheel led to the machine, and has proved to be one of the most fruitful contrivances human ingenuity has devised. The draft age, with the horse dragging in front on a laid road, lasted for a very long period and is not yet quite past. In recent times the steam-engine, and now the electric and the oil-driven motor, have given to traction by land and to transport by sea and air a speed and power that still thrill us, though they may have ceased to stir our wonder.

2. The Railways. As manufacture developed and trade increased, need was felt for better transport facilities and considerable improvements took place in road-making. Waterways, too, were cut throughout the land, most of them connecting with seaports either direct or by river navigation. Then in 1825 the Stockton and Darlington Railway was opened and worked by steam. It was followed by the Liverpool and Manchester Railway in 1830, and the London and Birmingham Railway in 1838. Many others followed rapidly, and the period of steam locomotion was well begun.

As a result of amalgamations we have now four big companies operating the main railway lines that radiate from London to the north-east, north-west, west, and south, spreading into a network of rails and stations all over the country. The London and North Eastern Railway serves the eastern counties; Leicester, Nottingham, Sheffield, Leeds, Bradford, Manchester, and Liverpool; the towns on the Humber, Tees, Wear, and Tyne; Edinburgh, Glasgow, Dundee, Aberdeen, and beyond. It carries Continental traffic via our East Coast ports. The London Midland and Scottish system takes the Midlands, North Wales, Lancashire, and Yorkshire. Via Carlisle its lines serve the lowlands and highlands of Scotland, and it provides sailings, via Holyhead and Heysham, to Dublin and Belfast. The Great Western Railway runs through the Birmingham district to Mid-Wales, Chester, and the Mersey; via Bristol to South Wales and Fishguard for Southern Ireland; to Exeter, Plymouth, Somerset, Devon, and Cornwall. The Southern Railway takes the counties south of the Thames and

the South Coast resorts. It uses cross-Channel services to France and the Continent and the port of Southampton for ocean-going liners, whilst it gives connexions as far west as Plymouth and North Devon. In and around the Metropolis the underground electric, the omnibus, and the tramway services are all combined under the recently constituted London Passenger Transport Board.

In parts of the country there are lines jointly owned and worked, usually by two of the companies; and in places one company has running powers over a portion of another company's metals. Latterly, in order to keep down operating expenses, the tendency has been for the systems to work together rather than against one another, so that agreement exists regarding some of the districts where they are in competition. Travellers may often proceed outwards by one route and return by another when they find that convenient, going, say, from King's Cross to Edinburgh (Waverley) and coming back from Edinburgh (Prince's Street) to Euston. Persons and parcels are carried by passenger trains, merchandise and minerals by separate goods or mineral trains. For quick stopping and efficient control in running, passenger trains must all be fitted with vacuum brakes that are continuous throughout the train, and fast long-distance trains for merchandise, fish, and perishables must be fitted in the same way. The railways are subject to considerable State regulation and inspection, chiefly with the safety of the passenger and the employee in view. Electric traction has been used for many years now, mostly on suburban services, and the process of electrification continues. The oil engine has been tried; but so far in this country its use has not been much favoured. Our railways now have somewhat far-reaching interests in the larger road-traffic undertakings, the object being to maintain some co-ordination and to prevent excessive competition between the two classes of service. There has also been some little experimentation in combining railway with air-route travel.

3. **Docks and Shipping.** Some portion of the traffic through our docks is coastal trade, such as that carried on between London and Newcastle, Glasgow and Liverpool, or Liverpool and Dublin. A considerable part is Continental traffic to and

from France, Belgium, Holland, Germany, Denmark, Scandinavia, and other European countries. A large proportion of the traffic is carried on with distant lands by ocean-going ships. Part of this is taken by "liners" or vessels regularly using the same routes, as Liverpool to New York and back, Southampton to Capetown, and London to Sydney. The rest comes and goes by "tramp" ships that move about the world from port to port wherever cargo can be found for them to carry. It is the "liners," of course, that take passengers for distant ports, and in this country boat trains are usually run alongside the departing or arriving ships. Daily services operate for Irish and Continental travellers, connecting with boat trains at each end. The railway companies on each side co-operate for the issue of through tickets for the whole of any journey, which may include travel in several countries.

Inland goods traffic from and to the seaports is taken by railway, by road motor-wagon, or, where speed is not essential, by canal or river barge. There are in operation "train ferries" to and from the Continent which save the time and labour of handling the goods between railway and boat on departure, and between boat and railway on arrival. The vessels used are so constructed that a number of loaded railway vans can be run on to each at the port of departure and, after being carried securely across the sea, can be run off on to the railway lines at the port of arrival. Up-to-date docks are equipped with quick-acting cranes for the rapid discharge of cargo. Rapid clearance increases dock accommodation, whilst it saves dock charges to the shipowner and liberates his vessel sooner for another voyage. Cargo is loaded direct into railway or road wagons when that can be done. When it cannot, the merchandise is passed into transit sheds or, when it must be kept at the docks for some time, it is stored in dock warehouses, warehousing and insurance being charged for according to the quantity of goods stored and the time they are held.

4. **Road and Air.** The application of steam to locomotion on land and sea opened up vast possibilities in the development of transport, so that the horse wagon, the stage coach, and the wind-driven ship were soon largely superseded. Now the internal combustion engine using petrol or crude oil is making great inroads into the provinces hitherto dominated by steam.

On our roads, over the seas, and through the air this new method of propulsion has firmly established itself. On land and sea it is merely the applying of a new form of power to an old medium of locomotion; but in the air it has broken into a new medium of which man had not previously been able to make practical use. So far the air routes are used mostly by passengers and for mails, because of the speed and the saving of time that the aeroplane gives. They are as yet too costly for ordinary travel and for the ordinary carriage of goods. Railway transport has sought economy of working by the running of long trains with powerful locomotives; but motor transport uses small and mobile units. The railways, again, needed heavy capital expenditure, not only for supplies of rolling stock, but also for the acquisition of land and for the building of permanent way. On the other hand motor vehicles can be put on the roads with much less initial outlay.

After the advent of the railways road transport could not compare with them for speed, with the result that the roads were not used greatly except for short distances, and for moving goods and travellers to or from the local railway stations. Though it cannot yet equal for speed or capacity the fast long-distance railway train, the cheapness of the new road transport has caused it to be used extensively for both passengers and goods. It is specially suited for goods when full wagon loads are to be taken, because the merchandise can then be loaded into a van on the consignor's premises and not unloaded until it reaches the consignee's doors. A further saving is that goods carried under these conditions do not need to be packed in cases or bales for protection in handling. For these reasons much of the more remunerative traffic is picked up by road motor companies, and the less remunerative, miscellaneous, and smaller consignments are left for the railways to carry. This competition has led the railway companies to adopt the container, in which they now carry bulk goods, without outside protective coverings direct from the sender's to the receiver's place of business, when consignments of sufficient size and suitable for that method of conveyance can be obtained.

The development of transport has been largely the development of speed. Mails are now carried regularly from England to India as quickly as they could, not very long ago, be carried

from London to Edinburgh, and a journey from London to Paris can now be accomplished comfortably between breakfast and lunch. A business man can keep an appointment in a distant city and be home again, keeping another, in less time than he would formerly have taken with the first one. The speeding up of transport has made it possible in a given time to carry through more transactions than before. Further, it is not only the personal activities of commerce that have been quickened. The sooner the personal part of a business deal is completed, the sooner can the wheels of production be set in motion, the process of manufacture be finished, and that of distribution begun. Also, the sooner will payment put into the hands of the producer, and of the parties engaged in distribution, funds with which to embark on new transactions. Just as the use of machinery has increased the rate and the volume of production, so the acceleration of transport and communication has increased the volume of buying and selling that can be transacted in the business day or week.

5. **Verbal Communication.** Personal attendance by buyer and seller is not, however, necessary in order to settle the terms of every business transaction. For only some of the more important contracts of commerce is that essential; and, notwithstanding the vast number of inside and outside salesmen engaged in trading, a large proportion of business transactions is effected by post or by telephone. Growth of business has brought about a corresponding growth of communication by written or printed word. In nearly all countries the post is a national institution worked by Government in the interests of its public, and under international agreements. The enormous quantities of missives handled makes possible the organization of carrying them at a low charge for each. The usual conditions are that the same charge is made for the same weight for all distances, long or short, within the same national system. With ourselves, for all parts of the Empire and for the United States of America, the rate for letters is up to a point the same as for home destinations. The post is used very extensively for the distribution of business notices and catalogues, and an increase or reduction in the rate for these makes a very considerable difference in the cost when large quantities are dispatched at frequent intervals. As 480 halfpennies make £1,

a halfpenny extra in the charge for each letter increases by £1 the cost of stamps on every 480 letters posted, and by £1000 the cost of every 480,000 catalogues that a post-order business issues.

Except for short distances it is cheaper to send a message by telegram (or, as we commonly say, by "wire") than it is to speak the message on the telephone. Telegraph communication is effected by the telegraphist producing, at the office of dispatch, either mechanical signs which represent the letters of the message to be sent, or the letters themselves where the teleprinter is in use. At the office of reception the signs or letters are reproduced electrically to form again the words of the message. In a large receiving office the messages as they come in are typed automatically on tapes of paper that are afterwards gummed to telegram forms. The Exchange Telegraph Company hires out to institutions or business establishments machines that, throughout the day, exhibit series of typed bulletins about such of the day's happenings as are of general interest, or about such things as Stock Exchange prices, of interest to a more or less limited section of the public.

Though we can now use the telephone to continents as far away as America and Australia, the high cost prevents its being used extensively for very distant speech. Messages for abroad that cannot wait for delivery by mail are sent by telegraph cable or by the newer means of wireless wave. For inland communication the advantage of the telephone, in facilitating the conduct of business, is that it brings the parties together, so that they speak naturally to each other and can go into details of the matter in question. Reply to an inquiry can usually be obtained at once; whereas, with the telegraph, one must wait an indefinite time for the reply to come. Questions cannot be asked or answered except by further "wires," and the intervention of the telegraphist is necessary for communicating both the outward message and the reply. The spread of the automatic telephone, by which the caller himself "dials" for the exchange number he wants, makes the use of the telephone quicker and simpler still.

In this country our own broadcast service is not available for ordinary business advertising, though the British Broadcasting Corporation is active in seeking printed advertisements for its widely circulated publication, the *Radio Times*. In

other countries the "radio" is used extensively for advertisement, and broadcasts in English for the benefit of British listeners have been made from Continental stations. Here the service given by wireless to commerce is confined to the broadcasting, for example, of the day's market prices of fat stock, or of weather forecasts of interest to the shipping world. Within the limited areas it so far serves, television could be put to commercial use in demonstrating new-fashion goods, or in acquainting the general public with new devices being offered for their use. In this country, however, its use for business advertising is improbable.

BANKING FACILITIES

There are several causes that led to banking operations being pursued as a separate and auxiliary activity of commerce, and to their being developed as an important facility in the conduct of trade and manufacture. These causes are dealt with, briefly for the present, under the following heads—

1. **Safe Deposit.** Money came into use as a "medium of exchange," a something that could be taken in payment of goods or services sold, and that could be given again in payment of goods or services of other kinds subsequently bought. For several reasons silver and gold were found to serve that purpose best, particularly when they were minted by the Government into coins of standard size and content, stamped with the value at which they were to pass. But coins of precious metal were peculiarly liable to theft or loss, and the banks came into existence, for one purpose, as places of deposit where customers could keep their money in security greater than they could readily provide themselves.

Much of the money, however, now in current use is in the form of notes—printed pieces of paper representing so much value stated in terms of standard coin. But as these notes give to any holder the means of obtaining value from others for the stated amounts, they also are precious documents for which the security of safe deposit is as much a necessity as for coins of gold. The banker offers to relieve business men of the trouble of minding their money, whatever form it is in, and to take the care of it upon himself. He is paid for that service by being allowed to lend out at interest such part of his

customers' aggregate deposits as they are not likely to require for a time. To deal with the remainder that the customers do require for making payments, the banks provide, in the organization they have built up for the collection and payment of cheques, a ready means of transferring prescribed portions of these deposits from person to person and from place to place.

2. **Lending out Funds.** It is in the lending out of funds at interest that the banks make a very considerable part of the profits out of which they pay their dividends to shareholders. The money lent out is not their own. What they lend to one section of their customers is money that has been left with them for safe deposit by another section. The profit that the banks make in that way is the excess of the interest they charge to borrowers over what they pay to depositors. A large part, however, of the funds that the banks have available is left with them free of interest payment.

Many of the banks' loans are granted to manufacturers and to traders, and are used directly to assist in the carrying through of business transactions. Mostly they are more or less temporary or fluctuating advances, granted until the manufacturers' and traders' claims on their own debtors mature, or until stocks purchased can be realized. As a rule they are made on the deposit of adequate security, so that the banks are not likely to lose by the failure of borrowers to repay. But many are made without deposit of security, simply on the banks' confidence in the standing of the borrowing businesses, in the good reputation these businesses possess, and in the soundness of the financial positions shown by their balance sheets. Some of their funds are advanced by the banks in the discounting of bills of exchange when the banks are satisfied about the trustworthiness of drawer, acceptor, or indorser. Some are advances on bills payable abroad, secured by the banks' holding the bills of lading or titles to the goods for payment of which the bills of exchange have been drawn, and by their holding the policies that insure against loss of the goods while at sea.

Some part again of the bank's available funds may be placed in first-class investments dealt in on the Stock Exchange, and some may be used to buy bills by the issue of which the Government raises the funds it needs until its taxes are ingathered. What cannot be put out to better profit in other ways may be

used for short loans on the Money Market in London. The borrowers then are probably bill-brokers, who use the funds to discount bills for their customers at a higher rate than the banks charge the brokers for borrowing; or they may be stockbrokers who need the money for buying stocks and shares, on the resale of which their clients hope to make a profit greater than the interest charge.

3. **Making and Collecting Payments.** One of the activities in which the earliest banks engaged was money-changing, an activity rendered necessary by international trading, when the seller of wares brought back to his own country, or had sent to him there, payment in the coin of the buyer's country. Now that the operations are termed "foreign exchange," and payment in coin between one country and another has long been replaced almost entirely by bills of exchange and bank drafts, the banks are still engaged in helping the sellers to get payment in their own country's money. A foreign debtor of a British creditor, or a British debtor of a foreign creditor, commonly pays off his debt by a draft bought from his bank. When a bank here pays to its customers bills drawn upon it by a bank abroad, it thereby acquires claims against the country where the bills were drawn. Similarly the bank abroad acquires claims against this country when it pays bills drawn upon it by the British bank. The two banks can set off the totals of their respective claims, the one against the other, leaving only the balance to be settled between them. But as one British bank may have a balance to pay to the country in question, whilst a second British bank has a balance to receive from the same country, these balances also can be set off one against the other. Through a foreign exchange broker in London the British bank that has to pay is brought into touch with the British bank that has to receive; and the former buys from the latter at an agreed rate a draft for so much of the foreign country's money as the buying bank needs to settle the amount it has to pay. In the foreign country the bank with the balance to receive presents the draft to the bank with a balance to pay, and so obtains satisfaction of its claim. As a result of such transactions gold need not be sent from the one country to the other, except only occasionally when an excess of claims accumulates on one side.

Improvement in the regularity and speed of international communications has, of course, greatly helped in the making of foreign payments, so that now money transactions between one country and another are frequently effected by telegraph or telephone. At one time, however, lack of efficient communication and the danger of highway robbery made payment between distant towns, even in the same country, much more difficult than now. In those days bills of exchange drawn by one trader on another for inland transactions were a much more usual part of payment procedure than they are now. Out of the practice of drawing bills between traders there developed the special form of bill of exchange that we call the cheque—a bill payable on demand that is drawn on a bank by a customer of the bank.

The banks of this country acting in unison have evolved arrangements whereby the amounts of these cheques are credited to the banking accounts of the receivers and debited to the accounts of the drawers, with the least possible trouble to either of the parties concerned. Through the clearing houses that they maintain the banks accomplish this service to the community smoothly and speedily, though payer and receiver are located in towns far apart. To the payer it is less trouble to draw a cheque on funds lying in his bank account than it would be to see to the transmission of the money in notes and coin. To the receiver, also, it is less trouble to take a cheque for the exact amount due and to hand it to his bank for collection than it would be to count the amount in notes and coin and to see to their safe keeping. Besides, the cheque is a much safer form in which to transmit money from place to place.

For these reasons payment by bank cheque has become the rule in business when the seller knows sufficient about the buyer to trust him. In the payment of workmen's wages notes and coin are used; and they are mostly required in retail transactions also, where the majority of purchasers have no banking accounts to use, and where the value of strangers' cheques would not infrequently be doubtful.

INSURANCE AGAINST RISKS

1. **Kinds of Risks Insured.** Loss by *fire* arising on their premises or spreading to them is the risk most generally

insured against by business people. The probability of such a loss occurring is so imminent, and the effects if it does occur may be so grave, that it is not prudent for any business house to disregard it. Fire, too, spreads so quickly that, in all built-up areas, the local authorities have been forced, in the public interest, to provide out of the rates means more or less efficient for combating and subduing fire when it breaks out. Nowadays it is customary for town dwellers to cover their household belongings by fire insurance, and for the owners of dwelling-houses to insure the buildings. *Loss of profits* consequent on fire is one of the newer subjects of insurance in which business houses are sometimes interested.

Burglary and house-breaking are so frequent that not only business proprietors but householders also commonly take out policies of insurance against loss through these causes. In retail trade, more than in wholesale and manufacturing, it is customary to insure the *plate-glass* in the windows and fitments of shops against breakage. *Goods in transit* on land are sometimes insured against loss or damage, particularly when the contents of the packages are valuable. The Post Office offers insurance for packets sent by registered post, and the railways and other common carriers are, under the Carriers Act, relieved of some liability for loss or damage to certain articles, such as gold and jewellery, furs and pictures, unless the contents of such packages are declared by the senders and an extra charge paid for their conveyance. When goods are sent abroad, the risk of loss or damage on the sea is so great that it is almost invariably covered by a policy of *marine insurance*. When transport by air is arranged, insurance is no less essential.

Workmen's compensation, or payment to be made by employers in respect of accidents to workmen whilst in their service, is regulated by special Acts of Parliament. Their liability under the Acts may be so heavy that employers generally must seek the security of insurance. The Government schemes for joint contribution by worker, employer, and State to Health, Unemployment, and Pensions funds are familiar to all. There is also *employers' liability* for cases that fall outside the provisions of the Workmen's Compensation Acts.

There is always present some danger in *third party risks*,

such as injury to customers or damage to their property caused by defects on business premises or by carelessness of employees, or such as injury to passers-by or damage to their property caused by falling slates, signs, sunblinds, and the like. Insurance against these is advisable. Special *lift insurance* and *boiler insurance* policies to cover damage, loss, and third party liability, by accident, breakdown, or explosion are fairly common where lifts or boilers are in use. In these days *motor insurance* is a necessity, and accidents to persons and property on the roads are so numerous that insurance to cover legal compensation that may become payable is compulsory on all owners of motor vehicles.

Life insurance is a personal rather than a business concern; but it is not unusual for employers to take out *fidelity guarantee* policies for employees, such as collectors and cashiers, whose duties include the handling of considerable sums of money.

2. How Insurance Works. The conditions to which any scheme of insurance is applicable are that many persons or businesses shall all be subject to risk of loss from the same kind of cause—fire is a good example. Yet, though all run the same kind of risk, the loss when it does occur never falls at any time on all who are subject to it, and only on a comparatively few of them in any given period. As everyone is subject to the risk, even with the exercise of all reasonable care on his part, it is fair that each should make contribution with the view of meeting the loss whenever and wherever it occurs amongst them. As out of the many that *may* suffer only a few *do* suffer from time to time, a small contribution from each of the many is sufficient to make up the loss of the few. If the contributions are collected in advance, they can be placed in a common fund kept available for making prompt compensation to any contributor on whom there falls a loss of the kind provided for.

The conditions just described apply to all the kinds of risk we have named. Loss at sea was the first kind of risk for which provision by mutual contribution was made, as the practice appears to have originated with the early navigators of the Mediterranean Sea. Fire insurance began to take organized shape in this country after the Fire of London in 1666, and the oldest fire office in existence to-day dates from 1710. Other forms of insurance, though now quite usual, have arisen

later. In these days the contributions, or "premiums," are collected in advance year by year. Where the insurance is on something in existence, like buildings or stocks of goods, on which money value can be placed beforehand, the premiums are usually charged at so much per cent of the value. For most kinds of risks insured against the cover remains in force for a year only, or for less if so desired, so that the insurance fund is replenished every year, when the renewal premiums are received. The rate of premium charged is such as general experience proves to be sufficient to meet the average annual total of claims made, together with the year's expenses of working. When goods are sent by sea, a value is declared by the shipper for each separate consignment and the insurance lasts only during the time of transport. A life policy names a sum to be paid by the insurance office on the death of the insured, or sometimes at death or on attainment of a stated age, whichever should happen first. Though the premium is usually payable by annual or more frequent instalments, a life policy is not renewed from year to year, but remains in force for the whole of the period, provided the premiums are paid as required.

SERVICES SOMETIMES AUXILIARY AND SOMETIMES NOT

In so far as individual members of the community use the transport services of the country for their personal convenience or enjoyment, these services are not auxiliaries to trade. Used for such purposes they provide direct satisfaction of personal needs or wants quite as much as traded goods like food or clothes or furniture. And the same is true of our banking and insurance systems in so far as the individual uses them directly for his personal ends. But there are many other services rendered of one kind and another that are also sometimes auxiliary to the main purpose of trade or manufacture and sometimes in direct satisfaction of individual needs. Advertising, perhaps more than most, is the servant of trade in that it is used to create, maintain, or extend the demand for goods that the advertisers want to sell. Yet advertisement is used at times for personal ends. Printing, though largely subservient to the activities of trade, also provides in books, magazines, and

newspapers an important means of supplying personal wants. Building, equipment, and repair services of many kinds similarly serve that dual purpose. As indicated in an earlier chapter, public utility, municipal, and Government activities, such as lighting, road maintenance, and administration of justice, supply facilities partly helpful in the pursuit of industry and trade, and partly of direct benefit to individual members of the community. It seems, therefore, that the answer to the question, whether any kind of service rendered is an auxiliary to business or is a means of directly meeting personal wants, depends not so much on the nature of the service itself as on the purpose to the attainment of which it is applied in any given case.

QUESTIONS

1. Name four kinds of service that are auxiliary to manufacture and trade. Explain why they would only become separate pursuits and would only grow in extent as trade expanded.

2. (*a*) Indicate very briefly some steps in the development of transport.

(*b*) Of what advantage to commerce is a good transport system? (*U.L.C.I.*)

3. What railway undertakings operate in this country? By what means are they operated, and what areas do they respectively serve?

4. Why does commerce grow with improvement of transport facilities? Mention a few transport facilities that have aided the growth of commerce. (*L.C.C.*)

5. From and to what parts does traffic come and go through the docks of this country? Name any special points that occur to you in regard to the handling of that traffic.

6. In what circumstances is carriage of goods by road a more desirable method of transport than carriage by rail? (*L.C.C.*)

7. Discuss the relative advantages and disadvantages of transport by (*a*) railway, (*b*) canal, (*c*) road. (*U.L.C.I.*)

8. What are the modern methods available to manufacturers and traders for the carriage and distribution of their goods? Explain for what class of goods each method of carriage is most suitable. (*L.C.C.*)

9. What are your views about the progress made in the use of the aeroplane, and about its suitability as a means of transport, travel, and communication?

10. Name three of the principal ways in which the Post Office helps the modern trader, and add a short account of each.

11. How would you describe briefly the more important services that a banker renders to the community? (*L.C.C.*)

12. Explain carefully how banks function as (*a*) repositories for cash, (*b*) agents for payment, and (*c*) lenders of money. (*U.L.C.I.*)

13. Describe briefly the ways in which banks help to finance industry and commerce. (*U.L.C.I.*)

14. Explain carefully the advantages that accrue to a trader from the use of cheques, in both making and receiving payments. (*R.S.A.*)

15. Describe by what arrangements the banks are able to assist traders in the making of payments to foreign creditors and in the receiving of payments from foreign customers.

16. Enumerate some incidental risks to which businesses are exposed, the means by which these risks may be covered in advance, and the extent to which it is possible or desirable to cover them.

17. Insurance has been described as a form of pooling risks. Illustrate the operation of this principle in the case of fire insurance, and show the advantages resulting from it. (*U.L.C.I.*)

18. Show how many occupations render services that are sometimes given as auxiliaries to the carrying on of industry and trade, and sometimes in direct satisfaction of the wants of the individual consumer or the household.

CHAPTER 9

THE PARTIES AND THEIR INTERESTS

HUMAN wants, as we have seen, are very numerous and very varied; and it is to supply the multiplicity and variety of things desired that industry, trade, and commerce are carried on. At any rate, that is the main reason; for without these wants to provide for there would not be any trade or industry to engage in. We all have certain needs in food, clothing, and shelter that we cannot go without and live. Once these primary necessities are supplied, we soon find other things to wish for and, to such extent as we have the means of procuring them, we seek them. To a minority of our fellows the chief object of engaging in business may seem to be the acquisition of gain; partly, perhaps, for the gratification they derive from the pursuit of that aim, and partly, no doubt, for enjoyment of the power and influence, and the command of desirable things, that the possession of money gives. From our personal standpoint, the making of some money is the immediate purpose of our following a daily occupation, of whatever kind it may be. Yet to the great majority that is only the means to the further and more imperative end of obtaining things we need and things that we would like.

CO-OPERATION AND EXCHANGE

Force of circumstances caused dawning civilization to adopt co-operative methods in the supplying of human wants. Indeed, the society form of existence, in which each member helps his fellow more or less willingly, has been an essential factor in man's progression. As a unit he is comparatively weak; as a crowd or a mob, even without sensible direction but carried away by a common emotion, he is strong; as an organized company, trained and equipped for some planned-out undertaking, he is capable of great achievement.

Wheat cannot be cultivated on the hilltops for want of suitable soil, and it would be foolish to build factories there, because transport would be too difficult. But sheep can be

reared on the mountain slopes and timber can be grown there with profit. The hill dweller, therefore, finds one kind of occupation ready to his hand, and the lowlander a different kind. Similarly the pursuits of the seashore are not those of the inland plains. Further, the jack-of-all-trades is by repute master of none. One man can seldom learn to be shoemaker and stonemason equally well, or another to be weaver and tailor, and carpenter too. Considerations of efficiency, as well as of necessity, have led to one person keeping to one kind of occupation so that he can perform the duties of that one proficiently. So it is that each skilled craftsman makes far more of his own product that he himself can use; but he exchanges the surplus of his output for many portions of other craftsmen's handiwork of which he stands in need.

In these days the exchange is not direct; but that does not make the exchange less real. The worker finds it convenient to sell his labour for wages in the form of money, and to change the money again for whatever quantities of food, clothes, house-room, entertainment, and other things he and his dependants want. And if in some instances the remuneration for service takes the fancier name of salary or commission, fee or stipend, the process and the purpose are still the same. The exceeding variety of the things we want, the greater suitability of this or that locality for the production of one commodity or another, and the proficiency attained by each class of workers keeping to its own kind of occupation have given rise to the extensive activities of our transport services, and to the complex arrangements of our distributive trades.

FACTORS OF PRODUCTION

The factors of production, or, as economists frequently call them, the "agents of production," are commonly said to be Land, Labour, and Capital. The meaning, however, that in this connexion is attached to each of these terms needs some little explanation. So does that of "production," which in the wider sense used by economists is the correlative of "consumption." The latter denotes the using up of the commodities and the enjoyment of the conveniences and amenities that industry provides. The former signifies not only the processes of collection, extraction, construction, or manufacture incidental

to production in the narrower popular sense, but also every activity that helps to bring any of the things he wants within the reach of the consumer. The advice of the doctor or solicitor, the service of the entertainer or the bus conductor, the call of the postman or the milkman, are as much part of production in this wider sense as the sowing of the farmer, the weaving of the loom-minder, the work of the cabinet-maker, or the operations of a shipbuilding yard.

1. **Land** is necessary at every stage in the procedure of supply. We are by nature and habit land dwellers, and must be approached on land when the products of industry are offered to us, just as it is on land that, as a rule, we must consume them. The retail shopkeeper needs the use of land for premises in which to display and sell the goods he deals in. To the warehouseman and the manufacturer land is just as essential for providing the site on which he conducts his business, or on which his workers make his goods. The banking company needs land for its branches, the insurance company for its offices, and the railways for their lines and stations. Land gives us the room, the space to move about in, that is necessary for all our activities. It is, however, even more essential for the provision of food in the growing of fruits and agricultural produce, and in the rearing of cattle and sheep; also for supplies of the raw materials needed for manufacture, like cotton and timber that are raised upon the land, and like coal and iron that are extracted from it.

But the meaning of "land" must be stretched to include sea, lake, or river, for these enter into production as the medium of water transport and as the source of supply for the fishing industry. It must also be taken to include air, sunshine, and shower, which are necessary to the growth of vegetation and to the health of cattle, as well as that of man who provides the labour factor. Land, then, as a factor of production, signifies the earth and the forces of Nature, except when these operate through conscious effort put forth in labour by man.

2. **Labour.** Fresh air and sunshine are very desirable things that come to us without our expending labour to get them, so long as we refrain from shutting ourselves off from them. But with nearly all the other things we need or want, labour is necessary for producing them. Nature does not place them

ready to our hands. Production, even by the natural processes of growth, calls for our continuous attention. Manufacture usually means a long series of intricate operations on materials collected, often from distant parts, or dug with much effort from the bowels of the earth. Over and above the labour that cultivation and manufacture involve, there are the numerous activities of buying and selling, of paying and being paid, of transporting raw materials and distributing finished goods. Labour, then, comprises all the direct and indirect effort by which we change the situation and the form of natural supplies so as to make them of use. Labour does not create except in so far as we can describe reasoned-out effort such as counsel, invention, or the work of planning and organizing as creative. Dealing with materials already in existence, labour consists of bringing them from places where we cannot, to places where we can, make use of them; or it consists of changing their original states or shapes into others that can better satisfy our wants.

All labour, however, is not expended on material so as to make it of use. Much of it is so expended, like the work of the bricklayer who helps to raise the house we may live in, or that of the factory operative who has his part to perform in making the shoes that we may wear. But some labour takes the form of services rendered, the service being itself the thing that we use or enjoy. Such is the advice of the solicitor, the performance of the actor, or the assistance of the taxi-driver. The purpose of both classes of labour is the satisfying of our wants. Both, therefore, enter into production in the wider sense.

Nevertheless, it is labour expended for the purpose of changing or moving material things that assumes the larger proportions in our view of the productive system. But here again we have to draw a distinction. Some of that labour is spent directly on the materials, either in transforming or transporting them; whilst some of it affects the materials only indirectly, its function being the management or supervision of the labour that touches the goods. The two kinds exemplify the tendency to specialize that arises out of the factory method of manufacture, where the work of planning and directing the operations is separated from that of actually carrying out the

operations. A body of workers whose efforts are controlled towards the accomplishment of a plan—say, the building of a river bridge, or the production of a town's supply of gas—and who are kept each to his own place and part, will reach the end more quickly, and with fewer false steps taken, than if each worker were left to pursue his own course. The output of workers so controlled will be greater, making possible a greater share for each under a fair method of dividing out the wealth produced, or the money for which it is exchanged. In undertakings involving intricate operations this managerial and directive function is a necessity if the end projected is to be attained at all.

In the early days of manufacturing development, as in the smaller type of business still, the work of organizing and directing was undertaken by the proprietors of the business, the persons who supplied the capital required for carrying it on. But in most of the large businesses of to-day organizing and managing duties are distinct from those of ownership, and may be delegated to or assumed by others than the owners. In the joint stock form of proprietorship, the shareholders, or persons who hold shares in the company's capital, take very little active part in the management of the company's affairs. Such part as they may take in the capacity of shareholders is confined to attending once a year a general meeting of the members of the company, adopting or perhaps rejecting the annual report and accounts submitted by the Board of Directors, sanctioning or modifying the appropriation recommended by the Board of any profits that may have been made, and formally declaring a dividend out of profits available; electing a new director or re-electing an old one, and appointing auditors of the accounts for the coming year. Less frequently they may be called together to pass a resolution giving the Board power to embark on a proposed course which the directors would not otherwise have authority to take.

The Board of Directors is the body that inaugurates policy and supervises the carrying out of decisions in regard to the conduct of the company's affairs. But as the Board meets only periodically, it must in its turn delegate large portions of the day-to-day management to others. Under the Board and responsible to it there may be a general manager of the business

with an executive of departmental heads responsible to him. The duties of general manager or chief executive officer may, however, be undertaken by one or more members of the Board, who are then usually called "managing directors" and who, also, are answerable to the Board as a whole.

In textbooks on Economics the name of "entrepreneur" is used for a person who undertakes the duties of planning, directing, and controlling the business activities. He it is who arranges in the first place for the procuring of the capital with which to acquire premises, equipment, and stocks. And he it is who superintends with or without assistance the manufacturing processes and the buying and selling activities, the maintenance of an adequate body of workers and an efficient administrative staff, also the availability of funds for paying the wages of employees and the claims of suppliers of goods. We have, then, two classes of workers in industry, (1) the labourers and craftsmen and clerks who make things with their hands or tend machines or merely keep records, and who exercise their intelligence in greater or less degree in doing so, and (2) over them and controlling them the organizers and managers whose work is all planning, directing, and supervising.

3. **Capital.** In the popular conception capital is often confused with possessions in the form of money. To the accountant it is the money and money's worth that the proprietors hold invested in a business, which is the same as the excess at any time of the business assets over the liabilities to outside creditors. In the stricter economic view capital is wealth that has been produced and, instead of being consumed, has been saved to help in the production of further wealth. Land purchased by a business as a site for its operations is part of the business capital in the accountant's view. But land, though it is now usually acquired in exchange for wealth produced, is not itself the result of productive activity; and for that reason it is not capital in the narrower sense of something produced and saved as a means towards the production of more wealth. That meaning of the term refers to such things as agricultural seeds and implements for cultivation; to works buildings, machinery, and other equipment for manufacture; to ships, docks, and railways, and to warehouses and shops, for the transport and distribution of produce, materials, and finished goods.

Capital, however, is not as elementary a factor of production as either land or labour. Land is something distinct from labour, and labour something distinct from land, for neither is a constituent of the other. But capital is, in a sense, a compound of both; for without the action of labour on land there would not be any production of wealth that could be saved for use in further productive activity. On the other hand, without capital or wealth saved for equipment, we could not have any but the most primitive forms of production; and manufacture on the grand scale of quantity and variety that we see to-day would be impossible.

That part of the assets or possessions of a business which belongs to the owners, and would be left for them after all creditors had been paid off, is sometimes called the *proprietors' capital.* It does not exist as money except only to a small extent. It consists of such possessions as land, buildings, machinery, fixtures, and goodwill; also of stocks of goods, book debts or amounts owing by customers, of cash in hand, and the balance at the bank—unless the bank account is overdrawn. But in any given case it consists only of so much of such assets as would not be required for settling creditors' claims. Sometimes the word "capital" is made to include amounts borrowed and used to supplement the proprietors' capital for equipping the business and carrying it on. Then what has been borrowed may be termed *loan capital*; or, if it has been raised by a company on the security given by documents known as "debentures," we may find it described as *debenture capital.*

So much of the capital of a business as consists of permanent assets like goodwill, land, buildings, and equipment is called *fixed capital.* The remainder consists of stocks of goods, book debts, bills receivable, bank balance, and cash in hand. It is known as *floating* or *circulating capital,* because the assets it comprises are, from their nature and purpose, continually changing day by day as stocks are turned into book debts, book debts into cash, and cash into stocks again. These are the assets or possessions that are used in carrying through the daily transactions of the business. For that reason the name *working capital* is also given to them, or to the amount of their money value. But it has to be remembered that the portions

of proprietors' and loan capital which are used for working purposes are supplemented by so much of the materials and goods purchased as has been obtained on credit and is not yet paid for. Such portions of the assets of a business as are immediately available or will soon become available for payment of creditors are described as the *liquid capital* of the business.

THE CLAIMANTS OF THE PRODUCT

In this chapter we have been using the word "distribution" to denote the *transport* or *movement* of commodities from their sources, through the processes of supply, to the hands and homes of the final consumers who use them up. But the word is often given a somewhat different meaning, namely, that of the *sharing* or *dividing out* of the product of industry amongst those who have taken part in producing it, the total product shared out amongst the people of a country being called the "national dividend." In modern conditions extensive transport arrangements, together with the institution of money as the medium of exchange, are a necessity for effecting the sharing out or distributing of the product of industry to the claimants. That, apparently, is why the word has come to signify the moving of the product as well as the sharing of it. The final price paid for any article is the sum of all amounts paid for services given in respect of it at the several stages in the course of production and supply.

The several claimants correspond to the factors of production. They are the owners of land and buildings, the providers of capital for starting and conducting business ventures, the workers who supply ordinary labour, and the managers who organize and supervise. The landlord's share is known as *rent* or royalty. What goes to the capitalists is called *interest* or *dividend* or merely *profit*. Labour takes *wages*; but a small number of undertakings have set up profit-sharing or co-partnership schemes for giving workers a small additional share. Managing directors take *salaries* and directors' *fees*, whilst they often receive a share of the profit as commission payable at an agreed rate per cent of sales, or perhaps of profits. And under-managers and others in positions of responsibility may

also get commission or yearly bonuses, in addition to their salaries, when sufficient profits have been made out of which to pay them.

A *profit-sharing* scheme gives to the workers in an undertaking some share, at the end of each trading period, of any profit that then remains after all legitimate charges for the period have been met. If it is a scheme simply of profit-sharing, the workers' interest in it goes no farther. But if it is one of *co-partnership*, the workpeople will also, by the terms of the co-partnership agreement, hold some share in the capital of the business, and perhaps have some small say in its control. Such arrangements are intended to encourage employees to do their best for the business, to cause them to feel that they have in some degree a proprietary interest in the concern that goes beyond the mere drawing of so much weekly pay for so much labour given.

In very many undertakings, however, the proportion of final profit that it would be possible to allocate to the workers would yield, to each individually, a share that would be rather too small and would be waited for too long for it to prove a strong or lasting incentive. Besides, the capital holding that the average workman could manage to acquire would be too insignificant, and the influence that he and his fellows would be able to exercise would usually be too circumscribed to inspire in him or them any very active sense of proprietorship or of corporate responsibility. Moreover, in most businesses to-day directors or managers would be averse from fixing a moderate maximum to their own remuneration, and shareholders would not readily agree to restrict their dividends so that any surplus of profit available beyond the limits set should be shared with their workpeople.

THE RENT OF THE LANDLORD

Rent is the name given to the payment that must be made for the use of land and the business premises or dwelling-houses that are built upon it. When coal, iron ore, and other substances are mined or quarried from the land, the payment that the owner requires for their being taken is known as *mineral royalty*, and is usually computed at so much per ton of mineral extracted. Business rents and mining royalties are

paid out of the price realized for the commodities dealt in, and house rents come out of the workers' wages or out of other income derived more or less directly from industry, so that amounts paid over as rents and royalties are in all cases part of the sharing-out of industry's product.

In the populated parts of the world all the land available has long since been appropriated. Ownership of it was acquired by original settlers, or by victorious invaders, or by a colonizing Government taking possession with or without agreement come to with the primitive, occupying peoples. At any rate, in all habitable parts none is now left for newcomers, except in the still unsettled areas of colonies where the Government deals it out to new settlers in restricted quantities and on condition of their bringing it into cultivation. In all settled countries ownership can now change only by inheritance, by legal bequest, or by formal purchase, the price payable on purchase being based on the rent that can be obtained at the time or is likely to be obtainable in a not too distant future. When the business man buys the premises he uses, he escapes payment of rent; but he then needs extra capital on which his business must, if possible, provide an adequate return.

We have seen that land is a necessity, whether for the pursuit of industry or simply for the common personal experience of living. Land being a necessity and being strictly limited in the extent of it available, there is competition for its occupation in all the more populated parts of the globe. Further, as all the land available in those parts has already been appropriated, the owners can under such conditions demand payment for its use. Where, however, land is so situated that it is of no use or that no one wants it, no rent can be obtained for it. On the other hand, where population is densest and the competition of would-be users keenest, high rents can be demanded and will be paid. And that is so even though the increased and still rising value of land and premises has been and is due, not to any contributory action on the owner's part, but to the industrial activities of neighbouring occupiers drawing people thither, to the normal growth of population within the towns, and to its overflow to the surrounding country. That is why, when business leases run out, they are seldom renewable except on more onerous terms. The landlord

is then insisting on an increase in his share of the wealth that industry produces.

THE WAGES OF THE WORKERS

1. Wages Negotiation. Labour is as necessary to production as is land. But the supply of land, in places where it is wanted, is usually less than the demand for it. On the other hand, the supply of labour is usually in excess of the demand. For that reason competition amongst the workers for employment tends to keep wages down. Should one applicant for a job refuse to work for the pay offered, another can step in and accept. In the war of 1914–18 a very large part of the man-power of industry was withdrawn, and a very high output of material and service was required of the workers who remained. Besides, the necessaries of life were scarce and dear. The workers were then in a strong bargaining position, and wages rates were forced up in consequence.

In comparison with the multitude of workers to be employed the number of employers is few. In normal times that puts the workers in a weak position for bargaining individually, so that in many trades the workers have learned to combine for the purpose. Disputes about rates of pay and conditions of work are taken up by the *trade union*, and workers who are members of the trade union refuse to accept any rate of pay or comply with any condition that their union has not agreed to. Divided employers could not deal effectively with workers acting together through their trade union. They were, therefore, led to form masters' federations for negotiating with union leaders and for other purposes. In some classes of occupation joint councils of representatives of masters and men have been set up to deal with terms of employment. They are intended to avert, if possible, the costly disorganization of industry and the harassing inconvenience to the public that may follow a deadlock in negotiations, as when a stoppage of work is enforced in the coal mines, on the railways, or at the docks.

2. Fixing of Wages Rates. Wages nowadays are usually paid weekly. Where, however, employment is exceedingly irregular, as in dock labour, hands may be taken on from day to day only, or from job to job, and then they will be paid daily. Clerical workers and those such as warehouse and shop

assistants are usually paid at so much for the week. For artisans and labourers the most general method is at so much for each hour worked in the week. Nevertheless, piece-work rates are often arranged in workshops where the work to be done consists of the same process many times repeated and applied to numerous articles of similar kind, whether the articles are complete in themselves or are destined to be constituents of a larger product. A rate is fixed for the work to be done on each article or part. That gives a good workman the chance, by steady and intensive application, of earning higher wages than his less eager or less strenuous shopmate. Piece rates are usually arranged so that the employer gets some benefit in the cost of the labour they pay for; and he gains, also, by the irreducible standing charges of running his machinery and maintaining his works being spread over a greater output, so that each piece of work completed bears proportionately less standing charge. Because of the saving that can be effected in these overhead costs, both time and piece wages may be supplemented by a bonus paid to the workers in accordance with the excess of output they attain over an adopted standard.

As previously mentioned, workers may be encouraged to do their best by the prospect of some share, in the form of bonus or dividend, in the final appropriation of any profits found to be available when the business accounts are made up. But, of course, final profits are affected by conditions other than the keenness of the employees and beyond their control. For that reason wages, as the workers' share in what they help to produce, are sometimes arranged on a sliding scale, by which they rise or fall, and are revised periodically, in accordance with the average price ruling, during the period, for the commodity produced. Such an arrangement, however, is possible only where the product is of a somewhat uniform nature, such as coal or pig-iron, for which a day-to-day market exists and day-to-day prices obtain.

3. **Wages in Relation to Capital.** The worker is not ordinarily a possessor of capital resources on which he can draw until the product of his labour has been sold and paid for. He must live during the process of production, and he needs his wages week by week in order to procure the necessities of existence. His wages are in fact a share of the value of the product paid out

to him before production is completed and, therefore, before the value of the product can be realized. But before manufacturing production can even be attempted, premises must be procured or erected, and machines and other equipment must be acquired and installed. To be on hand when buildings and equipment are ready, and when manufacture can be begun, a stock of materials to be worked upon must also be purchased, and some number of workers on the administrative side of the business must already have been busy with the preparations.

It is out of the capital raised for financing the business that the wages of labour are paid during production, and the wages of workers engaged on preparatory plans. It is also out of the capital procured that the premises are built, purchased, or rented, the machinery and equipment acquired and installed, and the stock of materials purchased. But the cost of buildings, equipment, and materials consists entirely of wages and other remuneration paid to workers, organizers, and capital providers in earlier stages, for handling materials in raw or partly manufactured form, with the object of supplying premises, equipment, and stock to order, or of having them ready for supply when the demand for them arises. We see, therefore, that wages in the stages of preparing for the start of manufacture, and always during the process of manufacture, are paid out of the capital that constitutes the third factor. They are so paid until the capital so expended can be replenished from time to time, as the commodities produced come to be sold and payment for them received. Wages, then, make up by far the larger part of the cost of production. In any given business they are a primary charge on production that has to be met before the proprietors of the business get any return for the risks they take in providing the necessary capital; also, as we shall see, before the organizers get the full reward they claim for the part they undertake in planning and directing the business activities.

4. **Reward of the Organizer.** We treat the work of the organizer as a variety of the labour factor of production, the part of that factor engaged in planning, dictating, and supervising. The share that the organizer takes or should take out of the product of the business operations is, in that view, part of the reward of labour—the reward for labour of a special kind.

We have already stated that this directive labour should result in greater or more economic production than could be attained without it. The agriculturist or the allotment cultivator who by the exercise of thought and care can, under similar conditions, produce more cabbages than his less efficient neighbour, is surely entitled to the better reward that his more careful cultivation yields. A worker of inventive turn may set his mind and hands to the application of scientific or mechanical principles, in designing and constructing a contrivance that makes possible the production of goods in greater quantity, or with less expenditure of effort, or in more desirable and useful form than previously. His inventive genius and activities should bring him, also, a greater share of the results he has made possible than goes to others who have not done so effective work. So the organizer who is naturally cut out for planning or directive work, and who proves himself successful in it, can scarcely be denied a more considerable share of the increased production, which his ability has largely helped to achieve, than would justly go to the worker who displays no ambition, and no inclination to exercise his ability beyond the carrying out, however faithfully, of orders given to him. Being in control of the business, the organizer is usually in a position to secure for himself a good share if under his management the business is prosperous; but we shall consider that aspect again.

INTEREST AND DIVIDEND ON CAPITAL

When the proprietor of a business is also the organizer or manager, the return on the capital he has invested in the business is merged with the reward for his management services. In the larger joint stock companies, however, proprietorship and management are divorced, and in these the proprietors' share of the wealth produced is the "dividend" that is declared on their holdings when there are profits available. Loan capital, by the terms on which it has been raised, is entitled to "interest," whether profits are made or not. Dividend, on the contrary, only comes out of such profits as may remain after all other claims have been met.

So long as there are organizers desirous of running undertakings that need more capital than the organizers themselves

possess, so long will there be demand for funds to be invested in industry. And until local authorities and the Government cease to need more money than they can raise immediately by rates and taxes, there will be demand by them for loans. Now, the possessor of capital is no more prepared to advance funds without some return for doing so than the landlord is willing to provide site and premises without rent, or the worker to give his labour without wages. As these necessaries for production—and for the maintenance of conditions under which production can be carried out—cannot be had without payment, those who must use them agree to pay for them.

What has to be paid for the use of capital depends, as it does with land and with labour, on the relation between the supply and the demand. When trade is booming, demand will outrun the normal supply and high rates will be agreed to. But when business has slumped, there will be much less use for capital. The demand for it will have shrunk, supply will exceed demand, and low rates will be taken.

There is, however, a further consideration. Investments differ in degree of security. Where the risk of invested funds being lost is little more than if the funds were hoarded, the investor will be content with a small payment for their use. Rather than be worried with the care of a hoard of money, some owners might even be willing to hand it over to the banks or the Government for no return other than the service of security. Where, however, there is certainly some risk of loss, the rate of interest or dividend required will be higher. In business, risk in some degree is generally present, and the rate that is expected rises as the risk increases. Yet the desire for high rates is so common that very considerable risks are continually being taken by investors, and extensive losses are continually being incurred in undertakings of worthless or very venturesome nature, and in those whose former prosperity has since changed to the reverse.

THE FINAL DIVISION

The results of the operations of individual businesses are ascertained by making up accounts period by period, six or twelve months being the customary interval. Owing to fluctuations in the amount of business in hand from time to time, and

to the cropping up of abnormal and irregular items of expense, ascertainment of results sufficiently correct to be fully relied on cannot be arrived at by the week or the month. The result of working, therefore, is not definitely known until the close of each trading period. In the meantime, rents, wages, salaries, and loan interest are all paid as they fall due and, with the other expenses, are charged to the accounts as part of the cost of working. After that a balance should still remain to be divided, which is known as *net profit* or *net revenue*. On the other hand, it may happen that all income has already been paid away. Even some of the original capital invested may have been used up without income having been sufficient to replenish it. In this last case the parties who have not yet had their shares or full shares get nothing or no more.

Out of any net profit that remains, employees, or some of them, may receive a bonus for the year, or under a profit-sharing scheme they will get such part of the net profit as the terms of the scheme provide for. Managing directors usually see that they have agreements made with the Board, giving them a commission on net profits in excess of a stipulated sum or on sales over a stated figure. If by clever management they can make big profits, they do well; but they, as well as the shareholders or the capitalist proprietors, take serious risks, some of which are in respect of events that cannot be foreseen and are beyond the control of proprietors and directors. Preference shareholders get a fixed rate of dividend on their shares, if there are either present profits or an accumulation of past undivided profits out of which to pay it. Ordinary shares do not have a fixed rate of dividend attached to them, and they may take, as a rule, as much of the remaining profit available as the Board of Directors think it wise to pay. But, when profits are good, it is not customary to declare the biggest dividend the profits will permit. Prudent management usually sees that a fair balance is kept in hand as provision against eventualities unforeseen. In undertakings that have had a long spell of prosperity huge reserves are often built up gradually in that way. Being used in the business for capital purposes they considerably augment its earning powers without adding to interest or dividend commitments.

It is chiefly around the sums taken by the controllers of an

undertaking and by the ordinary dividends that contention amongst the parties may arise. When big dividends are earned, the landowner or property owner feels that he wants a larger share in rent; and, when proprietors and managers are faring handsomely, the workers begin to clamour for better wages. There is no natural law to indicate clearly how much each of the parties should have. Subject to such moral views as gain influence, legal rights that must be observed, and cautious finance that prudence dictates, it works out that each of the parties gets what its position gives it the power to take.

INDUSTRY'S TROUBLES

When trade is bad, not only may shareholders have to go without dividend, but they may also suffer shrinkage of the capital they have invested. Should a holder decide or be obliged to part with shares on which no dividend is being paid, he is likely to obtain on sale a much lower price than that at which the shares were issued to him, or at which he bought them. If he retains them, he may find that the company's losses necessitate the wiping out of a large part of its nominal capital, and he may be compelled to agree to a reduction of his shares, perhaps to half their original book value. Then a holding of 500 shares of £1 each would become 500 shares of only 10s. each—a nominal value of £250 instead of the £500 at which they previously stood.

During depression the inability of many businesses to earn an acceptable return on the capital invested in them leads, on the one hand, to amalgamations, with the object of eliminating costly competition, of closing down redundant plant, and of reducing management and standing charges. On the other hand, it leads to the introduction of more efficient methods and machines in order to lower production costs. Both of these movements tend to increase unemployment, for a while at any rate, and to foster discontent amongst the workers. As the Government of a country or locality cannot see its people starve, it has to raise the prescribed contributions to unemployment insurance funds, and has to increase taxes and rates. From the additional funds so provided it doles out a scanty subsistence to those to whom the industrial organization denies the opportunity of working for their living.

Even when trade is good, disputes about rates of wages may end in strike or lock-out, which brings loss to workers and employers alike, with hardship to the community at large. By legislation, as in the institution of Trade Boards, and by mutual arrangements between masters and men, as in the setting up of joint councils, a good deal has been attempted towards preventing such stoppages. The machinery of conciliation has, however, not yet got fully into order for continuous smooth running. And there are still many sections of industry in which no such machinery exists.

At one time the average business was smaller than now, and it was managed by the proprietor himself. To-day personal contact and considerateness between master and man are largely absent. Huge businesses have world-wide interconnexions and understandings; but immense undertakings are difficult to supervise with high efficiency. In extreme cases a higher controlling management that makes little personal contact with its employees may harass department heads, and they the rank and file, in a never-ending, friction-making drive for economy of working, and for profit at the year's end. Yet the intricate scheme of industry should mean to us no more than that we all help each other, first to produce, and then to share out, the things that we want and can get.

Trouble in our import and export trades, however, raises the question whether the "us" who should help "each other" must include the peoples of countries other than our own. The import trades of this country have to face the hindrances of the tariffs and quotas that we impose on their supplies. Our export trades meet with restrictions that foreign Governments place on the buying of goods and the making of payments outside their countries by possible customers of ours. Also, as exports must be paid in the long run by imports of one kind or another, our exporting houses suffer through the tariffs and quotas by which we ourselves restrict our imports. Further, both importers and exporters find that the shifting values of different countries' currencies put difficulties in their way for fixing prices and making or obtaining payments.

Again, in competing for foreign business, manufacturers here who use raw materials from abroad are hindered through our tariffs making their materials dear. On the other hand, were

imports admitted free of all restriction, both employers and employed in our industries would suffer from the competition of goods produced abroad on wages standards lower than those ruling with us. And they would suffer, sometimes, from the dumping of foreign goods here at prices the lowness of which would only be made possible by the high prices the manufacturers can charge behind tariff walls in their own lands. As trade between countries can scarcely be expected to cease, it would seem that the mutual help we have mentioned must be regulated by international arrangement.

QUESTIONS

1. (*a*) Explain the advantages which accrue when members of a community exchange goods and services instead of each person doing everything for himself. (*U.L.C.I.*)

(*b*) Explain the part that money plays in facilitating the exchange of goods.

2. Discuss why the lack of commercial intercourse requires small groups of backward people to produce everything for themselves, and why that self-sufficiency involves a low standard of living.

3. Explain what is meant by the term "production." Discuss the appropriateness of the term "producer" as applied to a farmer, a miner, an engineer, a carrier, a doctor, a teacher, a film actor. (*U.L.C.I.*)

4. "The work of the retailer and the wholesaler is just as productive as the work of the manufacturer." Do you agree?

Explain the statement fully. (*U.L.C.I.*)

5. What exactly do you understand by "production"? A certain grocer often expresses regret that he is compelled to continue in an occupation which makes him a "parasite" (i.e. one who lives on others). Is that true?

6. What are the agents of production? What are their functions? (*R.S.A.*)

7. The three important factors of economic production are often stated to be Nature, Labour, and Capital. Explain the part played by each. (*L.C.C.*)

8. Explain (*a*) what we mean when we say that land is a factor of production, (*b*) what the term "land" used in this connexion is intended to include, (*c*) why the user or would-be user of land is willing to pay rent or royalty to the owner.

9. What do we mean when we say that labour is a factor of production? Indicate different functions that are performed by labour in the processes of production and supply.

10. (*a*) Explain the term "organization" and discuss the statement that "organization is an essential factor of production."

(*b*) Give an account of the work of the entrepreneur as an agent of production.

11. Describe briefly some different methods adopted in industry for the remuneration of workers; also any standing arrangements that exist for the negotiation of wages rates between employers and employed.

12. What are profit-sharing and labour co-partnership? Why are they not met with in this country to a greater extent than they are? (*R.S.A.*)

13. What is the function that capital performs in industry, and why are the development of industry and the economic supply of our wants dependent on the free use of capital?

14. "Interest is the price paid for the use of capital; like the price of commodities, the rate of interest is determined by conditions on the side of demand and conditions on the side of supply." Examine this statement. (*R.S.A.*)

15. (*a*) If interest is the payment for the use of capital, why do rates of interest vary so greatly?

(*b*) Why are business undertakings willing to pay interest on borrowed money? (*R.S.A.*)

16. What do you understand by capital? Show how you would ascertain the amount of a trader's capital from the following list of balances extracted from his ledger—

Cash at bank £400; Cash in office £50; Furniture and Fixtures £100; Debts owing to him, by W. Jones £150, and by T. Evans £200; Stock on hand valued at £300. He owes for rent £75, for goods supplied to him by W. Thomas £80, and by O. Williams £60. He had borrowed from J. James £200, which is still outstanding.

17. What is the difference between capital from the accountant's point of view and capital from the economist's point of view? Give some examples of the forms of capital you would include under your definitions. (*U.L.C.I.*)

18. Goods are made and held in anticipation of demand. Who takes the risk involved in making and holding them, and how is the taking of the risks remunerated? (*U.L.C.I.*)

19. The leading characteristic of capitalism can be put in the form of a proposition that where risk lies, there control lies also. How far is this statement true of the modern public limited company?

20. (*a*) Can you distinguish between a trader's ownership of his business and his management of it? Attempt to do so particularly from the point of view of remuneration.

(*b*) What is the difference between the capital *used* by a sole trader and the capital *owned* by him? (*R.S.A.*)

21. (*a*) Different meanings are attached to the word "capital" according to the circumstances of its use. What meanings may it have as applied to the affairs of a sole trader and to those of a limited company?

(*b*) Divide the following assets into those that are "fixed" and those that are "floating"—

Machinery, Stock in trade, Book debts, Land and buildings, Bills

receivable, Work in progress, Fixtures and fittings, Cash at bank, and Motor-vans. (*L.C.C.*)

22. (*a*) What do you understand by a trader's capital? Explain how a trader may have a capital of £5000 and at the same time possess only £200 in cash.

(*b*) What are the chief factors which determine the nature and the extent of the capital required by a business? Draw up a balance sheet of a retail business, and from it show (*a*) the circulating capital, (*b*) the fixed capital, (*c*) the outside capital, and (*d*) the owner's capital.

23. (*a*) Of what does the capital of a typical retail trader consist? Explain how in the course of business its composition may alter from time to time.

(*b*) Explain precisely what you understand by (i) the working capital, (ii) the fixed capital, (iii) the liquid capital of a wholesale warehouse. (*R.S.A.*)

24. Explain how the purchase of a suit of clothes finds employment for many persons in many trades. Show how the final price of the suit of clothes is shared out amongst all these persons. (*U.L.C.I.*)

25. "All are interested in the question of output and the need for its increase—the statesman, the economist, the manufacturer, the manager, the consumer, the labour leader, and the worker himself." Elaborate this statement and explain how the problem is likely to present itself to each of the classes of persons named.

26. The present tendency in practically all branches of industry is towards "rationalization." Explain the meaning of this statement, and show how this tendency is likely to benefit British trade in competition with foreign countries.

27. (*a*) What general circumstances does experience prove to be conducive to the formation of combinations of business units? Give examples. (*R.S.A.*)

(*b*) What are the principal effects of amalgamation of businesses on (i) employment, (ii) prices of the goods manufactured? (*U.L.C.I.*)

28. "Travel and trade are international, and it is by exchanging goods, services, and visits that we all live in comfort, in peace, and in mutual understanding." In the light of this quotation from a speech of the then Prince of Wales bring out clearly the benefits that result from international trade and intercourse.

SECTION III—ROUTINE OF BUYING AND SELLING

CHAPTER 10

OFFERING GOODS AND SERVICES

A BUSINESS transaction may originate as an inquiry sent to a manufacturer or a merchant about goods or services that the inquirer is seeking, and of a kind that he considers the manufacturer or merchant will probably be in a position to supply. It may, however, begin with a prospective buyer going in person, or with his posting or telephoning an order, to the supplier's establishment where he expects to get, or knows he can get, what he wants. On the other hand, the transaction may arise, as very many do, out of some step taken by the supplier himself. Competition in business is as a rule so keen that would-be sellers must always be on the alert. They must make their businesses known and keep them from being forgotten. To be successful in their affairs they cannot permit themselves to sit and wait complacently till customers call, or their telephones ring, or the postman arrives bringing the inquiries or the orders that they need.

CATALOGUE AND PRICE LIST

On page 151 we show a simple form of price list that was issued by manufacturers of electric lamps as part of a neat little folder attractively printed and illustrated. These slips being intended for distribution through dealers to the users of the lamps, the prices named are those fixed by the makers for the dealers to charge to the public. A price list such as this might, however, be only one of many similar tables printed in a book describing numerous articles of other kinds that the same manufacturers can supply. In that case we should call the book a "catalogue." Nowadays manufacturers' and traders' catalogues are usually decorated with pictures of the articles offered and described. Particularly is that so when, as with fashion goods or household furniture, appearance and style do

MANUFACTURER'S PRICE LIST OF ELECTRIC LAMPS

Size		Volts		
		230	100,105 110,115 120,125,130	200,210 220,240 250,260
		s. d.	*s. d.*	*s. d.*
Pearl.	15 watts	1 11	2 0	2 0
	25 ,,	1 11	2 0	2 0
	40 ,,	1 11	2 0	2 0
	60 ,,	1 11	2 0	2 0
	100 ,,	3 5	3 6	3 6
Opal.	25 watts	—	2 4	—
	40 ,,	2 3½	2 4	2 4½
	60 ,,	2 3½	2 4½	2 4½
	100 ,,	4 2	4 3	4 3

FEARNLEY, SANDERSON & CO., LTD., LONDON

Clearing Lines of

SHEETS, BLANKETS AND QUILTS

	Usual Price	Sale Price
	s. d.	*s. d.*
Lot No 1, White Twill Sheets		
100 pairs 70 × 90 . . per pair	5 11	5 3
50 ,, 80 × 100 . . ,,	9 6	8 9
50 ,, 78 × 108 . . ,,	9 6	8 9
Lot No. 2, Cotton Blankets		
50 doz. 30 × 40 Coloured Border per doz.	14 11	13 11
200 doz. 30 × 40 Jacquard Sky, Pink, Mauve, and Camel per doz.	15 11	13 11
150 pairs 58 × 78 Blue Border per pair	4 3	3 9
Lot No. 3, White Quilts		
100 only 10/4 Honeycomb . . each	3 11½	3 6
80 ,, 12/4 ,, . . ,,	5 11	4 11
50 ,, 13/4 ,, . . ,,	7 6	6 11
300 ,, 12/4 ,, . . ,,	7 11	6 11

much to induce a possible purchaser to buy. In the absence of the thing itself a truthful picture accompanying the description conveys a fairly adequate idea of what the article looks like in reality. But another reason is the psychological one, that a picture catches the eye and arrests the attention of the casual observer, when printed words alone would fail to attract, and would pass without intelligent notice of them being taken.

Very extensive use is made of the printing press for price list and catalogue. Mail or post-order business, from its nature, depends entirely on printed description and illustration either sent through the post or inserted in the periodical Press. The large storekeepers distribute booklets freely to customers whose names are kept on an index of addresses, and smaller establishments also resort to them at times in a more modest way. Manufacturers, especially those who sell to the retail direct, use price list and catalogue to keep the trade informed of new productions, and of revisions of old prices when these take place. If they produce standard goods comprising numerous designs or qualities, sizes or colours, a catalogue of some kind for reference is a necessity to the dealer. Wholesale houses, too, make use of printed matter to keep the customers on their books notified of new season's lines. They use it also to announce end-of-season clearances and special offers when these come along. Our second example on page 151 is an extract from one of the sale sheets of a wholesale drapery house.

PRESS ADVERTISING

The word "advertisement" immediately suggests the daily Press, so extensively are newspapers used for announcements offering services of various kinds, and goods of nearly all kinds. As everybody reads the newspapers more or less assiduously they are a medium capable of carrying a very wide appeal. The national morning papers circulate throughout the land and are suitable for advertising goods that are on sale almost anywhere. Some of these goods, like motor-cars and domestic refrigerators, not everybody can afford. But very many of the articles advertised are within the reach of most people if only they can be induced to spend. Advertisements of chocolate and cigarettes, of medicines and cosmetics, of foods and clothes, are only too familiar, as well as those that tell the charms of

holiday resorts and cruises, that urge us to use more gas and electricity, or entice us into buying cameras and radio sets.

But advertising in the newspapers, even in those of widest circulation, is not the acme of efficiency. The life of the medium that lasts but a day is rather too transitory to be fully effective, and for that reason the dose of persuasion must be repeated again and again. In time most of us take notice of statements and opinions, if only to inquire about them, when they are continuously and unhesitatingly reiterated, provided the shouting is not so strident and the assertion so arrogant as to estrange us from them. Weekly and monthly publications and trade periodicals carry an interest that lasts a little longer than that of the daily paper, for in these it is not immediately supplanted by the news from another issue next day. Still, we become so accustomed to the continuity and persistence of all these printed importunities that we tend to disregard them. To strike us with any freshness and to grip and hold our attention, trade advertisements must be presented in attractive form, whilst what they have to say must be expressed with snappiness and allurement. Their appeal should not be vague and general and unconvincing; it should convey a definite suggestion always, and in some way should carry the suggestion home to active work amongst the reader's inclinations.

The news that our daily paper supplies is worth more than the paltry penny that we pay for it. The organization that the Press maintains extends over the civilized world, and it keeps us informed of happenings everywhere. Besides, it is an agency, in this country usually exempt from official interference, for the free and open ventilation of opinion. Such service at such a price to the user is made possible only by the revenue that the newspapers draw from their advertisements. That revenue is their mainstay, and to keep it up they force their circulations. There is a tendency to write up excessively the thrilling and the morbid, to pander sometimes to human frailties and prejudices, and to resort to ingenious devices like sensational gifts or prizes and huge insurance payments.

Moreover, Press advertising is to a great extent merely a raging tussle amongst suppliers of the same or of different kinds of goods for each other's customers, and for the customers of traders whose businesses have been held together by contacts

other than press advertisements. That kind of competition is of advantage to the more strenuous of the competitors, so long as it does not defeat its own aim by exaggeration or misstatement, or until it becomes so intense that its cost exceeds the return it brings. It is, however, largely without benefit to the community as a whole. From that point of view it is mostly energy wasted, if it could have been expended instead on productive work. To the public, advertising does serve a useful purpose when it leads them to a more economical market, or when it announces what would not otherwise become general knowledge so quickly. Of the latter the coming visit of a famous singer would be an example, whilst other examples would be the offer of an improved machine for some process of manufacture, of a new and useful contrivance for the home, or the publication of a book of extraordinary or remarkable content. Advertising is also justified from the public point of view when it creates such an increase in demand for the article advertised that more efficient methods of manufacture and distribution can be adopted, with the result that the article can be marketed at a lower price, and carry its usefulness to a greater number of people.

ADVERTISEMENT IN OTHER FORMS

Supplementing the printed publicity given in daily, weekly, or monthly periodicals, we have striking announcements conspicuously displayed on hoardings and in commanding positions on buildings. Where these advertise articles for individual use they are resorted to mostly by national as distinct from local purveyors. The address of the manufacturer or distributor may not appear, nor even his name unless that serves to distinguish the brand of commodity proclaimed, for it is the brand rather than the maker or the place of making that it is intended to keep before the public gaze. The object is to stimulate demand at the local shops. Supplies will then arrive as required through the usual channels of distribution. From posters the protagonists of the advertising world are passing to the use of neon lighting, and of moving representations that glare at us out of the shadows in public places, or project in the near distance against the darkness of the evening sky. Manufacturers and specialists, again, like to show their products at

exhibitions or fairs held periodically and organized to arouse the interest of the retailer and his customer. On our public vehicles, as we ride in them, we are bombarded with a profuse assortment of warnings and directions to buy this and use that for our health or comfort or satisfaction. Railway stations and their approaches are studded with bills and plates offering chunks of similar information and edification. Some of these direct us to dealers in the district for things we are likely to want.

To the local business man advertisement by newspapers over an area that extends far beyond his district would be mostly ineffective. But the local Press and other means of announcement functioning within his area may be of considerable service. The windows, however, of the local shopkeeper are usually his greatest attractive force, and they should never be neglected for more ambitious or far-reaching aids to notability. Well-dressed windows always draw, especially when the prices shown are attractive also. That is why retailers spend so much thought upon their window frontage, fittings, and display, also on making the internal arrangements of their shops bright, comfortable, and inviting. Banks and insurance offices in their way, by erection of substantial and imposing premises, seek to build up in the public mind a feeling of security and confidence in their business stability and integrity.

Whether for retail, wholesale, manufacturing, or other commercial undertaking, advertisement of whatever kind resorted to must always be supplemented and supported by efficiency of service. Willingness to help, careful attention to requirements, prompt fulfilment of orders, and value for their money do more than ever so much boosting of merits to bring back again customers who have once been satisfied.

DEALING WITH INQUIRIES

On page 158 there is shown an imaginary *inquiry* in which a London house of wholesale merchants asks a textile manufacturing company of Manchester and Bolton for a price and a dyed sample of an artificial silk and cotton material. On page 159 the imaginary quotation of the manufacturers is given. Should the quotation bring an order, the cloth will be woven in their mill and then dispatched to the works of the

dyers, to be dyed in a variety of shades. The inquiry to and the quotation from the dyers are shown on pages 160–162. When it has passed through the dyeing and finishing processes, the cloth will be neatly rolled, papered, and tied in pieces of about forty yards in length, suitable for sale to the wholesale dealers' customers. That is known as "making up," and is charged for extra. It may be done in Manchester at a third establishment, where that work is specialized in, and where the lengths charged for by the dyers would be checked and the material examined for faults. The wholesale merchants' order and the manufacturers' acknowledgment of the order appear in Chapter 11.

The *quotation* of the textile manufacturers will be based on their estimate of what it would cost them to buy yarns of the kinds and quantities needed, what they would have to pay for winding the yarns in the forms they would require, and what the cost would be of weaving the material when the yarns were ready. It will be noticed in the dyers' more formal quotation that the width of the cloth in the grey or undyed state is given as 38 inches, whilst the finished width is to be 36 inches. The difference of 2 inches is allowed for shrinkage in width during dyeing and finishing. Lower down in the quotation a limit of 3 per cent is named as the shrinkage to be allowed for in length. The terms and conditions of trading referred to as appearing on the back of the quotation deal with such matters as terms of payment, lien on goods as security for payment, correcting of or allowing for defects in dyeing, etc., responsibility for loss by fire at dyers' works, non-liability for loss or delay due to strikes, and the like.

Should an order not come along quickly after a quotation has been given, the quotation may be followed up by letter asking if any further information can be given. But if the manufacturer or the dyers have an agent or a traveller in London, they will have sent a copy of the quotation to him. It will be his duty to keep in touch with the inquirers until he secures the order, or until he learns of its having been placed elsewhere, probably at a slightly lower price.

Sometimes a quotation is called an "estimate," like the third example for goods of a different kind on page 163; but an estimate is, more correctly, the completed calculation of

probable cost on which the quotation is based. At other times the name "tender" is used instead of "quotation." That is more usual when the quotation is asked for by advertisement, as when a hospital or a local authority announces in the Press that tenders are invited for the supply of coal or foodstuffs for a period. A *firm offer* is one that, like our specimen quotations, will remain open for acceptance within a specified or a reasonable length of time. The name is given by business men to such an offer to distinguish it from one made "subject," or "subject to the goods being unsold on receipt of reply." That condition would be attached when the same offer was made to a number of possible buyers, and when only a limited supply of the goods offered was available. A price list or a catalogue of prices is an offer to supply the goods named in it, and it usually remains in force until the whole or any part is withdrawn, or until the season for which it was issued has passed. On the other hand, what is sometimes called a *prices current* is a list of commodity prices ruling on the day on which the list is published. Its purpose is to show the trend of prices in trades or markets where changes in price occur frequently and quickly. Unlike a price list, it is not an offer, acceptance of which would bind the issuer to supply goods at the prices named.

COMPETITION AND ITS EFFECTS

Moderate competition amongst sellers has the effect of keeping prices down; for, if suppliers had no competition to meet, they would be tempted to take the easy and pleasant course of charging the highest prices they could get, and not to trouble about trying to save in cost. But manufacturers and wholesalers may send so many travellers and agents swarming around likely buyers as to make competition extremely intense and general. And, whether incurred by personal solicitation or by printed advertisement, the cost to the seller is high when competition is extreme. So costly may it become that the competing suppliers may find it necessary to raise their prices in order to cover the heavy expenses they incur in getting business. At that stage of intensity competition brings no benefit to the buyer; and, besides, it takes up his time by pestering him with a needlessly numerous crowd of

INQUIRY

FEARNLEY, SANDERSON & CO., LIMITED

Drapery Warehousemen

ST. PAUL'S CHURCHYARD,

LONDON, E.C.4

8th March, 19..

Ref. GHT/ED

MESSRS. RAMSBOTTOM & SLATER, LTD.,
301 Portland Street, Manchester.

Dear Sirs,

When your Mr. Eckersley was here recently he left with us a loom-state pattern of Spun Viscose Limbric, part of which we now enclose. We shall be obliged if you will submit a dyed sample of the material as soon as you have one available. At the same time please quote us your price for the cloth in the grey—also please say, if you can, what is the finisher's price for dyeing.

Yours faithfully,

For FEARNLEY, SANDERSON & CO. LTD.,

G. H. Taylor.

QUOTATION

RAMSBOTTOM & SLATER, LIMITED

Excelsior Mills
Bolton

Cotton Manufacturers
301 PORTLAND STREET,
MANCHESTER

10th March, 19..

Our Ref. HS/LWW
Your Ref. GHT/ED

MESSRS. FEARNLEY, SANDERSON & CO. LTD.,
St. Paul's Churchyard, London, E.C.4.

Dear Sirs,

Your inquiry of the 8th inst. about Quality G367 Spun Viscose Limbric was duly received, and we thank you for it. We have the pleasure of now enclosing a two-yard sample of the cloth dyed in shantung shade.

Our grey price for this quality in 37 in. width is 5⅞d. per yard. The finishers of this sample are the Ribbleside Dyers & Printers, Ltd., of Ribblesdale, whose dyeing price is, we understand, 1⅜d. per yard for light shades, and for a minimum of 1000 yards a shade.

We hope that you will find this cloth a suitable substitute for the similar one you have been running, and that you will be able to entrust us with an order. We assure you that the price quoted is the lowest we can give, and we await with interest the receipt of your report.

Yours faithfully,
For RAMSBOTTOM & SLATER, LTD.,
Henry Slater, Director.

INQUIRY

FEARNLEY, SANDERSON & CO., LIMITED

Drapery Warehousemen

ST. PAUL'S CHURCHYARD,

LONDON, E.C.4

12th March, 19..

Ref. GHT/ED

THE RIBBLESIDE DYERS & PRINTERS, LTD.,
Ribblesdale, Lancs.

Dear Sirs,

Please find herewith a list of quantities and range of colours for 370 pieces of 40 yards each Art Silk Limbric, the manufacture of Ramsbottom & Slater, Ltd.

We shall be obliged if you will quote us your price for dyeing this material in these shades, and if you will say how soon after delivery of the cloth you could have the goods finished.

Yours faithfully,

For FEARNLEY, SANDERSON & CO., LTD.,

G. H. Taylor.

REPLY AND QUOTATION

THE RIBBLESIDE DYERS & PRINTERS, LIMITED

RIBBLESDALE, LANCASHIRE

13th March, 19..

MESSRS. FEARNLEY, SANDERSON & CO., LTD.,
St. Paul's Churchyard, London, E.C.4.

Dear Sirs,

Your Ref. GHT/ED

We thank you for your inquiry of yesterday for the dyeing of 370 pieces of Cotton and Art Silk Limbric, *ex* Ramsbottom & Slaters, our price for which you will please find on the formal quotation sent herewith.

We regret that the deeper shades in your assortment and the short runs you require do not permit of our naming a lower figure. Should we find, however, on processing this lot, that a reduction could be made, we should be very pleased to reconsider our charge for future lots.

Our delivery time would be approximately ten days after the grey cloth came to hand, and we have a daily service in operation between our works and London.

As we have not done business with you for some time, it would give us considerable satisfaction to be allowed to put this order through, and we hope to hear favourably from you. The writer expects to be in London on Tuesday of next week, when he will take the opportunity of calling upon you.

Yours faithfully,

For THE RIBBLESIDE DYERS & PRINTERS, LTD.,

John E. Butterworth,

Asst. Manager.

THE RIBBLESIDE DYERS & PRINTERS, LIMITED

RIBBLESDALE, LANCASHIRE

13th March, 19..

DYEING QUOTATION

Widths	Cloth	Wt.	Length	Style of Finish
Grey 38 in. *Fin. 36 in.*	*Cotton Art. Silk Limbric*			

Ramsbottom & Slater's quality

White	Direct	Vat	
		Cream	Colours
	¼d.		

To range of shades attached to your letter, 13th March, 19..

MINIMUM QUANTITY PER SHADE . .. *as per assortment sheet*

CONCESSIONS ....

SURCHARGES ....

SHRINKAGE..... . *3 per cent*... . ...

MAKE-UP..... . .. *warehouse way at width* . . . .

TERMS OF PAYMENT..... . ... *2½ per cent monthly account* . . ...

CARRIAGE.—*We collect and deliver by our own motor-lorries in Manchester and Bradford.*

London Delivery, carriage paid.

REMARKS ....

Subject to our usual TERMS AND CONDITIONS OF TRADING as printed overleaf.

For THE RIBBLESIDE DYERS & PRINTERS, LTD.,

E. Butterworth,

Asst. Manager.

ESTIMATE

HOPWOOD BROTHERS, LIMITED

HILL STREET, BOROUGH,
LONDON, S.E.1

Telephone (5 lines): Waterloo 03565
Telegrams: Woodpecker, London

8th Oct, 19..

A. W. HARRINGTON, ESQ.,
44 Ringwood Avenue, S.W.19.

Your Ref. AWH/CP
Our Ref. FG/4625

Dear Sir,

Re *Epsom*

In reply to your esteemed inquiry of the 7th instant we beg to quote you as under, and we hope to be favoured with your order, which shall receive our best attention.

Yours faithfully,
HOPWOOD BROTHERS, LTD.,
H. M.

Terms, 2½ per cent monthly a/c.
Carriage paid.

	£	s.	d.
2 Hopwood's Improved Steel Collapsible Gates, Type No. 1, each in one leaf to hinge aside and lock back when collapsed, ⅝ in. pickets, two sets of lattice, fixed Tee top track, folding bottom track, fitted with brass padlocks and keys. Size approximately 3 ft. 6 in. wide, 8 ft. high, painted one coat and delivered only @ £4 2s. 6d. each	8	5	0
Extra for fixing, exclusive of builder's work and making good . . . . . The two	2	15	0

1. All quotations are subject to withdrawal or alteration without notice.
2. Credit is not allowed except on approved references.
3. Deliveries are subject to Strikes and Accident clause.
4. Packing cases charged will be credited if returned within 21 days in good condition, carriage paid.
5. Hopwood Brothers, Ltd., will not be responsible for the repairing of breakages or for making good shorts after a clear receipt has been given on delivery.
6. Goods sent unpacked must be examined before a signature is given for their receipt, and any damage must be stated when signing.
7. Goods sent packed should always be signed for as "unexamined." The goods should be examined immediately after receipt, and any breakage or shortage notified to the carriers at once. Railway companies will not admit liability unless they are notified of damage or shortage within 48 hours of delivery.

pressing salesmen. Nor at that stage is it of advantage to the average seller, for he faces ruin when the cost of conducting his business equals or exceeds the margin he gets on his sales.

The shopkeeper has little or no expense to incur in sending out travelling salesmen; but competition is keen in other ways with him. The strife that goes on in many parts for premises in good positions forces up rent and rates against him. Chain and department stores strive by all devisable means to divert business from each other and from the small man, the small man striving in turn to keep his hold, whilst "tallyman" and club collector gathering in their weekly shillings strive to draw business their way. Suppliers in every trade are thus compelled to give the best value they can in goods and services. Competition leads again to the evil of price-cutting, where one trader cuts his price against another, and the other against him, until neither has a profit left on his sales of the price-cut goods. That course is folly, for traders must go out of business if they force each other to sell at less margin than covers the expense they incur.

On the other hand, the public should be able to get the goods it wants at the lowest price that pays the trader and his workers reasonable remuneration for their services. If possible, the trader must find the practicable mean—not unreasonably high or low—and try to conduct his business on that price basis. If he finds the attempt too difficult by his accustomed methods he must seek greater efficiency and economy in working, for unremunerative trading may be turned into remunerative by change of method. Still, what is reasonable for one locality and one class of customer may not be reasonable for another; and the customer who wants all kinds of little attentions and services thrown in should realize that these are expensive, and should pay a price that includes their cost.

Such is a sketch of a few of the difficulties and problems with which business is beset; but like the weather, the conditions in business change. If sometimes they are dull or stormy, they are also sometimes fine and bright. And man is a hopeful being. Success may come to him because he happens to choose a fortunate course; but it is just as likely to come as the reward of enterprise and energy directed into ventures planned wisely and well.

COMPETITION AND COMBINATION

Severe competition leads to the realization by antagonistic undertakings that they have common interests. In an earlier chapter we made some reference to amalgamation, and indicated two chief causes for the tendency in that direction. The first is the desire to control competition in selling, so as to keep down selling costs. An association of separate manufacturers for the purpose of regulating output and selling prices amongst its members is sometimes called a *cartel*, a name in use on the European Continent. Where a number of manufacturers of similar goods form a separate company to act as common selling agent for their products, the selling company, with the manufacturers as its shareholders, is sometimes called a *selling syndicate*. Cotton and silk threads, the products of various manufacturers, have for many years now been sold in that manner through the Central Agency, Ltd., the head office of which is in Glasgow.

But the fusion of interests may go farther as a result of the second cause, namely, the desire to increase efficiency and economy in production. Then the separate undertakings must be brought under single general direction, so that their separate works may be reorganized as a whole. In the United States of America such a fusion is known as a *trust*, particularly when a separate company is formed to acquire and hold sufficient capital stock of the several undertakings to enable it to exercise control of them. In this country when the previously existing businesses cease to be separately conducted units, and are completely merged into the new company, we call the process *amalgamation*, and the result a *combine*. Where the old businesses continue under their former constitutions, and the new body exercises control over them through the acquisition of a majority of the shares of each, we describe the new body as a *holding company*. To any of the phases of this movement towards greater efficiency, in order to attain greater economy in production and in marketing, we apply somewhat loosely the term "rationalization."

A few points taken from a printed address[1] on Imperial

[1] "Rationalization in Practice—The Organization of Imperial Chemical Industries, Limited." By Sir Harry McGowan (an address to the Ralegh Club, Oxford).

Chemical Industries, Ltd., will serve as an illustration. I.C.I., Ltd., was formed in 1926 to merge Nobel Industries, Ltd., Brunner, Mond & Co., Ltd., the United Alkali Co., Ltd., and the British Dyestuffs Corporation, Ltd. These four companies had then about sixty subsidiaries, having been themselves the results of previous combinations. To some extent they manufactured similar products, besides being consumers of the products of each other. As the markets they served are world-wide, amalgamation was virtually forced upon them, to enable them to hold their own with the Allied Chemical Company established in 1920 in Germany and the I.G. Chemical Trust in 1925 in the U.S.A.

Some of the advantages of combination claimed for the British company are—

1. Uniformity of costing methods, so as to show up in which factories and localities certain products can be most cheaply manufactured.

2. Co-ordination of the research activities that are continually necessary in many directions (oil from coal being one we have dealt with in an earlier chapter) so that overlapping in the work of research staffs may be prevented and greater progress in any given direction achieved.

3. Adoption of a labour policy common to all the constituent undertakings, local, general, and central; in pursuance of which policy Works Councils have been set up with the view of inspiring, in the 40,000 employees in this country alone, some sense of security in their employment, some confidence in the management's policy towards them, and some interest in the fortunes of the undertaking by means of a shareholding scheme for the workers.

4. Consolidation of purchasing activities, also of selling activities, at home and abroad, aiming at economy in the acquisition of materials and in the marketing and distribution of products.

QUESTIONS

1. Explain what uses are made of price lists and catalogues by business houses of different kinds, and what benefits suppliers of goods and their customers derive from them.

2. Account for the present-day importance of advertising, and briefly describe some of the methods that may be used.

3. How can the large sums spent on advertising be justified? Illustrate by reference to the methods adopted by large retail establishments and by manufacturers. (*U.L.C.I.*)

4. State your views on the usefulness of advertisement to manufacturers and distributors of commodities. Is it beneficial to the community at large?

5. Enumerate and describe forms of advertisement resorted to other than printed announcements in newspapers and periodicals.

6. Write in full and correct form imaginary letters that might be sent in making—

(*a*) An inquiry for a stated quantity of specified goods of a kind suitable for a business you are acquainted with, (*b*) a quotation in answer to the inquiry, with description of goods, supplier's price, time for delivery, and terms of payment, all given in the quotation.

7. Explain what you understand by price list, prices current, quotation, tender, estimate, and firm offer.

8. What methods are adopted by manufacturers and suppliers of goods to keep in touch with customers and to obtain orders? (*L.C.C.*)

9. Suppose you were about to open a retail establishment in your district. Describe the methods you would adopt to gain customers.

10. What services are rendered to industry and commerce by trade exhibitions? Illustrate your answer by references to some industry or trade with which you are familiar. (*U.L.C.I.*)

11. Give some examples of the forms that competition takes in business, and set forth with supporting reasons your views about the benefits and the evils arising from it.

12. What are the conditions that favour the partial or complete abandonment of competition by undertakings that previously had competed with each other? Name and explain briefly the chief kinds of agreement or combination which you know.

13. Discuss the advantages and disadvantages of amalgamation of businesses to (*a*) the community, and (*b*) to trades concerned. (*U.L.C.I.*)

14. Distinguish between syndicates, trusts, and cartels. What special problems of organization are inherent in each of these types of combination of business units? (*R.S.A.*)

CHAPTER II

GIVING AND TAKING ORDERS

BEFORE a buyer places an order he must consider carefully what he is about to do, for once the order has been given it may be impossible to cancel it and to escape the consequent liability for payment. On the other hand, it is sometimes difficult or impossible to increase an order already given, when the buyer afterwards finds it desirable to do so.

TESTS OF BUYING ABILITY

If the goods a buyer wishes to order are regular lines that continue to sell well, he proceeds to make certain of what he already has in stock. Then he orders just sufficient to bring up his diminishing stock of these goods to the quantity he should hold, keeping in view coming requirements and the degree of likelihood of his being able to get in further supplies as renewals from time to time are needed. Unless goods are of a kind that a buyer particularly wants and will not be able to procure later, or unless the price offered at the time is one the buyer does not wish to miss, he should not order more than is necessary to keep him going for a short period. The buyer who habitually holds more than that keeps lying idle, in the form of excess stocks, capital that could be used to profit in some other way.

A buyer's first qualification is, of course, a thorough knowledge of the qualities and values of the goods he handles. But another qualification is his ability to manage with just so much stock as he must have to meet the demands of customers satisfactorily and promptly, and at the same time to tempt them to buy articles they would not ask for were he not to hold such articles and display them. If, however, the goods that a buyer proposes to order are not regular stock lines but something new he would like to try out, he has to decide—first, whether they are of a kind likely to catch on, and, next, what quantity he can venture to take. Should he err in judgment by ordering too many, a large part of them will remain

on his hands; and, if he is to sell them at all, he will be obliged to incur the sacrifice of disposing of them at a loss. The forecasting of demand in kind and quantity of new and untried articles is a much more difficult task for a buyer, and a much severer test of his skill, than the mere regulation, according to requirements, of stocks of goods for which there is a more or less continuous demand. So much must these rules be a part of every competent buyer's qualifications that failure to observe them soon shows up in accumulating stocks of unsaleable goods, and in recurring orders and inquiries for goods of which no stock is being held.

In addition to having an expert understanding of the goods he deals in, a buyer ought to know where to get the kinds he wants, or he ought to be able to find them when he needs them. It is not always enough for a buyer to wait until suppliers come his way with samples of new goods. He may at times have to go out to search for sources of supply of kinds that have not been offered to him, or not offered in the right qualities or prices for his trade. Besides, if he is a buyer in a big way, he will work out ideas of his own. He will get manufacturers to submit samples embodying these ideas, so that he can offer his customers goods that are distinctive. In consideration of substantial orders he will get the makers to confine these styles to him, and not show samples of them to his competitors.

ORDER AND CONFIRMATION

On page 170 we show a copy of the order for the material, an inquiry and quotation for the supply of which appeared in Chapter 10. It should scarcely be necessary to point out that every order given should state as exactly as possible what the buyer wants in regard to description, quantity, price, and delivery. If it does not, the buyer may find himself saddled with goods of a kind other than he expected, or with a greater quantity than he wished, or he may discover that delivery is not being made at the time required. Care in regard to these points is the more necessary when the goods are to be made to the buyer's special instructions. If, through want of precision in his order, goods specially made should turn out to be different from what the buyer had in mind, he will not be able

ORDER

FEARNLEY, SANDERSON & CO., LTD.

Drapery Warehousemen

ST. PAUL'S CHURCHYARD

LONDON, E.C.4

Order No. *F1936*
This Order No. must be shown on your invoice.

15th March, 19..

MESSRS. *Ramsbottom & Slater, Ltd.,*
301 Portland Street, Manchester.

185 pieces of 80 yards each Rayon and Cotton Washing Spun Fabric, Quality 367G, to finish 36 in. wide as feeler submitted and as your quotation of the 10th inst.
@ 5⅞d. the yard.

DELIVERY to be made *middle of May* to
The Ribbleside Dyers & Printers, Ltd., Ribblesdale.

SIGNATURE OF BUYER ...

COUNTERSIGNATURE . .

CONFIRMATION OF ORDER

RAMSBOTTOM & SLATER, LIMITED

Cotton Manufacturers
Excelsior Mills, Bolton

301 PORTLAND STREET
MANCHESTER

16th March, 19..

SALE NOTE

MESSRS. *Fearnley, Sanderson & Co., Ltd.,*
London, E.C.4.

We confirm having this day sold you—
185 pieces 37 in. × 80 yards Spun Viscose Limbric 367G, @ 5⅞d. the yard.

DELIVERY to *Ribbleside Dyers & Printers, Ltd.,*
middle of May, if possible.

TERMS: 2½ per cent 7–10 days.

For RAMSBOTTOM & SLATER, LTD.,
Hy. Slater, Director.

If price, terms, or time of delivery stated above should be incorrect, please return this note at once for amendment.

We do not hold ourselves responsible for any cloth after it has been passed through any process, nor for any delay in delivery arising from strikes, lock-outs, accidents, or other causes beyond our control.

ORDER

Order No. *MG2194*

FEARNLEY SANDERSON & Co., LIMITED

Drapery Warehousemen

ST. PAUL'S CHURCHYARD

LONDON, E.C.4

2nd Aug., 19..

ORDER TO: *Messrs. Hattersley, Sons & Co., Leek.*

DELIVERY *Carriage paid, half 1st Sept. next, half 1st Oct. next*

SIZES			SW	W	WX	OS
LENGTHS			47	48	49	50
140 WOOL FROCKS—Prices		—	9s. 6d.	9s. 6d.	10s.	10s. 6d.
Your No. 097	Black	—	4	6	6	4
Our Call No.	Navy	—	4	6	6	4
M G.097	Marsh Brown	—	4	6	6	4
	Vintage	—	4	6	6	4
	Moss Green	—	4	6	6	4
	Moorhen	—	4	6	6	4
	Royal	—	4	6	6	4
80 WOOL FROCKS—Prices		—	12s. 11d.	12s 11d.	13s. 6d.	
Your No. 34/411	Black	—	4	6	6	
Our Call No.	Navy	—	4	6	6	
M.G.411	Nigger	—	4	6	6	
	Burgundy	—	4	6	6	
	Green	—	4	6	6	

NATURE OF BUYER

JNTERSIGNATURE

Note. Our Order No. must be shown on your invoice for these goods.

CONFIRMATION OF ORDER

HATTERSLEY, SONS & CO.

LEEK, ENGLAND

3rd Aug., 19..

MESSRS. *Fearnley, Sanderson & Co., Ltd.*
London.

Dear Sirs,

We have the pleasure of sending you our confirmation, as details given hereunder, of your valued order just received. Please accept our thanks, and the assurance of our careful and diligent attention.

For HATTERSLEY, SONS & Co.
L. Brown.

Your Order No. M.G.2194.

140 Wool Frocks. *Our No.* 097, *Your Call No.* M.G.097.

Size	SW	W	WX	OS
Price	9s. 6d.	9s. 6d.	10s.	10s. 6d.
Quantity	4	6	6	4

each colour in Black, Navy, Marsh Brown, Vintage, Moss, Moorhen, and Royal.

80 Wool Frocks. *Our No.* 34/411, *Your Call No.* M.G.411.

Size	SW	W	WX
Price	12s. 11d.	12s. 11d.	13s. 6d.
Quantity	4	6	6

each colour in Black, Navy, Nigger, Burgundy, and Green.

DELIVERY, Half 1st Sept., Half 1st Oct.

TERMS, usual. Boxed $\frac{1}{12}$th.

Sizes	SW	W	WX	OS
Bust	36	38	41	46
Hips	39	41	44	48
Length	47	48	49	50

to persuade the supplier to take them back. On the other hand, if they were the supplier's regular goods, delivered from stock, it would probably be possible to arrange for their return.

Every day many orders, large as well as small, are given and taken orally. That may occur when the buyer calls at the seller's establishment, or when the seller's representative takes the order at the buyer's place of business. In such circumstances the goods required will probably be selected from stock, or be ordered from samples; or perhaps by description, or identification number only, if the articles are catalogued, or if similar articles have been supplied previously. When delivery of the goods is to be made immediately, the order may not be put into writing, or not into any writing other than the informal note that the salesman makes at the time. Should it happen that the goods, when delivered, fail to correspond to the order given, the buyer's remedy is to return them at once. On sufficient reason for their return being explained, the seller will be bound to take them back, and he will usually do so without demur.

Nevertheless it is the custom of many business houses to insist, for the better supervision of their affairs, that their buyers give written orders for all purchases and keep copies of them. When the value exceeds a stipulated amount, such as £10, the buyers may be required to get their orders countersigned by someone with higher authority. In some cases the seller may have trouble in getting payment if goods even of small value are supplied without obtaining an official order for them. Again, it is common practice in business houses to order small immediate requirements by telephone. A commendable routine to follow then is to record each such order in a special Telephone Order Book, and to give the order number (as shown in the Order Book) to the receiver of the message at the supplier's end. Many business houses require their order numbers to be shown on the invoices the suppliers send for the goods.

Where delivery of goods ordered is not to be made until some future date or dates, a written order should always be given. If not, the prospective supplier of the goods would do well to insist on getting one, signed by the purchaser or his buyer, so as to obviate dispute when delivery comes to be

proffered or effected. For the same reason the buyer should see that he obtains the seller's detailed and signed acknowledgment of every order given for future execution. That acknowledgment is customarily called the "confirmation" of the order; and in the circumstances described the seller would usually send it, even when the buyer did not ask for it. The legal aspect of these proceedings will be touched upon in Chapter 15. On page 170, where our specimen order is given, there is also shown its supposed confirmation. Another order and confirmation for goods of a different kind appear on pages 171 and 172.

RECORD OF ORDERS GIVEN OUT

Whenever it is essential to good relations between buyer and seller that orders be given in writing, it is equally essential to the good management of the buyer's business that copies of the orders be kept. Just as the giving of written orders prevents misunderstanding between buyer and seller, so the keeping of copies prevents oversight and miscalculation by the buyer about his position in providing for coming needs. And, of course, the copies should be kept in such manner that they can be referred to easily and quickly. A method of very general adoption is the use of a carbon-duplicate book of printed forms, or of several of these books for different classes of goods. The top copy of any order, signed by the head of the Buying Office, or signed by the buyer with or without the countersign of a superior, is sent to the supplier of the goods. The under copy remains in the order book or, if a book is not used, it goes on the Order File. There it can be turned up at any time for checking the invoice or for other purposes.

Every written order should be dated. That helps to identify it when inquiries or complaints are sent or received about it, besides putting on record beyond dispute the month and day when it was given. But if the usual practice is followed of giving to each order a serial number, reference and identification become still easier and more certain. The serial numbers are usually stamped on each printed order blank and its duplicate by the makers of the order forms. In regard to the filling in of the order form, we have already explained how careful the buyer must be; also why such care must be

FORM FOR RETAINED COPY OF ORDER GIVEN, AND FOR RECORD OF DELIVERY BY INSTALMENTS

Order No., *M.G.3001*

FEARNLEY, SANDERSON & Co. LIMITED

Drapery Warehousemen

ST. PAUL'S CHURCHYARD, LONDON, E.C.4

ORDER TO .....

.....

Quantity	Ref. No.	Description of Goods and Price

DELIVERY .....

.....

SIGNATURE OF BUYER .....

COUNTERSIGNATURE .....

NOTE.—Each delivery received must be entered below as the invoice for it is passed; also, as each delivery is entered, the value of the balance still to come must be shown in the last column.

Value of Total Order	Deliveries Received			Value of Undelivered Balance
	Dates	Quantities and Descriptions	Value	
£			£	

exercised in stating descriptions, qualities, quantities, prices, and delivery dates. But if, as in our specimen, the order follows a quotation that specifies these points correctly, then it is not necessary to repeat them in the order, provided the order makes reference to the quotation for the particulars and conditions that apply.

Another point that may be mentioned in the order is the route or means of transport by which the goods are to be sent. When the purchaser pays carriage he has the right to say how the goods are to be forwarded. Even when he does not pay carriage he may make request that a stated route be used, either because that one is more convenient to him, or because he has some interest in deliveries coming that way. Lastly, and especially if business has not been done with the supplier before, the terms of payment may be specified in the order. If, however, terms or discount specified by the purchaser are not those the supplier usually allows, the supplier is not obliged to accept the order on these terms unless he has already agreed to do so.

We submit on page 175 a form suggested as suitable for the *retained copies* of orders when deliveries are to be made by instalments as required, the order sent to the supplier being in the usual form. The retained copy of each order is provided with extra space on the right-hand side. In the columns in this space record is to be made of the goods and the value comprised in each delivery, the value of the undelivered balance being shown at each stage. Often enough goods to be manufactured must be ordered in bulk long before they will be wanted, it being understood between supplier and purchaser that deliveries will be made, so much at a time, as they are called for. In these cases, and in cases where the order itself names definite dates for future deliveries, the buyer should make sure a little while before that the goods will be forthcoming at the times required.

SELLING PERSONNEL

The agents that manufacturers maintain in London and provincial centres are usually paid by commission calculated as a percentage of the value of orders taken and executed.

These agents sell to the wholesale, and out of the commission they receive they provide offices and such staffs as they require. Similar arrangements exist between foreign manufacturers and the agents to whom they entrust the sale of their products in this country. Wholesale houses and such manufacturers as do their own wholesaling send out travellers to the retail shops and stores. For convenience in getting from place to place, and in moving about the samples they must carry, the travellers ordinarily use motor-vehicles suited to the purpose. Some of the travellers may, like agents, be remunerated entirely by commission; but it is more customary for them to be paid partly by fixed salary and partly by commission. In the latter arrangement the rate of commission will be lower; but the fixed salary, even if it is only a small one, ensures that the traveller has always some regular income he can depend on, even in the slackest periods. On the other hand, making the extent of a traveller's or agent's remuneration vary with the value of the orders he takes is an incentive to him to try the harder; and the more he earns for himself the more profitable are his services to his employer. An agent is in business on his own account, being his own employer; a traveller is a servant—a member of his employer's staff.

The orders that agents and travellers take are passed on day by day to factory or warehouse for attention. Those travellers who work on grounds adjacent to headquarters will hand in each day's orders and reports the following morning before they leave for that day's journey. Others who cover districts farther away may come in for interviews with directors and department heads once a week, on Saturdays. Those working at greater distances still will turn up less frequently; but, whether they operate near home or at a distance, the orders they collect and the instructions or complaints they receive will be posted to the head office every day. There orders and instructions pass into the hands of the inside staff to be executed at once or as soon as the requisite stocks come in, or to be held over to such delivery dates as the customers desire. The inside staff, however, has to deal as well with customers who call and buy in the warehouse, and they have to deal also with orders and other correspondence that customers send on by post themselves.

THE ART OF SALESMANSHIP

Some persons do not make good salesmen or saleswomen. They are not endowed naturally with certain essential qualities. Partly the necessary ability arises out of personal disposition, and partly it is acquired. One essential is a winning approach to the prospective customer so as to gain the customer's trust, and not alienate his or her feelings at the start. Another essential is a skilful handling of each situation such as leads the customer to take a willing interest in the goods offered or in the arrangement proposed. Both of these essentials imply some sympathetic understanding of human nature—not an understanding that can or need be reduced to formal rules, but rather the inborn aptitude by which its fortunate possessor always seems to say or do the right thing at the right time and in the right place. In addition, there must be a quick perception of what points to present to the customer's mind, and there must be the ability to state them with a simplicity and clearness that the customer can easily follow.

Good salesmanship, however, does not mean the cleverness that can palm on to a buyer something he does not really want or something that he will not be satisfied with in use. Salesmanship is wider than that. It goes beyond the narrower activity of exchanging goods for payment; it includes the active desire to provide goods in which the salesman can have faith, goods of a value that the purchaser will appreciate in use, and will want to come for again. Further, to the salesman or saleswoman who personally treats with the customer a knowledge of the goods themselves is useful. To the intelligent customer he or she can explain, as between one article and another, points that will help the sale, perhaps of quality or style, perhaps about how or of what the goods are made, perhaps about how they may be expected to withstand use or wear. Again, the good salesman will study the interest of the business as a whole, and not just that of himself or his section. He will be ready to direct customers to other departments where their wants can be supplied or better supplied than from his own.

Amongst purchasers from the retail, because these make up the most numerous class, there is the greatest variety of

temperament to deal with. Some know to a nicety what they want, or they can decide quickly when they see a thing they like. Others cannot decide even after long hesitation, and when they finally buy they may come back again to have the article exchanged for one they had already seen and rejected. Between these extremes there are all degrees. Then there are the customers who transact their purchasings agreeably, and those who are disagreeably sarcastic, snappish, or domineering. Yet all have to be humoured or placated, at any rate to a point, under the rule that the salesman should try to take the customer's view; or, to express it with some little overstatement, that "the customer is always right." As with the wholesaler's traveller and the manufacturer's agent, so with shopkeeper's salesman, the payment of commission on the sales he carries through helps him to meet the easy customers with pleasantness, the difficult ones with patience, and rewards him for the pains he is obliged to take. An attitude on the employer's part of helpful encouragement rather than fault-finding criticism, except where sharp correction must occasionally be made, does much towards establishing good relations between employer and employed.

QUESTIONS

1. Discuss the statement that "goods well bought are already half sold." (*L.C.C.*)

2. What are the essential qualities of a good buyer? Describe the activities of a buyer in a wholesale house, and explain what factors would weigh with him in deciding what to buy for his department. (*L.C.C.*)

3. By what principles should the small shopkeeper be guided in his buying? When making purchases, what factors must be taken into consideration besides price?

4. Select one of the three trades—grocery, drapery, or hardware—and describe the methods a wholesaler in that trade would adopt in purchasing and in selling his goods. (*U.L.C.I.*)

5. Describe carefully the organization of buying operations in a large departmental store, and explain the various methods followed in the purchase of goods. (*U.L.C.I.*)

6. Draft (1) a Quotation and (2) an Order Note for the following—A firm offer for three days made on 12th February by James King & Sons, Manchester, to Thomas Richings & Co., Ltd., London, for 160 pieces 40-in. Loom Damask Tabling, 8000 yards @ 1s., carriage forward. Richings' Order No. 748. (*L.C.C.*)

7. A. Brown & Co. wish to purchase from Duncan Bros. 15 cases of cutlery at £12 the case, subject to 15 per cent trade discount and 5 per cent discount for prompt payment. Give a usual form of order, supplying addresses yourself and adding any further particulars or instructions you consider necessary. (*L.C.C.*)

8. To what points should a buyer give particular attention in the writing out of orders for supplies? Explain why that attention is required and why it is more necessary in some circumstances than in others.

9. Outline a routine you would recommend as suitable for keeping record of orders given for supplies by a wholesale or a large retail business. In what form would you suggest that record be kept of orders given for execution by instalments and of the deliveries made against these orders?

10. What methods of sale of his products (*a*) at home, (*b*) abroad, are open to a manufacturer? (*R.S.A.*)

11. What methods does a wholesaler make use of to secure and maintain a market for the sale of his goods? Mention the principal differences between wholesale and retail trading in regard to the obtaining of orders for goods.

12. Wholesale firms employ travellers. Describe the work of a traveller, and show how he renders useful service to the retailer.

13. Describe the duties of a manufacturer's selling agent. In what respect does he differ from a wholesale merchant's travelling salesman?

14. Explain what natural and acquired qualities you consider a good salesman should possess, and why he should possess them. What kind of arrangement does an employer commonly make with his travellers or shop assistants with the object of inducing them to put forth their best efforts and of making their interests and his the same?

15. Compare the qualities and duties of a good salesman with those of a good buyer.

CHAPTER 12

ROUTINE OF EXECUTION

WHEN an order is received for goods in stock it will be executed immediately, unless the customer has asked for delivery to be made at a later date. If the goods are not in stock, but are expected very soon, the order can be held for a day or two until they come in. But when the goods are not in stock and new supplies are not expected within a day or two, a note should be sent to the customer explaining the position and promising delivery as soon as the goods come to hand. Sometimes the exact kind of goods ordered have been sold out, no new supplies being expected. Then, if the supplier has something near and the order is small and urgent, he may take the liberty in the customer's interest of substituting what he has, the customer having the right to return the goods should they not be suitable. If the order is for a larger quantity, the supplier will probably look out a sample or two of what he has, and post them to the customer with a letter, saying what can be done. Then the order along with a copy of the letter will be held awaiting the customer's instructions.

RECORDS OF ORDERS RECEIVED

The routine of handling orders varies very considerably, according to the kind of goods dealt in, the size of the supplier's business, and whether he is a manufacturer, a wholesale dealer, or a retailer. In the retail, sales are made mostly for ready cash; but where, as in the wholesale and in manufacturing businesses, credit transactions are the rule, orders received should be sanctioned for credit before they are passed on for execution. The next step with the manufacturer will probably be the ascertainment of what materials are needed for making the goods and the procuring of the requisite supplies.

Where in a small wholesale establishment the order has been sanctioned and the goods are in stock, an assistant with the original order in his hand may simply select from stock the articles required, enter them out in the customer's name, and

hand them on to be packed and dispatched. After they have been packed and invoiced, the order will be filed away as executed. If delivery cannot be made at once, or is not yet required, the assistant may enter particulars in an Order Book as a reminder against the time when delivery can or should be made.

Many businesses, however, have an office to which all incoming orders go as soon as the letters containing them are received and opened. Where the business has a Sales Manager, the Order Office will be under his control, and in it some record of the orders will be made before they are passed on to be executed. The outline that now follows contains practical suggestions for the keeping of these records by an efficient method and with a minimum of clerical work.

1. It is advisable that at the start each order received be given a *consecutive number*, the number to be repeated on the entry which charges the goods out when they are about to be sent; also on the invoice typed for the customer, and on the entry of dispatch which shows how and when the goods left. This serial number for each order received, when repeated on these several entries, serves as a link to connect the entries with each other and with the order to which they all relate.

2. In a business which is a large and active one, some record will be necessary before the orders it receives are handed on for execution. Without some record it would be difficult to trace an unexecuted order should the customer write in about it. The record, however, need not comprise at this stage more than the serial number given to each order, the date of issue to the warehouse or selling department, the customer's name and address, and the name or number of the department to which the order is sent. The particulars to be recorded can be typed in duplicate by carbon leaf or loose blank forms printed for the purpose. Then one set of these forms can be retained in the Order Office, and can be arranged alphabetically for ready reference on a card-index type of file marked "Customers' Orders on Hand."

3. The other set of copies can accompany the orders on their round of execution and dispatch. Each original order will be attached behind its form, which will serve as a facing sheet. When, however, an order relates to two or more departments,

extracts from the original will be made for each department on suitable forms; and in that case the facing slip will show how many extracts there are, so that they can all be collected for packing, and the goods for all dispatched together. After each parcel has been dispatched the order will be returned to the order office, with particulars added to the facing slip of how and when dispatch was made. The returned orders, still with the facing forms attached, should then be placed neatly, in the sequence of their numbers, on a separate file marked "Customers' Orders Executed."

4. As each order comes back to the order clerk, he should take the duplicate of the facing slip from his file of Customers' Orders on Hand, and should mark it with the particulars of dispatch. If he then places these duplicates of orders dispatched on a third file in alphabetical order, any executed order that may afterwards be wanted can be found quickly, either by its name on this third file of "Alphabetical Record of Orders Executed," or by its number on the second file of customers' orders in serial number. Inspection from time to time of the first file—that of Customers' Orders on Hand—will show what orders, if any, are being held too long. Steps can then be taken to remove the causes of delay and to hasten dispatch of the goods.

5. In addition, it may be necessary to keep careful record of customers' orders the goods for which are not to be delivered for some time to come. Were the old-time method of book record used, the entries would be made, one following another, just as each order was received. Then an index to the entries would be needed, if the entry of any required order were to be found without loss of time. Provided the work is done with care, there is no reason why the records of such orders should not be made on facing sheets attached to the orders, in the way we have just described for orders to be executed at once. These held-over orders can then be kept, much more conveniently for reference, arranged in strict alphabetical order on a fourth file named "Orders for Future Execution." An index to orders so arranged will be quite unnecessary. If preferred, the orders can be kept arranged according to their delivery dates. In either case, as the times for execution approach, the orders will be taken off that file and will be dealt with as orders for immediate dispatch.

THE QUESTION OF CREDIT

A *credit sale* is one in which the payment to be made by the customer is not required until some time after delivery of the goods, whilst a *cash sale* is one in which delivery of the goods and receipt of payment take place simultaneously, each made in exchange for the other. It has already been explained why in retail trade cash transactions are much more usual, and why in wholesale trade credit transactions are the rule. Numerous credit transactions, however, do occur in the retail; and in the wholesale cash is required when a credit account has not been agreed to, or when experience of an account has been such that credit has to be stopped or restricted.

There are business houses of such good repute throughout their particular trades that suppliers of goods would be pleased without question to open a credit account with any one of them. But by far the greater number of businesses that buy on credit are not so widely known or are not held in such high esteem as these. With most, when a transaction is being entered into for the first time, it is usual to ask for *trade references*, that is, for the names and addresses of two or more supplying houses with whom the new customer has been doing business. The prospective creditor then inquires from these houses about his new customer, by sending out a clerk when the references are within calling distance, by reply-paid letter when they are not. He asks, for example, how long the person inquired about has had a credit account with them, whether he pays regularly or not, how long credit he usually takes, and whether they consider him good for credit up to an amount named in the inquiry. Comparison of the answers received gives the inquiring house information about how the new customer actually conducts two or more of his existing accounts with suppliers. They serve as a fairly reliable guide to the inquirer in deciding whether to grant credit in any given case; and, if so, to what extent in money and in time.

Travellers opening new accounts should be instructed to procure trade references as a rule; and, when accounts are opened by the customers calling at the supplying houses, the customers will be introduced to the counting-house, and the references taken there. Sometimes it is considered inadvisable to request these references, yet the supplier may be uncertain

about the customer's financial soundness. In such cases the desired information will be sought through a *Status Inquiry Office* or a *Trade Protection Society*. Wholesale merchants and other suppliers of goods commonly subscribe to one or more of such institutions, receiving in return for their yearly subscription a book of so many inquiry forms. If the office has particulars on its files, it answers at once; if not, it tries to obtain the information desired. Quite frequently this form of inquiry is used to supplement trade references by comparison of the status report so obtained with the traders' answers.

At times, again, business people asked for references *direct the inquirer to their bankers*. The information should then be applied for through the bank of the inquirer. For, except in special circumstances, a bank will not answer such an inquiry unless it is approached through another bank. It is usual, also, for banks to be very circumspect in their replies, saying as little as possible, and not putting the answer in writing if they can give it to their customer orally. The reason is that they wish to avert the possibility of being held liable to damages, should the inquirer afterwards feel that he has suffered loss through acting on the answer given, or should the person reported upon discover that an unfavourable statement had been made about him. Traders are not so reticent in their answers; still, for the same reasons they should exercise care. When they give written answers they should mark them "private and confidential," and the receivers of the answers should treat them as such, and not as a matter for public comment or discussion.

Credit is sometimes granted to one person on the *guarantee* of another person. To be enforceable against the giver the guarantee must be in writing and must be signed by him, also it must be stamped. It depends on how the guarantee is expressed, whether it applies to a single transaction only, or to the balance owing at any time on a continuing account. The following is a simple example which explains itself—

10 KINGSWOOD RISE,
GLENAVON. *14th July*, 19..

In consideration of your supplying goods on credit to Mr. Arthur Bunting, of 123 High Street, Glenavon, I hereby guarantee you payment to the extent of Fifty Pounds of any sum owing to you for goods so supplied between now and 31st December, 19...

Charles Dunstay.

Each status report obtained should be given a consecutive number and should be filed away under that number, a reference to the number being placed at the head of the customer's account. Any facts bearing on the customer's standing that later come to the creditor's knowledge should be filed under the same number as the original reports. If the terms on which the new customer desires to pay are agreed to, they also may be noted at the head of his account, so that statements shall be rendered in accordance with them.

PASSING ORDERS FOR CREDIT

Equally with accounts that are just being opened, watch must be kept on those that are already running, to see that they do not get into arrear. It is a thankless task to write letter after letter, or to make call after call, threatening and then taking proceedings, in the attempt to recover payment from persons to whom credit should not have been given in the first place. The time for controlling credit effectually is when the orders are received and before they are passed on for execution. For it must be remembered that, when a sale on credit ends as a bad debt, the margin of profit made on perhaps half a dozen other sales will be absorbed in making up for the loss on the bad one.

Usually the passing of orders for credit is placed in the hands of a responsible clerk, or of several such clerks if necessary, each in control of his own section of the customers' accounts. In wholesale business, where orders come mostly from regular customers, the credit or sanction clerks know what accounts need to be watched, and they are accustomed to exercising their judgment in doubtful cases. No order received through post or traveller should be executed until it bears the sanction mark of the credit clerk. Similarly sales made by assistants in the departments must be sanctioned before the goods are dispatched, if credit is desired. In large retail stores, where the sanction office is probably at a distance from many selling departments, there should be adequate facilities for communication. Customers who want to take their purchases away should not be kept waiting impatiently whilst inquiry and answer about giving credit are being made with delay or difficulty, between sales floor and sanction office.

SELECTING AND ENTERING THE GOODS

Just as the buyer of goods must be very careful to write out his orders correctly, so the seller's assistant must be careful to see that he selects the exact goods in execution of orders received. He has to mind that he selects the correct descriptions, model or style numbers, the correct qualities and quantities, possibly also correct sizes and colours. He must see, too, that he always charges the correct quantity and price. If the goods he sends are not what the customer ordered, they are likely to be returned at the seller's expense, the cost of getting out, sending off, and taking back the wrong goods being so much loss. If too high a price is charged, or too great a quantity, the customer is given the trouble of writing about the overcharge; if too little is charged, the seller probably loses the difference. But the most important consideration is the annoyance the customer suffers, for when errors in execution are frequent, buyers will be moved to seek less troublesome sources of supply, and their business and the profit it carries will be permanently lost.

Probably the assistant who selects the goods has to charge them out by entering them in a *Warehouse Sales Book*. If so, the entry made should be checked back. One assistant can first call out the articles to another, who enters them in the book. Then the process can be reversed, the first assistant checking the entry and initialing it, whilst the second one calls the articles and prices again. When that is done, the goods are ready to be taken for packing and dispatch. The entry in the Warehouse Book having been made in duplicate by carbon leaf, a numbered docket torn from the book, and containing a copy of the entry, passes along with the goods and the order to the dispatch room. When only part of any order is being dispatched at once, the remainder is copied forward on a new order form for execution later.

In some establishments the original order does not go to the warehouse. Instead, several copies of the particulars of the goods required are typed by carbon leaf on a set of forms perforated so that each can be detached in its turn as needed. All the forms bear the serial number given to the order when it was received. One of the copies is the *order to the warehouse,*

which will eventually come back to the Order Office from the Dispatch Room. A second copy may serve as *Delivery Note* to be sent in the parcel or case, showing the customer what articles the package contains.

DELIVERY NOTE

LEEK, 30th August, 19..

TO *Messrs. Fearnley, Sanderson & Co., Ltd.,*
St. Paul's Churchyard, London, E.C.4.

FROM

HATTERSLEY, SONS & Co.

Your Order No. M.G.2194 Our Ref. F.1276 R.S.

70 Wool Frocks No. 097	
14 (2 in each of 7 colours)	*Size SW*
21 (3 ,, ,, ,,)	,, *W*
21 (3 ,, ,, ,,)	,, *WX*
14 (2 ,, ,, ,,)	,, *OS*
40 Wool Frocks No. 34/111	
10 (2 in each of 5 colours)	*Size SW*
15 (3 ,, ,, ,,)	,, *W*
15 (3 ,, ,, ,,)	,, *WX*

per *L.M.S. Goods train in 2 hampers, Nos. 74 and 206.* Carriage *paid.*

A third and shorter form of the set containing the customer's name and address plainly typed, but not any particulars of the goods, may be used as the address label for the package. A fourth form, giving full particulars of the goods, like the warehouse order and the delivery note, would have in addition money columns in which the values would be extended and added. When completed this last form would be posted to the customer as the *Invoice* or *Charge Note* for the sale, the total of which would be debited to the customer's account. An arrangement, however, that requires delivery note and invoice to be typed before the order is executed is not suitable except in a business where full ranges of goods offered are always held in stock. If, through want of stock, parts only of the orders could be executed immediately, the system would not work efficiently. Delivery notes and invoices already typed would have to be scrapped, and new ones would have to be typed in

their place for the goods actually being sent. In such circumstances the scheme would be modified to suit the conditions existing. The specimens of delivery note and invoice shown in this paragraph correspond to the specimen order on page 171.

INVOICE

LEEK, 30th August, 19..

TO *Messrs. Fearnley, Sanderson & Co., Ltd.,*
St. Paul's Churchyard, London, E.C.4.

TELEPHONE: LEEK 0396
TELEGRAMS: VENTURESOME LEEK

From HATTERSLEY, SONS & Co.

Your Order No. M.G.2194 Our Ref. F.1276 R.S.

			£ s. d.
70	*Wool Frocks No. 097*		
	14 (2 in each of 7 colours) Size SW	9/6	6 13 –
	21 (3 ,, ,, ,,) ,, W	9/6	9 19 6
	21 (3 ,, ,, ,,) ,, WX	10/–	10 10 –
	14 (2 ,, ,, ,,) ,, OS	10/6	7 7 –
40	*Wool Frocks No. 34/411*		
	10 (2 in each of 5 colours) Size SW	12/11	6 9 2
	15 (3 ,, ,, ,,) ,, W	12/11	9 13 9
	15 (3 ,, ,, ,,) ,, WX	13/6	10 2 6
	Hampers 74 and 206 per L.M.S. Goods train, carriage paid	20/–	2 – –
			£62 14 11

SUBSEQUENT RECORDS

The fourth of the set of forms we have been describing would be in duplicate, the duplicate serving as an exact copy *of the completed invoice.* It goes to the counting-house and is the basis on which the subsequent entries (dealt with in a later chapter) are made in the account books of the business. When a delivery note is sent to the customer along with the goods, the invoice should be checked before it is posted to make sure the calculations are correct. In the case where invoices are typed from the warehouse entry book or docket they should also be checked to see that the other particulars have been copied correctly. When any error is discovered a new invoice should be typed in duplicate; and, if the first invoice has gone, this new one marked "corrected" should be made to follow on at once. The checking of the invoices prevents errors from passing

on undetected to the customers and from being perpetuated in the subsequent book-keeping entries.

At some stage in the subsequent records there would be compiled *for each traveller a monthly list of sales* made to the customers on his ground. The list would be compiled, in the first place, for the purpose of calculating the commission falling due to each traveller for the trade he had done. In the second place it would serve to show whether the business from his ground, or any part of his ground, was being maintained, and was worth the cost of getting it. The traveller's name or mark could be stamped on each order coming from his customers, and his name or mark could be repeated on the sales entry made when the order was executed. If the indication were repeated on the invoice, the record of his sales could be compiled day by day from the invoice duplicates retained.

To understand fully the increase or decrease of trade on any given ground it would be necessary to investigate the business done year by year with individual customers on the ground. With that object in view a record could be made of the monthly totals of sales to each of the more important customers. A card of suitable size should bear on its front the customer's name and full address, should show the kind of business the customer carries on, should state up to what amount credit may be given, the length of credit or rate of discount the customer takes, and the reference number to his

BACK OF CUSTOMER'S RECORD CARD

Month	1936	1937	1938	1939	1940	1941	1942	1943
January								
February								
March								
April								
May								
June								
July								
August								
September								
October								
November								
December								
Total								

filed status report. Space should be left for alteration of these particulars or for further remarks. The cards should be kept by the card-index method, a separate index for each traveller's ground, and the cards arranged with the customer's names in dictionary order. The back of each card would be ruled, as in the specimen on page 190, to show in round pounds the monthly and yearly sales over a period. The figures for these records would be extracted month by month from the customers' ledger accounts.

QUESTIONS

1. What should be done by a wholesaler's assistant if he receives an order for goods that are not in stock (*a*) when a new supply of the same kind of article is due to come in, (*b*) when no further supply of the article is expected?

2. Explain in outline what routine you would suggest for keeping record in an order office, or at an order desk in the general office, of the receipt of customers' orders and of the dispatch of goods in execution of the orders.

3. A manufacturer carrying on a business divided into departments receives an order for goods to be supplied in part by different departments. What office work will be involved in respect of the order from the moment of its receipt to the time when the goods are dispatched?

4. Outline a method you could recommend for keeping record, between time of receipt and time of execution, of orders received by a wholesale house for future delivery.

5. How should a large retail stores deal with orders received by post? (*L.C.C.*)

6. (*a*) Explain exactly what is meant by "trade reference," and what use the receiver of the reference makes of it. (*L.C.C.*)

(*b*) What other means do manufacturers and merchants make use of to obtain information about the trustworthiness of prospective customers?

7. Explain the nature of a guarantee; also its usefulness (*a*) to the customer on whose behalf it is given, (*b*) to the supplier of goods by whom it is received.

8. When a traveller takes a first order from a new customer whose credit position is uncertain, what steps should the traveller take in order to assure his counting-house? If such an order is taken in the supplier's warehouse, how should the salesman who takes it act?

9. (*a*) What services do status inquiry offices and trade protection societies render to their subscribers or members?

(*b*) How would you keep for reference status reports received from business houses and inquiry offices about new customers to whom you have granted or refused credit accounts?

10. (*a*) What procedure should you follow, and why, when a new customer gives you his bank for reference?

(*b*) What precautions would you take, and why, in answering an inquiry you have received regarding your experience of the account of one of your credit customers?

11. Explain how, why, and by whom orders received should be passed for credit before they are handed on to be dealt with by the order clerks and the warehouse departments.

12. What steps are taken by manufacturers and wholesale traders to avoid contracting bad debts? How would you deal with a customer who would not pay an overdue account? (*U.L.C.I.*)

13. What precautions would you take to ensure that all orders received were correctly executed, and what checks would you make on the invoices to be sent to customers when the goods they had ordered were dispatched? (*L.C.C.*)

14. Draw up a scheme for checking and facilitating the entering-out in a wholesale warehouse of goods to be dispatched to retailers, and of controlling the making and forwarding of invoices, with the object of readily disclosing any mistakes that may occur in entering or invoicing. (*R.S.A.*)

15. Describe a method of dealing with customers' orders when the originals are not sent to the warehouse, and when several of the documents used during execution of the orders are prepared by carbon copy with one typing. In what conditions is this method practicable?

16. How do a delivery note and an invoice differ, and what is the purpose of each?

17. What arrangements would you make (*a*) for compiling lists of travellers' sales from which to calculate commission payable to the travellers, (*b*) for disclosing periodical increases or decreases in the trade done by each traveller, and particularly with the more important customers of the business?

CHAPTER 13

RECEIPT AND DISPATCH OF GOODS

Goods going out must usually be packed, small lots in paper parcels, large lots in canvas bales or wooden cases. Those coming in have to be unpacked and passed on to the selling areas or into store. If goods going out and those coming in were handled in the same part of the premises and by the same staff, they would get mixed at times. Even if they did not, it would be more difficult to keep them in their proper courses. It is usual, therefore, in all but the smallest of wholesale establishments, to have separate Receiving and Dispatch Departments. For convenience in moving the packages from and into the street or yard, the Receiving and Dispatch Docks are commonly placed on the ground floor or in the basement, and at the back of the premises; and they are probably provided with loading and unloading platforms. Large works are usually situated where they can have railway sidings with equipment for handling heavy loads.

PACKING AND INVOICING

We have stated that a docket from the Warehouse Sales Book, or the typed warehouse order slip with the parcel label, pass with each lot of goods to the Dispatch Room. On their arrival the packer should check the docket or order slip with the goods, to make sure that the correct quantities and kinds of articles have reached him. The packer should then initial the docket or the order slip to show, in case dispute arises with the customer, who it was who packed the parcel and checked the articles immediately before dispatch. The delivery note and the address label, where they are supplied, will be kept by the packer, the one to be enclosed in the parcel and the other to be affixed to it when ready. The docket, or else the warehouse order slip, may then go to the Invoicing Room, so that the invoice clerk can prepare or complete the invoice for the customer. Most houses add to the invoices their charges for any wrappers or packing cases in which the goods are sent, the

charges to be credited when the wrappers or cases come back empty. Others wait for a fortnight or so to see if the empties are returned, passing the charges through only when return is not effected within that time.

After completion each invoice is checked and the checked carbon copy is retained for counting-house use as previously explained. There are two reasons for the careful checking of all sales invoices. The first is to see that the calculations have been made correctly; the second is to make sure that invoices made from warehouse entries agree in quantity and price with these entries, and that no entry or part of an entry has been overlooked or omitted. The reader must, however, understand that the routine here described is not fixed and unalterable, that it is only representative of the kind of procedure commonly followed, and that in different businesses the different circumstances may give rise to considerable variations in practice.

DISPATCH AND DELIVERY

There are many ways of delivering goods to the customers who have ordered them. The railways take heavy consignments by goods train, and smaller parcels by passenger train. Full wagonloads may be sent by road motor carriers; but so may small lots. To customers within the suburbs of the large cities, or not too far beyond, a usual means of delivery is by local carrier company. The larger local carriers, however, now run motor-vans considerable distances, and they have agents or depots in many towns. Light parcels can be sent through the Post Office by parcels post, and for very quick delivery over long distances the air mail can be used. Again, especially in the retail trade and by the bigger shops, delivery within reasonable distance is usually made by the sellers' own vans.

Whether buyer or seller *pays the carriage* depends on the terms agreed to when the goods were ordered. If the point was not raised at the time of ordering, it depends on the custom of the particular trade, and perhaps on where the buyer's business is situated. It may depend, again, on whether a supplier who customarily pays carriage on large lots undertakes to pay carriage on small lots also. Parcels by passenger train or post must have the carriage or postage paid at the sender's end; but when in these cases the carriage charge should be borne

by the purchaser, the seller adds it to the invoice. Delivery by sellers' own vans is usually free. By the remaining methods of conveyance goods can be sent either carriage paid or carriage forward. Railway companies and other carriers will run monthly accounts with either senders or consignees when there is sufficient volume of traffic to justify their doing so.

RECORDS OF DISPATCH

For packages to be conveyed by goods train the railway companies provide their own books of *Consignment Notes*. These notes can be written in duplicate by carbon leaf, the top copy of each being handed to the carman when he takes the goods. The under copy, signed by him, remains in the book as a record of dispatch to be referred to when that becomes necessary. A Consignment Note sets out amongst other things—

1. Date of dispatch of the consignment.
2. Sender's name and address.
3. Station to which the packages are consigned.
4. Consignee's name and address.
5. Number of packages in the consignment.
6. Kind of packages and any distinctive marks placed upon them.
7. Kinds of goods they contain.
8. What the packages weigh.
9. Whether sender or consignee pays the carriage.

The Consignment Note is the written contract between the sender and the carrier for the conveyance of the goods, and it has printed upon it the chief conditions under which the railway company undertakes to carry them.

For parcels by passenger train or by suburban carrier a list of names, destinations, and weights for each batch of parcels handed over may be made in triplicate by carbon leaf on pads supplied for the purpose. One copy of the list signed by the collecting vanman is retained, whilst the other two copies are taken by him, one of which as a voucher for the charge made will come back attached to the monthly carriage account when that is rendered. Each Sales Invoice should state how the goods it represents are sent, and the filed copy of the invoice will then indicate in which book or on which pad the record

of dispatch was made. But the means of conveyance will also be noted on the facing slips of the orders where these are used, so that reference to the appropriate dispatch records may also be made from them. If the serial number given to each order when it is received is repeated in the dispatch record as well as on the invoice, that will show beyond doubt to which order and invoice any dispatch entry refers.

The dispatch records now described will probably be found sufficient in many businesses; and, what is important, they contain the carriers' signatures which serve as receipt for the goods. If, however, some more continuous or self-contained record is desired, a *Dispatch Book* can be kept where, under each day's date, entry is made of the name, destination, and conveyance for every package dispatched during the day. Where parcels are frequently taken by customers themselves, a room may be set apart in which customers or their messengers wait for the parcels, and where they sign in a special book when they receive them. To those who are required to pay at the time, receipted invoices will be given. But invoices without receipts will be given also to those who have credit accounts, and in both cases carbon copies of the invoices should be kept. If the signatures for the parcels are taken on these copies, a book for the purpose will not then be needed.

LIABILITY OF CARRIER

Now and again a customer writes that he cannot trace having received goods invoiced to him, and the carrier has to be asked to prove delivery of the goods. A carrier is careful when he delivers goods always to obtain a signature for them on a delivery sheet. If any package is not in good condition on delivery the receiver should write against his signature the word "damaged" or "unexamined." Delivery of any parcel is proved by production to the addressee of the actual signature of the receiver, or by stating in a letter to the sender what the receiver's signature is, if it is legible. When it cannot be read, there is sent instead a copy of it or a tracing taken from it. Now and again, also, a parcel gets lost in transit, and failure to deliver it has to be brought home to the carrier who collected it. That is why the sender must always take the collector's signature when parcels are dispatched.

The Common Carrier. A person or company that for payment carries goods regularly between certain places, taking the goods of anyone who offers them, is in law termed a "common carrier," that is, a carrier common to all who use his services. He is distinguished from a private carrier by his being prohibited from refusing traffic unless his conveyance is full, or the goods offered are dangerous, or not of the kind he holds himself out to carry. A furniture remover or a haulage contractor who does not ply regularly between certain places, and who makes special arrangements for each job he undertakes is not a common carrier; nor is any person or company subject to the duties and liabilities of a common carrier for the service of conveying passengers, though the same person or company may be a common carrier for goods. A private carrier is not liable for loss or damage when it is caused otherwise than by the negligence of himself or his servants, unless he expressly agrees to the heavier responsibility. The common carrier, however, was liable at common law[1] for theft or loss or damage (including the consequences of unreasonable delay) due to any cause, whether the fault of his own or not, subject to only three exceptions. These are (*a*) Act of God, (*b*) King's enemies, (*c*) Inherent vice in the goods carried.

Act of God or *vis major* includes any violent or sudden accident due to natural forces as distinct from action of man, and such that the carrier could not be expected to foresee the event and provide against it. Examples would be damage by lightning or by impetuous flood, or due to sudden illness of the person in charge of the conveyance.

King's Enemies refers to the actions of a foreign foe and does not include the depredations of rebels or pirates, theft by pilferers, or plunder by highwaymen—causes of loss to which the early type of carrier was particularly exposed, and at which he might be induced to connive.

Inherent Vice covers any defect in the goods carried, or in their packing, which was not obvious when the carrier received them, and which turns out to be the direct cause of loss. Such would be decay or any similar process at work in the goods

[1] The unwritten law based on the customs of the people throughout the land and administered in the early courts was known, and so much of it as has not been superseded by statute is still known, as the "common law."

themselves, the unmanageable spirit of a horse resulting in its own hurt during transit, fragility of articles received packed, or even faulty addressing of the goods. It is the duty of the sender to warn the carrier when extra care is needed. If the packing is obviously defective, or if the goods are such that the carrier cannot take them without unusual risk, he is entitled to refuse them, or to make it a condition of his carrying them that the sender shall bear the risk of loss himself.

For the results of any of the three exceptions named the carrier is not responsible, provided he takes reasonable precaution against damage or loss.

CARRIERS ACT, 1830. After the opening of canals and when railways were just beginning to be built, the Carriers Act of 1830, applicable only to carriers by land and only to common carriers, modified their liabilities further. That Act, which is still in force, has reference to specified kinds of goods, chiefly the following—

Banknotes and cheques; gold, silver, jewellery, and precious stones; deeds and securities; pictures, maps, and writings; watches and clocks; glass and china; furs, silks, and hand-made lace.

Many of these are costly articles, and those not costly now were worth far more a hundred years ago than they are to-day. Many of them, too, carry high value in small compass and are therefore more subject to theft than bulky merchandise. To preserve his right of claim for loss or damage a sender of such articles, if the parcel is worth more than £10, is required to declare the nature and value of the goods when he hands them to the carrier. The latter is then permitted to make an extra charge for their conveyance. Under the Railways Act of 1921 the limit of £10 is now increased to £25 for goods carried by railway.

RAILWAY AND CANAL TRAFFIC ACT, 1854. As the liabilities of carriers were still onerous, the railway companies endeavoured, as time went on, to contract themselves out of many of their responsibilities, alike on goods of which they were common carriers and on those of which they were not. By reason of this practice, it was laid down in the Railway and Canal Traffic Act of 1854 that any special contract to limit the liability of a railway company shall not be valid unless the special contract is in writing and signed by the consignor or

his agent, and unless its terms are "just and reasonable." The interpretation of this last phrase depends on the facts of each particular case. It has been held, however, that no contract is good which would relieve the railway company of all liability, and particularly of the consequences of gross negligence or misconduct on the part of its servants.

FURTHER POINTS. For a contract that limits the liability of a railway company some consideration must be given, and that commonly takes the form of a reduction in the charge for carriage. Many goods are carried under such special signed contracts at *Owner's Risk* instead of *Company's Risk*, and at less than the ordinary rates.

The liability of a carrier begins when the goods are handed to him, and it continues normally until they are delivered to the consignee. If the carrier is not required or is unable to deliver them, he holds them at the disposal of the owner; and on expiration of a reasonable time, say a day or two after transit is completed, his liability becomes one for negligence only.

A sender's right to stop goods in transit and to require their redirection will be noticed in Chapter 15.

Every carrier has the right to demand payment of his charges when the goods are accepted by him. If they are taken "carriage forward," he has a lien on them for his charges. But the lien attaches only to the particular goods for carrying which payment is being demanded. It is not a general lien, and the carrier cannot hold back one lot of goods because the carriage on a previous lot is still owing to him.

Goods to be conveyed by merchandise train are classified under twenty-one heads, to which different rates apply. The present classification was introduced by the Railways Act, 1921, and was put into force by the Railway Rates Tribunal on 1st January, 1928.

TAKING IN GOODS BOUGHT

Goods Received Book. In a book suited to the purpose, entry must be made of every package or consignment received. The book will be kept with two objects in view. First, it will clear up any doubt that may afterwards arise about whether a package in question was received or not, as when through

GOODS RECEIVED BOOK

No. of Entry	Date	Carrier	From what Town	Senders	Packages						Carriage Paid or to Pay	Nature of Contents	For what Dept.	Invoice				Department Signature
					Number Kind and Marks	Weight								Date	Amount			
															£	s.	d.	
893	19.. Sept. 1	L.M.S.	Leek	Hattersley	2 Hampers 24 and 206	–	–	–	–		Paid	Knitted Frocks	M.G.	Aug. 30	62	14	11	E. Cross

carelessness the original invoice for some goods has been mislaid and lost, and a copy has been sent in by the supplier who claims payment. Secondly, it will be needed to check the entries and charges on the railway or carriers' accounts as these come in month by month. Watch must be kept to see that goods do not come to hand carriage forward when they should arrive carriage paid, also that too high rates are not charged in the carriage accounts. The date and amount of the relative invoice entered here and the number of this entry repeated on the invoice will connect the entry with the invoice, and through that with the corresponding records in the account books of the business. It will be advisable to get each entry signed by the person to whom the goods are passed on when unpacked. Empty cases, wrappers, and such-like, that are returnable, should be sent back and their dispatch notified to the suppliers without undue delay.

Register of Inward Invoices. No goods should be passed out of the Goods Receiving Room without an accompanying invoice or delivery note by which they can be checked. If an invoice or a delivery note has not come to hand, and if the goods are urgently wanted for sale or use, particulars should be carefully recorded on a dummy or provisional invoice form until the actual invoice arrives. All invoices for incoming goods should go first to the Goods Receiving Room, and the clerk in charge there should be held responsible for seeing that goods corresponding to every invoice pass through his department into a stock-keeper's or a checker's care. Each morning a list should be made in duplicate of the invoices sent into the Goods Receiving Room, one copy of the list going with the invoices, the other going to the Bought Ledger Office. There the entries on the list will be marked off as the invoices passed by the buyers or other persons responsible reach the Bought Ledger clerks. Some rule should be observed about the number of days allowed for passing invoices, and stragglers should be hunted up either to be passed or to be listed out anew when necessary. Unless some sufficient reason for not doing so is forthcoming, the immediate passing of out-of-date invoices should be insisted upon, so that permanent record of the purchases and liabilities they represent shall be made without delay in the business books.

PASSING INWARD INVOICES

At the time when invoices for goods purchased are received and listed, each invoice should be marked with a rubber stamp impression similar to that shown here. If no invoice is accepted

GRID STAMP FOR INWARD INVOICES

Depart-ment	Receiving Dock No. ..... *893* .....
	Goods checked by ..... *E. C.* ...
	Prices checked by ..... *E. C.*
M.G.	Order marked off ..... *E. C.* ...
	Calculations checked .... *V. R. G.* ...
	Buyer's signature *A. L. Brown* ..

by the Bought Ledger section of the counting-house as correctly passed until the blanks in this "grid-stamp" impression have been properly filled, that will help towards the prescribed routine of passing the invoices being conscientiously followed. Many business people forget that merchandise is just as valuable as the money that pays for it. Not infrequently one may find them handling goods of value with much less care than they would finger and scrutinize the equivalent value in cash. A stamp in the form suggested provides for each step in the procedure of passing being noted upon the invoice by the initials of the person who deals with it at that stage. The goods themselves should first be checked methodically with the invoice for quantity and description, then for price. Reference should be made to the order given for them to see that on these points the goods and the invoice correspond with the order. Next the order should be marked to show either that full delivery has come to hand or what portion has been received and on what date. That record on the order is useful to the buyer when he goes through his order books to ascertain how he stands as regards deliveries of purchases to come. It is also useful in preventing an invoice being passed a second time for the same goods, should a second copy of the invoice turn up afterwards.

Where by means of tickets attached to the articles, or of labels on the boxes or parcels in which they are stocked, this

course can be taken, the goods should next be marked with their selling prices. In retail trade selling prices are usually marked in plain figures with cost prices added in cipher. But in wholesale trade selling prices, if marked at all, are written in cipher, so that the retailer shall not be obliged to change tickets or labels in order to keep the knowledge of his costs from his customers. In establishments such as the large retail stores the goods may go from the Goods Receiving Room to a *Marking-off Room*, where this routine of checking and passing is attended to; and where, probably, the store's own tickets are attached, before the articles are passed to the selling departments or into reserve stock. That keeps the marking-off of incoming goods from interfering with the serving of customers in the departments. It also renders impossible any irregular manipulation of invoices that a buyer might be tempted to make. Any rejected goods to be returned, and any overcharges in the invoices, would be debited back to the suppliers in the manner to be explained in a later chapter. When the calculations have been checked and the buyer's signature finally added, the invoices are ready for the Bought Ledger clerks to deal with them.

RETURNS FROM CUSTOMERS

In wholesale houses returns from customers should be dealt with in a place apart from both incoming purchases and outgoing sales. The same rule should be applied in retail stores, except when the customers themselves bring the returned goods with them. If returns are taken back which were paid for when sold, either the price must be given back to the customers in cash or other goods must be supplied in their place. If the goods were sold without being paid for, their value must be allowed in the customers' accounts, and credit notes (in a form to be illustrated later) must be posted to the customers to show that credit has been passed. First of all, however, the returned goods should be examined to see that they are not damaged or soiled. Then, if any uncertainty can exist about the prices at which the goods were sold, the sale entries or the invoice carbons should be turned up, so that credit shall not be passed at higher values than were charged. After the credit slips have been made from which the customers' credit notes are to be typed, the goods are put back into stock.

QUESTIONS

1. In wholesale houses—

(1) How is the accommodation for the receiving and dispatching of goods usually arranged?

(2) Where are goods returned from customers usually taken in, and what is the routine of dealing with these returns?

2. In any large trading establishment—

(1) What minor duties would you impose on packers to make sure that the goods dispatched in customers' parcels are the same as those charged out to them?

(2) How would you make certain that the invoices sent to customers are correct in quantities, descriptions, and values?

3. An order for goods is received by a wholesale warehouse. Describe exactly how it will be dealt with by (*a*) Order Department, (*b*) Warehouse and Packing-room, (*c*) Dispatch Department, and (*d*) Counting-house. (*L.C.C.*)

4. (1) Describe in detail a method you would adopt to effect the speedy dispatch of orders.

(2) What are the duties of a clerk in the Dispatch Department of a business? (*L.C.C.*)

5. Explain what various means of transport are available to a city warehouse or factory for delivery of goods to customers.

6. Give an account of the documents made use of in the dispatch and receipt of goods by railway and other carriers. (*U.L.C.I.*)

7. (1) What is a consignment note, and what purpose does it serve?

(2) What records should be kept in a warehouse dispatch room of parcels and other packages sent out?

8. (1) What should the receiver do when he takes delivery from a carrier of a package that bears sign of damage?

(2) How can delivery be proved when receipt of a parcel is disputed by the addressee?

9. (1) What is a "common carrier," and how does he differ from other carriers?

(2) What is the liability of a common carrier for the goods he carries? In what circumstances is he relieved from liability for loss or damage? (*L.C.C.*)

10. (1) What is meant by "owner's risk" and by "company's risk" in regard to goods carried by railway?

(2) What right may a carrier exercise, if he wishes, in order to save himself loss through non-payment of his charges?

11. What are the provisions of—

(1) The Carriers Act, 1830 (as subsequently modified), in regard to liability for loss or damage to certain kinds of goods;

(2) The Railway and Canal Traffic Act, 1854, in regard to contracts limiting the liability of railway companies?

12. Describe any record of packages received that you think should be kept in business houses, and explain what purposes it should serve.

13. What steps would you take to ensure that no invoice for supplies

is ever passed for payment without the goods charged on the invoice being received and put into stock? (*L.C.C.*)

14. Describe in detail what arrangements you would institute for all inward invoices being checked and passed carefully and methodically, and being handed on punctually for entry in the purchase books and ledgers of the counting-house.

15. What safeguard would you require to be observed with the view of preventing a department buyer occasionally passing a second copy of an invoice when the original has already been passed for the same goods? (*L.C.C.*)

16. What is meant by the "marking-off" of goods received in a wholesale or retail establishment?

How and where is the process of marking-off accomplished?

CHAPTER 14

LEGAL VIEW OF CONTRACT

ATTENTION has already been directed to the need for precision in giving and accepting orders. Much better is it for a business man to exercise care at the time of entering into a transaction, whether it concerns goods or services or money, than to suffer delay, annoyance, and expense arising out of dispute at a later stage. For, failing accommodation of the views of each party to those of the other, their differences may have to be settled in a less satisfactory manner by recourse to action in the courts. Some little insight, then, into what it takes to make a good contract and into what may cause one to be bad, is useful knowledge for the student of business affairs.

NATURE OF CONTRACT

A contract, in the legal sense, is any agreement that the parties who make it intend shall be valid in law. To every valid contract there must be at least two parties, to one of whom at least the contract gives some right and on the other imposes some obligation. Usually both or all of the parties to a contract *acquire mutual rights and undertake corresponding obligations*. Suppose, for example, that Barker has on several occasions waited upon Parker at his place of business, requesting him to buy an adding machine for £50, and that at last Parker has agreed to buy it. From the legal standpoint the position of the parties in relation to each other may be stated thus: (1) Parker acquires a right to delivery of the machine, and Barker a right to payment of £50 on or after delivery; (2) Barker undertakes an obligation to supply the machine, and Parker one to pay its money value. No matter how trivial may be the subject of a bargain, the same principles apply. The newsvendor who takes upon himself the obligation to supply my morning paper gets in return the right to payment by me at the week-end. With my right to regular morning delivery satisfied, I am under the obligation to hand him the agreed or customary price of his service. Even when a

transaction is one in which payment is given at the time delivery is taken, the relationship between buyer and seller is still interpreted in terms of rights and obligations. For it is on these rights and obligations that a claim for remedy would be based, should some defect afterwards be discovered in the goods or service on the one side, or in the payment on the other.

ELEMENTS OF CONTRACT

In the making of a contract two primary elements are essential, namely, *an offer on one side and the acceptance of that offer on the other side.* In business a contract may be entered into by—

1. (*a*) An offer in the form of an order for the purchase of goods specified, and (*b*) acceptance of the offer by such an acknowledgment of the order as makes or implies promise of delivery, or by the act of putting the order into work or by immediate execution of the order from goods in stock.

Alternatively, a business contract may be entered into by—

2. (*a*) An offer in the form of a price list submitted to a possible purchaser or a quotation sent in answer to the inquiry of a would-be buyer, and (*b*) the acceptance of the offer by an order for such goods as the price list or the quotation refers to and at the prices and on the terms there named.

A price list would probably be printed and copies of it sent to many persons at the same time. In that event all or any of the recipients could accept any offer it contained. If the goods were limited in quantity the price list should say so, thus making the offer conditional on there still being some of the goods unsold as order after order came to hand. When an offer of the same goods is sent to a number of persons and it is desired to sell to the first-comers, the offer is made subject to the goods not being already sold on receipt of a reply. Unlike a price list, a quotation would usually be sent to only one person. It could be accepted by or for that person only, because an offer made to a particular person cannot be accepted except by the person to whom it is made, or by someone authorized by that person to accept the offer on his behalf.

A cash transaction, in which delivery and payment take place simultaneously, is looked upon equally with a credit transaction as a contract consisting of an offer by one of the

parties and an acceptance by the other. But in all cases *the offer and the acceptance must refer to the same subject-matter.* An offer might be made in such terms that the person receiving it could understand that the offer referred to goods (such as a cargo of raw cotton) coming on one ship, not knowing that goods on another ship of the same name was what the person offering had in mind. A supposed acceptance in these circumstances would be applied to an imaginary offer which had never been made in fact. There would not be any agreement between the parties, and neither offer nor supposed acceptance would be binding.

COMMUNICATION AND REVOCATION

An offer may be revoked if the revocation reaches the other party before he has accepted, and death of either party before acceptance causes an offer to lapse. When once an offer has been accepted, the *acceptance cannot be recalled*; and it cannot be rejected by the maker of the offer, unless it has been delayed beyond the stipulated time or for an unreasonable time. In one case, however, an offer cannot be revoked, and that is when the parties have agreed that it shall remain open for a time. The subject of the contract may be, for example, a purchase of wheat on a grain exchange or of shares on the Stock Exchange; but, unless the contract is made under seal, the person for whom the offer is kept open must pay, in addition to the contract price, some consideration for the option of accepting or not within the time named. When a time limit is not set for acceptance, an offer lapses after what, in the particular circumstances, is a reasonable time. Therefore the maker of a proposal that the other party needs time to think over should either give notice of withdrawal or leave his offer open sufficiently long before making the offer to someone else. For an offer made by telegraph, acceptance, to bind the proposer, should be notified by return telegram or at the latest by letter the same day.

If a person makes you an offer in which you are not interested, you need not send him a refusal. To be effectual *acceptance must be communicated* to the maker of the offer or to his recognized agent, and when so communicated acceptance cannot be revoked. As between parties at a distance it is a recognized custom that acceptance may be made by post, especially if the

offer has been conveyed by that means. Unless some other method of communication is required or implied by the terms of the offer, acceptance will become effective as soon as it is posted; and it will be effective notwithstanding delay in transit or even miscarriage preventing it from ever reaching the proposer. The reason is that the Post Office is looked upon as the agent of the proposer. Should acceptance and revocation of an offer cross each other in the post a contract will be complete, the acceptance having been posted before the revocation was received.

An *offer must contain all the terms* to which the proposer desires an acceptor to assent, and any intended term not communicated to the acceptor will not be binding on him. Similarly an acceptor *must accept the offer as a whole*; he cannot conclude a contract binding on the proposer by agreeing to some of the terms and not to others. He cannot, for example, complete a contract by saying that he will take 200 dozen when the offer was made for 250 dozen, or that he will pay 45s. when 46s. was the price the offer named. Should he do that, he makes a counter-offer which the original proposer in his turn may or may not accept, just as he pleases. If an offer stipulates for an immediate telegraphed reply or for delivery at once, an attempted acceptance by letter post, or for delivery a fortnight hence, will not bind the original proposer unless he chooses to agree.

THE FORM A CONTRACT TAKES

A contract may be *express* or *implied*. The former means that the terms of the contract are expressed in words, the latter that they are deduced from conduct of the parties—conduct other than the speaking or writing of what they agree to do. It may be that a contract is partly expressed and partly implied. For example, one party may by printed advertisement offer a reward for the return of a diamond ring he or she has lost. Acceptance of the offer, entitling him to the promised reward, may occur merely in the act of the finder restoring the lost treasure to its owner. Again, a contract may be expressed in words *either oral or written*. Moreover, a contract some of the points of which are in writing may have other points agreed to orally, and the oral portion will be enforceable if evidence

can be produced to prove it was agreed upon. The difficulty, however, of proving oral agreement upon details, particularly at some distance in time, makes it advisable that contracts involving any considerable value, particularly if they are not to be completed at once, should have their terms fully set down in writing.

In times gone by many persons so situated that they entered into contracts of importance were unable to write. When an agreement reached between two such persons had been written out for them and read over to them, each gave his consent to its provisions by affixing his personal seal to the document and delivering the sealed contract in the presence of witnesses. A contract so executed was called the *deed* of the parties to it. To-day a deed, or *specialty contract*, is used for the more important contracts for which written documents are required, the less formal documents used for ordinary occasions being known as *simple contracts*. But ability to read and write is now the rule in all classes of the community, and few persons now possess a seal or "signet" that, identifiable as distinctively their own, would carry the authority of their "signature." A deed is now required to be signed in writing as well as to be sealed and delivered. The sealing, however, is usually reduced to merely touching a paper wafer affixed in place of the impression of a seal, and to saying at the same time, "I deliver this as my act and deed." A contract prepared by a solicitor and executed with that formality is viewed in law as more conclusive evidence of the parties' intentions, so that statements in a deed cannot be disputed to the extent they may be in the less formal contract usual in nearly all business transactions.

CONSIDERATION IN CONTRACTS

Consideration in this connexion may be defined as something done, undertaken, or promised by one party to a contract in return for a promise made by the other party. In English law *consideration is necessary in every simple contract*. A promise, unless it is made by deed, is not enforceable if the party to whom it is made gives nothing in return. A written promise to accede to a request for a loan would not give the would-be borrower any rights if he had not agreed to do something in return for the loan. Had, however, the prospective lender

asked for interest and the borrower undertaken to pay it, the latter would then have a contract he could act upon. In a transaction for the purchase and sale of goods, delivery of the goods now is consideration for the purchaser's promise of payment later. Similarly payment made now would be consideration for the seller's promise to supply goods when they could be got ready. But the position in an ordinary credit sale may be presented the other way round, and we may say that the purchaser's promise to pay later is consideration for the seller's promise to send the goods on now.

Provided the consideration named has been agreed to and is of some value, the *question of its adequacy* is not one that a court of law will inquire into, unless it is so greatly inadequate as to give rise to suspicion of fraud. In business the consideration for the supply of goods or services is usually a price that the purchaser has to pay. If the price is not named, as when one hails a porter or orders some refreshment, and the amount to be paid is therefore not agreed upon at the time of engagement, the price eventually demanded must be reasonable, or it must be one that is customary for the goods or the service.

Consideration may be something that one of the parties to a contract does or has to do; but it may equally be something that he promises not to do. For example, a dealer may undertake to place with a manufacturer for a stated time all his orders for articles of a specified kind, in consideration of the manufacturer *refraining* during that time from actively seeking orders from others in the dealer's district. In every simple contract, however, the *consideration named must have some value*, as a thing of no value to the party receiving it is not sufficient consideration for what he has to do or not to do in return. For that reason a past consideration, or something that one of the parties has given to or done for the other in the past without implied promise of recompense, is not good consideration for what the latter is required to do now. That is also why the consideration in a contract cannot be a thing that the giver of the consideration is already legally bound to do. If a creditor undertook to supply one of his debtors with further goods on credit, in return for the debtor's promise to pay an overdue account that he had so far neglected to settle, the promise or the making of the payment by the debtor would not be

consideration on which the creditor could be kept to his undertaking, should he have changed his mind in the meantime. It need scarcely be added that an act forbidden by law cannot be made to serve as consideration for the other party's promise in a contract.

WHEN A DEED IS REQUIRED

A promise made without consideration cannot be enforced against the maker unless it has been made under seal. There are several kinds of contract that must be made by deed, although a valid agreement to execute such a contract may be made previously in writing only. When a business man buys premises freehold, a written contract for the sale is usually signed in the first place; but the actual conveyance of the property must be effected by deed prepared and executed afterwards. Along with previous deeds of sale or mortgage for the same property, the new deed passes into possession of the purchaser, and these documents are called his "title deeds." Mortgages of land and buildings must be made by deed, and leases for more than three years; also bills of sale—instruments by which loans are raised on the security of such goods as household furniture or factory machinery. Transfer of stocks or shares in statutory undertakings, such as railway or water companies, are required to be made by deed. Whether transfer by deed is necessary for shares in companies registered under the present Companies Act or under former Acts depends on the Articles of the particular company.

The deeds we have named, other than those for transfer of stocks and shares, are prepared and their provisions provisionally agreed between solicitors acting for the parties concerned. In conveyances of real or landed property as distinct from personal property, where title deeds are handed on through generations of owners, defects would easily creep into the titles if the deeds were not prepared by qualified legal hands. On all deeds a tax is imposed, the payment of which is evidenced by stamp impressed on the documents when the duty is paid at a Government stamping office. Usually the duty varies with the money value of the consideration passing between the parties. Where there is no consideration or none that can be valued in money, the stamp required is a 10s. one, unless for particular

contracts, such as articles of apprenticeship, some other fixed duty is prescribed.

When a party to a contract under seal is a person, he executes it in a form like this—

Signed sealed and delivered by
the above named Albert Brown
in the presence of
Charles D'Arcy
19 Langley Hill Gardens
Downminster
Solicitor's clerk

Albert Brown (Seal.)

Execution of a deed by a company or other corporate body is effected thus—

The common seal of the company was
hereunto affixed in the presence of
Director
Director
Secretary

(Seal.)

Usually two copies are made of a deed, one copy being executed by the first party and handed over to the second party to be kept by him, the other copy being executed by the second party and handed over to the first. Both copies are stamped; but one of them the "original" is stamped with the full duty payable, whilst the other, known as the "counterpart" takes a stamp of only 5s., if the full duty comes to more than that.

WHEN WRITING IS NECESSARY

For many contracts, not required to be made by deed, writing is necessary. Examples are—

(1) By their definitions as given in the Bills of Exchange Act, 1882, cheques and other bills of exchange and promissory notes must be made in writing. These are dealt with in Chapters 26–29.

(2) The agreement to be in writing under the Railway and Canal Traffic Act, 1854, for limiting the liability of a railway company as a common carrier, has been referred to in Chapter 13.

(3) By the Marine Insurance Act, 1906, a contract of marine insurance, treated in Chapter 31, is not valid unless expressed in a written policy duly stamped.

(4) Transfers of shares in a company, when not required by deed, must be in a written form that the company's Articles prescribe, such as that given in Table A of the Companies Act, 1929.

A number of other contracts, though they need not be *made* in writing, must be supported by some written evidence of the material points agreed upon, if they are to be enforceable in the courts. Under an old Act, the Statute of Frauds passed in the year 1677, the agreement upon which any action for certain purposes is brought, or some note or memorandum of the agreement, must be in writing signed by the party to be charged or by someone he has authorized. Amongst other contracts to which that Act applies are (1) the guarantee of a debt mentioned in Chapter 12, and (2) any agreement not to be performed within a year of its being made—for example, the engagement of a manager or traveller covering a period of more than twelve months. The note or memorandum may consist of two or more documents, provided they show their connexion with each other. It must contain the names or descriptions of the parties; but the signature of the party chargeable may be initials only, or even his name printed in his letter-heading. Except in the case of the guarantee, the consideration agreed upon must be indicated.

The Law of Property Act, 1925, has a similar provision regarding (3) contracts for the sale of land or any interest in land; and a similar note or memorandum, required (as one of several alternatives) by the Sale of Goods Act, 1893, for (4) a sale of the value of £10 or upwards, is considered in Chapter 15. The Law of Property Act, again, authorizes (5) the assignment of a debt or similar right enforceable by action, if the assignment is absolute, if it is made in writing signed by the assignor, and if written notice is given to the debtor. By the Moneylenders Act of 1927 a moneylender (6) cannot enforce his contract for a loan or the interest upon it, or any security he holds, unless a note of the particulars and of the interest rate has been signed by the borrower himself, and a copy of the note given to him.

The stamp usually required for a written agreement not under seal is a sixpenny one; but for contracts of particular kinds, such as bills of exchange, insurance policies, transfers of

shares and stocks, and stockbrokers' contract notes, other values are prescribed. The 6d. agreement stamp may be an adhesive one; but in that case the stamp should be affixed and cancelled at the time by the party signing first. Otherwise the stamp must be impressed within fourteen days of the date the agreement bears. Where a stamp is required, but has been omitted, the document, in some instances, cannot be received as evidence in court until the omission has been made good and the penalty imposed has been paid. In other cases, for example bills of exchange drawn in this country, omission of the stamp makes the document and the contract void from the beginning. Stamping is not required on written contracts—

(1) For the sale of goods or merchandise;
(2) For the hire of a labourer, artificer, or menial servant;
(3) Usually if the subject-matter is less than £5 in value.

DEFECTS AND THEIR CONSEQUENCES

The term "void contract" is really a contradiction, for if an attempted contract is void it is not a contract at all. The transaction may have been an attempted contract that, through some defect in the making, never reached the stage of having any legal effect whatever. Or it may have been a valid contract to begin with which, through some latent weakness telling against one of the parties, became voidable by him, and having been avoided ceased to exist as a valid contract. The remainder of this chapter will supply examples. *Void*, then, describes an attempted or a cancelled contract that is of no effect—gives no legal right to and imposes no legal obligation on any of the parties. *Voidable* means that a contract is in some way defective, with the result that one of the parties to the contract may repudiate it or may enforce it, whichever he pleases. A contract will be *unenforceable* if it is voidable by the party against whom the other seeks to enforce it; but it will be unenforceable also, if the Court will not act upon it for some other reason, as lack of written evidence for a guarantee or for an agreement not to be performed within a year.

1. **Incapacity.** INFANTS. In law an infant is a person who has not reached his or her twenty-first birthday. By the Infants Relief Act, 1874, debts contracted by an infant for money lent, or goods supplied other than necessaries, and accounts stated

with him, are void; and they cannot be ratified by him when he reaches full age even for new consideration. An account stated is one of which the balance owing has been agreed between the parties. Necessaries include food, clothing, lodging, medicine, instruction, and all things required to maintain the infant in a manner appropriate to his social station. It follows that for one infant in well-to-do circumstances a motor-car may be considered a necessity, whilst for one less well-off a motor-cycle or even a pedal cycle may not. Articles otherwise necessaries are not so when the infant is already sufficiently supplied with them, and goods supplied for trading purposes are never necessaries. Contracts for necessaries are enforceable against the infant. So are contracts that in the view of the Court are for his benefit (such as a contract for employment whereby he can maintain himself) provided they are reasonable. Others, again, including those for tenancy, partnership, and share-holding, are voidable by him before or soon after he attains his majority. These can be enforced against him only if he does not choose to repudiate them; but he can enforce them against the other parties.

CORPORATE BODIES. A corporate body, such as a joint stock company or a municipal council, cannot legally enter into any contract except for purposes authorized by its Memorandum of Association or by the statute or the charter under which it works. Any action taken without that authority is said to be *ultra vires*, or beyond its powers, and *ultra vires* contracts are void. For such reason the Manchester Corporation (to take an example), with statutory power to carry parcels on its electric tramways, was prohibited from collecting and delivering parcels by horse vans beyond the limits of its tramway system. At an early date in the history of companies under the Companies Acts, the Ashbury Railway Carriage Co. was stopped in the building of a railway from Antwerp to Tournai, the concession for which it had acquired. The objects for which the company had been formed included the manufacture of railway plant and activities necessarily connected therewith; but they did not include the construction of a railway line or the purchase of land for that purpose. The view taken is that shareholders in a company supply it with capital funds for the objects specified in its constitution, and that there is breach of faith with the

shareholders if the funds are expended for other ends. Creditors and others dealing with a company are presumed to have knowledge of the objects for which it has been incorporated.

DRUNKEN PERSONS AND PERSONS OF UNSOUND MIND. A contract made with a person of unsound mind or a drunken person is voidable by the drunkard or on behalf of the person of unsound mind if, at the time of contracting, he was incapable of understanding what he was doing, and if the other party knew that to be so.

ALIEN ENEMIES. Contracts made with alien enemies, that is with foreigners whose countries are at war with ours, are void.

BANKRUPTS. When a man is adjudicated bankrupt, his rights and obligations under contracts then existing pass to his trustee. A man who is an undischarged bankrupt and who, without disclosing that fact, obtains credit for £10 or more commits a criminal offence.

2. Illegality. Some contracts are illegal because an Act of Parliament makes them so. Such are (1) agreements rendered void by the Truck Acts for paying workers' wages in goods or for deducting from their wages the value of goods damaged in the making; also (2) wagers unenforceable by the provisions of the Gaming and Wagering Acts. Under the Moneylenders Acts (3) loans of money are irrecoverable if not contracted for in the registered names of the moneylenders and at their registered addresses, if they result from unsolicited circularizing and canvassing of possible borrowers, or if they are entered into without the written memorandum of particulars referred to earlier in this chapter.

Some contracts are illegal at common law. These include for example, agreements for committing a crime or a civil wrong, for trading with or assisting the King's enemies, for impeding or interfering in the administration of justice. A person who has paid money for the performance of such a contract may invoke the aid of the Court to recover the money from the other party, if the payer repents of his part in the bargain before any harm has been done.

From the commercial point of view the most interesting of the contracts under this head are those termed in *restraint of trade*. These comprise three varieties. The first is that whereby a person, such as a manager or traveller, is prohibited, on

leaving his present employment, from engaging himself to any possible competitor within a stipulated distance of the former employer's place of business, or before the expiration of a stated number of years. The second is the kind of agreement that similarly prevents the vendor of a business from starting again in such a manner as to entice away customers from the business he has sold. The third includes agreements made by manufacturers of and traders in certain articles for the maintenance of prices or the restriction of supplies. The test in all cases is the reasonableness or otherwise of the provisions agreed to, when account is taken of the interests of the parties and those of the public as well. If in the particular circumstances the terms are considered reasonable, the contract will be upheld. If not, it will be void; but should a minor illegal provision be separable from the rest, that provision will be void, whilst the main part of the contract will be enforced. Where in the first two cases the terms of the contract are found to be wider than is necessary to protect the interests of the former employer or the purchaser of the business, and especially where they are so wide as practically to prevent the late employee from gaining a livelihood, they will be held unreasonable and the contract will not be enforced. It should be noted that consideration is necessary in every contract in restraint of trade, whether it is entered into by deed or not.

3. **Misrepresentation.** By misrepresentation is meant any statement, made by one of the parties during negotiation of a contract, which induces the other party to enter into the contract, and which is not a true statement of fact. Thus, a dealer may state that a picture he offers is a Gainsborough, or a violin a Stradivarius, when the picture is in fact only a copy and the violin an imitation. A salesman in offering chinaware or rayon hose may lead a buyer to believe the goods are perfect; but on examination after delivery they may prove to be seconds—that is, goods the manufacturer has thrown out for slight defects. Again, the vendor of a business may represent to a prospective purchaser that the turnover of the business is round about £10,000 a year with clear profits of £1000, when in fact the turnover has been little more than £6000 and the profits less than £600.

Certain contracts are said to be *uberrimae fidei*, or of utmost

good faith. These include, amongst others, contracts of insurance, agency, or partnership. Such contracts are voidable if, in making them, the parties do not disclose all the material facts they know of. In ordinary business transactions, however, the rule that prevails is *caveat emptor*, or "let the buyer beware." Full disclosure of all facts is not imperative so long as the buyer is not misled by false representation actually made, or by the withholding of information he asks for.

Misrepresentation is of two kinds—innocent and fraudulent.

Fraudulent Misrepresentation is a false statement made without belief in its truth or without caring whether it is true or false. It gives to the party deceived the right to rescind and so avoid the contract, and it gives a claim to damages as well, if any have been sustained. The false statement must, however, be a misrepresentation of fact, must have been made by a party to the contract, and must have influenced the claiming party in making his decision to enter into the contract.

Innocent Misrepresentation is a false statement which the maker of it believed to be true. Made in regard to fact by a party to the contract, and so that it induced the other party to join in the contract, innocent misrepresentation gives an injured party the right to rescind, provided he takes action promptly before the rights of third persons are prejudiced. It does not usually give a claim for damages, unless it has been made a term of the contract itself. In that case the statement proving false means that a term of the contract is broken, and breach of contract gives a right to claim for damages suffered. Breach and damages are dealt with again in Chapter 15.

It is the general rule that the plaintiff must prove the misrepresentation with which he charges the defendant. But, by the Companies Act, 1929, for misrepresentation discovered in a company's prospectus, the onus is thrown on the directors or promoters of the company, and they are required to show that they had reasonable grounds for the making of any statement regarding the truth of which an action has been brought against them.

QUESTIONS

1. What are the two primary steps necessary to the making of a contract? Give examples of how these steps may be taken. Describe the relationship by which the parties are bound when they have entered into a contract.

2. State explicitly the rules that govern the making of (*a*) offer, and (*b*) acceptance, for these to result in a valid contract. How can an offer be withdrawn?

3. Explain fully what a contract is, and state the differences between simple contracts and contracts under seal. (*R.S.A.*)

4. Explain in what ways simple contracts may be made.

5. What contracts are required to be by deed? (*R.S.A.*)

6. What is consideration, and when is it required in a contract? What are the rules in regard to consideration?

7. Name as many as you can of the kinds of contract that (*a*) must be made in writing, and (*b*) must be supported by written evidence to be enforceable in the Courts.

8. What is the value of the stamp required (*a*) on a deed, (*b*) on an agreement under hand, in cases where special stamp duties are not prescribed? For what written contracts is stamping not required?

9. Explain carefully the meanings of the terms "void," "voidable," and "unenforceable" when they are applied to contracts.

10. State as clearly as you can what contracts are and what are not enforceable against infants, explaining what "necessaries" are in this connexion.

11. What is meant by *ultra vires* as applied to the making of contracts by corporations or joint stock companies? In what respects are companies and corporations restricted in the making of contracts, and why?

12. Name some matters about which contracts may not be entered into because prohibited by statute or by the rules of common law. What is meant by "contracts in restraint of trade," and what tests are applied in deciding whether any such contract is legal or not?

13. What rules in regard to the making of contracts are indicated by *uberrimae fidei* and by *caveat emptor*? Define the term "misrepresentation," and state the effects of misrepresentation, made fraudently and made innocently, in the negotiation of contracts.

14. On 1st October A wrote from Cardiff to B in New York offering goods for sale. B received the offer on the 11th October. He accepted by cablegram on the same day, and by letter on 15th October. A posted a letter withdrawing the offer on 8th October, and the letter reached B on 20th October. What are the rights of A and B? (*R.S.A.*)

15. Explain and illustrate carefully the following—

An offer may lapse by (*a*) refusal of the offeree, (*b*) counter-offer, (*c*) death of the offeror, (*d*) delay in acceptance. (*R.S.A.*)

16. A offered to sell a horse to B for £100, and B accepted the offer. After the sale B wrote asking A whether the horse was quiet in harness, and A answered in writing in the affirmative. In fact the horse was not quiet in harness. On the above facts, what are the grounds on which B would probably imagine that he had any legal right? Indicate the fallacy of these grounds. (*R.S.A.*)

17. A, who is a picture dealer, sells a picture to B. B thinks the picture is a Turner. A knows it is not and knows that B thinks it is.

Is the sale void, voidable, or valid? Would it make any difference if B thought that A was selling it as a Turner? Write fully. (*R.S.A.*)

18. What are the rights or liabilities of X in each of the following cases?

(*a*) X wrote on the 28th June, offering to take shares in a company. On the 23rd November his offer was accepted.

(*b*) Y offered to sell X a bicycle for £10. X inquired whether Y would take £9. On Y replying in the negative X said, "I will accept your offer of £10." Y then refused to sell the bicycle.

(*c*) Y offers a reward of £5 for the recovery of his lost watch. X, in ignorance of the reward, finds the watch and restores it to its lawful owner. Subsequently he demands £5 as a reward, which Y refuses to pay. (*R.S.A.*)

19. What are the rights and liabilities of C in each of the following cases?

(*a*) A gives B £10 in consideration of a promise by B to perform certain services for C.

(*b*) A sells C a horse for £50, and represents it to be worth £50. After the sale its market price is found to be £10.

(*c*) A sold goods to C under a contract not to resell below a stated price. C sold the goods below the stated price, and in consequence A refused to supply C with more goods. (*R.S.A.*)

20. A, a young man aged 20, entered the service of B, a dairy company in London, as a milk roundsman at a weekly wage of £2. It was one of the terms of his engagement that on leaving B's employment he should not act as a milk roundsman, or carry on business as a purveyor of milk, within three miles of the head office of the company for a period of six months after his employment by the company ceased. He was discharged after a service of two years, and he thereupon entered the service of C, a rival dairy company which had its head office in the same street as the B dairy. What are the rights of A, B, and C respectively? Give reasons for your answer. (*R.S.A.*)

CHAPTER 15

SALE OF GOODS, PAYMENT, AND AGENCY

THE legal term "real property" signifies freehold land with buildings, trees, and crops that are attached to the land. Those possessions called "personal property" are divided into choses in possession and choses in action. *Choses in action* are non-material property in rights or claims that are enforceable in the Courts, such as those attaching to book debts, cheques, stocks or shares, and leases. *Choses in possession* are all moveable material possessions consisting mostly of what we call in a general way "goods," whether they are personal belongings, household goods, business equipment, or stock-in-trade. The name *goods* is applied to moveable material things other than money, and includes the manufactured articles, raw materials, and foodstuffs of commerce; cattle, and other live stock; timber, crops, and fruits severed from the land or to be severed before they become the property of a buyer. The law relating to the sale of goods is contained in the Sale of Goods Act of 1893, and the rules and definitions we proceed to state are taken from that Act, except when another source is indicated.

THE CONTRACT TO SELL GOODS

A contract of sale of goods is one by which a seller transfers or agrees to transfer the property in goods to a buyer for a money consideration called the price. By "property" here is meant the ownership of the goods as distinct from the possession of them; for goods may be owned by a person without possession of them, or they may be in the possession of a person who does not own them. If the ownership passes when the contract is made, the transaction is called a *sale*. If it is not to pass until some future day or until some condition be fulfilled, the transaction is an *agreement to sell*, and it becomes a sale on the day when the ownership passes or when the condition is fulfilled. The price may be named in the contract, or the manner of ascertaining it may be indicated; but if the

contract does not name it or say how it is to be ascertained, the buyer must pay a reasonable price.

Capacity to make a contract for the sale of goods is the same as under the general law of contract. So is the form that the contract may take, except that by Section 4 of the Act—

> A contract for the sale of any goods of the value of £10 or upwards shall not be enforceable by action unless the buyer shall accept part of the goods so sold, and actually receive the same, or give something in earnest to bind the contract, or in part payment, or unless some note or memorandum in writing of the contract be made and signed by the party to be charged or his agent in that behalf.

The £10 here named may be the value of a single article or of a number of articles all comprised in one purchase. Acceptance such as this section requires of the buyer, in addition to receipt of the goods by him, is not acceptance in the sense of deciding to keep the goods. It is merely any act of the buyer, such as examination of some of the goods, which implies recognition of the contract under which they were delivered to him. It does not preclude him from rejecting them if, on inspection, he finds that they do not comply with his order. Part payment makes the contract binding and is more likely to be resorted to now than the old custom of giving, on the conclusion of a bargain, something by way of pledge and apart from the payment agreed to be made. The remarks in Chapter 14 regarding the note or memorandum required by the Statute of Frauds apply also to the note or memorandum mentioned here. We have already stated that the buyer's written order and the seller's written confirmation should always be obtained for goods for future delivery. This section does not apply to Scotland.

Goods that are the subject of a contract of sale may be existing goods in the ownership or the possession of the seller; or they may be future goods yet to be manufactured or acquired by him. Section 4 of the Sale of Goods Act applies to future goods as well as to existing goods, and it applies to existing goods, whether they are already fit for delivery or are to be prepared for delivery now or in the future. Again, the goods sold may be specific goods—that is, the identical things agreed upon and not other goods of the same kind or quality. Should specific goods, without the seller's knowledge, have

perished before the contract was made, the contract is void. If, without fault of buyer or seller, specific goods should perish after the contract has been made, but before ownership passes to the buyer, the contract becomes void. An example would be a stack of timber that, having been lying at a dock, has been destroyed by fire in the meantime.

CONDITIONS AND WARRANTIES

A Condition is a stipulation that is a radical part of a contract, of such importance that the contract would not have been made without it. Breach of a condition entitles the injured party to repudiate the contract and to reject goods delivered under it.

A Warranty, on the other hand, is a stipulation not fundamental to the contract, but only collateral to its main purpose. Breach of a warranty in England and Ireland gives rise to a claim for damages, but not to the right of repudiation. In Scottish law, however, breach of a warranty gives the right to repudiate; but there, and in England also, the injured party may waive his right to rescind a contract. Instead of rejecting goods delivered under a voidable contract, he may keep them and make a claim for damages.

A stipulation may be a condition, although in the contract it is called a warranty. Whether it is one or the other depends more on the intention of the parties than on the name given to it. Unless a different intention appears, a stipulation about time of payment is not a condition, and is not of the essence of the contract. If time of delivery is to be a condition, any infringement of which is to give the buyer a right to cancellation, the contract should say so.

In contracts for the sale of goods the conditions and warranties set out below are implied—

1. Unless a different intention appears, there are—
   (*a*) An implied condition that the seller has the right to sell;
   (*b*) An implied warranty that the buyer shall have quiet possession of the goods;
   (*c*) An implied warranty that the goods are free from any charge in favour of a third party.
2. Where the sale is made by sample, there are the following implied conditions—
   (*a*) That the bulk shall correspond to the sample in quality;
   (*b*) That the buyer shall have reasonable opportunity of comparing the bulk with the sample;

(*c*) That the goods shall be free from any defect rendering them unmerchantable and not apparent in the sample.

3. Where the sale is by description, there is an implied warranty that the goods shall correspond to the description; and that is required in addition to correspondence of bulk to sample, where the sale is one by description as well as by sample.

4. As regards quality and fitness there are—

(*a*) An implied condition that the goods shall be reasonably fit for the buyer's purpose, if they are goods of a kind usually supplied by the seller, and if the buyer shows that he relies on the seller to supply goods fit for the purpose for which they are wanted;

(*b*) An implied condition that the goods are of merchantable quality, where they are bought by description from a seller who deals in goods of that kind; but if the buyer has examined the goods, there is no implied condition for freedom from defects that examination should reveal;

(*c*) Any implied warranty or condition recognized by usage of trade in regard to quality or fitness for a particular purpose.

Apart from the foregoing conditions and warranties implied by the Sale of Goods Act, and from others imposed for special kinds of goods by other Acts, the maxim of *caveat emptor* is the rule. The buyer must be on his guard and must investigate when he is doubtful. It is not the legal duty of the seller voluntarily to bring to the buyer's notice points he ought to see or discover for himself. He can always protect his interests by inserting a clause in the contract.

WHEN OWNERSHIP PASSES

Unless it has been agreed differently, goods sold remain at the seller's risk for loss by fire, theft, or otherwise, until the property in them passes to the buyer. After that the risk is the buyer's, whether the goods have been delivered to him or not. But if delivery has been delayed through the fault of the seller, he must bear any loss that might not have occurred but for his fault. The Sale of Goods Act enunciates a number of rules for deciding, in the absence of express or implied intention, when the property in goods sold passes from the seller to the buyer. The rules are as follow—

1. Where the sale is for unascertained goods, the ownership does not pass until the goods are ascertained.

2. Where specific goods are sold in deliverable state, the ownership

passes when the contract is made, irrespective of postponement either of delivery or of payment.

3. Where specific goods sold are not in deliverable state (such as a second-hand typewriter or a second-hand delivery van that has first to be reconditioned), the ownership does not pass until the goods are ready for delivery and the buyer has been notified.

4. Where specific goods sold are in deliverable state, but have to be weighed or measured or have some other act done to them by the seller so that the price can be ascertained, the ownership does not pass until the act has been done and the buyer notified.

5. Where goods have been delivered on approval or "on sale or return," the ownership passes when the buyer signifies his acceptance of them. Should the buyer retain the goods without signifying acceptance or rejection, ownership passes on expiration of the time fixed for their return, or on expiration of a reasonable time.

6. Where unascertained or future goods have been sold by description, the ownership passes when goods of the description in deliverable state have been unconditionally appropriated to the contract with the consent of the parties. Unconditional appropriation to the contract takes place when, without reserving the right of disposal of the goods, the seller delivers them to a carrier for conveyance to the buyer. But if the seller retains the right of disposal, until some condition of the contract is fulfilled, the ownership does not pass until the condition is fulfilled.

If goods are sold by someone other than the owner and without the owner's authority, the buyer acquires no better title to the goods than the seller had, unless he buys them in good faith in *market overt*, or unless in particular circumstances special provisions of the Sale of Goods Act or the Factors Act apply. By "market overt" is meant open markets held in certain places, or open shop in the City of London. If stolen goods are sold and the thief convicted, the property in the goods revests in the person who was the owner at the time of theft, and intermediate sales, even in market overt, do not count. This provision, however, does not apply in cases of fraud that do not amount to theft, as when goods are obtained in exchange for a worthless cheque; nor does it apply in Scotland.

POINTS ABOUT DELIVERY

Unless the seller agrees to give credit to the buyer, delivery of the goods and payment for them are concurrent conditions, the one to be made in exchange for the other. Unless, again, the seller agrees to send the goods, it is for the buyer to take delivery at the seller's place of business; but, if the parties

knew, when they made the contract, that the goods were in another place, delivery should be taken there. Should the goods be in possession of a third person, delivery will take place when that person acknowledges to the buyer that he holds the goods at the buyer's disposal. Ordinarily the expense of putting the goods into deliverable state is to be borne by the seller. Demand of delivery by the buyer or tender of delivery by the seller must be made at a reasonable hour; and, if the seller agrees to send the goods without a delivery date being named, he should send them within a reasonable time.

If the seller is required to send the goods, delivery of them to a carrier for conveyance to the buyer is deemed to be delivery to the buyer, whether the carrier has been named by the buyer or not, unless the circumstances point to the carrier being agent of the seller. But the seller must make reasonable arrangements with the carrier on the buyer's behalf; for, if he omits to do so and the goods are lost or damaged in transit, the buyer may decline to treat delivery to the carrier as delivery to himself, and may hold the seller liable for the loss or damage. If the goods are to go by sea, the seller must give the buyer sufficient notice to enable the buyer to insure them, and if the seller fails to do so the risk falls upon himself. When the seller requests the buyer to take delivery and the buyer neglects or refuses to do so within a reasonable time, he is liable for any loss occasioned by his neglect or refusal, also for a reasonable charge for care and custody of the goods.

A buyer who has not already examined the goods is not deemed to have accepted them in satisfaction of his contract until he has had an opportunity of examining them to see if they conform to the contract. On tender of delivery he must, at his request, be given that opportunity. He is deemed to accept the goods when he says that he accepts them, or when after delivery he does something inconsistent with their still being the seller's property, or when he fails to notify acceptance of them within a reasonable time. When the buyer, having a right to do so, refuses to accept goods delivered to him, he is not bound to return them, but only to notify his refusal to the seller.

Subject to special agreement or to usage of trade, a buyer may reject goods delivered in less quantity than he contracted

to take; but if he keeps the quantity delivered he must pay for the goods at the contract rate. If the seller delivers a larger quantity than he contracted for, the buyer may accept the right quantity and reject the excess, or he may reject the whole. If he accepts the whole, he must pay at the contract rate. Should the seller deliver the goods contracted for mixed with goods not in the contract, the buyer may accept what he contracted to take and reject the others, or he may reject the whole. Unless he has agreed to do so, a buyer need not accept delivery by instalments. Where there is a contract for delivery by instalments to be paid for separately, and the seller makes defective deliveries in one or more instances, or the buyer refuses to take in or to pay for one or more instalments, the question whether that constitutes a breach of the contract as a whole, or only of a part, depends on the facts of each case.

BREACH OF CONTRACT

Seller's Remedies. 1. If the buyer does not make payment as the contract requires, whether before or after delivery of the goods, the seller may maintain against him an action for their price.

2. If the buyer wrongfully fails to accept the goods, the seller may maintain against him an action for damages for non-acceptance.

Buyer's Remedies. 1. Where the seller wrongfully fails to deliver the goods, the buyer may maintain against him an action for damages for non-delivery. In special circumstances the Court may order specific performance of a contract, that is, delivery of the identical articles sold. That, however, is not likely to occur where the contract is one for merchandise, but only for something unique or rare, as a picture by a famous painter or an early copy of a well-known author's work.

2. Where there is a breach of warranty by the seller, or breach of a condition treated by the buyer as a breach of warranty, the buyer is not thereby entitled to reject the goods. His remedy is either to set up the breach of warranty in diminution or extinction of the price, or to bring against the seller an action for damages for breach of warranty.

Damages. The measure of damages is the estimated loss directly and naturally resulting in the ordinary course of

events from the buyer's or the seller's breach of contract. Where there is an available market for the goods, that loss is presumed to be the difference between the contract price of the goods and the market price for selling or buying the same quantity of the same kind of goods at the time when they should have been accepted or delivered; or, where the breach is one of warranty of quality, the damages are the difference between the value of the goods when delivered and the value they would have had if they had answered to the warranty.

UNPAID SELLERS' RIGHTS

An "unpaid seller," within the meaning of the Sale of Goods Act, is one to whom (*a*) the whole of the price of the goods sold has not been paid or tendered, or (*b*) there has been given as conditional payment a bill of exchange that has been dishonoured. The term also includes an agent of the seller when the agent is responsible for the price. Implied in the sale transaction an unpaid seller has (1) a right of lien, (2) a right of stoppage in transit, (3) a limited right of resale, as explained below.

Lien. Where the property in goods that are still in the seller's possession has passed to the buyer, an unpaid seller has a lien on them, or a right to retain them until he is paid, if (1) he has not agreed to give credit, or (2) the term of credit agreed upon has expired, or (3) the buyer has become insolvent. Should part of the goods have been delivered, the lien attaches to the remainder. When the property in the goods has not passed, the unpaid seller has in similar circumstances a right to withhold delivery until payment is made.

Stoppage in Transit. If the buyer of goods becomes insolvent, the unpaid seller may stop the goods from being delivered to the buyer so long as the goods are still in transit, and he may resume possession of them. Stoppage in transit is effected either by the seller retaking possession of the goods, or by his instructing the carrier to return them or to deliver them to a new address.

Limited Right of Resale. Where (1) goods sold are of a perishable nature, or (2) the seller gives notice to the buyer of his intention to resell, or (3) the seller has expressly reserved a right to resell should the buyer default, an unpaid seller may

resell the goods, and may recover from the original buyer damages for any loss resulting. When goods are resold under the right of an unpaid seller, the new buyer gets a good title to the goods.

RULES ABOUT PAYMENTS

1. **Time of Payment.** When a time for payment is named in a contract and the debtor fails to pay by that time, his failure is a breach of the contract, and it gives the creditor a right to take immediate action to enforce payment. When a time of payment is not named in the contract, payment should be made within a reasonable time. In most trades there is a customary period of credit recognized, and for payment within the customary time discount at a certain rate is generally allowed. But individual establishments may lay down their own terms, making them known when transactions are entered into and insisting on customers keeping to them.

2. **Receipts for Payments.** With a few exceptions receipts given for payments of £2 or over must bear a 2d. revenue stamp. The chief exceptions are receipts for Government taxes, for salaries and wages, and for sums paid into bank accounts. When an adhesive stamp is used it must be cancelled at the time the receipt is given. If the receiver of the money omits the stamp, or refuses to give a receipt that should be stamped, he renders himself liable to a maximum penalty of £10 for evasion of the Stamp Act. To the payer of the money a receipt that should have, but has not, been stamped is of no use in a court of law as evidence of payment until it has been stamped and the penalty for omission has been paid. An insufficient sum tendered in full settlement may be retained by the creditor without prejudice to his claim for the remainder. Though it is not necessary for him to do so, it is nevertheless advisable for him to indicate on the receipt that he takes the amount "on account" or "in part payment" only.

3. **Mode of Payment.** It is the legal duty of the debtor to take or send payment to his creditor when it falls due, as the creditor is not under any obligation to collect it. In the absence of request by the creditor for payment to be made in any particular manner, the selection of the means of remittance is left to the debtor, and he is responsible until the payment

reaches the creditor. It follows that, when he sends payment through the post, the risk of its being lost in the post must be borne by him. A request for payment by post will not be inferred from absence of objection when previous payments were sent by that means.

In making tender of payment it is not enough that the debtor should produce the money; he should also offer it to the creditor. If the creditor should dispute the amount and refuse the sum offered, the debtor must remain ready to pay. On an action being started by the creditor, the debtor should pay into Court the sum he had offered. Then, should the creditor obtain judgment for no greater amount, the debtor will not have any costs to pay.

A creditor may refuse payment if it is offered in any form other than *legal tender*, and the debtor should offer the exact sum due, as change cannot be demanded. Legal tender may be made with bronze coins up to 1s., silver coins up to 40s., and gold coins up to any amount. The duodecagonal threepenny pieces are legal tender to 2s. Bank of England notes of 10s. and 20s. are legal tender in the United Kingdom to any amount, and in England and Wales other Bank of England notes also. Creditors, however, usually waive their full rights in that respect, and payment in other forms is valid if objection to it is not raised at the time.

Between one business house and another cheques are the most usual form that payment takes. They are seldom refused, except when a seller or a creditor, not knowing whether a cheque would be paid on presentation at the bank, desires to be sure of payment before parting with his goods or giving a discharge. As a rule, the taking of a cheque is deemed to be only conditional payment; and, in case of dishonour, the creditor may sue either on the dishonoured cheque or on the original contract for goods or services. Where there are *contra accounts* or debts owing on both sides, the one may be "set off" against the other, so that only the difference has to be paid by the party whose debt is the larger.

4. **Appropriation of Payments.** (i) A debtor owing more than one amount to the same creditor may require a payment made by him to be set against any of the amounts he chooses; and his intention may be implied from action, as when the payment

he makes is of the exact amount of one of the debts. (ii) If the debtor, having had opportunity to do so, does not require a payment to be set against any one of the amounts he owes, then the creditor may make the appropriation at any time. (iii) Where neither allocates a payment to any debt, the payment will be held to apply to the earliest debt, beginning with any interest due. (iv) In the case of a running account, payments not appropriated by debtor or creditor are taken as applying to the debit items in the order of their dates, earliest first. Where, however, a person has two accounts with the same bank, one account being in credit and the other in debit, the bank always has the right, without the customer's consent, to set the credit balance of the one account against the debit balance of the other. When the right of appropriation rests with the creditor, he may allocate a payment to a debt that has become statute barred.

5. **Statute-barred Debts.** A party to a contract should not delay the enforcement of his rights until it becomes difficult to present reliable evidence in regard to them. For that reason several Acts, known as the Statutes of Limitation, make rights under a contract unenforceable if action is not taken within a reasonable time, the length of time varying with the nature of the contract. Thus—

(i) Action on a simple contract must be taken within six years of the date when cause of action arose.

(ii) On a contract made by deed, to enforce either party's rights, action must now be taken within twelve years of the date when cause of action arose.

(iii) On contracts relating to land, action is also barred after twelve years.

Right of action, however, is revived on a statute-barred debt, (*a*) by payment either of part of the debt or of interest upon it, or (*b*) by the debtor giving a signed promise to pay or a signed acknowledgment that implies a promise to pay. Then the six years' limitation on a simple contract, or the twelve years on a specialty contract, begin to run anew from the date of the promise or acknowledgment. The limitation does not begin to run during the time that a creditor is an infant or insane; and if the debtor is beyond the seas when his debt becomes due, the limitation counts from his return.

6. Payment of Interest cannot be obtained by a creditor except in certain circumstances, some of which are as follow—

(i) When payment of interest is provided for in the contract.

(ii) By custom of trade, as when a bank charges interest on customers' accounts that are overdrawn.

(iii) On a dishonoured bill of exchange, interest being allowed by the Bills of Exchange Act.

(iv) On a sum certain payable at a certain time under a written instrument, the interest being payable from the time the sum became due.

(v) On overdue accounts from the time when demand of payment is made in writing and written notice given that interest will be charged.

Compound interest cannot be charged except by agreement between the parties.

Although a creditor may not have the right to charge interest, that does not prevent him from refusing to allow discount when payment of an account is overdue.

AGENCY AND CONTRACT

1. Who are Agents. An agent is a person who acts for another, named his "principal," so as to make a contract between his principal and a third person. Auctioneers, stock-brokers, produce brokers, and factors are agents, because their business consists of buying and selling, and therefore of making contracts, for other persons. Buyers and assistants in shops and warehouses, and travelling salesmen, make purchases and sales as agents for their employers. Wives are agents for their husbands in buying for the household, and partners are agents for each other in transacting business for the partnership. It is as agents that bankers collect and pay cheques for their customers, and it is in the capacity of agent that a solicitor acts for his client. Workers, like bricklayers, electricians, and book-keepers, are not agents, because it is not part of their work to make bargains for their masters with other persons.

A produce broker or a stockbroker, when he enters into a contract, issues a Bought Note to his client when he acts for him as a buyer, and a Sold Note when he acts as a seller. Between a factor and a broker the chief differences are that the factor has possession of the goods of his principal and has authority to sell them in his own name, whereas the broker has

neither. A *del credere* agent is one who, for extra commission, guarantees the debts he makes in selling goods for his principal on credit.

2. **Agent and Principal.** Any person with capacity to contract may appoint an agent; and an infant, though he has himself only a limited capacity to contract, may be agent for a person with full capacity. No particular form of appointment is necessary as a rule; but, if the agent is to make any contract by deed, he must be appointed by a deed, usually called a "power of attorney." An agent's authority may be implied from the principal's conduct. For example, authority would be implied from the proprietor of a business leaving on his premises a person in the apparent position of salesman, or from a householder always having previously paid for credit purchases made in the householder's name by his servant. A duly appointed agent binds his principal and not himself by contracts he makes as agent. But a person who, without authority, purports to make contracts as an agent cannot bind the supposed principal, and will himself be liable upon them. The supposed principal may, however, ratify the contract and so assume the rights and liabilities arising from it.

As a rule an agent has no power to delegate his authority to another; but the rule is subject to exceptions as when the principal agrees to the delegation, or when something must be done that the agent himself cannot perform. Agency may be terminated by renunciation on the agent's part, or by revocation on the principal's part, subject to the other's rights under the agency agreement. Notice of revocation should be given to persons interested or likely to be interested, for if it is not given the principal may become liable on transactions entered into by the agent after his authority has been withdrawn. Death of the agent must, of course, terminate his agency; but so does the death or the bankruptcy of his principal.

It is required of all agents that they carry out their duties without negligence, and in the case of paid agents special skill and diligence may be expected of them. An agent must keep his principal fully informed and must render true accounts in regard to all agency business. It is illegal for him to make secret profits or commissions in acting for his principal. For example, an agent buying a house, company shares, or

merchandise, may not, except with the consent of his principal, draw commission from the seller. If he does, the purchaser on discovering the fact may recover the amount either from the agent or from the seller. Similarly, a stockbroker or an estate agent may not lead his client to believe that he is acting as buying agent, when he is in fact the other party to the contract, selling what belongs to himself. An agent who incurs loss or liability in carrying out his duties as agent is entitled to be indemnified by his principal.

3. **Rights of Third Parties.** If an agent in making contracts discloses the identity of the principal for whom he acts, it is usually to the principal and not to the agent that the other parties must look for satisfaction of their rights. Only in certain cases is the agent himself liable. One of these is when an agent contracts by deed, for then he must execute the deed in his own name and be personally liable under it. Another is when a buying agent here contracts for a principal abroad; he is presumed, until it is proved otherwise, not to have authority to pledge the foreign principal's credit.

If an agent discloses the existence but not the identity of his principal, the other party clearly understanding that he is contracting with an unknown principal, it is again the principal and not the agent who is liable on the contract. But when the agent contracts without disclosing, or without making clear, the existence of a principal, then the agent himself is liable as principal; and should the contract be broken, the agent can be sued for damages. The other contracting party, however, on learning of the existence of the actual principal, may elect to look to the principal instead of the agent for completion of the contract. But he must make choice of the one or the other without delay, and he cannot afterwards reverse his decision.

An agent who, intentionally or unintentionally, contracts as agent without having authority from a principal will be liable to third parties for breach of implied warranty of authority, unless the alleged principal afterwards adopts the contract by ratification. His doing so, however, will be subject to any right the other party would have had to set off a claim against the agent. It rests with the persons who deal with agents to satisfy themselves that the agents are not acting without authority or beyond the authority they possess. When

an agent is one who for a commission sells goods on credit for a manufacturer or other principal, accounts being rendered direct by the principal to the buyers, the agent has no implied authority to collect or receive payment of the accounts.

QUESTIONS

1. What is the meaning of (*a*) real property, and (*b*) personal property? Into what two classes is personal property divided, and what does each class comprise? What does the term "goods" include?

2. How does the Sale of Goods Act, 1893, define a contract of sale? How does an agreement to sell differ from a sale? What is the rule about the price to be paid for goods when the contract of sale does not contain any provision about price?

3. What are the requirements of Section 4 of the Sale of Goods Act, 1893, in a contract of sale for £10 and upwards, in order that the contract may be enforceable at law? (*R.S.A.*)

4. Explain what you understand by "future goods" and by "specific goods." In what circumstances will the destruction of specific goods render void a contract for their sale?

5. Explain carefully the nature and effect of (*a*) a warranty, and (*b*) a condition, attached to a contract of sale. (*R.S.A.*)

6. When goods are shipped or tendered for delivery out of date, what are the remedies of the buyer? (*L.C.C.*)

7. What conditions or warranties are implied under the provisions of the Sale of Goods Act, when goods are sold (*a*) by sample, and (*b*) by description?

8. What does the Sale of Goods Act, 1893, provide in regard to implied conditions as to quality or fitness of goods that are the subject of a contract of sale? (*R.S.A.*)

9. A informs B, a seedsman, that he requires grass seed for putting greens, and is shown a sample of grass seed which B says is eminently suitable for the purpose. A agrees to buy 2 cwt. What, if any, are the implied conditions in this contract? (*R.S.A.*)

10. What are the rights or liabilities of A in each of the following cases, in which he is supposed to buy a motor-car from B, a motor dealer? In no case is the car delivered a suitable one for the purpose named—

(*a*) A writes, "I want a car suitable for long-distance touring." B sells him a Buchanan car under its trade name.

(*b*) A writes, "I have been recommended a Buchanan car for long-distance touring. Will it suit my purpose?" B sells him a Buchanan car.

(*c*) A writes, "I am told the Buchanan car is suitable for long-distance touring; please send me one." B sells him a Buchanan car. (*R.S.A.*)

11. State the rules given in the Sale of Goods Act which determine at what point in the course of a transaction the property in the goods

passes from the seller to the buyer. Why is it important that the time when the property is transferred should be clearly ascertainable?

12. What is the legal position of a buyer (*a*) when goods are sold to him by someone who has not the owner's authority to sell, (*b*) when goods sold to him are subject to a charge in favour of a third party?

13. What are the rules set out in the Sale of Goods Act about time and place of delivery for goods sold? When a seller is required to send the goods, what are the consequences if he fails to make reasonable arrangements regarding transport?

14. When does acceptance of goods in fulfilment of a contract take place as provided by the Sale of Goods Act, 1893? W purchased a quantity of hay. When it was delivered he took a sample and examined it. He then said, "The hay is not up to my sample, and I will not have it." Did W accept the goods as provided by the Act? (*R.S.A.*)

15. What are the provisions of the Sale of Goods Act about acceptance of and payment for goods delivered to the buyer in wrong quantities?

16. A and B ordered 20 cwt. of coal from C. C delivered 15 cwt. to A and 25 cwt. to B. What are the rights and liabilities of A, B, and C? (*R.S.A.*)

17. A buyer may fail to accept or to pay for goods delivered. A seller may fail to deliver goods he has contracted to supply, or he may fail to comply with a warranty the buyer has required of him. What are the remedies of the other party in each of these cases?

18. Where damages are obtainable for breach of contract of sale by non-performance on the seller's part, or for breach of a warranty attaching to the contract, to what loss should the damages correspond, or how may the amount of the damages be ascertained? What is "specific performance," and in what cases of breach of contract may specific performance be enforced?

20. How does the Sale of Goods Act define the term "unpaid seller"? What are the several rights an unpaid seller may have, and when may he exercise each?

21. What remedy has the seller of goods when the buyer fails to pay for them? When may the seller take action to enforce his remedy? Explain how in most trades payment in due time is encouraged.

22. State what you know of the legal provisions in regard to receipts given by or required from persons or bodies as acknowledgments of money paid to them.

23. Explain what responsibilities rest on any of the parties to a transaction in regard to the sending or the collecting of payment. Mention the case of payment transmitted through the post. Should dispute arise about the amount due, how must the debtor act?

24. Explain in detail what is meant by "legal tender," and how far in business transactions compliance with the rules of legal tender is insisted upon. Explain what is meant by "set off."

25. State clearly the rules of law in regard to appropriation of payments.

26. What are the effects of the Statutes of Limitation on contracts?

When is the operation of these statutes (*a*) suspended, (*b*) revived? (*R.S.A.*)

27. Name, so far as you know them, the cases in which interest —simple or compound—is chargeable against a debtor.

28. A orders a suit of clothes of the value of £10 10s. from B. The suit is delivered in December, without payment being received. B sends an account on 1st March next, which states that if A fails to pay the account by 1st April he will be charged interest at 5 per cent per annum from 1st March. On 1st July A sends a cheque for ten guineas. What are the rights and liabilities of A and B? (*R.S.A.*)

29. What classes of agents are employed in commercial transactions, and what functions does each of these classes respectively perform? (*L.C.C.*)

30. What do you understand by "agent"? Many manufacturers have agents in London and other cities. What are their usual duties, and how may their authority to act for their principals be terminated? (*L.C.C.*)

31. Distinguish between a broker and a factor, also between a merchant and an agent. What are the special duties of a *del credere* agent?

32. Explain in what different ways the relationship of principal and agent may come into existence. What power, if any, has an agent to delegate his authority?

33. As between an agent and his principal, what are the rights and the duties of the agent?

34. In what cases is an agent personally liable in respect of a contract made or said to be made by him on behalf of a principal? (*R.S.A.*)

35. In what circumstances can a principal become liable on a contract which the agent has no authority to make on the principal's behalf? (*R.S.A.*)

36. What are the rights of the principal, and the liability of the agent, if the agent accepts a bribe from a party with whom he contracts on behalf of his principal? (*R.S.A.*)

SECTION IV—BUSINESS OFFICE METHODS

CHAPTER 16

THE OFFICE ORGANIZATION

SEVERAL causes have contributed to the increasing importance of the business office. Not very long ago businesses were mostly small, with correspondingly less need for clerical work. Their operations were confined much more than now to their immediate localities, so that transactions were carried through to a greater extent by word of mouth. With the growth of facilities for communication, and the extension of the area over which business can be conducted, it has become the rule rather than the exception for transactions, and exchange of views and instructions in regard to them, to be effected by written documents. Also, because competition is now keener, business has of necessity become more economically systematic in its practice. Records of orders given out, of the progress and execution of orders received, estimates of the probable cost of work in prospect, accounts of various elements entering into cost of work in hand, plans for the distribution of products, and reports of accomplishment in their disposal—these must all be committed to writing more minutely and extensively than when conditions of supply were less exacting, the variety of wares dealt in less bewildering, and the documentary evidences of production, offer, sale, and payment less amazingly numerous. In this chapter we take a general survey of the modern commercial counting-house and its adjuncts, leaving to each of the next few chapters in turn the closer examination of a particular section of present-day office methods.

MANAGEMENT OF THE OFFICE

Usually, if the business is not a very large one, an office manager will have control of all or nearly all of the clerical work and staff. Where the office is a small one, he may be the

cashier, and with or without assistance may himself handle receipts and payments of money, at the same time supervising the other office work. But in many businesses now the payment of accounts inwards and outwards is almost entirely made by cheque, and the handling of notes and coin is seldom necessary except for weekly wages and petty expenses. In such businesses the cashier's duties may not be so important as to mark him out the leader or controller of the counting-house, and that position may then be taken by the chief accountant, or in a joint stock undertaking by the secretary of the company. The manager of the office, whoever he is, will have under him section heads, each responsible for the work of his own division.

As suggested in an earlier chapter, the keeping record of orders received may come under the sales manager's supervision rather than under that of the counting-house head. It would then go with the answering of trade inquiries and the submitting of quotations and samples to prospective buyers. Under the sales manager's supervision might also fall the maintenance of the address index of customers, with the preparation and dispatch of sales circulars, trade catalogues, and advertisement material. On the other hand, these last-named activities may belong to the department of a publicity manager, the arrangement of such matters in any given business depending on the nature and extent of its own particular needs, and on how its organization has developed. General correspondence may be dealt with by a correspondence staff under the guidance of a head correspondent, subject to or independent of the office manager's control. Under the office manager, in a large concern, there would be invoice clerks, wages clerks, cashiers, journal and dissecting clerks, keepers of customers' and creditors' ledgers, and sanction clerks for the granting or the refusing of credit. In the company type of business, if dealings in its capital were active, transfers of shares, payment of dividends, and kindred duties would be attended to in the office of a registrar, subject to the secretary's instructions. Should several of the clerical departments be managed by independent heads, clear demarcation of their duties will be advisable, so as to prevent friction and overlapping; also co-ordination of their methods, bringing into conformity their requirements of material and appliances.

copies, of the sales invoices and other formal documents that go to make up the outward post. Lastly, requiring regular attention, there is the filing away in suitable receptacles of letters received, together with the copies of the replies, if any, that they elicited. The copies of outgoing invoices and the like are handed on to clerks and book-keepers, who compile from them further records of the transactions they represent.

KEEPING ACCOUNTS AND CASH

In the keeping of accounts and the handling of the business cash we find what is, more especially, the work of the counting-house. Two main purposes are served by the keeping of accounts. The first is attained by writing up in Sales Ledgers a separate record of the transactions with each customer, and in a Bought Ledger or Ledgers a separate record of the transactions with each trade creditor. These records should show at any time what is owing to the business by any debtor, and what is owing by the business to any creditor. Along with the first of these goes the control of credit and the guarding against bad debts. The records can also be made to disclose at any time the total liabilities to all creditors, and the total book debts or claims against all credit customers. The second purpose is achieved by keeping record first of all of the extents of sales, purchases, and expenses, with the view of being able to ascertain periodically what *final profits*, if any, the business makes. Next, by summarizing the accounts of liabilities and resources, these accounts are made to show at the close of each trading year *how the business stands*—what it owes, what it possesses, and how much of its possessions or assets would be left to the proprietors after all its liabilities were paid off. Such is the work of the book-keepers or journal and ledger clerks, and of the accountant who produces from their accounts and records statements that present in succinct form the final results of trading.

The duties of the *Cashier's Section* include the taking in of money payments from customers and others, and the giving of receipts, or the receipting of bills, handed back in return. They include, also, the payment into the bank for collection of the cheques received, and the payment in for safe custody of notes and coin not immediately needed in the office. On the payments

side they include, again, disbursements made in notes and coin, such as weekly wages payments and daily outgoings for postage, carriage charges, and other expenses. They include, besides, the writing up in a Cash Book, or in a set of Cash Books, of the amounts and purposes of the receipts and payments, and the names of the payers or payees; also the striking of a daily balance between receipts and payments, and the checking with the balance so recorded of the cash actually in hand. Cashiers' duties may or may not include the drawing and dispatch of cheques in settlement of creditors' claims, the statements of which have been agreed by the book-keeping section with the creditors' ledger accounts.

Fire would work irreparable havoc with the records of a business if at some fateful moment an outbreak should destroy them. Almost invariably, therefore, *safes or basement strong-rooms* or both are provided for their preservation should a conflagration take place. In these are stored all books and records of any importance, except when they are in use during business hours; also all documents of value, such as agreements, leases, and share transfer deeds. Cash, too, each night and week-end is securely locked away, not only for protection against possible fire, but also as a precaution to defeat the occasional burglar.

SUPPLEMENTARY DUTIES

A regular feature of the office work of large commercial undertakings is the preparation of statistics and returns of sales, stocks, and working expenses. These are submitted weekly or monthly to the directorate or management to guide them in their control of the business as a whole. In the manufacturing type of undertaking the preparation of estimates, the compiling of cost accounts, the keeping of records of stores used and on hand, the recording of hours worked, and the calculation of wages for the pay-roll are continuous clerical activities necessary on the works side. Regular and special supplies of materials must be requisitioned and ordered, working drawings may have to be made before jobs can be put into work, and time plans may have to be drawn up for the orderly and punctual progress of jobs and parts through the various workshops.

The *company form of proprietorship* of a business brings with it registration work of a kind peculiar to that form. If the business is one of some magnitude, with a correspondingly large capital held by numerous shareholders, the registration requirements entail considerable clerical labour. Registers must be kept, showing who are the members of the company and what holdings of shares they have. Similar particulars must be kept of any debenture-holders. Notices of meetings have to be posted to shareholders, also printed copies of the annual accounts when they are complete; whilst interest and dividend sheets must be prepared, and cheques got ready and dispatched, when interest is to be paid to debenture-holders and profits to be distributed to the proprietors. As the company's shares change hands by sale and purchase, the transfer deeds must be checked and registered, and new share certificates prepared. Changes of address, changes of name on marriage, notices of death, exhibitions of probate, names of executors, dividend instructions, and other matters must all be duly recorded. On a new issue of capital there are applications for, allotments of, and calls on shares all to be dealt with. There are also returns to be made under the Companies Act to the office of the Registrar of Companies. All these matters and the correspondence arising from them come under the surveillance of the secretary of the company; but in a large and busy office they would usually be delegated to a registrar acting under the secretary's directions. Particularly would that be the case when the secretary had other responsibilities as well. As the clerk of the Board of Directors he has personally to see to the preparation of agenda for Board meetings, the writing-up of minutes of proceedings, and the carrying into action of such of the Board's decisions and instructions as fall to his care or control.

THE HIGHER CONTROL

It will probably be found convenient to have the secretary's office and the private offices of partners or managing directors in proximity to and ready contact with those sections of the clerical staff that prepare statistical reports, returns of periodic and final results, and other material for use in the work of administration. It is the duty of the higher administration to

formulate the policy that the business is to pursue. Partners or managing directors appoint or replace sub-managers to see the details of their policy put into execution, and they watch that the duties entrusted to these executive managers are discharged faithfully and efficiently. At times points of difference or dispute between department heads may have to be settled, so that all officers shall work together agreeably for the ends in view. And, just as the higher command co-ordinates the efforts of its executive, so the executive officers should guide and direct the services of their staffs for the success of their own departments, and for the profitable development of the business as a whole.

QUESTIONS

1. What in your opinion are the reasons for greater attention than formerly being now devoted to the work of the commercial office for the purposes of (1) instruction in clerical and business practices, (2) improvement in the methods and equipment used?

2. Outline your views about how responsibility should be allocated for the management and supervision of the various classes of work to be carried on in a business office.

3. State briefly and in general terms how you think a commercial office should be laid out, and how the furniture and equipment should be arranged, with the view of attaining convenience and efficiency in the discharge of their duties by a staff of some forty or fifty persons.

4. What various kinds of appliances and equipment do you consider necessary or desirable for the efficient working of an up-to-date business office of moderate size?

5. Into what main sections does the work of a representative business office naturally fall, and what are the chief duties of each section?

6. Draw up a scheme of office organization for a large public company carrying on a manufacturing business.

7. Explain what kinds of clerical work are peculiar to the manufacturing type of business, and what are peculiar to the company form of proprietorship.

8. Describe some of the administrative duties with which managing directors, working partners, or general managers of businesses are usually occupied.

CHAPTER 17

COMMUNICATIONS IN AND OUT

USUALLY an establishment of sufficient size and importance pays a fee for a numbered box at the Post Office into which all its incoming letters are placed by the Post Office sorters as the letters arrive. At intervals during the day a messenger is sent to collect the waiting contents of the box. But if correspondence is very bulky, a mail-bag delivery by Post Office van of the heavy mail in the morning, and a collection by van of the heavy mail in the evening, can probably be arranged. Smaller businesses receive their inward letters from the postman on his rounds, and they send dispatches of their outward ones to pillar-box or post office by their own post clerks.

HANDLING THE INWARD MAIL

In a small business the proprietor or a partner or a confidential employee opens the inward mail; but in a large concern the opening, sorting, and distributing of incoming letters must be entrusted to a staff of clerks working under the eyes of a responsible supervisor. First of all, the unopened letters are sorted into those with sealed and those with unsealed envelopes. At the same time private letters, and such as should be passed on to directors and others unopened, are picked out and kept apart. Then the contents of unsealed envelopes are taken out and arranged according to whether they are invoices, statements of account, advertisement circulars, and so forth. And whilst a junior assistant, by hand or by letter-opening machine, slits or cuts the edge of the sealed envelopes, experienced openers extract the contents. These they place in trays, each tray bearing the name or symbol of the person or department its contents are intended for. With modifications to suit the special circumstances of each business, sorting and distribution of the mail is carried out in the manner following—

1. **Customers' Orders** are handed to the sanction clerks to be passed for credit, and then to the selling departments that are to execute them; or first to the Sales Manager's or the Sales

Order Office, if either exists. In the latter cases the order clerks would, as previously explained, keep methodical record of all orders received, and of their execution and dispatch. Probably, too, a daily list would be made, for the information of principals, of the number of orders received, dispatched, and on hand, or of the quantity or value of the goods they represent.

2. **Cheques Received** from customers, together with remittances in other forms, are passed to the cashier's office to be prepared for payment into the bank. They are entered in a Cash Received Book and receipts are sent to the remitters in acknowledgment. From the Cash Received Book the amounts, together with discounts allowed, are posted to credit of the payers' accounts, most of which appear in the Sales or Customers Ledgers.

3. **Customers' Letters,** other than those containing orders or enclosing cheques, may be inquiries or complaints about goods, or communications about accounts. The latter are sent to the counting-house for attention. The former go to the Sales Manager's Office, if there is such an office in the business. If not, they probably pass to the Correspondence Staff, by whom the necessary information will be obtained and appropriate answers sent.

4. **Travellers' Reports** are handed to the Sales Manager or to the director or principal whose duty it is to supervise the work of travelling salesmen. Any orders received with these reports are passed on without delay to be handled in the same way as orders received from customers direct.

5. **Invoices from Suppliers** must be listed, probably in the Bought Ledger Office, according to the departments concerned. They are then handed to the Goods Receiving Room, or to the Marking-off Room if there is one, to be checked with the goods as these arrive. After that the invoices are passed by the department buyers who ordered the goods, and are returned to the Bought Ledger Office, where they are entered up and posted to credit of the suppliers' ledger accounts.

6. **Suppliers' Statements of Account** pass direct from the letter-opening room to the Bought Ledger Office. There they are checked by the ledger-keepers with the suppliers' accounts, and are discounted ready for cheques to be drawn and posted when payment becomes due. The receipts that come back for

these cheques also pass to the Bought Ledger Office, where they are filed away as vouchers for the payments.

7. **Letters from Suppliers** about goods the business has on order, or about goods that suppliers wish to sell, are passed to the departmental buyers interested. Some of these letters will be acknowledgments or confirmations of orders just given out, some may be offers of lots that for one reason or another are going at reduced prices, others may be requests to the buyers to take delivery of goods the suppliers are holding ready, and others, again, may be excuses or explanations regarding delay when deliveries are overdue.

8. **Letters to the Secretary** will, of course, be passed to him usually unopened, with all communications about shares and debentures and anything in connexion with these. To him, also, will be passed letters on matters to go before the Board, or arising out of instructions given by the Board.

SPEEDY DISTRIBUTION NECESSARY

The staff that opens and distributes the incoming mails should begin the day's work early, so that letters and documents shall be ready for the ordinary staff to get on with when they arrive at the usual hour. Some compensation for so early arrival can be made to the opening staff, in time at the other end of the day or in money when the weekly wages are paid. But there are other reasons why it is highly desirable that the work of distributing inward correspondence should always be effected with diligence and dispatch. If delays occur in getting letters through to their departmental destinations, many untoward consequences may ensue. Profitable appointments may be missed, advantageous offers may be lost to competitors through acceptance of the offers being communicated too late, urgent special orders may fail to be executed by the time that customers need the goods, and, generally, notifications requiring action to be taken promptly may reach the persons concerned only when action would then be useless.

ROUTINE OF OPENING AND DISPOSAL

As the contents of each envelope are extracted they should be fully unfolded so that the opener can see plainly everything he takes out. When they consist of more than one document,

all should be neatly pinned together, the most important or valuable on the top, where it can most readily be seen. Enclosures should be scrutinized to ascertain if all are in apparent order, as queries can be settled more easily at the moment of opening than at some later time. It is advisable that envelopes be slit quite open to ensure that nothing is left in them unnoticed. It may or may not be made a rule that the envelopes shall be attached to their respective contents; but if they are not so attached it will be well to preserve them for a few days. Sometimes reference to the envelope will clear up a doubtful point, as when the sender has omitted his address, and the postmark on the envelope shows the town where his communication was posted. For reference, also in case of need, all letters, invoices, and similar business forms (but not cheques or documents of like value) should be stamped with the name of the business or of the mail-opening room and with the date of receipt. Some offices, following a more precise routine, use a stamping machine that indicates, in addition, the time of day when the impression is made.

Cheques and Money Orders must be treated with care, so that they do not become mutilated in the handling. Their amounts should be compared with what are named in the covering letters; and, if they agree, the opener should initial against the amount that the letter names. When the amount is not named in the sender's letter the opener should write it there, adding his initials or his identification number. In the event of a discrepancy another sitter at the letter-opening table should be called to verify the amount actually received, and when that is noted on the accompanying letter both should initial the note made. Remittances of cheques or cash and the accompanying letters will usually pass to the cashier together. Where, however, a letter contains an order or other matter not connected with the remittance, it may be that letter and money must be separated. Then the name and town of the sender, with particulars of what the payment is for, must be sent to the cashier along with the remittance.

It is in a high degree advisable that only persons believed to be beyond suspicion should be selected for the duty of handling money letters. Trouble caused by dishonesty is not so likely to arise in connexion with cheques as with postal

orders. If it is not crossed so that payment must be collected through a bank, and if the payee's name is not written in, a postal order is easy to cash. In a business where numerous small sums arrive by letter every day, someone handling them as they come in may very foolishly be tempted to intercept a remittance and turn it to his own use. Forgetful of certain discovery some time, he may repeat the theft, attempting always to conceal receipt of the money by destroying the senders' letters.

KEEPING RECORD OF LETTERS RECEIVED

Communications from customers and other correspondents do get mislaid at times; and, when once in a while a letter cannot be traced, it makes a bad impression on the sender to write asking him to repeat his complaint or inquiry on such and such a subject, as his original letter has unfortunately been lost sight of. It is advisable, therefore, to keep some record of the receipt of each communication of importance, and of what is done in regard to it. The record made should, however, be as simple as possible, so as not to multiply clerical work and its cost unnecessarily. As regards incoming orders, we have seen how formal record of them should be begun as soon as they reach the order clerks. Remittances received, also, are entered in Cash Books when they reach the cashiers; and suppliers' invoices are likely to be listed before they are distributed to the buyers and others who take a hand in checking and passing them. For these, then, another record of receipt would seem to be superfluous, unless it is considered that the value of inward remittances justifies some written evidence of their passage from the opening room to the cashier's office.

For letters that are not entered or listed under any of the classes just mentioned, or under any other class, a record may be made by the opening staff in a form like that shown on page 252. A separate list should be made of each batch of letters going to each department or section of the business, and it should be made in duplicate by carbon leaf. When the letters are handed over, one copy of the list should be left with them, and the person who receives the letters should see that the number he receives corresponds to the number on the list. He should be asked to sign for that number on the duplicate of the

list, which should then be filed in the mail-opening room. If it is discovered at any time that a correspondent's letter has gone astray, these filed lists will be useful in tracing its passage to the department concerned. Should several persons in a department or office deal with letters received, trace of them within the department may be kept if, when he receives a letter, the person dealing with it initials the entry of it on the department's own copy of the list. After a month or so, when these lists have ceased to be of any use, they may be destroyed.

LETTERS FOR ..... DEPARTMENT

Day . Date . Time .

No.	Surname	Town	Any Remark
1			
2			
3			
4			
5			
6			
etc.			

Number received Signature

GETTING READY FOR POSTING

Some of the outgoing letters may be brought to the post desk or post room; others may have to be collected from certain points within the business premises where boxes or trays are placed to receive them. It may be the accepted routine that letters shall arrive for post already enclosed in their envelopes; or it may be that they arrive loose, and have then to be folded and inserted. But, whether sealing is done at the post desk or at an earlier stage, it is advisable *when enclosures have to be sent* that the letters shall each bear a note of the number of enclosures to go with them. The note should always appear in the same place on the letters. The person sealing the letters will then know where to look for it, and he or she will be expected to see that the right number and the right enclosures are sent.

A very small red slip or disc, indicating the number of enclosures and stuck on at the top of the letter, is commonly used to attract attention when the letter is being folded for insertion in its envelope. The letters and the enclosures should both be folded neatly, and with no more creases than are necessary for slipping them in freely. Slovenliness in this, and in other matters small or great, will not recommend a business to those with whom it deals; but neatness as a mark of carefulness may.

Letters and business documents all show, usually at the beginning, the name and town of the addressee; and most of them show his address in full. If it is made the rule that they shall always show the full address, the work of outside addressing can be dispensed with by *the use of window envelopes*. These have a transparent panel on the front through which the address on the letter is intended to be visible. When, however, window envelopes are to be used, the letters or forms to go inside must be folded properly for letting the addresses show through; and they must not be folded too small, for they may then slip about inside their covers, causing the addresses to be partly hidden from the Post Office servants who handle them. With a little practice one soon learns where to make the folds; but even that little trouble may be saved by having all stationery printed with a lined-out space for the address, and with marks to indicate where the folds should come. As an alternative to window envelopes, extensive use is made of invoice, statement, and other forms cut in such shape that they can be folded conveniently for post without the use of envelopes of any kind.

With the object of saving on the cost of postage, numerous business forms are sent out in unsealed envelopes. Care must be taken with these to make sure the flaps are properly tucked in so as to prevent the contents falling out.

Lastly, if too much water is used to damp the gum on envelopes that need to be sealed, it will cause sticky moisture to spread from under the flaps, and that will result in letters adhering to one another in the post.

STAMPING AND FRANKING

To prevent letters sticking together in the post, care is necessary also in affixing the postage stamps, where, as in

numerous offices, adhesive stamps are still used. Another little point of procedure calling for care from the post clerk is that of not omitting the necessary postage stamp from any letter, or of affixing to any letter or packet a stamp of too low value. If that does occur, the recipient will probably have to pay on delivery of the letter, the charge to him being double the shortage. Should that happen more than once to letters posted to the same customer, the annoyance may lead him to give preference to some other supplying house that causes him less trouble. Little things like these, because of their possible consequences, are not too small for the attention of the office manager or organizer, who should assure himself occasionally that such minor duties are being performed efficiently.

For the *work of affixing stamps* an appliance may be used like the Multipost Stamp Affixer. Stamps for use in such a machine are supplied by the Post Office in rolls, each denomination in continuous use being put in a separate machine. One of the benefits of this method is that the stamps are counted by the machine as they are used, and that there are no loose stamps to be left about, mislaid, or lost. Another benefit is that the stamps are moistened inside the machine, and are affixed to the letters more quickly than when the work is done entirely by hand. But the need for adhesive stamps can be overcome by the use of a *Franking Machine*. It prints on the envelope a red-ink impression only, which gives the letters free passage through the post. Many readers are no doubt familiar with the appearance of letters franked in this way, as these frankers are now in extensive use. They may be designed to print, besides the franking proper, the sender's name, or a small advertisement or slogan such as "Dorlands the great general house," or "Domestic electricity for ease and simplicity." Their use is, of necessity, controlled by the local post office, where a detachable but vital part of the mechanism is locked in such a way as to permit the franking of letters to such a value only as has been paid for in advance. Franking machines have these advantages over stamp affixers—that they save the Post Office the labour of the defacement that must be done when postage is paid by affixing adhesive stamps, and that they do much to prevent irregularities in the handling of stamps or stamp money in the businesses where they are used.

RECORDING LETTERS DISPATCHED

Letters for post should be dispatched regularly according to an adopted time-table, so that the various offices and departments interested may know for what times urgent letters must be got ready. The times of posting should be fixed to fit in with the times of dispatch from the local post office.

It is usual to keep record of letters dispatched, for now and again the question arises on what day or at what hour a letter was posted, or even whether it was posted at all. The record needed generally takes a form similar to the specimen ruling of a Post Book shown on this page. Normally invoices, statements of account, receipts, and other forms going at unsealed rates may be entered in the Post Book in bulk, as for example, "52 Receipts @ 1d.—4s. 4d." But letters and all sealed communications should be entered singly. The entering of letters in the Post Book is the last thing that should be done with them before they are taken to the post; then the fact of an entry appearing in the book for any letter, the posting of which is afterwards in question, may be assumed to indicate that it was posted on the day and at the hour the entry shows.

POST BOOK

Cash Received		Stamps, etc., Used	Remarks
£ s. d.	30th June, 19..	£ s. d.	
1 1 9	Balance bt fwd.		
2 – –	Cash received		
	Green, Glasgow . . .	2½	
	Brown, Birmingham . .	5½	Registered
	Black, Bradford . . .	1 2	Telegram
	34 Invoices @ 1d . .	2 10	
	White & Gray, Walsall . . etc.	3	10.30 dispatch
	Total for the day . . .	1 11 6½	
	Balance cd. down . . .	1 10 2½	
3 1 9		3 1 9	
	1st July, 19..		
1 10 2½	Balance bt. down		

The Post Book is intended, also, as a record of, and a check upon, the money received and spent by the post clerk. It is needed for that purpose where a franking machine is not in

use, or in so far as one is not used for larger postal packets, registered letters, telegrams, and other postal requirements. Each morning, before any entries for the day are made, a balance should be struck, and brought down in the book, between the Cash Received and Stamps Used columns. As the stamps and cash in hand at the time should agree with the balance shown in the book, they should be counted up to see that they do. Any discrepancy over a fixed trivial amount should be reported at once to the cashier.

POST OFFICE SERVICES

Every business house should keep available for its staff one or several recent copies of the *Post Office Guide*. Reference should be made thereto when any doubt exists regarding the regulations or charges for the many services that the Post Office renders. We shall not do more here than summarize the chief points in regard to the more important of the services that are useful or indispensable in the conduct of business. To go into details would take up much space that can be put to better use, and would only repeat imperfectly information that the *Post Office Guide* gives in full.

The indispensable services include the carrying of letters every weekday to and from the most remote points in this country, and collections and deliveries several times during the day, even in comparatively small towns. Next in degree of indispensability in the conditions of to-day we may place the telephone system of the country, which is conducted as a separate section of the services of communication that are controlled through the Postmaster-General by the Government. That and the inland telegraph system have been discussed in an earlier chapter, though the telegraph is not so necessary now as it was before the use of the telephone became a general habit. Of each of the services named the Post Office has a monopoly within the United Kingdom. Further services to which its monopoly does not extend are the carrying of goods by parcels post, the collection from the addressees and the handing over to the senders of the cash value of articles sent by parcels post or registered letter, the making of payments by money and postal orders, chiefly for persons without banking accounts. Both letters and parcels can be sent by registered

post, making the chances of loss in the post very small, and providing for compensation within limits when a loss of valuable contents does occur.

Rules for the sending of telegrams and the charging for them are to be found in the *Post Office Guide*. Those for using the telephone are given in the *Post Office Guide* and in the district Telephone Directory. Telephone calls should be made and answered in accordance with the regulations; these have been framed with the view of preventing delays and other troubles that occur when users are ignorant of or fail to follow the rules prescribed. For making payments the money order is a safer means than the more popular postal order. When he takes out a money order the sender is required to fill in a form giving his own name and address, and the name and town of the person to whom the money is to be paid. The payee's name does not appear on the order handed to the sender; but it is stated on the advice sent by the issuing office to the paying office. Before obtaining payment there the payee must sign the form of receipt printed on the order; and it is the duty of the paying clerk to check the signature with the payee's name shown on the advice from the issuing office. Postal orders, on the other hand, are issued in blank. A sender may or may not write in the name of his payee; but, even if he does, the office paying out does not attempt any check on the identity of the person claiming payment. In fact, postal orders frequently pass through several hands before they are cashed at a post office. Both postal orders and money orders may be "crossed" so that they cannot be cashed except through a bank, with the result that payment can then be traced to the banking account of the person who got the bank to collect payment for him.

INTERNATIONAL COMMUNICATION

Letters, and parcels too as a rule, are regularly dispatched and received by the British Post Office to and from the Post Office systems of other countries. There is also a service for the issue and payment of international money orders. With the Continent of Europe these services operate daily, with more distant countries weekly or oftener; and less frequently in the cases of very distant lands, or of those not able to maintain more than a meagre flow of trade and correspondence with the

rest of the world. By the use of the air services established with many foreign places, the Post Office now provides "air-mail" facilities for letters and parcels to be conveyed with greater speed than transport by ship and railway allows. Particulars are published in an Air-mail Leaflet. Telephone facilities are offered to and from the systems of other countries; but for distant lands that means of communication is too costly for ordinary use. Telegraph connexions with places abroad are made by submarine and overland cable, and by radio. Though the British Post Office accepts telegrams to be sent by cable or wireless, and quotes rates and regulations in its guide-book, it does not itself operate these services, except to the nearer European countries by cables under the joint control of the Governments concerned. Cable and radio installations to distant parts that were previously established by Empire interests, or acquired by them, have lately been combined under the control of Cable and Wireless, Ltd., whose chief office is at Electra House, Victoria Embankment, W.C.2. That company's operations extend around the earth connecting all British Dominions and many other countries as well.

MESSAGES BETWEEN DEPARTMENTS

In any large establishment with many departments or offices there are usually many written notes and documents that must pass between them. For want of more efficient arrangements, each department or office probably has at least one messenger of its own. Much good time and effort are probably wasted by these runners with papers and packets, crossing and re-crossing each other from section to section and floor to floor, without plan or order, throughout the premises and throughout the day. In such a business establishment an *internal postal service* could with advantage be organized to work from a central station. Collections would be taken to the central station, and deliveries made from it, by the messengers of the service at frequent suitable intervals. If the volume of messages justified it, a pneumatic-tube service could be set up with greater initial outlay for equipment, but at lower running cost. Where, as we assume, the departments and offices are numerous, the pneumatic service would also be conducted to and from a central clearing station. In large retail stores such a pneumatic

installation is sometimes used for taking cash from the counters to a cashier's office—conveniently situated, but usually out of sight—and for returning the bills and change. Where there are not many departments, but where written communications must frequently be sent between one floor and another much higher or lower in the building, a pneumatic tube could be fixed to receive and deliver direct.

Many business houses have *department telephones* put in as extensions from a switchboard or a private exchange on the main Post Office telephone. Outside calls can then be put through to and from the departments on the extension lines. Also, most business houses of any great size have installed some system of inter-departmental telephones, for use when communications within the house need not be sent or received in writing. An inter-departmental installation may centre on a switchboard, so that one department gets into touch with another with the assistance of the switchboard attendant. The up-to-date installations, however, are automatic; the department calling simply dials the number of the other department it requires, and gets through itself. Another type of instrument has a number of buttons, any department required being obtained by pressing the button against which the name of the department appears. Some of these installations permit of a conference being held by telephone, one person being able to speak and another to answer in the hearing of several persons all listening at the same time.

The Dictograph has neither mouthpiece nor earpiece, so that the user is not "tied to the telephone" and can go on with other work whilst waiting for a reply. Moreover, he has both hands free for use when he is talking. The "master station" is intended for use by a general manager or chief administrator of a business. It is a loud-speaking telephone. The user can immediately cut out any other speaker whose call interferes with one made from the master station; but, if he wishes, he can call a number of his managers into conference simultaneously.

The Telewriter is a contrivance for making mechanically at the receiving end of a telegraph wire a facsimile reproduction of a message written by hand at the transmitting end. It can be used between departments in the same warehouse or in

adjoining buildings. It is suitable for transmitting orders and instructions from and to office, works, warehouse, or branches within a radius of from ten to fifteen miles. In a large bank the telewriter can be used between the cashiers and the ledgers to obtain sanction for payment over the counter of customers' cheques. In stores it can be used between selling departments and counting-house for the sanction of credit before the customer leaves. As inquiry and answer are communicated in writing, they can be made without the customer's knowledge. Besides, communication in this way obviates mistakes that occur through the faulty reception or the faulty recording of oral messages. One transmitter can be used to send the same message simultaneously to a number of receivers. On the Liverpool Cotton Exchange the telewriter is used for notifying price changes to members in their own offices, and a similar service is provided for its members by the Manchester Royal Exchange.

The Teleprinter, also, is an instrument that serves for mechanical transmission and printed reception of messages over telephone or telegraph wires. For example, it is used between the offices and workshops in a large motor manufactory, and between the generating stations of an electric supply undertaking. Unlike the Telewriter, it may be used for communication irrespective of distance, as from a sales office in London to a factory in Bristol or in Manchester, where all stocks are kept. That makes possible the dispatch of the goods from the distant factory on the same day the orders are received in London. Teleprinters are in use by the railways, the news agencies, and the police.

At the transmitting end the communication is typed out on a keyboard like that of a typewriter, and at the receiving end it is automatically reproduced in printed Roman characters without the services of an attendant. The Post Office has large numbers of these machines in its own use for the transmitting and receiving of telegrams for the public. In the *Post Office Guide* are quoted specimens of the annual rents chargeable by the Post Office for private long-distance teleprinter lines. And, as the Telephone Directory shows, the Postmaster-General now offers a "Telex," or public teleprinter exchange service, to telephone users.

QUESTIONS

1. When letters are received in a business office, how should they be opened? How should each letter be dealt with before it is answered?

2. What staff should be employed in a large business in opening and sorting the inward mail? What routine should be followed for ensuring careful handling and quick distribution? For what reasons is speedy distribution desirable?

3. The incoming correspondence of the day includes (*a*) offers of goods, (*b*) complaints, (*c*) orders for goods, (*d*) invoices for goods purchased, (*e*) inquiries. How should the Correspondence Department deal with these?

4 Describe briefly by what various records the passage of letters, orders, invoices, and remittances should be traceable in a business house from their receipt in the letter-opening room to their disposal by the departments or offices concerned.

5. Describe the routine of collecting and enclosing letters and other documents for the outward mail. What advantage, if any, is gained by the use of window envelopes, and what precautions should be observed when they are used?

6. Describe the use and the advantages of up-to-date appliances for stamping outward letters, and of any substitute for the use of adhesive postage stamps.

7. Give an illustration of how you would keep record of letters dispatched, and explain what purposes the record would serve.

8. What are the chief services the Post Office provides for facilitating the conduct of business? What sources would you consult for full information regarding these and other services the Post Office renders?

9. (*a*) What facilities are offered by the Post Office for effecting money payments? Explain them clearly.

(*b*) How do money orders and postal orders differ as regards procedure? What precautions should be taken in remitting sums by money order and by postal order?

10. What means of international communication exist of which business houses may avail themselves through the Post Office?

11. How in a large business would you arrange the provision of telephonic communication to and from departments? How would you organize the collection and delivery of written communications between departments?

12. What is (*a*) the Telewriter, (*b*) the Teleprinter, and what are their uses?

CHAPTER 18

BUSINESS CORRESPONDENCE

LETTERS perform in these days a very important part in the conduct of business affairs. For that reason adequate care and attention should be given to their production—more, indeed, than in many businesses is spent upon them. Thoughtful effort should, on the one hand, be put into the organization of the correspondence section of the office, and it should be applied no less, on the material side, to stationery and equipment than, on the operating side, to methods and efficiency. On the other hand, it should also be expended on the quality of the messages to be sent—in producing letters well put together, such as will favourably impress the recipients by the ease with which they can be read and understood. Business proprietors show considerable interest in the appearance that their sale-rooms and showrooms present to customers and other visitors. They display discrimination about the type of salesman or saleswoman they select to deal with actual and prospective buyers. Their advertising efforts are usually the outcome of more than a little exercise of thought or ingenuity. Yet, when they have succeeded in effecting contact with interested parties, already willing or half prepared to buy, they too often leave the conduct of subsequent correspondence in not very competent hands.

HOW BUSINESS LETTERS LOOK

The taking of thought about the material used for the letters of a business will show in their appearance as contributed to by the tastefulness and appropriateness of letter paper and printed heading. On the side of execution, guidance and encouragement towards proficiency will show in the form the letters assume, which will be contributed to by neatness and accuracy of the typing, by balance and symmetry in the set-out. On some of the recipients these features of the business letters may not make any perceptible impression. Others, however, a little more æsthetically sensitive, may be influenced by them

without being quite aware of the influence; whilst others, again, more susceptible still, may react quite consciously to the presence or absence of these qualities. The fact should be recognized and acted upon, that on the whole the letters of a business make by such means an appreciable effect for better or for worse upon its correspondents. Striving after an ideal, however, must not be overdone, and so defeat its aim. Any extreme in colour, design, or arrangement will impart a strained effect, and leave an unfavourable impression.

Rules about marginal spaces, about breaking the typescript for paragraphing, and about the arrangement of beginnings and endings of letters are usually observed by typists more or less successfully. But there are other points in execution where faults frequently occur, and detract from the appearance of business correspondence. If the typed characters do not stand out firm and clear, that may be due to the type being dirty or to the original smooth surface of the platen having become worn by much use. If the alinement of the typing is bad, type bars or levers may be bent or loose. These are defects of the machine that may be prevented or remedied by cleaning, renewal, or repair. If the finished letters show marks of erasures, the cause may have been carelessness in fingering the keys, or weakness in spelling, or inefficient note-taking. Such are faults of the typist, the cure for them being more practice and continued effort towards improvement.

A short letter should not be begun so high that a disproportionate blank space on the letter paper is left below the signature. Nor should a longer letter be begun so low that insufficient space remains for ending it off neatly. Poorly typed letters carry a suggestion that the service the business offers, and the goods it has to sell, may be similarly deficient in quality. When a business is found to be badly managed in one direction, that raises some presumption of its being badly managed in others.

HOW BUSINESS LETTERS READ

Whether they request or convey information, whether they make demands or express complaint, whether they seek to win approval or to refute a charge, business letters are all written with a purpose. It follows that those letters will be the best

that achieve their purpose most deftly and with most effect. A letter should always be so clearly expressed that the reader will find its meaning easy to comprehend. To be kept in doubt on any point gives the reader the trouble of having to inquire what meaning is intended—a trouble he is likely sometimes to resent. But it is not enough just to make the meaning clear; that letter is best which is also so aptly worded as to yield the reader some little pleasure in perusing it. Where two houses are competing for the business a buyer can give, and where on other considerations their chances of success are equal, the house whose letters please the buyer best is likely to be entrusted with his orders.

First of all, the writer or dictator must form definite ideas of the points he has to make. Then he may attain lucidity partly by choosing words and phrases that express these ideas with as much exactness as he can reach; partly, again, by freeing his writing from vagueness by sorting out the phrases and clauses in each sentence, placing them where they convey their meaning best, and where they interfere with each other least. Usually they should go before or after the nouns or verbs the sense of which they qualify; but effect may be obtained at times by putting a word, phrase, or clause at the beginning or at the end of a sentence, in which position it strikes the reader with greater force. Though the mixing of short and long sentences gives a pleasing variety to composition, very long, rambling sentences should be shunned. When the writer or dictator sees a sentence becoming drawn-out and involved, he should go back upon it and break it up into shorter, more pointed statements. He should also beware of falling into the habit of using a great array of words, many of them adding little or nothing to what he wishes to say, and merely encumbering the sense. Conciseness makes for clearness; and, provided it does not deteriorate into curtness, it helps towards agreeable effect.

The English language is rich in words that express niceties of meaning. If a writer would become expert he must learn to value these fine distinctions, and to select the terms most suited to the sense he intends. He can train himself in that accomplishment by occasionally reading with deliberation parts of the works of first-rate writers, and by studying with

what appropriateness of word and phrase and construction they display their mastery of expression. When, in other reading, he encounters passages so indifferently written that they are difficult to understand, he will find it a valuable exercise to recast or rewrite the passages to his own satisfaction. These hints are not intended to suggest that the business writer who seeks proficiency should strive for a high-flown literary style in his letters. That would be unsuitable to the matter-of-fact subjects of business correspondence. Though they may be tinged with elegance, business letters should be simple in expression. And the desire for fluency and readableness should not be indulged in to the sacrifice of precision.

THE CORRESPONDENCE STAFF

Because the correspondence that the principals of a business handle is mostly of an important and private nature, it is usually convenient for each partner or active director to have *a confidential clerk or secretary* who types and files his letters, takes and gives messages for him, and attends to other similar work. It would not contribute in any way towards the better administration of the business for his letters to be dealt with in the general correspondence room, and for their contents to become the property of the staff. On the contrary, that arrangement would frequently make public items of information, bearing on the conduct of other persons, which it would not be right or fair to disclose. In some instances it would make public news of negotiations and arrangements the disclosure of which might hurt the business in others of its dealings—news which, in any case, would be no concern of the rank and file of the employees.

It is, however, an inefficient procedure to extend such "private secretary" arrangements too far, and to allot to each department head a typist for his exclusive use, where need for privacy does not exist. That method is likely to result in some of the typists not being fully occupied, whilst others get too much to do. Besides, it gives to the business correspondence as a whole an uneven quality, so that some of the letters sent out are not models of ability, such as would carry to the recipients a recommendation of the business services generally. For all general correspondence, and particularly for

correspondence with customers and prospective customers, it is better to provide a *general correspondence staff*, pooling all resources. Work can then be portioned out amongst the members of the staff, so that each gets enough and not too much to handle; and typists can be sent as required to attend to the needs of department heads and others who have letters to be typed and dispatched. Moreover, when the staff is supervised by a capable head, methods of handling correspondence can be standardized, and all letters can be kept up to the level of quality desired.

THE CORRESPONDENCE SUPERVISOR

The correspondence head will be responsible for seeing that all typewriters in use are maintained in good order, and that the work of the staff is turned out properly executed. It will be his (or her) duty to educate the staff in efficient performance. As head of the department he will be responsible for seeing that only competent typists are engaged; but in a large office he will be able to train juniors up to his standard, and he will have one or more seniors to assist him in running the department. He or they will have to see that files and address index, which are likely to be located in his section, are attended to day by day, and so kept continually up to date. Multi-copying and addressing machines for circulars, price lists, house forms, and so on may also be in his charge. The opening and distribution of incoming mails and the franking and dispatch of outgoing letters are likely to come under his supervision.

The head of a correspondence room, who has to correct the faults of his staff and to train them in efficient work, must himself be competent. He should have some knowledge of typewriter mechanism; he should be able to type and set out correctly a difficult as well as a simple piece of work; he must know how a well-written letter should read, and be capable of dictating one quickly and well. It may be his duty to dictate letters going to customers and other correspondents, basing them on informal reports or instructions obtained from selling departments. As previously stated, that is a much more efficient arrangement than it would be to leave the composition of the letters to department assistants or to typists, many of whom are not very competent at that kind of work. After

his letters have been typed in duplicate, or in triplicate when so required, they will be brought to him for scrutiny. If he finds them correct he will sign the letters, and he will initial the carbon copies as evidence of the contents having been passed by him. The letters he will return to be dispatched, and the copies to be filed along with the inward communications, if any, that they answer.

HOW LETTERS SHOULD BE SIGNED

How any letter should be signed depends on the capacity in which the sender signs it. A business letter may be dictated and signed by the proprietor of the business himself, or it may be dictated and signed by one of his servants. The servant, again, may hold a position of authority in the business, or he may be a clerk or other assistant writing the letter under his superior's instructions. The following examples illustrate the four forms of signature used, according to circumstances, in the letters, orders, cheques, and other documents issuing from business houses.

1. SIGNATURE OF A PRINCIPAL, as in—

Yours faithfully,

Hobbs & Hudson.

This signature would be written by one of the partners of the firm which the signature names. It may be the signature of either Mr. Henry Hobbs or Mr. Harold Hudson, for the signature of a partnership usually consists of the firm name only, written by one of the partners. It is not necessary, as a rule, for Harold Hudson in signing for his firm to write, "For Hobbs & Hudson, Harold Hudson," or to use any similar form. The signature of a principal is that of a person *signing for himself*, either as the sole proprietor of a business or as one of the partners in it. A sole proprietor would, of course, sign his own name and nothing more.

2. SIGNATURE OF A PERSON WRITING UNDER INSTRUCTIONS, as—

(*a*) For Hobbs & Hudson,
A. Brown.

(*b*) Hobbs & Hudson,
per *A. B.*

The writer here, we may assume, has been told what to say; or he has been required, expressly or impliedly, to send the letter, but left to put it in his own words. In either case he is not a person in such a position of authority that he can deal, without instructions from anyone above him, with all matters arising within the limits of the authority he holds. The word *per* in Example (*b*) means "through" or "by," in the sense of "by the hand of A. B." Sometimes the word *pro* is used instead of and in the same sense as "for." For all minor matters the initials of the clerk or assistant are sufficient; but in giving receipts for money or goods the writer should sign his name in full. In letters, too, he may sign in full, if his position in the business is such as warrants him giving such prominence to his identity.

3. SIGNATURE PER PROCURATION, as—

per pro. Hobbs & Hudson,
Richard Green.

Per pro. is a contraction of the full Latin form, *per procurationem*; it means that the subject of the correspondence has been put under the writer's care for him to use his own judgment and discretion in dealing with it. In other words, he does not act in the matter under special instructions given for the occasion by a superior. At the same time the signature indicates that he is acting for someone other than himself. A person holding the authority of a manager of a business, or a manager of a department of a business, may sign in this way letters written within his authority. From the fact of his position his right to use this form of signature is implied; and he does not, as is sometimes stated, need to hold a *written* authorization specially given him for the purpose. In a signature of this kind the writer's name should appear in full. Legal textbooks say that this form of signature gives warning that the writer has only a limited authority to act. But the same is no less true of the last preceding example, or of the example now to follow.

4. SIGNATURE OF AN OFFICER OF A COMPANY OR AN INSTITUTION, as—

For The Riverdale Collieries, Ltd.,
John T. Rivers,
Director.

In this type of signature the designation of the person signing is stated—director, managing director, or secretary, as the case may be. Any of these designations indicate that the writer has authority to act in any matter coming within the duties of his position. The "Middlehill District Hospital," or the "Downborough Chamber of Commerce," would be an example of an institution as distinct from a company. Banks accept signatures by directors and secretaries in the form above; but a person signing over any other designation, such as agent, which does not imply authority to sign cheques and banking documents, would be required to use the words *per pro.* to indicate that he had signed by authority given to him to do so.

ADVANTAGES OF THE TYPEWRITER

Several causes have operated in bringing the typing machine into the position of general favour that it holds in business correspondence to-day. The first cause arises in the fact that handwriting is not the most natural of human actions. For that reason letters written by hand are often not very legible, and not very neat in form. Typewritten documents would have to be very carelessly typed to be so difficult to read as much handwriting is; and the ability to produce a neat-looking letter mechanically is, for many people, easier to acquire than the ability to accomplish equal neatness in manuscript. A second cause is the ease and speed with which a busy day's letters can be thrown off by machine, as against the tiring irksomeness of writing the same number by hand. The typist's preference for using the machine instead of pen and ink is evidence of that.

A third cause of the typewriter's popularity is the superiority (in time-saving, in appearance, and in convenience for filing) of the carbon copies it gives, over the former cumbrous and not very successful procedure of taking copies by copying-press, and of keeping and indexing them in press-copy letter books. Carbon copies made when writing letters with pen and ink were not satisfactory, because of the difficulty of maintaining sufficient continuous pressure in the writing. Also letters written in pencil, with the object of getting better carbon copies, were not very presentable documents to send to correspondents. In being a facsimile of the letter or document

posted, the carbon copy serves as an accurate record of the communication just as well as the press copy did.

DUTIES OF THE TYPIST

What we have written about how a business letter should look means that the typist must be neat and accurate in her work. That requirement applies to the typing of correspondence; but it applies even more so to the copying of documents, and to the typing of reports and returns largely composed of tabulated figures. Where the typist's work consists of typing letters from shorthand notes made from dictation, she must train herself to type correctly at the first attempt. To be able to do that, she must also learn to "take down" her notes in shorthand that will be legible to her afterwards. Many of the mistakes made in typing letters are due to imperfect note-taking. They necessitate unsightly corrections being made in the typed letters and in the copies; or they cause stationery to be wasted, also valuable time, when incorrectly typed letters have to be typed again. If any point in the dictation of a letter is doubtful to the note-taker, she should ask for it to be made clear at the time; and she should be particularly careful to get names and addresses down correctly, also quantities, prices, and other numbers. And, when the typist can claim to possess all these qualifications, there is still another required of her in the hustle of present-day business—one that should come with lengthening practice, namely, that she shall be able to get through a rush of work at a good and steady pace.

Many of the letters arriving by the heavy morning mail call for replies. Inquiries necessary for the preparing of the replies should be set on foot as soon as practicable after the incoming mail reaches its several departmental destinations. It is not fair treatment of the typing staff that the inquiries, and the dictation to follow, should be so delayed that most of the day's typing has to be pushed through in the last few hours. In some offices dictation is given into a dictating machine, which makes a mechanical record of the matter spoken into it. From that record the typist causes the dictation to be audibly reproduced, when she finds herself free to proceed with the typing of any or all of the letters required.

As she finishes the typing of each of the letters given to her

the typist should place them in a tray kept specially for them, placing the carbon copies along with them, and the addressed envelopes, if addressed envelopes are to be used. Where the letters are to be signed by different persons, a separate cover should be provided for each person. Each of the covers should bear the name of the signer, and in it his letters should be placed to be taken to him at an appointed time of the day, the letters for his signature and the copies for his initials. After they have been signed the letters should be enclosed in their envelopes, whilst the carbon copies and the inward letters answered are placed in a ready-for-filing tray. A fixed routine ensures the work being carried through methodically, prevents papers being mislaid or left lying about, and saves time being needlessly spent in looking for them.

CONCERNING TELEGRAMS

As telegrams are an accepted means of making business communications, a section dealing with them will not be out of place in this chapter on Business Correspondence. All telegrams dispatched should have carbon copies made of them, either in a suitable book or on loose forms. Again, each telegram should be confirmed by letter the same day, even when a telegraphic reply has been received. Confirmation being made by letter, it can state the message more explicitly, and can supply explanations that are not practicable in a "wire." Confirmation of the actual words of the telegram may be made by embodying them in the confirming letter, or by enclosing with it a loose copy of the telegram. Because of the cost of sending a telegram it is advisable to condense it into as few words as possible. Yet, because a telegram is sent to save time, the object of using that means of communication will be defeated if condensation is carried so far that the telegram fails to convey its intended meaning clearly to the receiver.

In illustration of the principle of condensation let us take an imaginary telegram worded thus—

> Grievances of workers throw production plans out of order return here at once to assist in arranging settlement

That is a fair representation of the wording of many telegrams one sees dispatched and received. The reader will

notice that the message is not stated in grammatical form; but it need not be. So long as the intended message remains plain, the fewer words used, in excess of nine for an inland telegram, the less will be the cost. This representative example could, however, have been condensed much more. If it were reduced to—

Workers grievances disorganize production return immediately for settlement negotiations

the telegram would then comprise only nine words, in addition to the necessary direction and the signature, as against twice that number in the original. Yet no part of the sense would be sacrificed. "Workers grievances" is just as effective as "grievances of workers"; "disorganize" conveys the same sense as "throw out of order"; "immediately" is as good as "at once," and though longer counts as one word fewer. The idea of the word "plans" is implied in "disorganize production," and "here" is implied in "return" taken with the context. The sense of returning to assist in arranging a settlement is equally well expressed, for the purpose of the telegram, by "return for settlement negotiations."

Taking another example in illustration of our second principle, that of clearness, let us suppose that a telegram is being sent in this form—

Come 3.20 p.m. train tomorrow bring samples of design numbers 2456 and 2569

That contains what in telegrams count as thirteen words, three of which are sets of figures and a fourth the abbreviation "p.m." Now, errors can occur in transmission much more readily with figures and abbreviations than with words written in full. By an error in only one figure in the time named, the 5.20 train might be indicated instead of one two hours earlier, and by the change of a single figure in one of the numbers, the telegram might be made to ask for design 2486, instead of 2456, which may be very different. Further, it is not impossible for "p.m." to be written so indistinctly as to be mistaken for "pass," and taken to mean "passenger." Partly with the view of preventing such mistakes, the telegram might be recast thus—

Bring three twenty train tomorrow afternoon samples twentyfour fiftysix and twentyfive sixtynine designs

For similar mistakes to be made in this revised version several letters instead of only one figure or one letter would have to be changed in each case, and changed in such manner as would substitute a different time or number. Yet this revised message, which makes error in transmission much less likely, contains no more words (as they are counted for telegrams) than the first version. That, however, is due to the word "bring" being now placed where it conveys the meaning of both "bring" and "come" of the original. By omission of "afternoon" the revised telegram could be reduced to one word fewer than the original, for the person receiving the message would not understand the time to be 3.20 in the early morning, unless that were clearly stated. Anyone seeing telegrams frequently will find little difficulty in providing matter for further exercises of this kind.

By way of summarizing the foregoing hints on the writing of telegrams, we submit the following rules—

1. Above all see that your meaning is made clear.

2. Reduce risk of incorrect transmission by using words instead of figures where practicable, even if they cost more.

3. Condense to as few words as you can without loss of meaning, even if you use longer words.

4. Omit any word that would repeat the sense of another word in the telegram.

5. Place words in the positions where they yield the greatest service in meaning.

RECORDS OF TELEPHONE MESSAGES

Telephone calls are frequently received for persons who are absent when the calls come through. Whoever answers such a call should, of course, take and pass on to the person concerned any message the caller gives. A pad for that purpose should be kept by the side of each instrument. It might consist of forms printed with blanks to take the time of the call, the name of the caller, where he speaks from, his exchange number (if he he desires to be rung up later), and a space for the message he gives. Such a form regularizes the method of taking telephone messages, and it provides for each message being written down at the time it is taken. It serves, besides, as a means of recording the communication, with the view of its being filed along

with any inward or outward letters that have been or may be received or sent on the same subject.

Many outward calls will, however, be made by members of the staff, and many inward calls will come through for persons who are not absent, and who themselves speak to the callers. The pads suggested will be just as serviceable for use then, for the jotting down at the time of any instructions or requests received or given, and for preserving written record of them. They will serve also for making written record of telegrams dictated over the telephone. Even when such forms are not provided, it will often be advisable to make a note of the substance of telephone conversations. Should a conversation be of any but passing interest or importance, it should be confirmed by letter, by one or both of the parties.

For the purpose of checking trunk-call charges when the accounts for them come in, the telephone operator should record, in a book or on a daily sheet, the name and exchange called, also the day, time, and duration of each trunk call made.

QUESTIONS

1. Give reasons why the outgoing correspondence of a business should not receive less painstaking attention than is given to other activities of the business.

2. To what points in the execution of business letters do you consider attention should be directed, with the view of maintaining a satisfactory standard of material form and appearance in the letters?

3. To what points in composition and expression should the writer or dictator give attention, so as to make the letters of a business most effective in the business interests?

4. Describe how you would organize the correspondence staff of a large business, giving reasons for the arrangements or methods you would adopt.

5. Explain what are, in your opinion, the duties and necessary qualifications of a correspondence head or supervisor.

6. Give specimens (of your own devising) of the different forms of signature found in business letters. Explain in what circumstances each form should be made use of, and why it should be used then.

7. State clearly what you understand by (*a*) signature of a principal, (*b*) "per procurationem" signature.

8. What several causes have, in your view, contributed towards bringing the typewriter to its present extensive use in professional and business offices of all kinds?

9. Describe briefly the duties of a shorthand-typist, and explain at

what points in the performance of these duties you would look for evidence of efficiency and method on the typist's part.

10. When and why would you resort to the sending of a telegram in business? What rules would you observe in the writing of telegrams? What would you do in regard to a telegram after you had sent it off?

11. What arrangements would you ordain in your business for making or keeping record of messages sent and received by telephone?

CHAPTER 19

FILING ARRANGEMENTS

FILING, as practised in business offices, means the putting away of letters and other business papers to protect them from damage, and to keep them in order for easy future reference. Our main purpose in filing is to facilitate reference to the documents, so that it will be little trouble for us to lay our hands on any document when we desire to ascertain, or to confirm in our minds, information the document contains. The preservation of the papers is secondary to the main purpose; but it is essential to that purpose. If documents were allowed to become tattered and torn, or filthy with dust, the process of consulting them would be made more irksome, and at times unsuccessful. The term "filing" appears, by its derivation, to have signified originally the putting of the papers away by merely threading them on a string. Great developments, however, have taken place in filing appliances since the days when that was customary, many successive improvements on that primitive method being themselves now obsolete. But before describing modern filing equipment, let us consider in what order we ought to arrange the papers we put on our office files.

ALPHABETICAL ORDER

Usually the first thing we ask ourselves about any incoming letter is, "Whom is it from?"; and only after that do we ask, "What is it about?" If, however, we receive an order or a remittance of money, our first question may be, "What goods is it for?" or "How much is the amount?" But we are obliged to take note, also, of the senders' names and addresses at an early stage in executing orders or in recording money receipts. And, invariably, it is by the name of the sender that we mark out one letter, order, or remittance from all the others we receive.

In filing letters, therefore, the plan that we naturally adopt is arranging them by the correspondents' names, taking the

surnames of the senders for letters that come in, and those of the addressees, or persons written to, for the copies we keep of letters that go out. We arrange the letters in the alphabetical order of the initials of the surnames, so that Jenkinson's letter is placed after Davidson's, Robinson's after Jenkinson's, and Wilson's last of the four. When we have a number of letters with the same initial in the surname, we file them under that initial, in the alphabetical order to the second letters of the names. If these are also alike, we pass to the third letters; from these, if necessary, to the fourth, and so on. Letters, then, are filed in the same order in which words are arranged in a dictionary, or names in a directory. For example, letters from correspondents whose surnames begin with B, would be placed on the *Correspondence File* in an order like the following—

Bacon, Badman, Baker, Baldwin, Ball, Barclay, Barker, Bartlett, Barton, Baxter.

Beach, Beal, Beattie, Beckett, Bell, Bellamy, Bennett, Benson, Bentley, Bevan.

Bibby, Bickerton, Bickley, Bicknell, Billington, Bilson, Bingham, Birch, Bird, Bishop.

Black, Blackman, Blake, Bland, Blewett, Blinkhorn, Bloom, Bloomfield, Blundell, Blyth.

Bodger, Bolton, Bond, Bonner, Booker, Booth, Borman, Bostock, Bourne, Bowden.

Bradley, Brady, Brewer, Bright, Bristow, Brock, Brockley, Brooks, Brown, Bryce.

Buckley, Burgess, Burnett, Burney, Burt, Burton, Bushby, Butcher, Butler, Buxton.

Byfield, Byles, Byng, Byrd, Byron, Bywater.

When surnames are the same, we decide the order by the correspondents' other names; and, should these also be the same, we go by the correspondents' towns. Thus, letters from and to Adam Brown, John Brown, Robert Brown, and William Brown would be filed in the order these names take in this sentence. Also, a letter from Donald McKenzie of Aberdeen would be filed in front of one from Donald McKenzie of Edinburgh, and that, again, in front of one from Donald McKenzie of Inverness. Letters of the Domestic Supply Stores and the Wandleton District Gas Co. would be filed under D and W respectively. The Canadian Trading Company's communications would all go under C; but the company's Montreal letters

would be placed together in front, the Winnipeg ones last, with Vancouver following Toronto between. Strict observation of these rules automatically brings together on the correspondence file all communications from and to the same person, and it gives to each correspondent's letters their own exact place on the file. In relation to each other the letters of each correspondent should be arranged in the order of their dates, the latest always in the most accessible position, on the top or at the front.

CHRONOLOGICAL ORDER

For some kinds of documents, such as daily or weekly reports, the most convenient order for filing may be simply order of date, with the latest on the top. If they are reports received from travellers or from branches, they may be filed alphabetically under the initials of the travellers or the branches. But each traveller's reports, or the returns from each branch, will be arranged in order of date amongst themselves, just as all letters from and to the same correspondent are kept in order of date on an alphabetical letter file. As regards copies of invoices sent to customers, it is a common practice to enter them in a Sales Journal day by day. That means that the entries are made in the order of the invoice dates, and the copies are usually filed away on a file by themselves in the order of the entries, the earliest first, the latest on the top. Invoices received from manufacturers and other suppliers are commonly entered day by day in a Purchases Journal, and filed away similarly on a file for purchase invoices.

For ease, however, in picking out the entry of any invoice which may be required, we usually first arrange each day's batch of invoices in alphabetical order, and then proceed to enter them each on one line only, with surnames coming next after the date, and the amount after the rest of the name has been filled in, as shown on page 335. Filing the invoices in the order in which they are entered in the Journal gives another example of chronological and alphabetical methods combined.

NUMERICAL ORDER

As a rule, the pages (or folios, as we usually call them) of the Purchases Journal bear printed numbers, the numbers being

consecutive, of course. If we also give the lines printed numbers, let us say, 1–35 on each page, we can improve on the filing method last described, and can attach to each invoice or entry a number that distinguishes it from every other on the file or in the book. All we have to do is to mark each invoice with the *page and line* where it has been entered. Thus the invoices entered on page 205 would be numbered 205/1, 205/2, 205/3, and so on to 205/35, those on page 206 would be numbered 206/1, 206/2 . . . 206/35. On posting each entry to the Creditors' Ledger, it is advisable to put the line number as well as the page number in the folio column of the creditor's account. We shall then be able to refer direct from the ledger to the *Inward Invoice File*, when we have need to turn up the invoice for any entry. With the improved filing appliances in use to-day there is no call whatever for entering in a simple form of Purchases Journal anything more than the date, name, and amount of each invoice. Details concerning any goods, when occasionally wanted, can be quickly ascertained by consulting the invoice on the file.

The same method will be found to serve efficiently for entering in Sales Journals, as illustrated on page 318, the carbon copies we retain of sales invoices sent to customers, and for filing the copies on *Outward Invoice Files*. The method may also be used for the copies we keep of the debit notes we send to suppliers, and of the credit notes we send to customers, for returned goods, overcharges, and allowances. These will be dealt with in Chapters 21–22.

Payments made to creditors, whether in cash or by cheque, are entered in a Cash Book as explained in Chapter 23. Receipts in acknowledgment of the payments are usually required from the creditors, and are filed as vouchers to substantiate the Cash Book entries for audit and other purposes. In a Voucher column in the Cash Book, consecutive numbers should be given to the entries of the payments. The folio numbers may be disregarded, and the voucher numbers made to run right on to, say, 10,000. When that number is reached, the series can be started anew at 1. The receipts for the payments are marked to correspond, and are filed in the order of their numbers on a *Creditors' Receipts File*. Not all the lines on a page of the Cash Book contain entries of payments to

creditors, and for that reason it would not be a practical procedure to have line numbers printed in when a Cash Book is made. Other kinds of documents that must be preserved, such as share transfer deeds, may be numbered and filed in the same way as creditors' receipts.

MINOR FILING DEVICES

A simple contrivance, suitable for some minor purposes, but not for any complete extensive filing arrangements, is a cover like the one illustrated below.

It is made in quarto or foolscap size, and is capable of holding papers up to not more than an inch in thickness altogether.

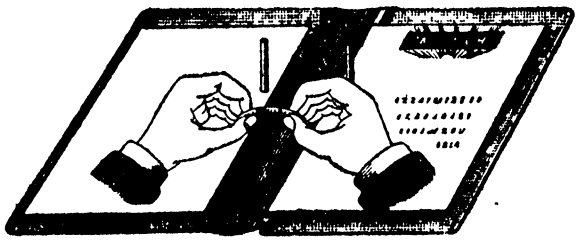


FIG. 3. "TWIN COBRA" BINDER

Such a cover consists of thick but fairly pliable paper, and is provided with a fastening inside to keep its contents secure. These may be held in place by a spring clip; but usually it is by flexible coils or bands that pass through two holes punched at the appropriate gauge in the margin of each paper.

These covers are useful for holding temporarily special letters waiting for replies or attention, or documents held up for other reasons—share certificates, for example, lodged with the company and awaiting arrival of the relevant transfer deeds. The covers may be used, also, for holding more permanently such things as blank shipping forms, standing instructions about various duties, series of periodical reports, illustrations of designs used or that may be used, specimens of advertisements or suggestions for them, and copies of price lists from suppliers of goods. They could, however, be used only where the quantity of each kind of matter to be preserved was small, and where the older contents would be discarded as they were superseded by newer supplies. Each cover should be used for only one purpose, and the nature of its contents

should be marked on the outside. The covers and contents should be kept in a drawer or other suitable receptacle, where they would be protected from dust and damage, and where they would always be found when wanted.

The box file is another type in very general use, mostly for minor purposes. It, also, is made to take contents in quarto (10¼ in. × 8 in.) and in foolscap (13 in. × 8 in.) sizes; but, being some three inches deep as a rule, it is a little more capacious than the Twin Cobra type just described. It is suitable for holding documents temporarily, such as creditors' statements of account waiting to be checked and paid, or creditors' receipts waiting to be numbered and permanently filed away. It is suitable, also, for any of the purposes that the preceding paragraph names. The box file is furnished with a spring fixed inside to hold the contents in place. It may be provided as well with a set of loose sheets tabbed alphabetically, to serve as an index. The contents are then arranged between the index sheets according to the initials of the names by which the documents are identified.

In a very small business one box file with index could be used for letters and the replies to them, a second for inquiries received and answers sent, a third perhaps for orders executed, whilst a fourth without index might be used for inward invoices passed and waiting to be paid or entered. These box files stand upright like books on a shelf, and each should be marked on the back with a name indicating its contents. For a reason to be given later, a file with a different kind of fastening is to be preferred for the permanent filing, after being entered, of both inward and outward invoices, and for filing creditors' receipts.

By being used in sets box files can be made to serve for filing documents in larger quantities. A letter file, for example, may consist of four box files marked A–D, E–K, L–R, and S–Z, each taking letters with initials belonging to its own section. When it is desired to have something more substantial in construction than ordinary box files, there may be substituted drawers, each drawer being a unit in a *filing cabinet* of six, twelve, or more drawers. Such a cabinet would accommodate not only letters, but documents of several kinds, and would approach in conception to the more ambitious filing outfit designed for bigger business.

THE FLAT FILE

The name of "flat file" was given to this type to distinguish it from the later "vertical file," because the letters or other documents this type contains lie flat, one above another, to o depth of about 2½ in. In one type of "flat" file the base consists of a thin, strong board of hardwood. At one end of this base

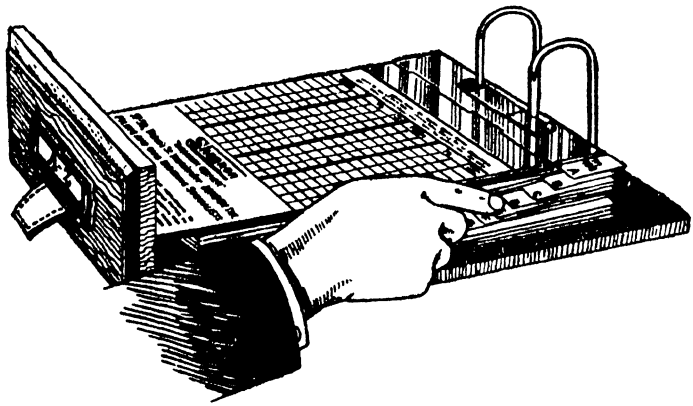


FIG. 4. SHANNON DRAWER FILE

there is fixed a *double arch* of thin metal tube. The top and back upright of each arch is made to open by turning outwards, leaving the front uprights standing fast.

When papers are to be put on this file, they must first be punched at the top, several at a time, by means of a double punch set to the same gauge as the arches of the file. The arches are then opened, and the papers are slipped into their places on the file by passing the fixed upright prongs of the opened arches through the punched holes. When the file is not in use the arches are shut, and the contents are pressed close down under a stout cover, being held there by a horizontal bar that clips the arches. To put any document on the file or to take one off, the clip is released and the contents above the place required are turned back over the double arch. The arch is opened, and the document is inserted or withdrawn; then the arch is closed, and the raised contents turned down again. Contents can be arranged either numerically or alphabetically. If they are to be kept in alphabetical order, they are inserted according to initials behind loose *ABC index sheets.*

The fixed front uprights of the arch are made hollow so that there may be inserted in them the front ends of a thinner wire arch, which is detached from a *transfer or binding case.* That is done when the contents of a full file must be taken off to make room for later papers. The transfer arch is inserted into the hollow uprights of the arch of the file, and the whole of the contents are turned back upon it. The transfer arch is then fixed in its binding case, and the papers are turned down into normal position, still in the order they had when on the



FIG. 5. SHANNON BINDING CASE

file. After having the nature of the contents, and their inclusive dates or numbers, marked on the back, the transfer case is placed on end on an accessible shelf.

If a series of these files is in use, they may be fitted up as a substantial and presentable *filing cabinet,* the files taking the form of drawers with the back and sides of each cut away. A cabinet may consist of one, two, or more tiers of drawers, according to the capacity required. Latterly many cheaply made files, constructed on the double-arch principle, have been on sale. Most of these consist of a cardboard binder, in form like the covers of a large book, with the arch fastened inside. In these cheap files the contents are usually held by holes in the left-hand margin of the papers; also the arches are not hollow, and transfer cases are not supplied. If one of these files is to be emptied, a string is passed through the holes of its contents as they are taken off, a bunch at a time. Then they are usually made up in a paper parcel with a descriptive label outside. Other variations of the flat file, more or less satisfactory in use, are supplied by the trade.

THE VERTICAL FILE

The "vertical file" consists of a *drawer or box* some 24 in. long, 12 in. wide, and 10 in. deep. It takes its name from the position in which its contents are kept, namely, standing upright, usually on their left-hand edges and face foremost. As a rule a rod runs from front to back of the file, in the middle and close to the bottom. On the rod, by means of an eyelet at the base of each, are strung a set of *guide cards*, which serve as index to the file. A projection on the upper edge of each card bears a letter of the alphabet, if the contents of the file are arranged in alphabetical order; or it bears one of a series of numbers, such as 20, 40, 60, etc., if the order is numerical.

When a vertical file is used for letters, each regular correspondent is given a *folder or cover*—a sheet of thick, tough paper doubled, with his name appearing near the top edge. Within the fold of each cover are placed, in order of date and without any fastening, all letters received from the correspondent and copies of all those sent to him, or all letters about the subject for which the folder is reserved. The folders are placed, according to the correspondents' names or the subjects, in strict dictionary order behind the guide cards bearing the initials of the names. They are not made fast in any way, and when it is necessary to look up the correspondence of any person his folder is simply lifted out of the file. Except in special circumstances neither a folder nor any of its contents should be taken away; but, if any letters or folders must be carried off, a dated memorandum of what are taken and of the name of the person holding them should be left in their place. For the letters of persons who are not regular correspondents a miscellaneous folder should be provided at the back of each initial section.

Where correspondence is extensive, an alphabetically arranged file may be split up into sections, a drawer to each section, such as A–B, C–D, E–G, H–K, and so on, the number of sections varying according to the capacity required. Also, in a large file, each initial section may be subdivided by the use of extra guide cards, thus—

BA, taking Bacon, Baker, Ball, Barber.
BE, ,, Beadle, Beddoes, Bell, Bentley.
BI ,, Bibby, Bigland, Billings, Bishop.

BL taking Blaydon, Blewitt, Bloom, Blunt.
BO ,, Bobby, Bond, Bowland, Boxall.
BR ,, Brady, Brettle, Briggs, Bryant.
BU ,, Bull, Burton, Butterworth, Buxton.
BY ,, Byars, Bye, Byles, Byrne.

Other examples of subdivision are illustrated in Fig. 6. Again, letter files may be kept in geographical or other divisions,

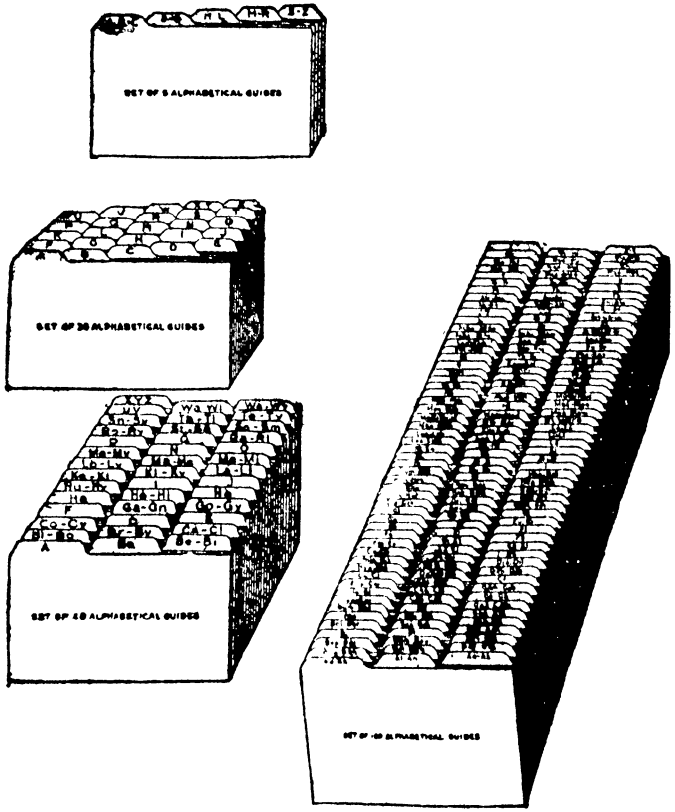


FIG. 6. SUBDIVISION IN ALPHABETICAL FILING

each arranged alphabetically, as described for a card index in Chapter 20.

Vertical files are supplied in *unit tiers of three or four drawers*, as shown on page 286. The tiers are so constructed that one or more additional units can be fixed alongside as required up to any capacity. These cabinets may be made of wood; but

sheet steel is now more in favour, probably not so much for fire resistance as for lightness and durability. A drawer full of filed papers being a heavy fitment, ease of running and

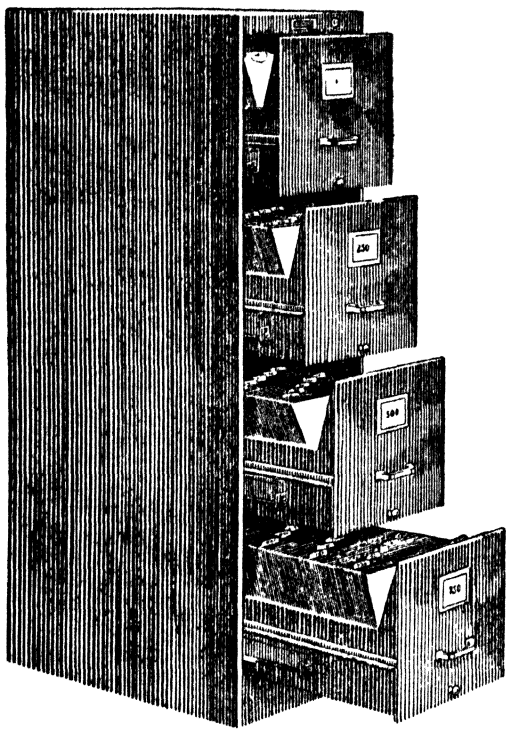


FIG. 7. STEEL VERTICAL FILING CABINET

adequate support when open are generally features of the construction.

The contents of a vertical file drawer may be removed, a portion at a time, into small transfer cases made of cardboard, similar to those for the contents of less capacious flat files. A better method, however, is to move the whole of the contents of a drawer, without disturbing their order, into a *wooden transfer box* of the same size as the filing drawer. But the contents of files should not be transferred too soon—not until the need for referring to them for ordinary purposes has passed. Whether flat or vertical files are in use, a good plan is to keep two sets of files available for reference, one set not yet full being used for

current filing, the other set being the last one filled before it. When the set in use for current filing becomes filled, the preceding one can be emptied and put to current use, while the newly filled set is kept for reference until it too must be emptied.

FILING METHODS COMPARED

In the *filing of letters* convenience of reference to them usually requires that they be arranged in *alphabetical order*. Convenience of reference requires, also, that all letters from and to the same person shall be kept together. As letters reach the filing room they must, for that reason again, be interspersed amongst the previous contents of the file—each one inserted at that place amongst the contents where the particular correspondent's name already occurs. In these conditions the vertical type of file is more suitable than the flat type, for the following reasons—

1. The form of the vertical file obviates the need for punching the letters, for turning over and back again all contents above the point at which each new letter must be inserted, and for releasing and closing fastenings. All of these operations hinder rather than help in the continual insertion of new letters, and in the abstraction of old ones for reference.

2. The much greater capacity of the vertical file is itself helpful in manipulation, for with only one vertical file drawer the filing clerk can handle, either for insertion or withdrawal, a volume of correspondence that would need some six or more files of the flat type to hold it.

3. The absence of fastenings in the vertical file prevents the not infrequent mutilation which these cause to the contents of a flat file arranged alphabetically, when much turning of the contents is necessary for introducing each day's new arrivals to their proper places.

The advantages just explained are provided by the vertical file when it is used for letters, because of the manner in which additions are made to the contents. When, however, *invoices or receipts are filed in numerical order*, as explained earlier in this chapter, additions are dealt with in a different way. With letters filed alphabetically the order of contents is a changing

one, later letters being continually inserted amongst those filed earlier. But with invoices or receipts filed numerically the order is permanent from the start. When once placed on the file their sequence is never afterwards disturbed; additions simply follow the contents already there.

Because the permanent sequence of invoices and receipts filed numerically is always maintained, and because with these there need be only occasional turning-up for reference, a fastening to hold them in exact order is probably an advantage. To find a numbered invoice on a numerical file we turn at once to the place of the number we want; but to find one on a file kept alphabetically, we should turn first to the appropriate folder, and then we should usually have to look through a quantity of invoices from the same supplier before we came to the one we required. The flat file, therefore, is suitable for invoices, receipts, and other documents to be kept in permanent numerical order; the vertical file for letters or other contents to be kept on the mobile alphabetical plan.

Invoices may, of course, be arranged numerically on a vertical file; but there is then more chance of their getting out of strict order, because of the absence of fastening. Besides, the wider range of a vertical file is not so desirable with documents kept in permanent numerical sequence as it is with those amongst which new arrivals are to be inserted every day. Again, letters may be kept in numerical order on a vertical file by allotting a permanent number to the folder of each correspondent, and by placing the folders in sequence behind numerical guide cards. That, however, necessitates the extra work of keeping an index to the file, and of referring to the index when a correspondent's folder number is not known. Another variation is to have numerical folders behind alphabetical guide cards, and to write upon each guide card an index to its section. Thus Henry George's letters might be kept in folder G8, John Grant & Co.'s in folder G9, and those of Galsworthy & Wright, Ltd., in folder G10, all placed behind and indexed upon guide card G.

FILING SERVICE MUST BE EFFICIENT

So far as is practicable, the correspondence of a business should all be kept in a general filing cabinet or, where the

business is a large one, in a *General Filing-room*. If a number of filing outfits were kept in different departments it would not always be known which department had dealt with certain correspondence last, and where a letter or a series of letters could be found when required at a later date. Time would be lost and tempers ruffled by having to hunt for them in one department cabinet after another. Besides, when a general filing service is instituted, uniformity of practice can be enforced and greater efficiency ensured. But as regards invoices, receipts, and those documents closely connected with the book-keeping system, other considerations make it advisable for these to be filed and kept in the counting-house.

There should be a rule strictly adhered to that all letters be passed to the filing-room day by day, and that they be *dealt with punctually* by the filing clerks. If letters are allowed to accumulate, either before or after their passage to the filing clerks, time may be wasted again and annoyance incurred in searching for documents that should be on the file but have not yet reached that destination. Moreover, the longer papers are held up or left lying about, the greater are the chances of some of them being mislaid or lost entirely. There are occasions, too, when it is imperative that a document should be forthcoming immediately, and when the closing of a business deal may be prejudiced by failure to produce it at once. Time has a very real value in every business, and, where the methods in vogue are such as frequently waste the time of principals and employees, they add to the cost of carrying on that business.

For similar reasons the actual filing of documents must be *carried out with sustained carefulness*, so that papers shall not be put in wrong places where they cannot be laid hold of when wanted. Filing clerks should be held accountable for delays and vexatious occurrences brought about by their carelessness. Further, to eliminate doubt about where to look for any required letter, an exact routine should be prescribed and enforced for cases where alternative rules could be followed. For example, should van Houten's letters go under V or under H, and should da Costa's go under D or C? Are Stewart-Melville's to be placed under S or M, and are those of H.M. Inspector of Taxes, Richmond, to be filed under H, I, T, or R?

QUESTIONS

1. What is the meaning of "filing" as practised in the business office, and what purposes does it serve?

2. If you had letters in the following names, show in what order you would arrange them on the correspondence files—

W. T. Taylor & Co., Ltd., Saunders Sons & Co., Edward H. Hopkins, Pilkington Bros., Ltd., R. W. Young, Ltd., Watkins, Wilson & Woodbridge, Alfred Cole & Cooper, Gregson & Paterson, P. W Edwards, George Baker & Sons, Robertson & Green, Adams & Balderton.

3. Arrange the following names in the order in which you would file alphabetically business letters from and to persons bearing these names—

Cuthbert, Cartwright, Clynes, Robert W. Clarke, Cousins, Cadman, Crowley, Curtis, Michael Clarke, Christie, Cooper, Cranston, Cleghorn, Cullen, George T. Clarke, Carpenter, Coxon, Crane, Collins, Chudleigh, Charles B. Clarke, Coleman, Chivers, Cairns, Chambers, Clayton, Cracknell.

4. (*a*) In what order would you file letters from and to branches of—

The Roomy Shoe Co. in Nottingham, Leicester, Hull, Bristol, Newcastle, Leeds, Huddersfield, Liverpool, Birmingham, Halifax, and London?

(*b*) What is meant by "dictionary order" in the filing of letters? What advantage, if any, is there to be gained from keeping letters in strict dictionary order on the correspondence file?

(*c*) In what order would you place on your correspondence file letters that you receive and send to the New Era Manufacturing Co. almost daily?

5. Describe carefully an efficient method of numbering for reference inward invoices and copies of outward invoices, and of filing them numerically.

6. Mention some examples of the filing of documents in chronological order, and some of chronological and alphabetical, or of chronological and numerical, orders combined.

7. How would you file away receipts you have obtained for payments made to creditors, and how would you connect the filed receipts with the entries of the payments in your cash book?

8. Explain how the box type of file may serve for holding temporarily or permanently business documents of various kinds.

9. Describe step by step the procedure of filing letters alphabetically on a "flat" file. What happens when more letters have to be placed on a file that is already full?

10. Describe in some detail the construction and the constituent parts of a vertical file.

11. Explain in what order letters can be kept in a vertical file, and how the contents are disposed of when a vertical file must be emptied to make room for later letters.

12. State which method of filing you consider most suitable for (*a*) letters and (*b*) invoices. Give reasons for your preference in each case.

13. State clearly what rules you consider should be applied to the filing arrangements of a business in order to secure their efficient working.

CHAPTER 20

INDEXES AND LOOSE-FORM RECORDS

ORIGINALLY the word "index" meant a pointer or indicator, in the sense in which we use it when we speak of the "index finger." In a business office the word is now used to signify a guide showing, usually by a number, in what part of a file of letters or a collection of documents any desired one is to be found, or on what page of a ledger any required account appears. As documents and accounts must be identified by their names, and as the best method of arranging names for reference is by their initials, indexes are almost always constructed on an alphabetical plan. Because an index is arranged according to the initials of its contents, the name "index" came to be used, also, for an address book or list of names and addresses compiled in ABC sections. Such an index is kept, not as a guide to the place, in a separate collection of documents or accounts, where any required one can be found, but simply as a record of the names and addresses the index itself contains.

INDEXES IN BOOK FORM

What used to be the commonest form of index is one still in frequent use and one that readers will readily recognize. It consists of a bound book divided into sections corresponding to the letters of the alphabet, each section tabbed at the side with its own letter. The leaves are cut away at the edge so as to show the initials of all the sections at the same time. Indexes of that kind are used for book ledgers, and are usually bound up with the books to which they belong. An account, the name of which begins with letter L, is indexed in the L section, the name being found there afterwards by placing the thumb on the L tab, and turning over the leaves of the sections above.

In that form of index the entries in any section cannot be made in dictionary order. A new name is entered, surname first, on the next available line of its initial section. If the index is extensive, one may have to look down several columns before

finding the name one wants. Noticing how much time and eyestrain were expended in doing that, someone hit on the idea of the *Vowel Index*, in which each initial section is divided into six subsections for the vowels A, E, I, O, U, and Y. As the example shows, a name to be placed in a vowel index goes in the section that bears the initial of the name, and in the division of that section set apart for the *first vowel that follows the initial* of the name. Names beginning with vowels follow the same rule. ANDREWS, for example, goes under initial A, vowel E; EDWARDS under initial E, vowel A; INGLIS under initial I, vowel I; OLDHURST under initial O, vowel U; and UPTON under initial U, vowel O. Amongst other purposes, vowel indexes are used for ledgers, whether these are of the thread-bound or the loose-leaf form.

VOWEL INDEX—OPEN AT INITIAL "P"

A		E	
Paterson, John	69	Preston & Rogerson	43
Palmer & Co, Ltd, W	84	Peters Bros & Co	60
Pratt & Royle	102	Pennington, Alfred	85
I		O	
Pringle, Jas. S.	71	Poynton, George	52
Pickles & Sons, W	95	Pollard, Shaw & Taskei	99
Plimsols, Ltd	120	Proctor & Williams	137
U		Y	
Plummer, A. L	76	Pryce, Davies & Co.	81
Public Hall Co., The	144	Pye, Gerald D	112

THE CARD INDEX

A card index is made up chiefly of *name cards*, a usual size of which is 5 in. by 3 in. One of the best examples of its use is a Customers' Address List, in which the customers' names and full addresses are written or typed on these cards instead of being entered in a book. One name card is reserved for each customer, and the surname is placed first on the card, so that the eye catches it quickly when the index is consulted. Some further information, such as the nature of the customer's business, his telephone number, and his telegraphic address, may be added and so make the index of greater service. A description of an index in this form was given in Chapter 12. These name cards are arranged, in upright position without fastening and in strict dictionary or directory order, behind *initial guide cards* in the same manner as the contents of, a

vertical file. The whole set of cards is kept in a tray or a drawer of suitable size; or in the several drawers of a *card-index*

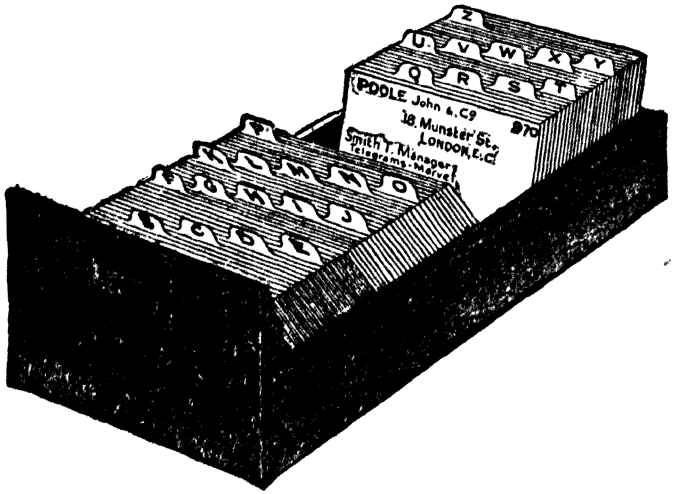


FIG. 8. CARD INDEX DRAWER

cabinet, if the index is a big one; or in some other receptacle appropriate to the size of the index and to the conditions of its use.

ADVANTAGES OF THE CARD INDEX

There are two main advantages of the card index over the book index, both of which render reference to the index easier. They are—

1. That each new entry can be placed in its true alphabetical order in relation to all previous entries, so that when we want a card we know exactly where to find it, just as we know the exact place of a word in the dictionary.

2. That names which have fallen out of use can be removed to a disused drawer, or can be brought back if they come into use again, so keeping only "live names" in the current index.

But the card index yields other advantages, such as these—

3. Name cards of different colours may be used to indicate what different kinds of business different customers carry on, or to indicate other distinctions.

4. As the order of the contents is never fixed, a card index

may be rearranged at any time. For example, it may be broken up into separate divisions for the different kinds of business customers engage in; or into geographical divisions, such as London, South Coast, West of England, Wales, Midlands, Eastern Counties, and so on.

5. A card index never needs to be entirely rewritten as a book index does when it gets full. As a card index expands, its contents can be spread over more drawers without disturbing its strict alphabetical order.

6. In a large index the initial sections can be subdivided by the introduction of further guide cards, showing the second letters of the names, or even the third letters; or the guide cards can be marked in one of the ways shown on page 285 for the vertical file.

CARD INDEXES WITH NAMES ALL VISIBLE

There is, however, one defect in the ordinary form of card index that hinders its quick manipulation. Although we can tell the exact alphabetical position that a particular card should occupy, it takes a little time to find the exact place, yet less on the whole than with an index written in a book. A few cards near the one we want have usually to be fingered and looked at before we can select and read the correct one. To remedy that defect the ordinary form of card index has been remodelled. The remodelling takes various forms, but all for the purpose of making many names, instead of only one, visible at the same time. Fig. 9 on page 296 shows one of these improved forms. It consists of a metal cabinet containing a number of very shallow trays, in each of which some fifty or more cards can lie flat with their names all visible when the tray is pulled out. To obtain simultaneous visibility the names are typed at the foot of each card, and the cards are held overlapping each other, with only the bottom strips exposed on which the names appear. The rest of each card with the information it contains can be made visible at once by merely inserting a finger and raising the cards lying above it.

Another form of the visible card index consists of overlapping cards or slips fastened into a binder in the form of a rather long and narrow book. The slips are held in place by means of perforations that fit on to fastenings fixed in the back of the binder.

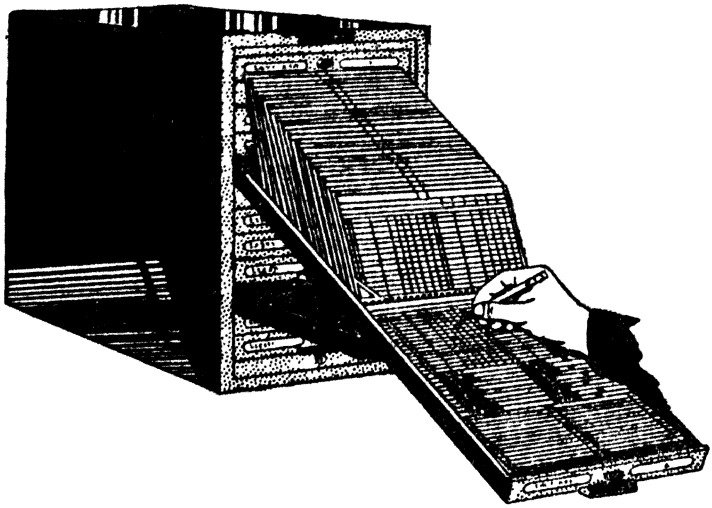


FIG. 9. A "KARDEX" CABINET

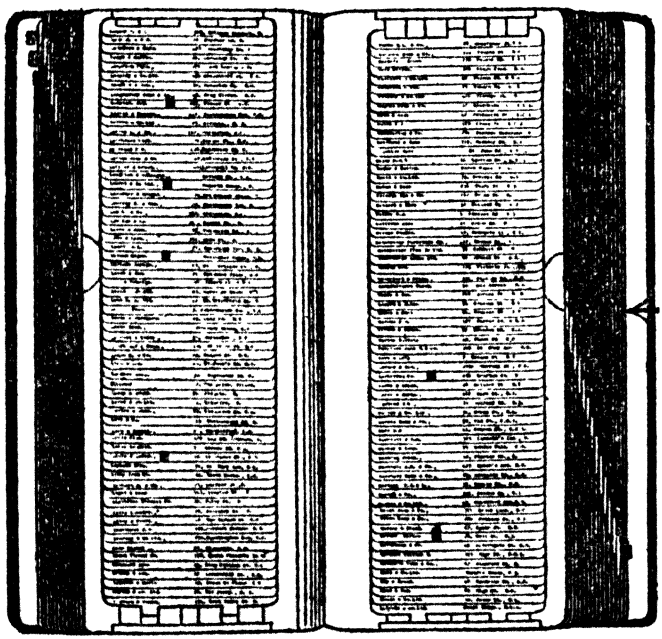


FIG. 10. "KALAMAZOO" STRIP INDEX BOOK

Both of these forms of visible index permit of the cards being moved to new places, of new names being inserted in their proper alphabetical positions, and of old names being withdrawn when desired. Both have this advantage, also, that an entry can be added on any card without the card being removed from its place in the cabinet or book. Sometimes the cards are tabbed with metal or celluloid signals of different

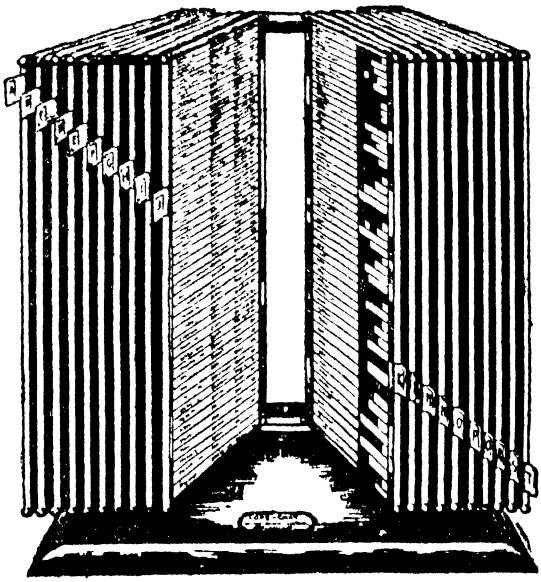


FIG. 11 "COPE-CHAT" STRIP INDEX DESK STAND

colours, perhaps to signify the different trades of customers, perhaps to indicate the different dates when instalments fall due, perhaps for some other of a number of possible purposes. On page 296 is shown a strip index in book form, and on this page a desk stand taking a strip index again. In these the information, customers' names and addresses, or whatever it is, is typed on narrow strips which are attached one following another to a leaf of the book or a frame of the stand.

USES OF CARD RECORDS

The card form of record may be put to many uses, the cards varying in size with the kinds of records they are intended to

contain. Some of the purposes for which card records may be kept are these—

1. Customers' names and addresses, and the different kinds of business they engage in.

2. Suppliers' names and addresses, and the different kinds of goods they can supply.

3. Shareholders' names and addresses, and the numbers and classes of shares they hold.

4. Names and addresses of members of associations or subscribers to institutions.

5. Names and addresses of gas or electricity consumers, and particulars of the appliances they use. For this purpose the cards would not be kept in the alphabetical order of consumers' names, but in order of streets and house numbers.

6. Hire-purchase sales and payments, and of transactions for payment by instalments generally.

7. Staff records, each card showing the employee's name, his address and any changes of address, his department with the nature of his duties and changes therein, his rate of pay at the start and changes since, the cause of his leaving when that occurs.

8. Stores or stock records, one card being used for one kind of commodity, to show supplies received, quantities sold or issued, and the stock on hand.

9. Records of trade advertisements. On page 299 is illustrated a form of card record for advertisements in weekly periodicals, the size of the space occupied being entered from the advertisement when it appears, the cost being filled in later when the account comes to hand. Entries for the second six months of the year are made on the back of the card.

10. Addressing-machine stencils or plates of the names and addresses of customers, shareholders, subscribers to periodicals, and others. Cardboard frames that hold the stencils of customers' addresses may be ruled to record the value of the trade done with each, order by order or month by month according to the nature of the business conducted.

The particular conditions and needs of particular businesses or occupations will suggest, to readers interested in these, other purposes to serve which card records may be used.

Name of Paper	Key No	Price Inch	Price Page				Remarks
The New Pictorial	*21*		*£60*				

19.. JANUARY									FEBRUARY							MARCH						19..
3	*10*	*17*	*24*	*31*		Cost									Cost							Cost
⅛th page *21*	⅛th page *21*	⅛th page *21*	¼th page *21*	¼th page *21*	*3*	7	10	–														
					10	7	10	–														
					17	7	10	–														
					24	15	–	–														
					31	15	–	–														
						52	10	–														

APRIL									MAY							JUNE						
						Cost									Cost							Cost

FORM OF A LOOSE-LEAF BOOK

A loose-leaf book consists of a strong binder within which a quantity of single leaves are held fast by pressure. The leaves are usually slotted on the left-hand edge; and, in the form now in most general use, they are slipped by means of the slots on to thongs at the back of the binder. To admit the leaves the two sides of the binder are moved apart by a few turns of a key, and they are closed firmly by reversing the turns after the leaves

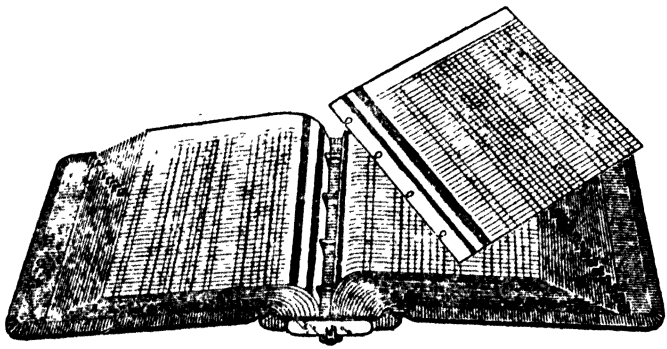


FIG. 12. "K. & J." LOOSE-LEAF LEDGER

have been inserted. Each leaf is ruled with a wide margin to take the curve at the binding edge and to permit of the rest of the leaf lying flat when the book is open in use.

When a loose-leaf book is used as a ledger, or for any purpose requiring some guide to the place where any account or record can be found, the contents are *divided into A B C sections* by means of strong divisional sheets, each tabbed on the right-hand side with its section letter. Between these divisional sheets the accounts or other records may be arranged in strict alphabetical or dictionary order, and then no further index to the book is needed. For ledgers, however, it is more usual to give each account a number, and to write up on the divisional sheet an index to its section. In that case the divisional sheet is usually ruled in vowel-index form. Each account is then distinguished by its initial and its number. Thus Brown's account may be B10, Black's B20, whilst Green's may be G5, and Gray's G15. When one index sheet gets filled a second is inserted behind.

ADVANTAGES OF THE LOOSE-LEAF PRINCIPLE

In several ways a loose-leaf record gives advantages similar to those of the card record; but for some purposes loose leaves are preferable to cards. The advantages of loose-leaf books are these—

1. A leaf is thinner than a card, so that the same quantity of records can be kept more compactly in a loose-leaf book than in a drawerful of cards. The maximum size practicable with a card is less than with a leaf. Leaves are therefore more suitable for records amongst which there are many long running accounts.

2. The contents of a loose-leaf book may be kept in strict alphabetical order, so that the work of writing up an index to the contents is dispensed with. In the old form of bound book, accounts or other records cannot be kept in dictionary order. For that reason they must be indexed, and new page numbers must be inserted in the index when the spaces allotted to the accounts become filled and the accounts have to be continued in new places.

3. When, in a loose-leaf book, each account or other record is given a number, it always remains in its own initial section, and it always keeps the same number in that section. As one leaf is filled a new one is simply inserted behind it, and a new number never needs to be entered in the index. The leaves used for each account usually bear, in addition to the account number, consecutive sheet numbers that mark the order of the leaves; but these sheet numbers do not appear in the index of the section.

4. A loose-leaf book, like a card index, never becomes full. Accounts need not be all re-opened and indexed in a new book as they must be when an old-type ledger gets filled. If by frequent addition of new leaves the book becomes too bulky, old leaves and closed accounts are taken out and placed in order in an out-of-date binder, so that the current book contains only current matter. If by the opening of many new accounts a book becomes too big, two binders are used instead of one and the contents are divided between them.

For one continuous record, such as a Journal in which sales

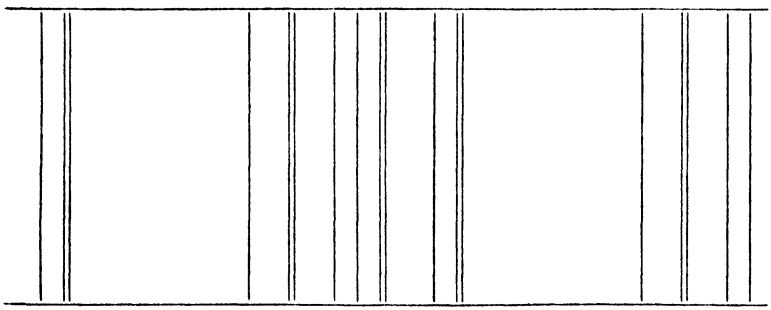
or purchase invoices are entered day by day in the form of a long list of names and amounts, the loose-leaf type of book has no advantage if the entries are written by hand. In that form of book there is no inserting of new entries amongst the old ones, so as to maintain a permanent order of groups of contents. By using single leaves, however, the journal form of record can be made by typewriter, if that is desired, and the completed leaves will then be placed one after another in chronological order in a loose-leaf binder. The use of loose-leaf books carries, perhaps, some little disadvantage in making it easy for leaves to be misplaced, or for records to be tampered with by false leaves being substituted for true—faults not possible with the old type of bound book. The fact, however, of the loose-leaf method coming into greater and greater use implies that any inherent weakness in this respect is more than balanced by appreciable conveniences in other ways.

USES FOR LOOSE-LEAF BOOKS

1. **Ledger Accounts.** In a loose-leaf ledger written up by hand the accounts are usually kept in the ordinary two-sided form, leaves being ruled on both front and back, thus—

Name Sheet No Account No.

Address Terms .



But many business houses have their ledgers written up by accounting machines designed specially for the purpose (see Chapter 24). An accounting machine adds or deducts the amount of each posting, according to whether it is a debit or a credit to the account; and it throws out the balance of the

STATEMENT OF ACCOUNT

FEARNLEY, SANDERSON & CO., LIMITED

Drapery Warehousemen

ST. PAUL'S CHURCHYRAD, LONDON, E.C.4

Messrs. Gregory & Wright,
12 Broad Avenue,
LEEDS.

Date	Invoice No	Debits	Credits	Balance
19 .	A/Rd.			65 8 1
JUL 6	GDS 2472	18 2 4		83 10 5
8	CSH		63 2 6	
	DIS		2 5 7	18 2 4
13	GDS 3297	35 11 2		53 13 6
17	GDS 3601	9 4 6		62 18 0
	RET 884		5 2 0	57 16 0

Please forward this Statement with your remittance

No receipt will be recognized unless on the Firm's official form.

The last amount in this column is the amount you owe

ABBREVIATIONS

GDS—Goods
A/Rd—Account Rendered
EMP—Empties
ALW—Allowance
CSH—Cash
DIS—Discount
BAL—Balance
B/Fd—Brought Forward
RET—Returns

[This statement form and the ledger sheet on which the customer's account is kept have the same ruling. They are written up by machine simultaneously, transaction by transaction as each one occurs.]

account in a balance column after each posting is made. A specimen sheet for keeping accounts by this method is shown on page 303; but there are many varieties of these machines in use. One maker states that amongst other advantages of this method, (1) the amounts posted are automatically accumulated for the purpose of balancing ledgers daily, (2) a detailed Journal record can be made, and (3) statements or remittance advices are prepared as by-products of the posting operation, and are ready for dispatch at the proper time. The account sheets are kept loose in trays so arranged as to be easily handled by the operator.

2. **Stores or Stock Records** may be kept in loose-leaf books, with the advantages already explained, and in some such form as follows—

STORE OR STOCK RECORD

Description of Stock

Date	Supplier	Received			Issued			On Hand	
		Quantity	Price	Value	Quantity	Price	Value	Quantity	Value

Accounts of this kind dispense with the work of taking stock at the close of each trading period. Their accuracy can be checked by taking a few accounts week by week throughout the period, and comparing the stock found to be actually on hand with what each account shows.

20—(B.337)

DEPARTMENTAL WAGES SUMMARY

Week Ended	Total Wages	Departments							
		A	B	C	D	E	F	G	H

Binding Margin

3. **Cost Accounts.** Manufacturers may find the loose-leaf form suitable for their cost accounts. A specimen ruling for cost accounts was given and their purpose was explained in Chapter 5 on Manufacturing Administration.

4. **Departmental Analysis Sheets** showing weekly or monthly totals in tabular rulings, like the specimen on page 305, can be kept much more conveniently in loose-leaf form than in a fast-bound book. Sheets like the specimen can be used to give the dissection, according to departments, of sales, purchases, and wages, the amounts of which can be accurately ascertained department by department. The sheets may be written up by hand, or they may be typed and added on a tabulating machine. In a business running a number of branch shops, where rents, rates, lighting, and other expenses are also ascertainable for each shop separately, similar sheets can be used for tabulating these, so that accounts can be prepared to show for each branch the exact results of the trading, and the cost of doing it.

5. **Department Wages Sheets.** Where wages lists have to be signed week by week by the head of each department, they may be entered on separate department sheets. The sheets should be ruled with columns for several weeks' wages against one column for names. When the last week of the ruling has been completed, new sheets will be prepared and the old ones, now full, will be placed each in its proper department section of a loose-leaf binder. A summary of all department totals will be compiled each week to show the total paid, and from this summary the figures will be entered in the Tabular Department Wages Sheet mentioned in the preceding paragraph.

6. **Company's Register of Members.** A specimen loose-leaf form, embodying the requirements of the Companies Act, and suitable for companies whose issued shares are fully paid, is given on page 307. When the share accounts of the members of a public company are written up on loose-leaf sheets, they should be kept in their binders in strict alphabetical order. The trouble of writing indexes to the registers and of continually consulting them for the account numbers is then eliminated; also, closed accounts of persons who have ceased to be members can in time be removed to closed-account binders. Where a company's issued shares are of only two classes, say

RULING FOR COMPANY'S LOOSE-LEAF REGISTER OF MEMBERS

ORDINARY SHARES OF £1 EACH FULLY PAID

Holder's Name . . . . . .

Address .

Description

Binding Margin

Date of Registration	Transfer, etc., No.	From or to whom Transferred	Distinctive Nos.				Quantity		
			Acquired		Disposed of		Acquired	Disposed of	Balance Held
			From	To	From	To			

MONTHLY TRADING AND PROFIT AND LOSS ACCOUNT OF BRANCHES

SHEET No. 1 — MONTH ENDED . .. . 19..

Binding Margin

Branch	Sales		Closing Stock	Total	Opening Stock	Purchases	Gross Profit			
	This Year	Last Year					This Year	%	%	Last Year
A B C D E F etc.										

SHEET No. 2

Binding Margin

Branch	Wages	Rent, Rates, etc.	Light, Heat, etc.	Repairs and Renewals	Sundry Expenses	Depreciation	Net Profit			
							This Year	%	%	Last Year
A B C D E F etc.										

preference and ordinary, the Quantity columns can be divided accordingly. For more than two classes of shares, it is better to keep a separate register for each class. The full holding of every member, whether in one class or more, is shown on the card index of shareholders mentioned earlier in this chapter.

7. **Periodical Statements and Returns.** As an example under this head we give the specimen ruling of a monthly Branches Account shown on page 308. Some of the figures in an account like this must by their nature be only estimates for the month. By such an account, however, a fair representation of how each branch is doing can be obtained, until at the close of the trading period final accounts on a more accurate basis are prepared. By estimating stocks on hand an account similar to the first part of our specimen can be prepared at the end of each month for a business comprising a number of trading departments. The advantage of loose form for periodical returns is that a single sheet is much more convenient to handle, whilst it is being written up and during consideration by partners, directors or managers, than a bound book, nearly all the contents of which are not of interest at the time. After consideration the sheets are put away in their binders for future reference when wanted. Placed in a loose-leaf binder, each in its own section, purchases with purchases, sales with sales, and so on, they can be kept together more conveniently than in an ordinary book.

The foregoing are only examples of many purposes to which the card and loose-leaf methods of keeping records can be put. Other examples will be suggested by the particular requirements of different businesses with which readers are acquainted.

QUESTIONS

1. What is an index, and for what purposes is it most commonly used in the office of a trading business?
2. Give an example of a vowel index open at initial B, and make ten specimen entries to illustrate how that type of index is written up.
3. Describe the construction of an ordinary card index, and explain how its contents are usually arranged.
4. Enumerate and explain what advantages are to be derived from the use of an ordinary card index instead of an index in book form.
5. Describe a form of visible card index, and show what advantages it offers over the ordinary form of card index.
6. Enumerate eight distinct purposes for which card indexes may be used, and indicate what particulars will be recorded on cards used for each of these purposes.

7. Describe the form and arrangement of a loose-leaf book used as a Customers' Ledger.

8. What benefits are obtained from using the loose-leaf form of book for ledger accounts and similar individual records? Give reasons why you would or would not recommend the use of loose leaves for a continuous record like a Sales or a Purchase Journal. Is there any disadvantage in keeping records in loose-leaf instead of ordinary bound-book form?

9. Mention some of the benefits to be obtained in a business office by using a book-keeping machine to write up customer's accounts on the sheets of a loose-leaf book.

10. Mention four purposes, other than that of keeping ledger accounts, for which the loose-leaf form of record is suitable, and indicate what information each of the four kinds of record would contain.

11. Show a ruling suitable for the Register of Members of a limited company with all its issued shares fully paid. What form of book would you use for the Register of Members, and how would you arrange the contents?

CHAPTER 21

SALES RECORDS AND CUSTOMERS' ACCOUNTS

NEAR the end of Chapter 12, in mentioning the carbon duplicates of sales invoices, we remarked that they are the basis on which subsequent entries of sales transactions are made in the account books of the business. In this chapter we propose to take up again the tale of customers' invoices, to show how the subsequent entries are made, and to explain what purposes they serve.

WHAT AN INVOICE IS

An invoice[1] is a written note showing quantity, description, price per unit, and total value of goods supplied, or showing particulars of work done or services rendered and the charges therefor. The invoice is sent by the seller to the buyer on delivery of the goods, or on completion of the work or service. In some establishments it is not the practice for the invoice to be posted at the same time as the goods are dispatched, but to be prepared and sent on afterwards. Where that is the custom, *a delivery note* or *a packing note*, like that shown in Chapter 12, is sent either in the parcel with the goods or by post to reach the customer by the time the goods are unpacked, so that they can be checked off by it. If goods are sent to one address, the invoice for them going to another address, a delivery note or else a copy of the invoice should, for a like reason, be sent to the same address as the goods. When delivery of the goods is made by the supplier's own van, the delivery note is usually presented in duplicate, one copy to be kept by the customer, the other to be signed by or for him and to be handed back to the vanman as a receipt for the goods.

To the customer an *invoice* or *a delivery note serves* (1) as a notice or advice that the goods specified in it have been dispatched, and by what carrier or route; (2) as a note of the particulars of the merchandise, so that the quantities and

[1] The word *invoice* appears to be derived from the French *envoi* (plural, *envois*), which means a sending or something sent, a package of goods dispatched.

qualities received can be checked with what the invoice says the supplier has sent. An invoice serves besides (3) to show the customer the price of each article or of each unit of quantity, and to enable him to mark the cost prices, to fix his selling prices, and then pass the goods into stock. Also, it serves (4) to show the customer what is the total charge he will have to pay, and how that total is made up.

What is termed a *pro forma invoice* is a note made in the form of an invoice, but for goods that have not been sold. It may be sent in answer to an inquiry about goods, its object being to show what the supplier's charges will be, if the inquirer acts upon it and orders the goods. An invoice marked *pro forma* may be used when goods are sent out on approval, or to a shopkeeper for sale or return. One may be sent, also, with a request for the buyer's remittance, when a manufacturer or trader is unwilling, before receiving payment, to part with goods ordered from him. Again, goods are sometimes sent *on consignment*, that is, they are dispatched to an agent to be sold by the agent on the owner's behalf at the best price obtainable for them. A *pro forma* invoice is supplied to the agent as a guide to the price he should try to obtain. If the agent is located abroad, an invoice will, in any case, be required by him for presentation at the customs office in his town or seaport. As a *pro forma* invoice does not represent a sale, it should not be entered as such in the business books until a sale has actually been effected and the goods have been dispatched.

SPECIMEN INVOICES

In Chapter 12 we showed the invoice corresponding to the delivery note already mentioned. On pages 313–316 we now submit four further specimens for goods and work of different kinds. The goods or the work should be correctly described in the invoice and, as previously stated, quantities, prices, and total values must be shown. An invoice should, of course, be dated, usually with the date when the goods are sent off, but sometimes with the date when the invoice is posted for goods that are ready and waiting for the buyer to take delivery. Sometimes, again, an invoice is dated forward, as when an invoice for goods delivered in one month is dated the first of the following month, and is included for payment in the

following month's account. Where an invoice is for goods dispatched it should say, for the buyer's information, how they are being sent; and, as buyers very often require their order numbers to be shown on the sellers' invoices, it is now a common occurrence for them to appear there. An invoice may also state the discount to be allowed on payment, and when payment for the discount named should be made. That, however, is more likely to happen with a new customer than when there has been a long course of transactions between the parties, and the terms of payment are clearly understood. Usually the headings of invoices contain the words "Bought of"; but "Sold to," "Invoice from," or some equivalent phrase is frequently substituted.

SPECIMEN INVOICE NO. 1

TELEPHONE CHURCHYARD 2121
TELEGRAMS FEARSAND CENT LONDON

ST. PAUL'S CHURCHYARD,
LONDON, E.C.4.

10th June, 19..

MESSRS GREGORY & WRIGHT,
12 Broad Avenue, Leeds.

Bought of

FEARNLEY, SANDERSON & CO., LIMITED

Drapery Warehousemen

			£	s.	d.
5	Ends 35-in. Striped Winceyette 2/33, 30½, 29, 26½ = 152 yds.	8¾	5	10	10
1	Piece 59-in. Plain Sheeting = 94 ,,	7⅞	3	1	8
1	,, 79-in. ,, ,, = 92 ,,	10½	3	18	7
2	Pieces 35-in. Non-crush Velvet 34½, 36¼ = 70¾ ,,	4/11	17	7	10
1	Piece 35-in. Lido Velo Sheen = 38 ,,	2/11½	5	12	5
1	,, 27-in Sky Velvet Cord = 38 ,,	1/8	3	3	4
1	,, 48-in A.S. Taffeta, No. 43 = 73 ,,	1/10	6	13	10
2	Pieces White Muslin, 62, 60½ = 122½ ,,	4½	2	3	5
			47	11	11
	One box, carriage paid, L.N.E.R. goods train.				

SPECIMEN INVOICE NO. 2

TELEPHONE: CHURCHYARD 2121
TELEGRAMS: FEARSAND CENT LONDON

ST. PAUL'S CHURCHYARD,
LONDON, E.C.4.

10th June, 19..

MESSRS. KEITH BROS., LTD.,
24 Union Parade, Liverpool.

Bought of

FEARNLEY, SANDERSON & CO., LIMITED

Drapery Warehousemen

			£	s.	d.
6	No. 748 A.S. Quilts 6 × 5 2 Green, 2 Rose, 2 Blue . .	10/9	3	4	6
1	A.S. Bedspread 90 × 100			12	–
8	Wms. Taffeta Dressing Gowns . . .	7/6	3	–	–
4	O.S. Taffeta Dressing Gowns . . .	9/6	1	18	–
3	doz. Interlock Nightdresses	26/–	3	18	–
10	Ladies' Cardigans 2 Saxe, 2 Rust, 2 Nigger 2 Sandal, 1 Helio, 1 Black	8/9	4	7	6
12	Ladies' Jumpers 3 Fircone, 3 Rose, 3 Grey, 3 Nigger	5/9	3	9	0
			20	9	–
	One Hamper, L.M.S. goods train, carriage paid.				

SPECIMEN INVOICE No. 3

TELEPHONE (5 lines) WATERLOO 03565
TELEGRAMS. WOODPECKER LONDON

Bought of

HOPWOOD BROTHERS, LIMITED

HILL STREET, BOROUGH, LONDON, S.E.1

Engineers and Ironfounders

SPECIALITIES

- Pavement Lights
- Iron Staircases
- Heating Plant
- Steel Casements and Sashes
- Ventilators for Roof and Inside Use
- Collapsible Gates
- Puttyless Roof Glazing
- Leaded Lights and Skylights

MESSRS. F. & S. CAMERON, LTD.,
Station Road, Epsom.

Invoice No. IOG/75. Date, 27th Nov., 19..

	£	s.	d.
Order No . Your letter 3rd Nov , 19..			
Supplying and fixing at above— Two Hopwoods' Improved Steel Collapsible Gates, Type No 1, each 3 ft 7 in. × 8 ft 0 in in one leaf with lever padlock and 2 keys, locking back fittings, etc	11	–	–
2½% monthly a/c.			

SPECIMEN INVOICE No. 4

FRIGIDAIRE, LIMITED

EDGWARE ROAD,
THE HYDE,
HENDON, N.W.9.

TELEPHONE: COLINDALE 6541 (11 lines)

SOLD TO

YOUNG'S REDSIGN CAFÉS, LTD.,
Riverview House, S.E.1.

Invoice No. 45019
Date, 30th July 19..
Location, London Suburban

Date Dispatched	Date Installed	Salesman's No.	Your Order No.	Our Order No.
9/7/19..	10/7/19..	A.78	J.3018	7025

Quantity	Serial or Part No.	Description	Amount £ s. d.
1	W.6300	2-hole Portable Ice-cream Cabinet	
1	368192	Model A.125P. Compression, equipped with	
	D.3732	½-h.p. 220-volt A.C. 50-cyc. Motor .	65 0 0
1	,,	Frig. Ice-cream Sign	
		Less 10% . . .	6 10 0
			58 10 0
		Less 5% . . .	2 18 6
			55 11 6
		Installation .	4 0 0
			59 11 6

Delivered to and installed at 165 Hill Road, Streatham.

DEBIT AND CREDIT NOTES

Charges made on invoices, however, are not always agreed to by the customers to whom the invoices are sent. It may happen, (1) that, through carelessness at the supplier's end, some of the goods invoiced are not received, either because they do not belong to that customer's order and have been charged to him in error, or because they have been included by mistake in another customer's parcel. Alternatively, it may happen (2) that goods are received by a customer which have not been ordered by him, or (3) that goods received by him are found on examination to be faulty. If not ordered, they are likely to be returned to the supplier; and if faulty, either they will be returned by the customer or an allowance will be claimed by him because of the defect. Again, on checking his invoice, the customer may find (4) that a greater quantity of certain articles has been charged than he has received, or (5) that some of the articles received have been charged at too high a price. In any of these eventualities the customer will send to his supplier, in respect of the returns, overcharge, or allowance claim, as the case may be, a *debit note* in a form like the illustration below. The debit note shows the supplier that the customer is debiting or charging to the supplier's account the value involved; and, keeping a carbon copy of the debit note, the customer uses it for making the necessary entry in his books.

DEBIT NOTE

LEEDS, *14th June*, 19..

MESSRS. FEARNLEY, SANDERSON & CO., LTD.,
London.

Debited by GREGORY & WRIGHT

			£	s.	d.
1	Piece 27-in. Sky Velvet Cord, 38 yds. . Returned by L M.S , carriage forward Wrong colour sent	1/8	3	3	4

Should the seller of the goods be willing to take the returns back, or should he agree to the overcharge or the allowance, he sends the buyer, in a form like the illustration on page 318, a *credit note* to show that the amount in question has been credited or allowed by him to the customer's account.

CREDIT NOTE

LONDON, *16th June*, 19..

MESSRS. GREGORY & WRIGHT,
Leeds.

Credited by FEARNLEY, SANDERSON & CO., LIMITED

			£	s.	d.
1	Piece 27-in. Sky Velvet Cord returned, 38 yds.	1/8	3	3	4

ENTRIES OF SALES AND RETURNS

A manufacturer or trader who sells goods on credit keeps in a *Sales* or *Customers Ledger* an account in the name of each credit customer, the account showing the dates and amounts of all transactions with the customer, and how much is owing by him at any time. Transactions to be recorded in customers' accounts are, however, usually entered first in a book other than the ledger. As stated in Chapter 19, it is customary for credit sales to be recorded day by day in a *Sales Journal.* For facility of reference each day's sales are entered in the Sales Journal in the alphabetical order of the customers' names. The entries are made from the carbon copies kept of customers' invoices, and the carbon copies, after being numbered to correspond to the entries, are filed away on a *Sales Invoice File.* Added up for a week or a month at a time, the Sales Journal shows what the sales of the week or month amount to; and the weekly or monthly totals, collected for the

SALES JOURNAL 205

No. of Invoice	Date		Customer's Name	Town	Led. Folio	Amount		
						£	s.	d.
	19..			Brt. fwd.		9287	14	1
1	June	10	Gregory & Wright .	Leeds .	G.36	47	11	11
2		10	Hulbert Sons & Co.,	Sheffield .	H.14	101	15	4
3		10	Jackson, Robt. W. .	Manchester	J.7	8	17	6
4		10	Keith Bros., Ltd. .	Liverpool .	K.5	20	9	0
5		10	Langridge & McBride	Belfast .	L.51	27	11	9
6			etc.	etc.				
7								

trading period in a Sales Account kept in a different ledger, show to what final total the sales of the period reach. The sales being *debited* singly to the customers' accounts, the totals from the Sales Journal are *credited* weekly or monthly to Sales Account, in accordance with the rules of double-entry book-keeping.

Carbon copies of the credit notes sent to customers for goods returned and for allowances made are entered in a *Returns Inward Journal* kept in a form exactly like that of the Sales Journal, the carbon copies, when entered, being numbered and filed on a *Returns Inward File*. The single entries in the Returns Inward Journal are credited or allowed to the respective customers' accounts in the Sales Ledger, and the totals of the Journal are debited weekly or monthly to Sales Account.

THE SALES OR CUSTOMERS' LEDGER

The customer's account, given as an example on this page, in the name of Gregory & Wright of Leeds, is supposed to be taken from the Sales Ledger of their suppliers, Fearnley, Sanderson & Co., Ltd., of London. It will be noticed that the item of June 10th for £47 11s. 11d., in the specimen Sales Journal already shown, is posted from there to the left-hand or debit side of this account. The other items on the same side of the account come from other pages in the Sales Journal. For the purpose of reference, the page and line number of each Sales Journal entry is inserted in the Ledger posting, and the folio number of the account in the Ledger is inserted against each entry in the Sales Journal. Earlier in this chapter there appears the imaginary invoice from the carbon copy of which the Sales Journal entry of £47 11s. 11d. is presumed to be made. The source from which the item on the right-hand or credit side of the account is posted is the Returns Inward Journal, together with the filed carbon copy of the credit note from

GREGORY & WRIGHT, 12–16 Broad Avenue, Leeds. Account 36 Sheet 10

19			£	s	d.	19			£	s.	d.
June 10	Goods . .	205/1	47	11	11	June 16	Returns . .	84/21	3	3	4
15	,, . .	220/5	8	2	6						
19	,, . .	229/11	12	17	–						

which the Returns Journal entry is made. As before, the page and line of each entry in the Returns Journal is inserted in the Ledger posting, and the Ledger folio in the Journal entry.

We have given here the ordinary two-sided ruling of a ledger account—the ruling that is nearly always used in ledgers posted by hand. For this form of account, book-keeping rules require that debits, or amounts to be charged to the account, shall always go on the left-hand side; and that credits, or amounts to be allowed in the account, shall always go on the right-hand side. In that manner the two opposite kinds of ledger postings are kept on opposite sides of each account, the object being to prevent confusion and consequent mistakes. The difference between the two sides is called the "balance" of the account. In a customer's account it is usually a debit balance, or excess of the debit side over the credit side, the debit balance at any time being the amount the customer then owes.

Should Fearnley, Sanderson, however, have adopted the new accounting-machine method of ledger posting, their ledger accounts will be kept in a form like that of the accounting-machine sheet or statement in Chapter 20. One date column and one description or reference column will serve for both debits and credits, these being kept distinct by separate debit and credit money columns only. In this form of ledger account each new posting, whether debit or credit, must be made on a new line. That permits of the balance of the account being shown, if so desired, in the third money column, after each posting is made; and it permits of a list of the ledger balances being compiled quickly when a periodical balancing of the ledger is required.

In the old thread-bound kind of ledger it is impossible to keep the contents in any planned order, and that makes it necessary to have an *index*, showing on what folio any account is to be found. The index may be bound up with the ledger, or it may be a separate book-index made to slip under the cover of the ledger when not wanted, and to be taken out for easier consultation when the ledger is in use. In a loose-leaf ledger, on the other hand, as explained in Chapter 20, the accounts may be kept in strictly alphabetical order, so that no index is required beyond the tabbed sheets that divide the book into

ABC sections. It is, however, more usual to give a permanent section number to each account, such as K14 or P51, and to write up a vowel index of its section on each ABC divisional sheet.

When the ledger sheets are posted by accounting machine in the manner described in Chapter 20, the machine makes a continuous addition of each day's postings. Should the Sales Journal entries also be made by machine on loose sheets, the machine will give the daily total of these as well. If comparison of the posting and the Journal totals shows agreement, we get a *day-to-day check* on the accuracy of the amounts debited to the ledger for credit sales. If the totals disagree, the error or errors are traced and rectified at the time. Under the older practice they would possibly not be brought to light until after an interval of a month or more, when a general balancing of the Ledger came to be attempted. By recording cash receipts on loose sheets, as explained in Chapter 23, a similar check on the cash postings may be obtainable.

STATEMENTS OF ACCOUNT

For the purpose of showing what items are due for payment and how much they amount to, the supplier or creditor sends his customer or debtor a Statement of Account. The following is an example—

TELEPHONE. CHURCHYARD 2121
TELEGRAMS: FEARSAND CENT LONDON

ST. PAUL'S CHURCHYARD,
LONDON, E.C.4.

MESSRS. GREGORY & WRIGHT,
12 Broad Avenue, Leeds.

To

FEARNLEY, SANDERSON & CO., LIMITED

19..			£	s.	d	£	s.	d.
June	10	Goods	47	11	11			
	15	,, ...	8	2	6			
	19	,, ...	12	17	–			
						68	11	5
June	15	Returns				3	3	4
						65	8	1
		2½% 1st July.						

As a rule, statements of account are rendered for a month's transactions at a time. They may, however, be sent weekly to customers who wish to make weekly settlements for a larger cash discount. Where transactions are not regular, the statement may be sent along with the invoice when the customer wants to pay promptly. But it may be sent with the invoice also, when the supplier, as a condition of giving credit, stipulates for each invoice being paid quickly, say within a week or ten days from the invoice date.

Invoices and statements, being made for different purposes, differ in the following respects—

(1) An invoice shows what goods or services are charged for a particular delivery made or job executed, whilst a statement shows what items in an account are due or about to become due for payment.

(2) An invoice refers to a single package of goods or to several packages sent at one time; a statement refers to all the items in an account that will become due for payment on a certain date.

(3) An invoice shows quantities, descriptions, and prices per unit of the goods supplied or particulars of the services rendered; a statement shows only the date and amount of each item, and the total of the items it includes.

A statement may use the word "To" in the heading, as in the foregoing example, meaning that the customer is "debtor to" the supplier for the amounts shown. Or it may say by implication that it is a statement of the customer's dealings "in account with" the supplier, as in the example below—

12 REGENT CIRCUS,
LONDON, W.1.

MESSRS. HILL, VALE & RIVERS,
Birmingham.

In Account with HUDSON & HILLBOROUGH

19..			£	s.	d.	£	s.	d.
June		May a/c as rendered net				10	2	6
	5	Our invoice . . . 2½%	2	5	–			
	14	" " . . . "	1	2	6			
						3	7	6
						13	10	–

Statements may be prepared by hand when the time for rendering them approaches. But in a large business, and particularly for monthly statements, that method entails much work, which all comes at one time and has to be got through quickly, whilst the daily office duties must also be kept going. For that reason many business offices have the customers' names and addresses printed on the statement forms by addressing machine, the items being afterwards inserted and added by adding and listing machine. Again, where the ledger accounts are themselves posted by machine, the accounts and the statements may, by means of carbon leaf, be printed together, item by item as each posting is made. Statements are then all ready to be sent off immediately the date for rendering arrives.

In some of the models of accounting machines, the statement form and the account sheet are inserted alongside each other, the entry made on the one being automatically repeated on the other. These methods ensure that the statement agrees with the ledger account, that no items are omitted which should be rendered for payment, and that the balance demanded does not include items which have already been paid.

TERMS OF PAYMENT

It is customary for payment of accounts to be required by a certain date. Thus, payment for all items from the 20th of one month to the 19th of the next month may be required by the 1st of the month following. That is sometimes called a "short month." Again, payment for the transactions of any one month may be required by the 20th of the next month; or, again, a "clear month" may be allowed, when payment of all of one month's transactions will be required by the 1st of the next month but one.

It is customary, also, for what is termed *cash discount* to be allowed by manufacturers and wholesale traders, if payment is received by the time required. For monthly accounts $2\frac{1}{2}$ per cent of the amount due is a common cash discount, whilst for prompt or weekly payments, 3 per cent, $3\frac{1}{2}$ per cent, or $3\frac{3}{4}$ per cent may be given. Prompt payment usually means payment in about seven days; weekly payment means that each week's transactions are paid for on the next week's pay-day.

In special circumstances customers may be able to arrange for special discount concessions. When payment is delayed beyond the date for the usual discount, either the whole or part of it must be sacrificed. For example, accounts due for 2½ per cent discount in one month may be allowed 1½ per cent after two months. After three months they may be *net*—that is, payable without any discount. Though most of the houses engaged in the same trade allow the same rates of discount, it must be understood that terms of payment vary in different trades; also that individual members of the same trade sometimes insist on terms slightly different from what are general. "C.W.O." stands for *cash with order*, and means that the supplier wants payment before he starts to execute the customer's order, "C.O.D." stands for *cash on delivery*, which means that payment is to be made at the time when delivery of goods is tendered.

DISCOUNT, INTEREST, AND COMMISSION

Cash Discount is an allowance by a creditor in reduction of the amount of an account due to him; it is made for payment of the account on or before a specified date. Cash discount is usually calculated at so much per cent of the sum owing, and it should not be deducted from the account until payment is being made.

Trade Discount is an allowance given by a supplier in reduction of the price of goods sold to a dealer. As the allowing of trade discount is not made to depend on the date when payment will be received, it should be deducted on the invoice to the purchaser. Where a manufacturer fixes prices to the public of articles such as motor-cars, refrigerators, and gramophones, the trade discount is usually the retailer's profit. The goods are charged to him at retail price with the trade discount deducted as a percentage from it. Sometimes a manufacturer fixes the price to be charged to the retailer, and allows the intermediate wholesaler a percentage off that price as his profit. In some instances, to save the expense of printing and distributing new catalogues, wholesale suppliers allow for changes in price by raising or lowering the rate of trade discount given to their customers. Much the more usual practice, however, is for the manufacturer to fix his charge to the wholesale, the wholesale

to fix a charge to the retail, and the retail to fix its charge to the public.

Calculation of Discounts. Cash discount, being merely an inducement for making payment not later than the time desired, is allowed at a low rate, seldom rising as high as 5 per cent. Trade discount, on the other hand, being of the nature of a dealer's profit, is seldom less than 10 per cent, and may be much more. As discounts occur regularly in business transactions, we illustrate below methods for their ready calculation—

(1) For rates such as $2\frac{1}{2}$, $3\frac{3}{4}$, 5, and $7\frac{1}{2}$ per cent—

5 per cent is 1s. in the £1, or 1d. in every 20d.
$2\frac{1}{2}$,, ,, 6d. ,, ,, ,, ,, 40d.
$1\frac{1}{4}$,, ,, half of $2\frac{1}{2}$ per cent.
$3\frac{3}{4}$,, ,, one and a half times $2\frac{1}{2}$ per cent.
$7\frac{1}{2}$,, ,, ,, ,, ,, 5 per cent.

Thus—

5 per cent of £111 13s. 6d = 111s. + 8d. = £5 11s. 8d.
$2\frac{1}{2}$,, ,, £201 9s. 8d. = (201 sixpences, or $100\frac{1}{2}$s.) + 3d.
= £5 0s. 9d.
$1\frac{1}{4}$,, ,, £94 16s. 4d = half of 47s. 5d. = £1 3s 8d.
$3\frac{3}{4}$,, ,, £89 17s. 0d. = 44s 11d. + 22s. 5d = £3 7s. 4d.
$7\frac{1}{2}$,, ,, £109 6s. 6d. = £5 9s. 4d. + £2 14s. 8d. = £8 4s. 0d.

(2) For rates such as 10, $12\frac{1}{2}$, 15, and 20 per cent—

10 per cent = one-tenth, $12\frac{1}{2}$ per cent = one-eighth, 20 per cent = one-fifth, 25 per cent = one-fourth, $33\frac{1}{3}$ per cent = one-third, 15 per cent = $1\frac{1}{2}$ times 10 per cent, $17\frac{1}{2}$ per cent = 20 per cent less one-eighth of 20 per cent.

Thus—

10 per cent of £187 14s 3d = £18 15s 5d.
$12\frac{1}{2}$,, ,, £219 8s. 6d. = £27 8s. 7d.
15 ,, ,, £94 10s. 2d. = £9 9s. 0d. + £4 14s. 6d.
= £14 3s. 6d.
20 ,, ,, £115 7s 6d. = £23 1s. 6d.
$17\frac{1}{2}$,, ,, £63 5s. 6d. = £12 13s. 1d. — £1 11s. 8d.
= £11 1s. 5d.

(3) For rates such as 1, $1\frac{1}{2}$, 2, 3, $3\frac{1}{2}$, and 4 per cent, where twice the rate gives a whole number, we get a result correct to 1d. or 2d if we—

Multiply one-tenth of the nearest whole number of pounds by double the discount rate, and call the product shillings.

Thus—

$1\frac{1}{2}$ per cent of £184 2s. 9d. = (18·4 × 3)
or 55·2s. = £2 15s. 2d.
2 ,, ,, £211 15s. 11d. = (21·2 × 4)
or 84·8s. = £4 4s. 9d.
$3\frac{1}{2}$,, ,, £349 11s. 2d. = (34·95 × 7)
or 244·65s. = £12 4s. 8d.

To convert the decimal fraction of a shilling into pence, multiply it by 12/10, that is increase it by one-fifth, making 0·8s. about 9½d. and 0·65s. about 8d.

PROOF OF METHOD (3)

$3\frac{1}{2}$ per cent of £100 = £3·5
" " £1 = £0·035 = (0·035 × 20) or 0·7s.
" " £349·5 = 34·95 × 7s.
= 244·65s. = £12 4s. 8d.

It should be noted that the deduction of two discounts in one does not give the same result as the deduction of the two successively. For example, £200 less $17\frac{1}{2}$ per cent = £165; but £200 less 15 per cent and $2\frac{1}{2}$ per cent = £170 less £4 5s. = £165 15s.

Bankers' Discount is interest charged by a banker when he advances the value of a bill of exchange before the bill is due for payment. The discount or interest is calculated by the banker at an agreed rate *per cent per annum* for the time the bill has to run to maturity; but it is calculated on the amount of the bill, and not as in true interest on the amount advanced.

EXAMPLE. An acceptance for £355 10s. due in three months from 1st March is discounted on 10th March at the rate of $4\frac{1}{2}$ per cent per annum. As three days of grace are allowed over and above the three months' duration of the bill, the date of payment falls on 4th June; and from 10th March to 4th June is 86 days. When the discount is not ascertained from a book of interest tables, it is calculated thus—

£4·5 × 3·555 × 86 ÷ 365 = £0·9 × 3·555 × 86 ÷ 73

```
   0·0487   |  3·409   |
 73)3·555   |  0·3409  |  = £77·4 × 3·555 ÷ 73
    635     |  0·0195  |  = £7·74 × 0·487
    51      |----------|  = £3·769 = £3 15s. 5d.
            |  3·769   |
```

The net amount advanced on the bill is £351 4s. 7d.

Interest is a charge made for the loan of money or for delay in payment of an account. It is usually calculated at so much *per cent per annum* on the amount of the loan or overdue account.

Commission is a recompense payable to a traveller, a selling agent, or a department manager. It is usually calculated at an agreed rate on the total of the traveller's, agent's, or department sales for a period.

OVERDUE ACCOUNTS

Accounts that run unpaid for a long time are not satisfactory. The longer they run, the greater is the risk of the creditor's

having to write them off as bad, or of his having to accept in settlement an offered composition of a few shillings in the pound. Besides, in a business where many customers' accounts are overdue, a large slice of the capital of the business is absorbed by them without bringing in any return. A debtor who does not pay at the due date is using the capital of his creditor to help to carry on his own business, and the creditor's capital is diverted from its proper purpose of financing further trade and making more profit for himself. It is to encourage payments at the proper time that discount on payment is offered, and some business houses give written notice that interest will be charged on accounts that run overdue. Where convenient to make, a personal call about an overdue account may be more effective in obtaining payment than a written application. With some customers an arrangement may be come to under which, at the end of each month, a bill of exchange for the amount of the month's transactions is drawn for the customer's acceptance, payment of the bill to fall due on the date when the account would become net. The advantage of an accepted bill is that it fixes an amount to be paid on a stated day, and that, if the bill is not paid on that day, action can be taken immediately in the courts on the dishonoured bill. When an account runs too long, the giving of credit to that customer should be stopped until the debt is reduced to within a reasonable limit.

It goes without saying that, for payments to be expected when due, the statements of account should be rendered without delay. As the statements are prepared for dispatch, it is advisable to have them marked with the rate of discount allowable and the date when they should be paid to obtain that discount—for example, "$2\frac{1}{2}$ per cent on 1st November" or "$3\frac{1}{2}$ per cent in seven days." Statements of accounts that have run beyond the date when they became due net should be thrown out for letters to be written to the debtors. In practice it will be found that, at the first stage in this procedure, a letter of application in the same words is suitable for many accounts; also that, at the next stage, a second or stiffer application, of the same content also, is suitable for most of those debtors who have not paid in answer to the first one. No. 1 or No. 2 standard letter, then, is sent to each, according

to circumstances; but at times a letter written specially to fit the particular case will be better. And, in every case, a letter that appears to have been specially written for the occasion is likely to make more impression on the debtor than an application that carries on its face a look of routine formality.

When requests for payment fail, notice should be given to the debtor that, unless payment comes to hand by a day named, legal action will be taken to recover the amount. In a County Court, action may be begun by the creditor himself or his agent for any amount up to £100. In the High Court a writ may be issued for a sum of £20 or over; but there the services of a solicitor are required, and costs are on a higher scale. In opening an account with a new customer, it should be borne in mind that the writing of requests for payment and the taking of proceedings in the courts are thankless work, and particularly so when the customer being "dunned" or sued is one whose credentials did not justify credit being given.

QUESTIONS

1. (*a*) What information does an invoice contain, and what purposes does it serve?

(*b*) What information does a delivery note or a packing note contain, and what purposes does it serve?

2. How does a *pro forma* invoice differ from an invoice proper, and in what circumstances may it be used? For account-keeping purposes should the senders of a *pro forma* invoice treat it in any way different from an ordinary invoice; and if so, why?

3. Supplying any necessary particulars that are not given, write out and complete an invoice for the following—

11 pcs. 63-in. Plain 2 Green Sheeting 1/62, 3/61½, 2/61, 1/60½, 1/60, 1/59½, 1/59, 1/58½	@ 7$\frac{13}{16}$d.
12 pcs. 70-in. Plain 2 Green Sheeting 2/61½, 2/61, 2/60½, 2/60, 2/59, 2/58½	@ 8$\frac{13}{16}$d.
10 pcs. 79-in. Plain 2 Green Sheeting 1/61½, 1/61, 5/60½, 2/59½, 1/59	@ 10$\frac{1}{16}$d.
15 pcs. 88-in. Plain 2 Green Sheeting 3/62, 3/61½, 4/61, 1/60½, 1/60, 3/59½	@ 11d.

4. Use the particulars given below, and write out an invoice for the goods in the correct form in which you would send the invoice to a customer—

2 28-lb. Boxes Jordan Almonds	@ 167s. 6d. the cwt.
2 1-cwt. Cases Nib Almonds	@ 120s. ,,
1 1-cwt. Case Split Almonds	@ 131s. 6d. ,,

10	1-lb. Boxes Drd. Angelica (Diamond)	@	2s. 1½d. each.
3	56-lb. Boxes Marzipan	@	96s. 6d. the cwt.
2	Cases Broken Walnuts, each 56 lb. net	@	141s. ,,
20	28-lb. Tins B. Cake Icing Sugar	@	47s. ,,

Add to the invoice a written guarantee that "all foodstuffs included in this invoice are hereby guaranteed to be of the nature, substance, and quality described, and to conform in every respect to the requirements of the Food and Drug Acts and of all regulations now in force relating to foodstuffs."

5. Write out an invoice for the goods specified below, adding yourself any further particulars that are necessary or usual—

24 doz.	White Turks	B10, 24 × 42	@	13s.	11d.
24 doz.	,, ,,	B20, 27 × 48	@	17s.	11d.
12 doz.	,, ,,	B30, 30 × 54	@	25s.	
6 doz.	,, ,,	B40, 33 × 60	@	30s.	
6 doz.	,, ,,	B50, 38 × 68	@	39s.	6d.
24 doz.	Fancy Turks	P22, 22 × 42	@	11s.	
12 doz.	,, ,,	P22, 30 × 52	@	17s.	3d.
12 doz.	,, ,,	P22, 36 × 70	@	26s.	6d.

6. Write out in complete form an invoice for the goods detailed hereunder, supplying any missing particulars yourself—

5	1-cwt. Drums Syrup	@	28s. 9d. cwt.
2	1-cwt. Kegs Clover Cream	@	72s. 6d. ,,
2	1-cwt. Kegs Bicarbonate of Soda	@	17s. 6d. ,,
15	¼ Cases Zante Currants	@	36s. 6d. ,,
	Gross weight: 7 cwt. 1 qr. 20½ lb.; tare 2 qr. 11½ lb.		
2	Cases Bigx. Cherries each 30 × 5 kilos = 662 lb.	@	10⅛d.
10	Boxes Stoned Dates	@	22s. 6d. cwt.
	Gross weight, 7 cwt. 8 lb.; tare, 2 qr. 14 lb.		

7. What does a debit note signify? By whom and to whom is it sent and in what different circumstances may it be used?

8. What does a credit note signify? By whom and to whom is it sent, and in what different circumstances may it be used?

9. Show the form that a debit note would take for a supposed overcharge in quantity on the invoice required by Question 3; also show a credit note for the same overcharge.

10. Show a ruling of the form in which you would keep a Sales Journal, and make a few specimen entries therein. Where could one find full particulars of the goods sold in each of the transactions this book records? What further records would be made in the account books of the business for these transactions?

11. What is a Returns Inward Journal, and from what sources is it entered up? Where can these sources be consulted for fuller information, and what further records will be made of the transactions entered in this book?

12. Compare the form of the ordinary two-sided ledger account with that used when ledger accounts are posted by machine. What book-keeping advantages over the old method of hand posting does the machine method yield?

13. What is the purpose of a statement of account, and when are statements rendered? In what respects do a statement of account and an invoice differ?

14. Make out in complete form a statement of account to include the transaction which is the subject of Question 5. In your example show five debit items and two credit items besides.

15. Mention what mechanical aids can be brought into use in a busy counting-house for the periodical preparation of statements of account for customers. Explain what benefits these mechanical methods offer.

16. Clearly explain the following terms: Monthly account, weekly account, cash sale, C.W.O., C.O.D., cash discount, net account, prompt payment.

17. Explain how cash discount, trade discount, and bankers' discount differ. In what different circumstances may trade discount be allowed?

18. Calculate—

(*a*) Cash discount on £229 14s. 7d. at 1½, 2, 2½, 3, 3½, and 3¾ per cent;

(*b*) Trade discount on £163 17s. at 10, 12½, 15, 17½, and 20 per cent.

19. On 10th February a bank discounted at 4¾ per cent per annum a bill of exchange for £437 10s. due at three months, plus three days' grace, from 1st February. Show how you would calculate the amount of the discount charged by the bank.

20. For what reasons should unusually long credit to customers be discouraged or refused by traders and manufacturers? What steps would you take to induce punctual payment of their accounts by customers? How would you deal with customers' accounts when they became overdue?

CHAPTER 22

PURCHASE RECORDS AND TRADING RESULTS

PURCHASE records start from the invoices received from suppliers when goods ordered from them are delivered. Day by day, these inward invoices must be carefully checked with the goods received, and with the orders that were given for the goods. As explained in Chapter 19, the invoices are entered in the Purchases Journal when they are passed and signed as correct, and each invoice is numbered with the page and line where it is entered. Then they are filed away, in the order of their numbers on the Purchase Invoice File, in the same way as we have described for copies of invoices outwards.

INWARD INVOICES

In form and content a purchase invoice does not necessarily differ from a sales invoice, for every purchase or sale requires two parties to effect it, and the same transaction is a purchase from the customer's standpoint, whilst it is a sale from the supplier's. For further illustration we give on the next three pages three more examples of invoices, the first and second of which correspond to the specimen inquiries, quotations, and order shown in Chapters 10 and 11 for the weaving and dyeing of a quantity of viscose fabric. It will be noticed that an entry for one of these invoices appears in the Purchases Journal of Fearnley, Sanderson & Co., Ltd., on the page that follows the invoices; also that the amount of that invoice occurs again in the account of Ramsbottom & Slater, Ltd., the manufacturers of the material, as that account is supposed to appear in Fearnley, Sanderson's Creditors' Ledger.

It would save much office time if inward invoices were more uniform, particularly in regard to place of date and width of paper. The date, though important, is often made to hide itself away at a variety of points in the heading. And the width of the form used by some business houses necessitates part of the contents being folded out of sight when the invoice is filed, so making reference difficult.

EXCELSIOR MILLS
BOLTON

301 PORTLAND STREET,
MANCHESTER.

May 15th, 19 . .

MESSRS. FEARNLEY, SANDERSON & CO., LTD.,
St. Paul's Churchyard, London, E.C.4.

Bought of

RAMSBOTTOM & SLATER, LIMITED

Cotton Manufacturers

Terms: 2½ per cent 7–10 days. Interest chargeable on overdue accounts.

			£	s.	d.
92	Pieces 37-in. Limbric 367G. O/15 March, 19.. 41, 42, 51, 76, 78, 79, 79½ 9/80, 5/80½, 29/81, 9/81½, 30/82, 82½, 2/83 = 7360 yards	5⅞	180	3	4
	Per Motor to the Ribbleside Dyers and Printers, Ltd., Ribblesdale.				

IMPORTANT. Deductions from accounts will not be allowed unless debit notes have been rendered and the debits agreed to.

June 10th, 19 . .

Invoice from

THE RIBBLESIDE DYERS & PRINTERS, LIMITED

RIBBLESIDE, LANCASHIRE

To MESSRS. FEARNLEY, SANDERSON & CO., LTD.,
St. Paul's Churchyard, London, E.C.4.

Advice No.	Order	Lot No.	Pieces	Width	Quality	Shade	Yards	Price	Amount £	s	d.
8871	15/3/19..	2391	20–10 20–10 15– 7½ 15– 7½ 10– 5	36 in. ,, ,, ,, ,,	Spun Visc. Limbric	46 48 54 56 62	770½ 789 603 598½ 407				
							3168	½d.	11	11	–

Bales
529 and 530 by Northern Road Carriers.

TELEPHONES: 5431-4 TELEGRAMS: LOADSTONE SHEFFIELD
CODES: ABC, 5TH & 6TH EDITIONS

GOLDSWORTHYS, LIMITED

Manufacturing Silversmiths and Cutlers

LOADSTONE WORKS, BEVERLEY RISE
SHEFFIELD, 1

DIRECTORS:
D. Goldsworthy
S. Goldsworthy
A. L. Goldsworthy
T. E. Bertram
W. Bertram
F. G. Edwards

INVOICE TO

Ref. L6930

MESSRS. BUTLER & BELL,
45 Betterton Square,
Oxford Circus,
London, W.1.

BRANCHES:
London
Manchester
Glasgow
Dublin
Toronto
Sydney
Capetown

Your Order No. G.1225. Terms: Net one month.

				£	s.	d.
Case No. 627	200	Teapots, ½ pt. with York Grid	15/-	150	–	–
	100	,, ¾ pt. ,, ,,	16/6	82	10	–
	100	,, 1 pt. ,, ,,	17/9	88	15	–
	200	Milk Jugs, 2½ oz.	7/3	72	10	–
	200	Cream Jugs, 5 oz.	9/-	90	–	–
	400	H.W. Jugs, ½ pt.	16/6	330	–	–
	300	Sugar Basins, 7½ oz.	10/3	153	15	–
		all etched, B. & B.	N/C			
				£967	10	–

Per L.N.E.R. Goods train to your address.

THE PURCHASES JOURNAL

The ruling of a Purchases Journal need not be different from that of a Sales Journal, for it is not in the form of their entries that these books differ, but in the nature of the transactions they record. In the specimen shown here we have, however, included a column for debit notes, as returns and overcharges are not always numerous enough on the purchase side of a business to justify the keeping of a separate *Returns Outwards Journal*. Like the Sales Journal, this Purchase Journal is added in weekly or monthly totals. Whether they are made for a week or a month at a time will depend on the volume of transactions in any given business, and the convenience of closing the journals and dealing with the totals at shorter or longer intervals. It should be noted that the Purchases Journal is for unpaid purchases and the Sales Journal for unpaid sales. Cash purchases and cash sales, being cash transactions, are entered in the Cash Book. Further, the Purchases Journal is only for purchases of goods to sell, invoices of stationery, electricity, rates, and other expenses being entered in a separate Expenses Journal.

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No. of Invoice	Debits £	s	d	Date		Supplier's Name	Led. Folio	Credits £	s.	d.
				19.		Brt. fwd.		8004	11	7
1				May	16	Hattersley Sons & Co . . .	H 47	101	17	–
2					16	Morton, Wills & Padmore . .	M 12	34	–	10
3					15	Ramsbottom & Slater, Ltd . . .	R 94	180	3	4
4	2	2	9		17	,, ,, ,, .	R 94			
5					15	Rupert Manufacturing Co. . . .	R.31	66	10	6
6						etc				

Where they are entered up by hand, Purchases and Sales Journals will be of the old type of bound book with fast leaves. But the entries may be made by typewriter on loose sheets that are afterwards placed in order in a binder. If the typewriter used has adding attachments, the addition of each day's debits and of each day's credits will be made by the machine. Should the entries in the Purchases Journal and the postings in the ledger both be made by machine, the totals automatically obtained in the two operations should agree, and so provide a helpful check on errors. But in that case, ledger

postings as well as journal entries should be made direct from the invoices. Each operation will then be independent of the other, and agreement of the totals can be taken as almost conclusive proof that the entries and the postings have both been made correctly.

CREDITORS' AND CUSTOMERS' ACCOUNTS COMPARED

Below we give as an example what we assume to be the the account of Ramsbottom & Slater, Ltd., in the Bought or Creditors' Ledger of Fearnley, Sanderson & Co., Ltd. Each posting to this account from the Purchases Journal shows the page and line from which it has been made, and against the entry in the Purchases Journal the folio of the ledger account is inserted, just as is done with entries and postings of sales.

2½ per cent — RAMSBOTTOM & SLATER, LTD., — Account No. 94
7 days — 301 PORTLAND ST., MANCHESTER. — Sheet No. 8

19..			£	s.	d.	19..			£	s.	d.
Apr. 21	Cheque, dis. 36/6	123	72	15	6	Apr. 11	Goods . .	54/21	42	11	–
						14	,, . .	60/14	30	4	6
			72	15	6				72	15	6
May 17	Overcharge .	124/4	2	2	9	May 15	Goods . .	124/3	180	3	4

We have seen that, in posting the Sales Journal, each single sale is debited or charged to the customer's account. The reason is that the customer is debtor to the business for the amount, and the business has a claim against him for its payment. We now see that, in posting the Purchases Journal, each single purchase is credited or allowed in the ledger account of the supplier. The reason is that the supplier is creditor of the business for the amount, and the business is liable for payment to him. Claims against debtors, or book debts as they are usually called, are assets of the business—assets being possessions that either are cash already or can be turned into cash, and can be used for extinguishing or reducing liabilities. But sums owing to creditors, being liabilities of the business, are the opposite of assets, for payment of liabilities uses up assets. It decreases either the cash in hand or the balance to be drawn upon at the bank.

In account-keeping an asset of any kind is always represented by a debit balance on the asset account. On the other hand, a liability, being the opposite of an asset, is always represented by a credit balance on the account of the liability. It follows that, when a transaction increases any asset, it is posted on the debit side of the asset account; and, when a transaction increases any liability, it is posted on the credit side of the account of the liability. A sale of goods, unless paid for at the time, increases the asset book debts and is, therefore, posted to debit of the customer's account. A purchase, unless paid for at the time, increases the liabilities of the business and is, therefore, posted to credit of the supplier's account. But, as returns inwards cause decreases instead of increases in the amounts that customers owe, they must be posted on the credit side of the customers' accounts, opposite to the debits made for sales. And, as returns outwards cause decreases in the liabilities of the business to its suppliers, they must be posted to debit of the suppliers' accounts, opposite the credits made for purchases.

PAYING CREDITORS' ACCOUNTS

It is the custom of business houses to make their payments on fixed days, for example, every Friday for weekly payments, and the first Friday of each month for monthly accounts. The payments are usually made by cheques sent through the post, along with the suppliers' statements returned to be receipted and sent back. Some houses retain the statement and send in its place a remittance form showing the amount of the statement rendered by the supplier, and particulars of any deductions he has not allowed. Sometimes creditors in the same town as the debtor call for their cheques, and hand back the statements receipted. Sometimes, again, the debtor sends out a clerk to go the round of creditors' establishments in the town, delivering the cheques and bringing back the receipts. The practice of calling, is, however, not now so customary as formerly, and probably survives from the days when the post and cheques were much less used, and when payments were commonly made in banknotes and coin. An entry of each payment is made in the Cash Book, and is posted from there to debit of the creditor's ledger account as in the specimen creditor's account shown on a preceding page.

Before payment can be made, each creditor's statement must be checked with his ledger account, and should be ticked item by item if correct. When a difference occurs between ledger and statement, reference to the invoice on the Purchase Invoice File may suffice to clear it up. If an item on the statement proves to be incorrect, it must be amended, and any debits not allowed on the statement must be deducted. Discount at the agreed or customary rate must be deducted also; and where possible the best discounts obtainable should be taken, as the sum to be saved in that way in the course of a year has an appreciable effect on the year's net profits. The checked and discounted statements will next be submitted to the scrutiny of the head of the office or of the Bought Ledger section, and by placing his initials on the statements he will authorize the writing of the cheques required. Then the cheques, accompanied by the statements and perhaps by a list of the names and amounts, will go forward for signature, the creditors' statements checked and initialed serving to show that the proposed payments are all in order. Where the business belongs to a single proprietor he will usually sign the cheques himself; where it is a partnership concern one of the partners will sign. In a company the regulations adopted and the instructions given to the bank usually require the signatures of one or of two directors and the secretary, or of two directors only.

In recent years a practice has been growing of arranging with creditors for payment to be made by bank transfer without recourse to cheques. The debtor supplies his bank with a list of the sums he wants to pay, of the names of the creditors, and the names and addresses of their banks. By cheque or other signed authority for the total involved the debtor requires his bank to debit his account with the total, and to trausfer the various amounts to credit, at their own banks, of the creditors named in the list. That practice saves the payer the cost of the stamps on the cheques, and the postage on the letters that would be needed if the payments were sent by post. Advice of receipt of the transfer is given to the creditor by his bank.

Payment of an account can be made by bank draft, that is, by an order addressed by the payer's bank to its head office or

to another bank, and requiring payment to be made to a person named in the order. The draft is given and debited to its customer, the payer; and he posts it to the payee. Though, for payments within this country, that method of remittance is only resorted to in special circumstances or for special reasons, it is a usual method that traders use for making payments between distant countries. Between ourselves and the nearer European places the ordinary cheque is often used. Daily means of communication and international banking arrangements make the sending of the cheque and its collection at current rate of exchange a matter of no difficulty.

THE TRADING ACCOUNT

In Chapter 21 we noticed that unpaid sales are debited singly to the respective buyers' accounts, and credited in weekly or monthly totals to Sales Account. Similarly, unpaid purchases are credited singly to the respective suppliers' accounts, and debited in weekly or monthly totals to a Purchases Account. For each of these transactions, then, two records are made on opposite sides of the business accounts, one of the records being a debit or charge in one account, the other a credit or amount allowed in another account. The reason is that each of these transactions has, on the business in which it occurs, two effects of opposite kind. Each unpaid sale *increases* the asset book debts and at the same time *decreases* the asset stock of goods. Each unpaid purchase increases the *asset* stock and at the same time increases or creates a *liability* to a creditor. Similar opposite effects are caused within the business by every transaction in which the business engages; and, to record the transactions fully, opposite records—a debit and a credit for every transaction—must be made in the business accounts.

Now, when the increase in liabilities caused by an unpaid purchase is credited to the supplier's account, the other effect, which increases stock, should be debited or charged to a Stock or Goods Account. Also, when the increase in book debts caused by an unpaid sale is debited to the buying customer's account, the decrease in stock should be credited or allowed in Stock Account. The desirability of clearness in our records, however, makes it advisable that the Stock or Goods Account

be split into subsidiary records, two of which are the Purchases Account and the Sales Account. That is advisable because in the first place purchases and sales are valued at different prices, the same goods being recorded at cost price when they are purchases, and at selling price when they are sales. The keeping of separate accounts prevents purchases valued on one basis being mixed up with sales valued on another basis. In the second place, a Stock or Goods Account in which purchases were recorded at one value and sales at another value would not represent what the name of the account implies, and the balance of the account at any time would not correspond to the value of the stock on hand. In the third place, by keeping Purchases Account and Sales Account separate until the close of a trading period, we can then write up a much clearer record of the trading of the period, with purchases less returns outwards and sales less returns inwards shown in totals only, and with the opening and the closing stocks shown separately from these, again. That account is usually called the *Trading Account* of the period, and it takes a form like this—

TRADING ACCOUNT FOR THE YEAR ENDED 31st JANUARY, 19..

	£	s.	d.		£	s.	d.
Stock to begin year	31,276	10	–	Sales for year .	221,422	9	8
Purchases for year .	180,391	11	4	Stock at close of year	30,495	14	–
Gross Profit for year, carried to Profit and Loss Account	40,250	2	4				
	£251,918	3	8		£251,918	3	8

Stocks on hand at the close of each trading period are listed on stock sheets, and are valued at cost, or at less than cost if they are getting out of date or have deteriorated since they were bought. Purchases, as we have seen, are valued at cost price, and sales at selling price. The effect of this account, therefore, is to subtract from the period's sales at *selling* price, the total of opening stock, plus period's purchases, minus closing stock, all at cost or less. The difference so found is the excess of the selling price over the cost or stock price of the total goods sold. That is called the *gross profit* of the period,

and it is chiefly with the object of ascertaining the gross profit of the period that a Trading Account is compiled. Only in rare and abnormal conditions, as when sales were made at less than cost, could the Trading Account of a business show a loss. In the Profit and Loss Account, to which the gross profit is transferred, the expenses of carrying on the business are set against the gross profit, so as to arrive at the net profit earned for the period or, perhaps, the final loss incurred. For purposes of comparison of one year with another, the period that a Trading Account and a Profit and Loss Account cover is six or twelve months, ending at the time most convenient to the trader, but always as near as possible on the same date each year.

DEPARTMENTAL SHOWINGS

When a business is run in a number of selling departments it is desirable that the accounts should disclose how each department fares, particularly as regards the sales it effects and the gross profit it makes. With that object in view we must keep distinct records for each department of purchases, sales, returns, and stocks. If the departments are not too numerous, our object can be attained by including in the Purchase, Sales, and Returns Journals, departmental columns as illustrated in the ruling on page 342. When departments are too numerous for that method to be followed, departmental purchases, sales, and returns must be listed item by item on columnar dissection sheets.

Returns inward totals can then be deducted weekly or monthly from the totals of sales, and returns outwards from purchases. From the dissection sheets net sales can be listed in department columns by weekly or monthly totals on a Sales Analysis Sheet, and net purchases similarly on a Purchases Analysis Sheet, these sheets and others for different purposes being kept in a suitable binder. The department columns, each added up for the duration of the trading period, will then show what the sales and purchases of the period have been for each department. In taking stock each department will be kept by itself on the stock sheets, so that its stock can be calculated separately from the others. Finally, with all the necessary figures available, a Departmental Trading Account can be compiled in a tabular form such as that shown on page 343.

RULING OF DEPARTMENTAL JOURNAL FOR SALES, PURCHASES, OR RETURNS

No	Date	Name	Town	Folio	Amount			Departments							
								A	B	C	D	E	F	G	H
			Brt fwd.		£	s.	d.								
1															
2															
3															
4															
5															
6															
7															
etc.															

DEPARTMENTAL TRADING ACCOUNT

Department	Sales			Closing Stock			Total			Opening Stock			Purchases			Gross Profit			Percentage of Sales
	£	s.	d.	£	s	d.	£	s	d	£	s.	d.	£	s.	d.	£	s	d.	
A																			
B																			
C																			
D																			
E																			
F																			
G																			
H																			
etc.																			
Totals																			

QUESTIONS

1. Rule a form suitable for a Purchases Journal and make a few specimen entries therein. From what sources would the entries in a Purchases Journal be made, and where could details be found of any purchase recorded in this Journal?

2. How does the posting of purchases and returns outwards to the ledger accounts of creditors differ from the posting of sales and returns inwards to the ledger accounts of customers? Explain the reasons for the differences.

3. Describe the procedure of listing and of posting purchase invoices by machine, and explain any advantage that method offers.

4. Describe the procedure of preparing for payment creditors' statements of account, also of the drawing and signing of cheques for making the payments.

5. Explain by what various means, other than the posting of cheques, payment of creditors' accounts may be effected by a business house.

6. For what periods are the amounts of entries in Purchases, Sales, and Returns Journals usually totalled, and how are the periodical totals of these Journals afterwards dealt with for account-keeping purposes?

7. Show clearly what effects on the assets and the liabilities of a business are caused by (1) an unpaid sale, (2) a return of goods sold, (3) an unpaid purchase, (4) a return of goods purchased. By what entries in the ledger accounts of the business are the full effects recorded for each of these classes of transactions?

8. For what reasons, in the keeping of a trader's accounts, is it the practice for increases and decreases of stock to be recorded in separate Purchases and Sales Accounts and not in a single Goods Account?

9. With what object in view does a business man dealing in goods have a Trading Account prepared at the close of each year's or half-year's trading? Show, with figures supplied by yourself, the form in which a Trading Account is drawn up. To what place in the accounting system is the balance of Trading Account carried, and what becomes of it there?

10. Rule a form suitable for tabulating departmentally the yearly or half-yearly Trading Accounts of a business comprising a number of selling departments. How would you make provision for keeping during the year or half-year separate record of the necessary departmental figures?

CHAPTER 23

RECEIPT AND PAYMENT OF MONEY

TRADING communities all use money as a measure of the values of commodities and services, and as a means of taking and giving value in exchange for them. Transactions in goods and services, whether by way of buying or selling, have always to be followed by the paying or receiving of money to the value agreed upon when the purchases or sales were negotiated. For the same reason that exact records must be made of purchases, sales, and returns of goods, exact records must be made also of receipts and payments of money. Records of all transactions in goods, services, and money are necessary for keeping true and full account of how the business stands in relation to its debtors, creditors, and proprietors; and in regard to the kinds and values of its various possessions and resources.

NATURE OF MONEY TRANSACTIONS

In the preceding chapter we stated that every transaction has two effects of opposite kinds within the same business, and money transactions are no exception to the rule. On the business in which it occurs, a *receipt of cash* has for its first effect an increase in the asset cash in hand, which must be debited or charged to Cash Account. If the money is received in settlement or in reduction of what a customer owes, the second effect is a decrease in the asset book debts, which must be credited or allowed in the customer's account. Should the receipt of the money arise from a cash sale, that is, from a sale which is paid for at the time, the first effect will be as before. The second will be a decrease in the asset stock of goods which for the time being must be credited or allowed in Sales Account.

A *payment of cash* has for its first effect a decrease in the asset cash in hand, which must be credited or allowed in Cash Account. If the payment is made in settlement or in reduction of a creditor's claim on the business, the second effect to be recorded is a decrease in liabilities. That must be debited or charged

to the creditor's account, so as to stand against the credit or credits made in the account when the liability was incurred. Should a payment be made for wages due to the staff, its second effect would be an increase in the wages cost of running the business, which would be recorded for the time being by a debit or charge to Wages Account. Similarly, payments made in cash for rent, rates, electricity, and other expenses would be recorded by credits to Cash Account, and debits to Rent, Rates, Lighting, and other appropriate accounts.

RULING OF CASH BOOK FOR BANK AND CASH ACCOUNTS

Date	Receipts	Fo.	Bank			Cash			Date	Payments	Fo.	Bank			Cash		
			£	s	d.	£	s.	d.				£	s	d	£	s	d.

322 GENERAL CA

Date		Account Credited	Folio	Discount			Bank			Cash		
				£	s.	d	£	s.	d.	£	s.	d.
19..		Brought over		18	16	–	6,952	7	5	1,022	–	8
July	8	Customers Cash Book	245	3	3	1				189	1	2
	8	Cash	con.				182	17	2			
	9	Rents Receivable, Cooper	NL 76							25	–	–
	9	Customers Cash Book	246	12	2	6				472	11	–
	9	Cash	con.				497	11	–			
	10	Customers Cash Book	250	121	10	5				4,107	7	5
	10	Cash	con.				4,086	9	3			
		etc.										
	31	Discounts Account	NL 150	£600	18	3						
							£25,329	10	7	£22,468	11	2

FORM OF THE CASH BOOK

In the Cash Account, then, we have to make both debit and credit entries—the debits to record receipts, and the credits to record payments. For that reason the Cash Account is kept in two-sided, debit and credit form, its simplest ruling being that of an ordinary ledger account. It is in fact the ledger account of the asset cash; but as receipts and payments are usually numerous and of everyday occurrence, it has long been a general practice not to keep the Cash Account in the Ledger, but to write it up day by day in a separate book called the Cash Book.

There is, however, another account which is closely related to the Cash Account. The whole or a large part of each day's cash receipts usually becomes a bank receipt by being paid into the bank; and at intervals money may be taken out of the bank for office use and so become a cash receipt. Further, the numerous payments made out of the Bank Account by cheque are recorded similarly to payments made out of the office cash. They are credited to the Bank Account and debited to the creditors' and other accounts that they affect. That is why the ordinary or current banking account of a business is also commonly kept in the Cash Book. A Cash Book that contains the Bank Account as well as the Cash Account has a debit money

SH BOOK **322**

Date		Account Debited		Folio	Discount			Bank			Cash		
					£	s.	d.	£	s.	d.	£	s.	d.
19..		Brought over			98	11	2	4,124	14	–	811	15	10
July	8	Bank		con.							182	17	2
	9	,,		con							497	11	–
	10	,,		con.							4,086	9	3
	10	Creditors Payments Book		201	157	8	4	5,256	9	–			
			£ s d										
	10	Wages	348 15 6										
	10	National Insurance	12 13 9										
				NL 100				361	9	3			
	10	Petty Cash—											
		Postage	12 – –	NL 105									
		Carriage	8 11 5	NL 110									
		Fares, etc.	2 8 7	NL 115									
		Stationery	9 6	NL 120									
		General Expenses	3 4 5	NL 125									
		Ledger a/c	3 5	P C. Bk.									
											26	17	4
	12	Electricity a/c etc		NL 130				39	8	4			
	31	Balances carried over						3,966	17	4	210	5	9
	31	Discounts Account		NL 150	£512	–	11						
								£25,329	10	7	£22,468	11	1

column for Bank and a debit money column for Cash on the receipts side, whilst it has a credit money column for Bank and a credit money column for Cash on the payments side.

In manufacturing and wholesale trades it is customary to *allow discount* to customers when they pay their accounts by the discount date, and in manufacturing, wholesale, and retail trades it is customary to *receive discount* from suppliers when payments are made to them without delay. The discount for each receipt or payment is entered in the Cash Book, in a third column for Discounts, on the same line as the actual amount received or paid, as illustrated in the specimen General Cash Book on pages 346 and 347.

Where, however, the rule obtains that receipts must be paid into the bank in full and that cheques must be drawn for all other payments, the Bank Account takes all the transactions that would otherwise go in the Cash Account. The Cash Account, as we have described it, is dispensed with; and as cash columns are not then required in the Cash Book, a form like that on page 349 may be used. This method is intended to simplify the recording of cash transactions, and to prevent payments being made without the knowledge and authority of the principals who sign the cheques that must be drawn for them.

THE CASH BOOK ENTRIES

In some businesses it may be found necessary or convenient to keep a subsidiary Customers Cash Book for all amounts received for customers' accounts, and a subsidiary Creditors Payments Book for all cheques paid for suppliers' accounts. These books will consist merely of a daily list of receipts or of payments, together with the discounts allowed or received, and from them the postings to the customers' or the creditors' accounts will be made. The totals of the Customers Receipts Book will be carried day by day to the debit side of a General Cash Book, and the totals of the Creditors Payments Book will be carried to the credit side. In a big business two books may be needed for customers' cash, the books being used alternately, so that while to-day's cash is being entered up in one book, yesterday's receipts are being posted to the ledger accounts from the other.

RULING FOR CASH BOOK WHEN ALL RECEIPTS ARE BANKED

Date	Receipts	Fo	Discount	Items	Bank	Date	Receipt No	Payments	Fo	Discount	Bank
			£ s. d.	£ s. d.	£ s. d.					£ s. d.	£ s. d.
19..											
Aug. 10	Brown, J.		6 2	12 2 6							
	Green, D.		4 10	9 8 6							
	Gray, W.		11 0	21 10 0							
	Black, A		2 11	5 14 3							
					48 15 3						

CUSTOMERS CASH BOOK **245**

Name	Folio	Discount			Cash			Remarks
8th July, 19..		£	s.	d.	£	s.	d.	
Gregory & Wright	G 36	2	5	7	63	2	6	Cheque
Keith Bros, Ltd.	K 5		14	4	19	14	8	Cheque
Pearce, John	P 14		3	2	6	4	–	Cash
Wilson & Sons, Geo.	W 62				100	–	–	Cheque on account
General Cash Book	322	£3	3	1	£189	1	2	

GREGORY & WRIGHT, 12–16 Broad Avenue, Leeds — Account 36, Sheet No. 10

19..			£	s.	d.	19 .			£	s.	d.
June 10	Goods	205/1	47	11	11	June 16	Returns	84/21	3	3	4
15	,,	220/5	8	2	6	July 8	Cash 45s. 7d	245	65	8	1
19	,,	229/11	12	17	–						
			£68	11	5				£68	11	5

CREDITORS PAYMENTS BOOK **147**

Date	Name	Folio	Discount			Cheques			Voucher No.
19..			£	s	d.	£	s	d.	
May 23	Hattersley, Sons & Co.	H 47	5	8	–	138	13	6	4027
23	Ramsbottom & Slater, Ltd.	R 94	4	9	1	173	11	6	28
23	Fuller & McBride	F 111				24	–	9	29
	etc.								

HATTERSLEY, SONS & Co., Leek, Staffs. — Account 47, Sheet No. 4

19..			£	s	d.	19..			£	s.	d.
May 23	Cheque 108s.	147	144	1	6	May 11	Goods	116/5	43	4	6
23	Balance down		1	–	–	16	,,	124/1	101	17	–
			£145	1	6				£145	1	6
						May 23	Balance		1	–	–

POSTING CASH BOOK ENTRIES

The discount allowed to a customer is posted to credit of his ledger account along with the cash received from him, and the discount allowed by a creditor is posted to debit of the creditor's account along with the amount of the cheque paid to him. In posting from a Cash Book the page or folio of the Cash Book entry is shown in the Ledger Account, and the folio of the Ledger Account is inserted in the Cash Book entry. If the sum received or paid, taken together with the discount, makes the

debits and credits in the account agree up to a point, the totals of the two sides are, if possible, written in opposite each other at that point, and the account is ruled off. Sometimes a difference between the sides is entered under the name of "balance" on the side that is short, thus making the sides agree. When the totals have been inserted and ruled off, the balance is brought down in the account on the opposite side, the one to which the excess belongs. These points are illustrated in the examples on the preceding page. The Voucher column appearing in the specimen Payments Book is for insertion of the serial numbers given to the receipts for the payments when they are filed away in the order of their numbers on a Receipts File.

When a payment is made into the bank out of cash in hand, the decrease in the office cash is recorded by an entry of the amount in the Cash column on the credit or payments side of the General Cash Book; and the corresponding increase at the bank is recorded by an entry in the Bank column on the debit or receipts side. As the Cash and the Bank Accounts are not kept in the Ledger, each of these entries is the equivalent of the posting of the other. In the Folio column "con." or "contra" is inserted in each entry, which means that the posting of the entry is made on the opposite page. When money is withdrawn from the bank for office use, an entry of the amount is made in the Bank column on the credit side of the book to record the decrease at the bank, and a corresponding entry is made in the Cash column on the debit side to record the increase in office cash. Contra entries are shown in the specimen three-column Cash Book on pages 346 and 347.

The credit entries given in the same example for wages and electricity payments are here assumed to be posted in a special ledger to debit of expense accounts bearing these names. Personal accounts in the names of the suppliers are not always opened in the Creditors Ledger for rent, rates, electricity, and such-like. As the charge notes received for these are not followed up by statements, payment is frequently made from the quarterly accounts received for rent, gas and electricity, and from the half-yearly demand notes for rates. The book-keeping records are credits to Bank Account for the cheques drawn, and debits to the appropriate expense accounts for the additions to

the business expenses that the payments make under their respective heads. Invoices for stationery, packing materials, machinery oil, and similar goods bought for use and not for sale are, however, commonly entered at the time of receipt in an Expenses Journal, whence the entries are credited singly to the suppliers' accounts and the totals debited monthly to the respective expense accounts. Then, when payments are made, they are credited to Bank or Cash in the Cash Book, and posted from there to debit of the suppliers' accounts in the Ledger. The treatment of petty cash and wages payments is explained later in this chapter.

BALANCING THE CASH BOOK

The debit balance of the Cash columns, i.e. the excess of the debit column over the credit column, should agree at any time with the cash in the cashier's hands. Where there are many transactions in or out of the office cash, the amount in hand should be checked with the Cash Book every day, and any difference that may be discovered should be cleared up whilst the happenings of the day are still in mind. But if a receipt is given from a duplicate receipt book for each sum received, and if a payment is never made except in exchange for a pay-out slip or other signed note, there should be little difficulty in agreeing the balance with the cash. In a General Cash Book the balance between the two sides could be brought down day by day as it is agreed; but that is not usual. One is more likely to find in practice that a debit and credit Cash Book is ruled off at the end of the month only, the totals on both sides being carried forward page by page until then; and that the closing balances of Cash and Bank are brought down only when a new start is made at the beginning of each month.

The bank pass book, which is written up by the bank to show a copy of the account as it appears in the bank books, should be checked periodically with the bank columns in the business Cash Book. A suitable time for making that check is at the close of the month, just before the Cash Book is ruled off. It is the custom to tick off item by item the corresponding entries in the two books. Any differences and any items not ticked in one or both of the books are then noted, and a reconciliation drawn up like the following—

RECONCILIATION OF BANK PASS BOOK WITH GENERAL CASH BOOK

	£	s.	d.
Pass Book balance on 31st Aug 19	1,804	10	7
Add paid into bank 31st Aug. not entered in Pass Book	237	11	1
	2,042	1	8
Deduct cheques drawn and entered in Cash Book, not presented at the bank—			
Fo 239 Higgins £21 2 9			
,, Robertson 13 10 0			
240 Satterfield . . . 106 2 6			
etc.	429	0	5
Cash Book balance 31st Aug, 19..	£1,613	1	3

This reconciliation statement may be written in the Cash Book on the opening where the closing balance of the month appears.

The reader will notice in the specimen Cash Book on pages 346 and 347 that a balance is not struck and carried down in the Discount columns as in the columns for Bank and for Cash. To learn by how much one Discount column exceeds the other is neither so interesting nor useful to a business man as to know what cash he has in hand and what balance he has available at the bank. The Discounts columns, therefore, are not balanced month by month; but the monthly totals are posted from the Cash Book to a Discounts Account in the same ledger in which expense accounts are kept. Discounts allowed, which from the receipts side of the Cash Book have been credited singly to customers' accounts, are debited in total to Discounts Account as a trading expense. And discounts received, which from the payments side of the Cash Book have been debited singly to suppliers' accounts, are credited in total to Discounts Account, so reducing the expense arising from the discounts allowed. At the close of the trading period the debit or credit balance of Discounts Account is transferred to Profit and Loss Account along with the balances of all other accounts kept to record expenses incurred or gains secured.

CARBON RECEIPTS BOOK

We have suggested that for sums received, receipts should always be given from a receipt book in which a carbon duplicate is retained of each receipt written. As these carbon duplicates supply material for writing up the debit side of the Cash Book, the carbon duplicates prevent the person who takes money and

gives a receipt from forgetting to record it. We have suggested, also, that for sums received from customers a separate Customers Cash Book may be kept, and that the totals of this book should be carried day by day to the General Cash Book. Now, one book can be used to serve both these purposes if it is made in a form like that shown on the following page. The book may be a bound one in which the receipts are written by hand; but it is better to have them typed on loose sheets, the carbon copies of which can be secured in a binder for future use or reference. The sheets should be in pairs, detachable by perforation. The upper one should be narrower than the lower one, and it should consist entirely of some ten or twelve receipt forms 1½ in. deep. It should be perforated, so that the receipts can be torn off as completed and stuck on the statements of account for payment of which they are given. The wider lower sheet takes a carbon copy of each receipt written, and it has in addition columns for the discounts allowed, the totals of discount and cash together, and the numbers of the ledger accounts to which the totals are posted. Each day's cash and discounts are added up, and the daily totals entered in the General Cash Book.

CASH SALES IN THE RETAIL

Cash sales in a retail shop or store may be recorded on a *Cash Register*. In that case the selling assistant takes the money and depresses the keys of the register that correspond to the amount of the sale. That action releases the till so that it can be opened for the money received to be put in, and any change required to be taken out. The depression of the keys also causes the amount of the sale to be recorded on a roll inside the register. At the same time it causes the amount to be displayed in a small window at the top of the register, so that the customer can see what amount the assistant has recorded. As the till is opened a bell rings, which calls attention to the fact that the till is being opened, and by making the action public also makes dangerous any attempt to account for a smaller amount than has been taken. As each sale is recorded the machine may issue, by way of further check, a ticket showing a copy of the record. The roll inside is added mechanically as each record is made; and the proprietor or

CUSTOMERS RECEIPTS BOOK

RECEIVED FROM Date ..

For FEARNLEY, SANDERSON & Co , LTD

£

RECEIVED FROM Date

For FEARNLEY, SANDERSON & Co , LTD

£

RECEIVED FROM Date

For FEARNLEY, SANDERSON & Co , LTD

£

RECEIVED FROM Date

For FEARNLEY, SANDERSON & Co , LTD

£ ...

Discount			Folio	Total		
£	s	d		£	s	d.

cashier may hold the key that gives access to the roll, so that no assistant can tamper with the records. At the close of the day's business the used part of the roll, when taken out, shows immediately the number and the total of the day's sales, and of what items the total is made up.

Departmental totals are obtained by keeping a cash register for the separate use of each department. Sectional totals can be obtained by giving each selling assistant his or her own till in a register that contains several tills for other assistants, and that keeps a distinct total for each. By that means individual responsibility for the accuracy of his or her cash is brought home to each assistant. Advantages of the cash register are that it (1) saves customers waiting for change to be obtained from a distant cash desk, (2) dispenses with cash desk and cash clerk, (3) saves the clerical labour that would otherwise be needed for the adding and analysing of each day's sales.

As against the cash register, however, the older method of *counter check book* still holds its own. It takes the care of cash away from the sales assistants and makes it the sole duty of a cash clerk. Further reasons for its continued use are that it has no intricate mechanism to get out of order at times, also that it provides the customer with a bill, and the management with a record of the articles sold as well as of the values. Each check is written by the assistant in duplicate by carbon leaf. Both check and duplicate are taken to the cash desk along with the money. The cash clerk keeps the money and the duplicate, returning to the customer, along with any change, the top check stamped with the cash desk stamp. In a departmental store cash desks are placed at convenient points on the several floors, unless they are tucked away in less accessible positions, when cash and check are sent, and check and change returned, by an overhead arrangement of wire carriers or by an installation of pneumatic tubes.

By certain times each day the cash clerks should have their checks listed, totalled, and agreed with the cash taken. The money from each desk, all except a fixed sum permanently retained for change, will then be collected and taken to the chief cashier's office. There the takings of each desk will be checked, and the whole of the collected takings will be prepared for payment into the bank. The checks in each counter check book are

numbered consecutively, usually from 1 to 50, each check and its duplicate bearing the same printed check number. But the books have also distinctive numbers, and each check and duplicate is printed with the book number as well as the number of the check. As each assistant must always use books of the same number, his or her checks are identifiable by that number. Under their book numbers the check duplicates should be listed, preferably by adding and listing machine, according to the departments or sections required to be kept separate. Then a careful check should be made to see that all are listed correctly, that no duplicates are missing, and that no suspicious alterations on the duplicates are passed without scrutiny or inquiry. The grand total listed should agree with the sum banked. When the totals of the lists are tabulated departmentally day by day in a weekly or monthly summary, there is available for management and accounting purposes a suitably detailed record of the cash sales of the business for the period that the summary covers. From the weekly or monthly summaries a further summary would be made to show the sales of each department over the whole of the trading period.

PETTY CASH PAYMENTS

It is not advisable, as a rule, to pass small cash payments singly through the ordinary cash book. Usually a special book is kept for these, called the Petty Cash Book, a specimen ruling for which is submitted on the following page. The typical petty cash book contains several extension columns, each headed with the name of an expense or other account. Into these columns the amounts of the payments are carried out under their appropriate headings, as shown in the example. The columns are added into weekly totals usually, so that the totals taken together form a concise summary of the payments made during the week.

Commonly the Petty Cash Book would be kept by one of the chief cashier's assistants; but in a large business there may be a petty cash book in use by each of a number of departments. Most of these, however, would be used for only one purpose, such as carriage on incoming goods in the Goods Receiving Room, carriage on outgoing parcels in the Despatch Room, postage for the post desk or Post Room. In these books the several

PETTY CASH BOOK

Received £	s.	d.	Date	Particulars	Paid £	s.	d	Postage £	s.	d.	Carriage £	s.	d	Fares & Travel Exs. £	s.	d.	Station-ery £	s.	d.	General Expenses £	s.	d.	Led Fo.	Ledger Accounts £	s.	d.
			19—																							
16	11	2	July 4	Balance bt. fwd.																						
23	8	10	,,	Cash received																						
			,,	Carriage as list	1	1	9				1	1	9													
			,,	Postage stamps	5	–	–	5	–	–																
			,,	Fares		1	6								1	6										
			,,	Soap, etc.		2	9														2	9				
			5	Carriage as list		9	7					9	7													
			,,	Brown & Gibbs a/c		3	5																B 62		3	5
			,,	Mr. Watts' expenses	1	5	5							1	5	5										
			,,	Rubber stamp		4	–											4	–							
			,,	G.W. Railway		15	4					15	4													
			7	Carriage as list	1	4	6				1	4	6													
			,,	Door spring		5	6														5	6				
			,,	Penholders		2	6											2	6							
			,,	Window cleaning		10	–														10	–				
			,,	Receipt stamps	2	–	–													2	–	–			
				etc.																						
			July 10	Week's payments	26	17	4	12	–	–	8	11	5	2	8	7		9	6	3	4	5			3	5
			,,	Balance cd. down	13	2	8																			
£40	–	–			£40	–	–																			
13	2	8	July 11	Balance bt down																						
26	17	4	,,	Cash received																						

extension columns would not be necessary. On a certain day every week each petty cash clerk would balance his petty cash book and bring down the balance in hand as shown in the illustration. He would then take the book with the receipts and pay-out slips he held to the chief cashier, who would check them over. The chief cashier would refund the sum spent, and the petty cash clerk would enter the refund in the received column under the balance brought down. In that way the petty cash clerk's imprest or float would be made up to the round amount with which he should start each week, and which the chief cashier would probably count from day to day as part of his cash in hand.

When he had refunded to the petty cash clerk or clerks the sums spent during the week, the chief cashier would enter them in totals as payments on the credit side of his General Cash Book. From there they would be posted to debit of the Ledger, to the Expense or other accounts they affect. Examples of such entries are shown in the model General Cash Book on pages 346 and 347.

WAGES AND CASH

In our example of a General Cash Book the money required for paying wages is shown as a credit in the Bank column. That means the money has been drawn out of the bank. As the amount withdrawn consists of an odd number of pounds with shillings and pence as well, we may infer that the cheque was drawn and cashed for the exact sum required. The absence of any entry for wages in the cash payments column confirms that inference; for, had a round sum been drawn instead of the exact one, there would have been a contra entry for it in the cash receipts column, and the exact sum paid away in wages would have been entered in the cash payments column. The exact amount that has to be drawn from the bank is ascertained from a Wages Book or Pay-roll, or from a summary of sectional wages sheets. In the Cash Book entry indicated there are given only the total of the week's wages and the total of the employer's insurance contributions. These totals are posted to debit of Wages Account and National Insurance Account respectively. How much of each week's total is paid to the staff of each department of the business is shown on a

Departmental Analysis Sheet ruled similarly to the specimen appearing in Chapter 20.

Some description was given in Chapter 5 of the manner of computing wages, whether by hourly, weekly, or piece rates; and whether with or without a bonus in addition. The procedure of paying the money may consist of handing out in loose notes and coin the amount due to each employee, as he or she files in order past the pay-office window. But it may consist of putting the money beforehand into pay envelopes, each bearing an employee's name. In either case the work should be carried through by sections. Each pay clerk should be given the exact amounts of notes, silver, and copper that he needs for the section he is about to pay, so that when he reaches the last name in the section he should have neither more nor less cash than the amount entered against that name in the pay sheet. Any error made will in that way be located to the section in which it has occurred, and so be more easily discovered. The use of pay envelopes is the preferable method, for then any error made in filling them is discovered and can be rectified before payment is begun.

The chief cashier and his assistants should be responsible for the paying out of wages. As a safeguard, however, against irregularities, the computations should be made and checked, and the wages sheets should be prepared, in a Wages Office or by a wages clerk who will take no part in counting out and paying away the money. The Wages Office would usually be responsible, also, for the stamping of the Health Insurance cards, the money for the stamps being obtained from the cashier. But, again, the procuring and affixing of the stamps should be seen to, preferably, by a clerk other than the one who calculates the wages and writes up the wages sheets. A signature may be taken for the receipt of each amount paid out; but that is not a general practice in paying weekly wages. Heads of departments and the more responsible members of the business staff are usually paid monthly at a yearly rate of salary. In their cases payment will probably be made by order cheque. Then the signature of the payee will be obtained in his indorsement of the cheque, when he pays it into his banking account for collection, or when he gets the cashier of the business to cash it for him.

CHECKS ON THE HANDLING OF CASH

A dishonest servant can turn to his own use an employer's money more easily than he can the employer's goods. As we saw in Chapter 12, it is necessary to keep check and trace of goods coming in and going out of the business premises. Even more necessary is it to keep check on the handling of the business cash. It is partly for that reason, but also partly to make sure of the work being done accurately and efficiently, that every day the record of receipts and payments of money is balanced, and the balance checked with the cash in hand. Self-respecting cashiers—and that includes all but a very few—prefer it so. For similar reasons receipted bills or pay-out slips should be taken at the time of payment by the petty cash clerk for all amounts he pays away, the pay-out slips being first signed by persons authorized to sanction the payments. It is, also, with the object of preventing possible irregularities in ready-money sales in shops and stores that a supervisor is commonly required to initial each sale check at the time the sale is concluded, that cash is taken and change given by a cash clerk, and not by the sales assistant, or that a cash register is used which displays, for all to see, the amount being recorded for each sale. It is, again, to prevent any tampering with records of cash received for accounts, as well as to help the cashier in balancing, that a carbon copy should be kept of each receipt given when customers pay.

Further, it is to act as a check on the correctness of pay-rolls that wages should be paid by someone other than the clerk who compiles the wages sheets; and it is partly for the same reason that time records are made from which wages due are calculated. Particularly in a large establishment, where all the staff cannot be personally known to cashiers or accountants, is it desirable that heads of departments should not make up the department wages sheets and also pay the department staffs. Similarly, where a business is large enough to allow of the necessary division of duties, the same person should not be required to act as a cashier and as a book-keeper. It is, besides, to give assurance of each payment being in order that initialed statements of the creditors' accounts are submitted to principals along with the cheques put forward for signature; that the

clerk who is responsible for drawing or posting the cheques should not be the one who keeps the ledger accounts and checks the statements. Payments to creditors, however, are usually authenticated also by the creditors' own receipts, and by the invoices which the ledger accounts show to be settled by the payments. And, over and above these precautions, there is the audit conducted by the outside accountants, which is compulsory in company businesses, and is usual in all others of any magnitude.

QUESTIONS

1. Explain what effects on the assets and the liabilities of a business are caused by (1) a cash sale, (2) money received for a customer's account, (3) payment of a cheque to a creditor, (4) payment of the local authority's rates. What records in the accounts of the business should be made to record the effects of each of these transactions?

2. Rule a form of Cash Book with money columns for Discount, Bank, and Cash. Enter in it the transactions specified hereunder. Rule off and bring down the balances as you would at the end of a month.

		£	s.	d.
Oct. 1	Cash in hand	139	4	6
,,	Balance at the bank	1,002	11	–
,,	Received from Baker & Brown	51	3	9
,,	Discount allowed to them	1	6	3
2	Paid cheque to Hall & Hutton	95	–	–
,,	Discount allowed by them	3	14	–
,,	Paid cheque to Mills & Morton	52	17	–
,,	Discount allowed by them	1	17	3
3	Paid cheque for quarter's rent	125	–	–
4	Received from Dickson & Duke on account	100	–	–
,,	Paid into bank	250	–	–
5	Drawn from bank	130	–	–
,,	Cash Sales	20	2	–
,,	Paid wages in cash	111	7	8
,,	Paid cash for National Insurance Stamps	1	12	4
,,	Paid cash for Petty Cash expenditure:			
	For Carriage	3	4	1
	,, Postages	6	10	–
	,, Stationery		19	2
	,, Travelling Expenses	2	3	6
	,, General Expenses	1	4	5
			14	1	2

3. Taking the entries required by Question 2 for (1) Baker & Brown, (2) Hall & Hutton, (3) Cash Sales, (4) Postages, and (5) Discount totals, show how you would post them to their respective accounts in the Ledger.

4. With what object is the rule enforced in many business offices that all receipts must be paid in full into the bank, and all outward payments must be made by cheque? Rule a form of Cash Book suitable to these conditions.

5. If you were cashier in a business of considerable size, how would you satisfy yourself about the correctness of your Cash Book entries and of the amount of cash in your till? What steps would you take to eliminate causes of error?

6. Draw up a Reconciliation Statement as between the Bank Pass Book and the Cash Book. Show in the Reconciliation (1) a payment into the bank not entered in the Pass Book, (2) an item of 3s. 4d. for collection charges on a foreign bill, not entered in the Cash Book, and (3) the amounts of six cheques posted to creditors but not yet presented to the bank for payment.

7. Why are the Discount columns in a Cash Book not treated in the same way as the Cash and Bank columns? How are the single items of discount posted, and what becomes of the discount totals?

8. Rule forms suitable for a Customers Cash Book and a Creditors Payments Book to be kept in ordinary book form, and explain how the transactions recorded in these books find their way into the Cash and the Bank accounts.

9. Explain in what form you would give receipts for sums paid to you by customers, and how you would retain a record of the sums received without having also to enter them singly in a separate Cash Book.

10. Explain the working, uses, and benefits of cash registers installed in a retail department store.

11. Describe how the counter check-book system of recording cash sales is worked in retail department stores, and how the cash sales are summarized week by week and month by month to the close of each trading period.

12. Rule a form of Petty Cash Book with four extension columns for different heads of expense. Make a number of entries in your form, then rule it off, carry the balance down, and show the total of the payments refunded. Explain how the payments reach their respective expense accounts through the General Cash Book.

13. Suppose you were entrusted with the responsibility for wages arrangements in a business office, outline the methods you would institute for computing, recording, and paying the sums due.

14. Explain several rules that you consider should be enforced in regard to cash transactions in order to prevent or detect intentional or unintentional irregularities in the handling of the money.

CHAPTER 24

MECHANIZATION OF OFFICE WORK

LABOUR in workshop or factory is engaged in making things to sell, the selling price of which normally includes a margin over the cost of material used and of labour expended in their manufacture. Clerical work, on the other hand, is not sold or charged as such to customers, and cannot be traded at a profit by manufacturer or merchant. Yet it is a necessary business expense, and so it must be met out of the margin of the selling price over the cost of goods or services sold. The greater the clerical and similar expenses incurred in a business, the less margin of selling price will be left as profit; and the smaller these expenses are, the larger the final profit realized will be.

That is one of the reasons for the use of mechanical aids in office work, namely, the saving of unprofitable labour cost. Another reason, of course, is the attainment of efficiency, for in many processes, such as making calculations or addressing catalogues, the machine is less erratic than human head and hand. Apart from its greater accuracy, the machine is put into service because it is quicker. The saving of labour cost that its speed effects is continuous month after month, and year after year; but the cost of the machine, other than that of attendance and upkeep, is an initial outlay only, which in time is wiped out by the continuous saving in labour. Nevertheless, for the purchase of a high-priced mechanical appliance, such as a costly calculator, to be an economic proposition, there must be sufficient work available to keep the machine in fairly constant use, and the money spent in acquiring it from lying unproductively idle.

APPLIANCES NOTICED ELSEWHERE

Familiarity with the typewriter we have taken for granted; it is now in such general use. The telephone, also, is so well known to everyone that it needs no further description than we have already given. Filing and indexing appliances we described and explained at some length in Chapters 19 and 20,

also loose-leaf records and binders. In the chapter just ended the use of the cash register was dealt with; and, though the cash register is not usually found in the office itself, its purpose is ancillary to the duties of cashier and book-keeper. Rubber stamps, fixed or changeable like a dating stamp, are in very common use; and we have noticed in Chapter 17 one that, by clockwork, stamps on incoming letters the time when they are opened. In the same chapter mention was made of the Dictograph, the Telewriter, and envelope stamping and franking machines.

In Chapter 18 the use of dictating machines in dictating letters was referred to. Mechanical letter openers and letter sealers are other appliances brought into service for dealing with the incoming and the outgoing post. Machines for automatically recording the times of arrival and departure of factory and warehouse workers were referred to in Chapter 5. Metal numbering machines for stamping consecutive numbers by hand on documents or tickets are frequently made use of, the number changing to the next one with each impression, or with each second or third impression, according to how the stamp is set. An appliance for writing the amounts on cheques as a safeguard against fraudulent alteration will be treated of in Chapter 27.

COPYING OF INVOICES AND LETTERS

A copying press, copy-letter book, copying ink, and damped sheets were the old means of taking copies of business documents. Not more than two or three good and legible copies could be made in that way, and the copying press is not seen in many business offices to-day. Carbon copying is the newer method, by which under favourable conditions with thin paper half a dozen or so plain copies can be obtained. That method is used when customer's invoice, Accounts Office copy, statistical copy, agent's copy, warehouse order, and dispatch slip, or some similar number of copies, are required for each sale entry, as explained in Chapter 12. Forms for the different purposes, printed in distinctive colours, can be obtained fastened together in sets ready for insertion of the carbons. Now, however, each form can be supplied in a roll, and the required number of rolls fed at the same time into a typewriter specially fitted to take

them. Better still, they can all be printed on one long strip wide enough to take a complete set across the width. The different *forms* in the same set are separated by perforation down the sides, and are folded one on the top of the other in what is called "fanfold" shape. The different *sets* are separated by perforation at the top and bottom; and, instead of all being made up in a roll, each set is folded back on the top of the one below it. The special typewriter attachment for use with these automatic feeding methods retains the carbons as each typed set is taken off the machine, and it places them between the folds of the next set, so saving the invoice typist much time in collating forms and inserting carbons.

Carbon copying of outward letters has the advantage that the copies, being on loose sheets, can be filed away along with the inward letters to which they relate. Press-copying required the copies to be taken and kept in a bound book by themselves, and the book had to be indexed for reference to its contents. But later rotary copiers take letters written or typed in copying ink and copy them on a roll of tissue paper, the copies being cut off as they are made, so that they, and the inward letters to which they belong, can be filed in the same correspondence file. Typing one or more carbon copies at the same time as the original is, however, the method now generally followed.

THE MAKING OF MULTIPLE COPIES

For making many copies of sales letters or circulars, of price lists or notices of price changes, of blank forms for internal use in a business, or of written or typed matter for any similar purpose, there are many appliances available. An early method was to use a slab of gelatine in a tray, to write the matter in special ink on glazed paper, to transfer the writing from the paper to the slab by pressure of a suitable hand roller, and by the same means to lick off the slab a limited number of copies on blank sheets. As a result of continued improvements in this method of copying it is now claimed that some fifty clear copies can be obtained. Another process is to take a special kind of carbon sheet, and through it to write or type a master copy on special paper. The master copy being then fixed on a rotary machine and kept damp with spirit, a hundred or so copies can be taken as sheet after sheet of blank paper is pressed against

the master copy at each turn of the machine. By both these methods each copy can be printed in two or more colours.

When more copies are needed than these processes can give, a stencil copier may be used. The stencil may be cut with a stylo by hand, and fixed on a flat printing frame. Then, by passing an inked roller over the stencil, the ink is pressed through the stencil to give a copy of the matter on sheet after sheet of blank paper placed underneath. It is more usual, however, in making a stencil of an ordinary circular letter, to cut it on the typewriter after moving the ribbon from the typing point. The cut stencil is then usually mounted on the drum of a rotary copier. At each turn of the handle a blank sheet is picked up from a pile on one side of the machine, passed round the drum, and delivered printed into a tray on the other side. At the same time the copier records the number of copies made. In its passage round the drum each blank sheet takes an impression through the perforations of the stencil from an inked roller pressed against it from the inside. By careful handling to keep the stencil from tearing or cracking, many hundreds of copies can be taken.

For greater quantities still an office printing machine may be used. Such a machine prints from type that is set in a frame cylindrical in shape, so that the printing can be done by rotating the frame. For catalogue or leaflet illustration blocks are supplied cast to fit the curve of the cylinder. A number of business houses use a machine of this kind for printing their letter headings, invoice and statement forms, and stationery for inter-departmental use. The machine may be driven by electric motor. An outfit like this, used in an office where there is sufficient work to justify its cost, effects a considerable saving in printing charges. Besides, with such apparatus at hand, an urgent job can be completed more quickly than if it were given to an outside printer to execute.

By photographic process copies can be made of drawings, probates, etc., and twenty miniature negatives of transfer deeds can be kept on each foot of a reel of $\frac{5}{8}$-in. film. To solicitors and others registering grants of administration in respect of the estates of deceased persons, the Probate Court now supplies, on request, photographic copies of probates and

letters of administration. With a number of such copies sealed by the Court, the procedure of exhibiting a grant to many companies in which the deceased was a shareholder, or to his bank or insurance office, can be got through much more quickly than when a single copy had to be exhibited to and returned by each of the registering offices in turn.

THE ADDRESSING MACHINE

There are various models of addressing machine on the office equipment market. They print from small stencils framed in cardboard, or from embossed plates of light metal. They are used, for example, for printing addresses on envelopes in which catalogues are to be posted to actual or prospective customers, for printing the addresses on circulars produced by multi-copier that are to be posted in window envelopes, for printing customers' names and addresses on the headings of weekly or monthly statements of account, or on parcel labels. They can be used, also, for printing employees' names on the weekly pay-rolls, or for printing shareholders' names, with or without their addresses, on dividend lists, dividend warrants, and the annual return of shareholders that must be made to the Registrar of Companies.

The stencils or plates are kept in trays in alphabetical or other required order. When about to be used, a tray is fitted on end over the table of the addressing machine. The machine, operated by handle, treadle, or electric motor, picks the cards or plates one by one from the lower end of the tray and passes them on to the point where the addresses are printed on the envelopes, circulars, statement forms, or lists that are fed into the machine as printing proceeds. The cards or plates then pass on in order to another tray fixed under the table to receive them. These machines are usually constructed so that they will print each address once, or repeat an address as often as desired, or skip any that are not wanted for the job in hand. Stencils or plates of different classes may have spot labels of different colours gummed to them; and, as several cards or plates are always on view on their way to the printing position, the operator can distinguish them as they approach, and print or skip as required. Ruled spaces may be provided on the cardboard frames of the stencils or on thin cards attached to the

address plates, and these may be used for keeping record of the dates and amounts of the orders executed for customers.

ADDING AND LISTING MACHINES

In using an adding machine the numbers to be added together are given into the machine by depressing keys or disks corresponding to the digits of each number. The keyboard is usually arranged in columns, and the columns coloured to correspond to the ruled money columns of an account book, so that the amounts to be added are put on the keyboard exactly as they would be written in a book by hand. When the keys for any amount have been depressed, a pull of the lever-handle on the right of the machine causes that amount to be added on to what has gone before. A roll of listing paper and a printing platen are attached at the back of the machine; and, on a strip to be torn afterwards from the roll, the items are printed one by one in a column as addition proceeds. When all the amounts to be added have been given into the machine the total is printed at the foot of the column, and the machine cleared for a new addition, by depressing the total key. When the mechanism of an adding machine is operated by electric motor, a touch on the bar on the right of the keyboard takes the place of the pull on the handle that is necessary with non-electric models. The diagram on the next page shows the arrangement of the keyboard and the values of the different keys. By using an additional ST (sub-total) key, intermediate totals can be printed on the list, these being retained by the machine and included in the final total. On the printed list a total is distinguished by the symbol *, and a sub-total by the symbol S. With models that subtract as well as add, depression of a plus bar gives addition, of a minus bar subtraction. A duplex model will add two sets of figures separately and simultaneously, and will give sub-totals and totals of each; or it will transfer the sum of the first set to the sum of the second set, and so give the grand total of both.

If we have to add, for example, 4712, 5186 and 6933, we depress the four keys 4, 7, 1, and 2 in the thousands, hundreds, tens, and units columns of the keyboard. Then we pull the handle or depress the motor bar. Next we set the keys 5, 1, 8, and 6 in the same respective columns, and on a pull of the

A USUAL ARRANGEMENT OF KEYS ON THE ADDING MAGHINE

£					s.		d	
9	9	9	9	9	1	9	9	11
8	8	8	8	8	1	8	8	10
7	7	7	7	7	1	7	7	
6	6	6	6	6	1	6	6	½
5	5	5	5	5	1	5	5	
4	4	4	4	4	1	4	4	½
3	3	3	3	3	1	3	3	
2	2	2	2	2	1	2	2	½
1	1	1	1	1	1	1	1	

THIS IS THE FORM OF KEYBOARD ON THE BURROUGHS DESK MODEL

handle or touch of the motor bar the machine adds the amounts together. Lastly, we depress the keys for 6, 9, 3, and 3, and by handle or bar cause that amount to be added to the total of the other two. In giving any amount into the machine as many keys as possible are depressed at one time, a method of operating that can be carried out only on a full visible keyboard. For example, to deal with the amount 5186, the thumb of the right hand is used to depress figure 1, and the first three fingers of the same hand to depress 5, 8, and 6. All four figures are depressed at the same time, thus making for speedy operation; and, if the machine works electrically, the motor bar can be depressed by the little finger simultaneously with the figure keys. As each item is dealt with, the amount is printed under the preceding one on the listing slip; and, with the depression of the total key, the total, namely 16,831, is printed at the foot.

On the right of the keyboard, columns for shillings and pence may be provided, the other columns to the left being then used for pounds. If the amounts to be added contain decimal fractions, the shillings and pence columns (should they be there) are disregarded, and some of the other columns are used for the decimal places. There is a model in use of a different kind with not more than twelve figure keys, all easily operated by the fingers of one hand. The same keys are used for units, tens, hundreds, etc., the correct columns for the figures being selected by movement of the carriage at the back.

Adding machines are useful wherever much adding of amounts or quantities has to be performed. In banks, for

example, they are used for the adding and listing of cheques for clearing. In stores they are used for totalling department by department the sales checks made out by the counter assistants. The cash register previously mentioned is an adding and listing machine and a cash till combined. In adding a column of amounts mentally we take first all the units figures in the column, then all the tens, and so on. The adding machine, however, adds on the whole of each line at once, and so completes an addition more quickly than is possible by mental process. Moreover, the machine lists the items at the same time as it adds them, whilst without the machine the listing has to be done first and the adding afterwards. Any errors that occur in using the machine arise from imperfect manipulation of the keys. The possibility of error, however, is reduced to a minimum, as each amount can be seen—first, depressed on the full visible keyboard, and secondly, printed on the listing slip. To check an addition the printed list can be compared with the matter from which the listing was copied; or the items can be machined again, just as they have to be checked by second addition when the work is done mentally. If a difference appears in the machine results, comparison of the two typed lists discloses where the error has been made.

ACCOUNTING MACHINES

Of what are called book-keeping or accounting machines a large variety is offered by the makers, some with the full keyboard of the typewriter in addition to the keyboard of the adding machine. Many of the machines are constructed with special features intended for special purposes, such as Bank, Insurance, Municipal, and Building Society work. A book-keeping or accounting machine can be used for posting the ledger accounts and statements of customers, and for making a daily check on the accuracy of the postings, as explained in Chapters 20 and 21. Besides ledger work, these or machines like them can be used for Stock Records, for Costing Records, for Analyses of Sales, Purchases and Expenses, and for writing up the weekly Pay-roll. Banks use them for their customers' accounts and the loose-leaf statements to customers which have now largely superseded the old form of pass book.

In a machine with a double keyboard the lower one is the

ordinary typewriter keyboard, making possible the typing of descriptions of goods on invoices and on detailed accounts in retail trade. The upper keyboard is that of the adding machine for printing amounts or quantities, adding or subtracting them, and throwing out the debit or credit balance after each ledger posting. Such a machine will type cash receipts for customers and the loose-leaf sheets for a Cash Book kept by the method described in Chapter 23. It is a general accounting machine suitable for a variety of purposes in an office where the quantity of any given kind of work does not justify the use of a machine designed for that purpose alone. One company supplies a number of machines for accounting and analysis work. Under a score or more of descriptions, departments or territories, one of the larger machines will analyse sales, purchases, wages, or stores materials, and will deliver a separate total for each of the classes when the analysis is finished. Machines such as these are constructed to suit the needs of the particular businesses for which they are required.

KEYBOARD MULTIPLICATION

An adding machine can be used to multiply, for *multiplication is only continued addition.* Thus the multiplication of 5468 by 324 is effected by depressing the keys for 5, 4, 6, and 8 of the multiplicand in the columns shown in the margin and for the number of times indicated by the 4 units, 2 tens, and 3 hundreds of the multiplier. It is in that way multiplication is accomplished on calculators with ordinary adding-machine keyboards. But more columns of figures are usually needed for multiplications than for additions, so the calculating machines intended for multiplication processes are provided with a wider keyboard.

```
  5468
  5468
  5468
  5468
  5468
  5468
  5468
  5468
  5468
-------
1771632
```

When a decimal fraction occurs in the multiplicand or multiplier or in both, the operation is carried out in the same way as with whole numbers, except that the resulting decimal points must be marked off in the product. Thus 5468·175 × 324·13 gives 1,772,399·56275, as shown on the next page, the number of decimal points in the product being always as many as there are in both multiplicand and multiplier—in this example, 3 + 2 = 5. If a vulgar fraction occurs in

multiplicand or in multiplier or in both, it has to be converted into decimals; so that $438\frac{3}{4} \times 27\frac{3}{8}$ becomes $438{\cdot}75 \times 27{\cdot}375$, and $649\frac{2}{3} \times 33\frac{1}{4}$ becomes, say, $649{\cdot}6667 \times 33{\cdot}25$. Conversion tables for the use of the operator are supplied with each machine. In commercial offices we deal with multiplication calculations such as these—

(1) $747\frac{1}{2}$ yards @ 1s. $4\frac{1}{2}$d. the yard, which, worked as $747{\cdot}5 \times 0{\cdot}06875$, gives the answer in pounds to the third decimal place as £51·391 = £51 7s. 10d.

(2) 8 cwt. 3 qr. 21 lb. @ 54s. 6d. the cwt., which gives $8{\cdot}9375 \times 2{\cdot}725$ = £24·355 = £24 7s. 1d.

(3) £125 16s. 6d. @ 29·2 belgas to the pound, which gives $125{\cdot}825 \times 29{\cdot}2 = 3674{\cdot}09$ belgas = 18,370·45 Belgian francs.

54·68175
54·68175
54·68175
546·8175
5468·175
5468·175
5468·175
5468·175
54681·75
54681·75
546817·5
546817·5
546817·5
1772399·56275

An adding machine that has a subtraction key can be used, after a fashion, for division, because *division is only continued subtraction*. Thus the answer to 1284 divided by 214 is the number of times that 214 is contained in 1284; or to put it another way, the number of times 214 can be subtracted from 1284. The continuous subtraction set out in the margin above shows that 214 is contained in 1284 exactly six times. When, however, the quotient required is a whole number containing several figures, or a number containing a fraction, this method of ascertaining it is scarcely a practical one. For frequent calculations involving division a different type of machine is commonly used.

First	time	1284	less	214	leaves 1070
Second	,,	1070	,,	214	,, 856
Third	,,	856	,,	214	,, 642
Fourth	,,	642	,,	214	,, 428
Fifth	,,	428	,,	214	,, 214
Sixth	,,	214	,,	214	,, 0

MOVING-CARRIAGE CALCULATORS

Features peculiar to this type of calculating machine are a turning handle and a moving carriage. When the crank-shaped handle is turned to the right, the machine multiplies; when turned to the left, it divides. The carriage which takes the product when multiplying is movable one digit at a time from units to tens, tens to hundreds, and so on.

In multiplication, by touching a small lever for each digit, the multiplicand is set on the columnar table of figures. Then each turn of the handle to the right in the units position of the carriage increases the multiplicand once; in the tens position, 10 times; in the hundreds position, 100 times; and so on. The revolution indicator shows what turns have been made, that is, it shows at any stage in the operation what multiplier, or how much of the given multiplier, has been used. To multiply 426·9 by 53·7, for example, we set 426·9 in the figure columns of the multiplicand table. Then we turn the handle to the right 7 times for the first position of the carriage, 3 times for the next position on the left, and 5 times for the third position. During this process the revolution or multiplier indicator shows, first ·7, next 3·7, and lastly 53·7, the full multiplier. On the results register or indicator the product appears first as 298·83, next as 1579·53, and lastly as 22,924·53.

00298·83	. 426·9 × ·7
01280·7	. 426·9 × 3
01579·53	. partial product
21345	. 426·9 × 50
22924·53	. final product

In division the dividend corresponds to the product of divisor and quotient—the divisor, let us say, being the multiplicand and the quotient the multiplier. Taking the product above, namely, 22,924·53, we can set it on the multiplicand table, then by one right turn of the crank we can transfer it to the product register as dividend. Clearing the revolution and multiplicand indicators, we can set up the factor 426·9 on the multiplicand table as divisor. By inspection we can see that the first figure of the quotient must be 5 in the tens place. The making of five *left* turns of the handle in the tens position subtracts 21,345 from the dividend and leaves 1579·53 as remainder. By inspection, again, we can see that the units figure of the quotient must be 3, and by three left turns in the units position we subtract 1280·7 from the remainder, leaving 298·83. This second remainder is itself exhausted by seven left turns in the first

22924·53	. the dividend
21345	. 426·9 × 50
01579·53	. 1st remainder
1280·7	. 426·9 × 3
00298·83	. 2nd remainder
298·83	. 426·9 × ·7
00000·00	. dividend exhausted

decimal position, leaving the product or dividend register at nil. By that time the revolution indicator will read 53·7, which is the quotient required.

An alternative method of effecting division is to set the divisor in the multiplicand table, whilst leaving all figures in the dividend register at 0. We then proceed to build up the dividend by multiplication of the divisor, arriving at the quotient in the process. Knowing what the dividend is, we can, as before, see by inspection that the first figure of the quotient must be 5 in the tens place. We proceed as in multiplication to make five *right* turns of the handle with the carriage in the tens position, so multiplying the divisor by 50. After inspection for the second figure of the quotient we make three right turns in the units position to increase the multiplication by three more times to 53. Finally, we make seven right turns in the first decimal position, to increase the multiplication by a further 0·7 times to 53·7. During the operation the dividend register reads first 21345·00, next 22625·70, and then 22924·53; whilst the quotient indicator reads first 50, next 53, and finally 53·7.

000000·00	dividend register at start
21345·00	426·9 × 50
21345·00	first product
1280·70	426 9 × 3
22625·70	second product
298 83	426·9 × ·7
22924·53	426·9 × 53·7

The foregoing are given as simple explanations of how multiplication and division can be accomplished on hand-operated mechanical calculators. *Electrically operated models*, however, now take precedence over those operated by hand. In an electric model, with a form of keyboard like that of the adding or accounting machine, the multiplier is set on one part and the multiplicand on another. When the multiplying bar or button is depressed, the machine makes the necessary movements itself, and stops working with the product displayed in the register. Division is performed similarly by setting the dividend and divisor, and then depressing the bar or button marked with the division sign.

Besides the multiplication examples of commercial calculations previously given, the following are practical examples

involving division that all these multiplying and dividing machines will work—

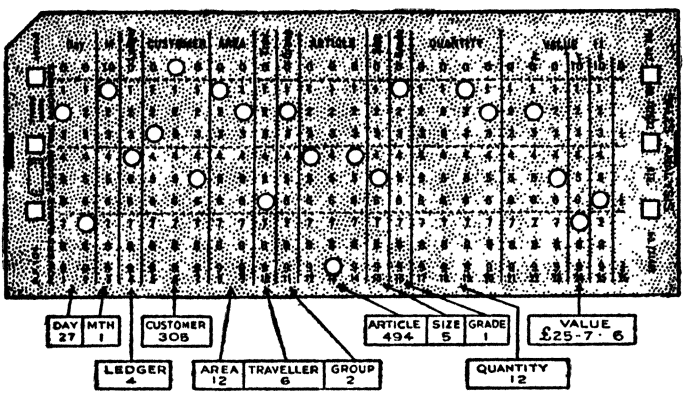
1. What percentage of 26,432 is (*a*) 2596, (*b*) 1187, and (*c*) 631?

2. What is the equivalent in sterling of 34·825 Belgian francs at 29·18 belgas to the pound?

3. What is the interest on £1498 10s. for 144 days at 3½ per cent per annum?

PUNCHED-CARD RECORDING

A method used in the making of office records has for its basis a card in which small holes are punched in positions that each indicate a given fact. The Powers system counts and records the facts by means of metal pins mechanically passed



POWERS-FOUR CARD

through the holes of the cards. The Hollerith system counts and records, by electric contacts made through the punched holes, the significance of which is to be recorded. In both systems there are three distinct and consecutive processes, namely, (1) Punching, (2) Sorting, and (3) Tabulating, for each of which a different machine is brought into use.

The specimen illustrated is that of a *Powers-Four Card* for recording particulars of sales. It will be noticed that the card has twenty-five columns of ten figures each. Also, it will be noticed that the columns are grouped into sections or "fields"

under various printed headings, the punched-out figures in the specimen indicating—

1. Date, 27th January.
2. Ledger No., 4.
3. Customer or Account No., 305.
4. Sales Area No., 12.
5. Traveller No., 6.
6. Merchandise Group No., 2.
7. Article or Commodity No., 494.
8. Size, 5.
9. Grade, 1.
10. Quantity, 12.
11. Value, £25 7s. 6d.

The holes are punched in the cards by depressing numbered keys, and they are verified on a checking punch. Then the cards are passed to the *Sorting Machine* driven by electric motor, where they are sorted into batches that are deposited in receiving boxes underneath. The Sorter deals with one column at a time, and it places in the same box all the cards in which the column being dealt with is similarly punched. The machine is capable of sorting some 20,000 cards an hour, and it may or may not be fitted with counters to show the total of each batch sorted.

When sorting has been completed, the batches of cards pass to the electrically driven *Tabulator*, which prints a tabulation of such of the contents of each batch of cards as it is set to select, giving at the same time totals in quantities or in money. For example, Sales Cards like the specimen may be used to produce—

1. Daily Sales Sheets for the Sales Book or Sales Journal.
2. Account Sheets for Customers or Sales Ledgers.
3. Analysis of Sales by customers or by trades.
4. Analysis of Sales by geographical areas.
5. Analysis by commodities in quantities or value.
6. Analysis by salesmen for calculation of commission.

In the Powers-Four outfit the card measures $4\frac{11}{16}$ in. × 2 in., and the Sorter 36 in. × 12 in. × 15 in. The Tabulator has four printing units, each capable of printing or of printing and adding ten columns of figures or letters. That outfit is intended

for use in establishments where the material to be dealt with is not of sufficient volume to justify the installation of the standard size of card, sorter, and tabulator, operated on the same principles, but of greater capacity. In such a system as this only one written record of each transaction or event is needed. It is the original from which all the information it contains is transferred to the punched card; and from the cards such items are mechanically extracted and classified as are required at any time for the accounting and statistical purposes of the business. Rapid mechanical and automatic reproduction and classification make quickly available, for information and guidance of the management, records and reports in greater variety and with greater accuracy than would be practicable had the work to be done by hand.

Examples of uses to which the punched card system may be put in the ordinary commercial office are—

1. Costing, for abstracts of time, wages, and materials.
2. Advertising, for dissection of orders received or sales effected, to show advertisement results.
3. Accounting, for lists of purchases and sales, to be used for compiling customers', suppliers', and nominal accounts.

But the method may be used, also, for various purposes in Railway, Banking, Insurance, and Public Utility undertakings, and for the compilation of statistical records generally.

QUESTIONS

1. For what reasons have mechanical appliances come increasingly into use in office work?
2. Name a dozen appliances all more or less of mechanical structure now commonly found in business offices. State to what use each type of appliance is put.
3. What advantages does the carbon method of copying letters and business documents yield over the older copying-press method? Describe the form of "fanfold" stationery, explaining in what respects and for what purposes that kind of stationery is superior to other forms.
4. Name the various types of appliances now used for making multiple copies of circular letters, price lists, business announcements, and the like. Give a brief indication of how each type of appliance is operated.
5. Describe in detail methods of making multiple copies of business documents by stencil process.

6. How is an office printing machine operated, and to what uses can it profitably be put?

7. Describe the manner of using an addressing machine, explaining in what form and order the addresses are kept, how the machine prints the addresses, and what various purposes such a machine serves.

8. Give a short description of how an adding and listing machine is operated. Explain for what purposes it can be used, and what advantages its use gives.

9. Describe briefly the main features of an accounting machine, and explain to what uses it can be put. In what respects is the writing up of accounts by machine better than writing them up by hand?

10. Write a brief description of the outward form of machines used for calculations involving multiplication and division.

11. Explain how you would make by machine the following calculations—

(*a*) What is the price of 2395½ yards at 1s. 3¾d. the yard?

(*b*) How many American dollars can one buy for £102 10s. 6d. when the rate of exchange is $4·75 to the pound?

12. Explain how you would perform the following calculations on a hand-operated crank-type calculating machine—

(*a*) What percentage of £3475 14s. 6d. is £246 11s.?

(*b*) What is the cost in sterling of 750 Canadian dollars purchased at $4·95 to the pound?

13. State briefly what you know of the uses and the method of operation of the Powers or the Hollerith punched-card system.

SECTION V—THE BANKS AND BUSINESS

CHAPTER 25

BANKING SERVICE AND USAGE

MENTION was made in Chapter 8 of some ways in which banks help the business man in the conduct of his affairs. This chapter will deal more fully with the facilities that banks offer, and with the benefits to be obtained by using them. So much a part of business usage have these facilities become, that the ease with which commercial transactions are now completed would be seriously affected were the community deprived of the services our banking system has developed.

ADVANTAGES OF A BANK ACCOUNT

A banking account is a much more convenient form in which to keep business funds than coin and notes would be lying in an office safe. The convenience is so great that all businesses except the very smallest find it necessary to keep a bank account for the benefits it gives. The *first advantage* of having a bank account is that the proprietor of a business, by keeping his available funds at the bank, passes on to the banker the responsibility for their safety. Because the banker is obliged to repay the equivalent of all sums deposited with him, the business man, by keeping his funds at the bank, relieves himself of the risk of losing any of them. With his funds in his own care he might suffer loss through destruction of notes by fire, or through the theft of notes and coin by a burglar or dishonest employee.

A *second advantage* attaching to a bank account is that, by writing and signing cheques in favour of his creditors, the business proprietor can, to the extent of his available funds, pay creditors' claims against him with very little expenditure of time, effort, and supervision on his part. All he needs to do is to draw the cheques and post them to the creditors. The creditors then hand them to their own banks to be collected,

and the bankers' clearing system does the rest. Without the handling of any notes or coin, it transfers so much of the drawer's claim on *his* bank to the accounts at *their* banks of the different creditors to whom the cheques were given. A *third advantage* is the reverse of the second one, namely, that most businesses need to keep an account at a bank, so that they can use the bank's services for collecting the value of the cheques they receive in payment of what their customers owe them.

Whether a business has or has not a bank account of another description, what is known as a *current account* is the kind that nearly every business must have. That kind of bank account is one into which money may be paid, and out of which money may be drawn, at any time the customer of the bank desires. Only to a current or running account at the bank could the second and third advantages we have named be applicable. A *fourth benefit* to be derived from such an account is that the customer who has one is known to his bank, and may, therefore, be able the more easily to arrange for an advance of funds by the bank when his own are near exhaustion. Such advances are continually being made to bank customers in one of the forms this chapter will describe. Especially are they granted when security of some acceptable kind can be offered for them, and when the money is wanted only temporarily, perhaps to meet an immediate call, perhaps to seize a profit from a passing opportunity. Minor benefits arising out of the possession of a banking account will be dealt with as we proceed.

OPENING A CURRENT ACCOUNT

Before opening a new account with an applicant not already known to the bank, the bank manager will need some assurance that the applicant is one with whom it is desirable to have an account. The necessary assurance may be given in an introduction by someone whom the bank does know, and who can speak for the prospective customer. As an alternative, the bank may obtain the information it wants by testing references the applicant is asked to supply. The banker will get the full name and address of the opener of the account and a description of the business, if any, that he carries on. Precautions must be taken, for one reason, to prevent dishonest persons from obtaining cheque books and from issuing worthless cheques to

traders. Even with care exercised by the banks persons do sometimes succeed in obtaining goods for cheques they draw, knowing that they have not the funds in the bank to meet the cheques when presented.

The preliminary assurance about the new customer's trustworthiness being satisfactorily obtained, the banker will take a specimen of the customer's signature, and will keep it for comparison, when that becomes advisable, with the signature on any cheque or other order about to be charged to the customer's account. The specimen signature given must, therefore, be in the form the customer intends always to use in operating the account. If the account is to be *a partnership* one, the banker will require the name under which the firm trades, particulars of each of the partners, and a specimen signature of the firm name written by each partner. As explained elsewhere, any partner, unless he has agreed to the contrary, has the right to sign cheques for the firm, and he does so as a rule by writing the firm name only.

A banking account may be opened in the *joint names* of persons who are not partners in a business. Cheques and other orders on the account must then be signed by both or all of the persons to whom the account belongs, unless one or more of them have been given authority to sign for all, and the bank has been authorized to act on such signature. On the death of one of the parties to the joint account, the right to deal with the money passes to the survivor or survivors, a certificate of death or some other official document being exhibited to the bank as evidence of the decease.

For opening an account in the name of *a company* registered under the Companies Act, the bank requires a certified copy of a resolution, in a form like that below, passed by the Board of Directors and entered in the Directors' Minute Book—

> THAT a banking account for the . . Company Limited be opened with the .... Bank Limited at their . .. Branch, and that the Bank be and is hereby empowered to honour cheques, bills of exchange, and promissory notes drawn, signed, accepted, or made on behalf of the Company by ....
>
> . . . .
>
> and to act on any instructions given by the persons so authorized with regard to any accounts or transactions of the Company.

Together with the copy of the resolution, the bank requires, as before, specimens of the signatures of the persons authorized to draw cheques for the company and to make other orders against the account. The bank requires exhibition of the certificate of incorporation and, if the company is a public one, the certificate entitling it to commence business. Also, the bank wants a copy of the company's Memorandum and Articles of Association, for the purpose of learning what powers the company possesses for borrowing money, which cover, of course, any loan or overdraft granted to it by the bank. The Memorandum and Articles serve, besides, to show the bank what kinds of business the company may legally engage in, and what powers the directors may exercise without special sanction from the general body of shareholders. Were the directors to commit any act outside the powers given to the company by its Memorandum of Association, or were they, without special authority from a general meeting of shareholders, to commit any acts outside the powers delegated to the directors by the company's Articles, the bank or other party interested could not charge to the company any costs incurred in respect of such excesses. The only remedy would be against the directors personally, who had given orders for the costs to be incurred. A company's cheques and acceptances are usually required by its Articles to be drawn or made by two or more signatures, as by one director and the secretary, or by two directors, or by two directors and the secretary. In indorsements of cheques received, however, the signature of one director, or of the secretary or other authorized servant, is usually sufficient.

OPERATING THE ACCOUNT

The new account will probably be opened by the customer paying in some money. If so, he will be asked to fill in a paying-in slip like the specimen on the next page. Should he desire it, a counterfoil book of paying-in forms will be handed to him for future use. When money is paid into the bank, the receiving cashier retains the paying-in slip proper, initialing and stamping the counterfoil, which he returns. On the customer signing an order providing for the value of the impressed stamps to be charged to his account, he will receive a book of cheque forms to use whenever he needs to draw out money for himself, or to pay

SPECIMEN PAYING-IN SLIP

METROPOLITAN BANK LIMITED

THREADNEEDLE STREET, LONDON, E.C.2

Date .. . 19..

Cr. . .. . . .

	£	s.	d.
Bank of England Notes (£5 and upwards)			
Bank Notes, £1			
,, ,, 10s.			
Country Notes			
Sovs. and Half-Sovs . . .			
Silver			
Copper			
Total Cash . . .			
CHEQUES, P.O s, etc.			
Total Number of Cheques, etc.			
TOTAL .			

Signature of person paying in

. . . .

All cheques should be crossed before paying in to credit of account.

away sums to others. If he wants the bank to give him a draft on another bank, payable to someone else either in this country or abroad, he will be asked to fill in and sign another form. Should he desire a bill of exchange, not immediately due, to be collected for him, a different form again may be needed. And so, for every transaction affecting his account, a form of one kind or another, or a letter of instruction duly signed, will always be required as the bank's authority for acting. It is from these completed forms in the bank's possession that the relative entries are made in the customer's account.

The bank will provide the customer with a *Pass Book* in which it will write up a copy of his account from time to time. At short intervals the pass book should be left at the bank for the entering of the transactions to be continued. In many banks, however, the customer's pass book has now become a statement of the account, typed on loose leaves by accounting machine, in a form like the specimen below—

MESSRS. FEARNLEY, SANDERSON & CO, LIMITED

in account with

METROPOLITAN BANK LIMITED THREADNEEDLE STREET, E C 2

Old Balance	Date	Debits		Credits		Balance Credit * Overdrawn, O D
		Cheque No, etc	Amount	Abbreviation	Amount	
	Forward					

ABBREVIATIONS

CBK	Cheque Book	CPN	Coupons	LNS	Loans
CC	Country Cheque	DA	Deposit a/c	PST	Per post
CHS	Charges	DIV	Dividend	REG	Registration
COM	Commission	INT	Interest	SDS	Sundries
SUP	Supplementary List				
SPP	Stock per post				
SUB	Subscription				
UPD	Unpaid				

As new leaves are handed to him by the bank, the customer fixes them in a binder supplied to him by the bank for the

purpose. Periodically the customer should reconcile the Pass Book balance with that of his business Cash Book in the manner explained in Chapter 23.

THE BANKER'S CHARGES

In London and the South no charge is made for the paying of cheques drawn on his bank by a customer, so long as the customer keeps in the account a balance satisfactory to the bank. If, however, the credit balance dwindles, the banker makes a charge which the customer finds debited in his pass book. In the North of England the practice has been different. There the banker charges a commission for conducting the account, the commission being debited at $\frac{1}{4}$ or $\frac{1}{8}$ per cent, or even less, according to the size of the account, on the half-yearly total of cheques paid by the bank for the customer. For a large account special terms would probably be fixed by agreement between the bank and the customer, providing for the payment of a round sum per annum, such as £150 or £200. On the other hand, interest at a low rate would usually be allowed half-yearly on the amount of the customer's credit balance from day to day. Where accommodation has been granted to a customer in the form of an *overdraft* on his account, interest is, of course, always charged by the bank. It is calculated on the day-to-day balance of the overdraft, and is charged on June 30th and December 31st as a rule.

CALCULATION OF BANK INTEREST

The customer's pass book or statement of account does not show how the interest is calculated, but the bank's own copy of of the account contains columns for "days" and for "products," as in the short example of an overdrawn account on the opposite page. It will be noticed that the balance with which that account starts on July 1st remains unchanged for four days. Suppose the rate of interest to be charged is 5 per cent per annum, the interest for the four days would then be—

$$£302 \times 4 \times 0{\cdot}05 \div 365$$

£302 being the nearest number of round pounds in the balance, £0·05 being interest on £1 for one year, and 4/365 being the period stated as a fraction of a year. The product 1208 shown

in the Products column of the account is the first step in this calculation, namely £302 × 4. Similarly the product 783 for the next three days is the first step in the calculation—

$$£261 \times 3 \times 0{\cdot}05 \div 365$$

and so on with the periods of two and five days that follow, and that give the products 414 and 2070.

BANK CUSTOMER'S OVERDRAWN ACCOUNT, SHOWING HOW INTEREST IS CALCULATED

Date	Transaction	Debits			Credits			Balance				Days	Products
		£	s.	d	£	s.	d		£	s.	d		
19 .													
June 30	Balance	302	4	9				Debit	302	4	9	4	1208
uly 4	Cash and Cheques .				40	16	7	,,	261	8	2	3	783
7	,, ,, ,, .				54	14	10	,,	206	13	4	2	414
9	Roberts .	10	18	–									
9	Hudson .	23	5	6									
9	George . .	9	2	3									
9	Butters . .	102	10	–									
9	Smithers	61	3	–				Debit	413	12	1	5	2070
14	Cash and Cheques .				136	4	–	,,	277	8	1		

Now, it will be perceived that interest on £302 for four days must be the same as interest on £1208 for one day, and that on £261 for three days it must be the same as on £783 for one day. Also, if these two items of interest are calculated separately and then added together, the result must be the same as the interest for one day on the sum of the two products, namely £1991. And the interest for one day calculated separately on £1208, £783, £414, and £2070 must, when added together, come to the same as the interest for one day on the total of these products, namely, £4475.

Interest at a given rate per cent per annum on the balances shown for the fourteen days in our example is, therefore, the equivalent of interest at the same rate on £4475 for one day. Our example covers fourteen days only; but, in an actual account remaining overdrawn, the products for the various periods during which the balance of the account does not change would be carried out period by period to the close of the half-year, or until the overdraft ceased, or until the rate of interest changed. Then the total of the products would be ascertained, and the calculation would be completed by reckoning interest on that total for one day. To save time, however, the clerk making the calculation reads the result from a book of interest tables ready calculated at various rates.

Where an account *between a trader and his customer* is subject to interest, the calculation of the interest is made in a similar manner. In a current account between merchant and merchant, or merchant and agent, the balance may change from debit to credit, and interest be charged on one side or allowed on the other according to the state of the account. Then two columns are needed for the products, one for the total of the products obtained for the periods the account is in debit, the other for the total of the periods the account is in credit, and the interest is calculated on the excess of the greater total over the less.

For convenience in keeping their customers' accounts it is the practice of the banks to credit, on the day they are paid in, *all cheques received for collection.* But the proceeds of many of these cheques will not be collected, and will not be available until the next day, or the next day but one, for reducing the balance of an overdrawn account or for increasing the balance of an account in credit. In practice, therefore, the calculation of the products may be modified to allow for that, and for interest purposes amounts paid in may not be taken as credited until two days later.

When, however, a customer borrows from his bank, the banker very often gives the accommodation in the form of a *loan of fixed amount,* which is debited to a separate loan account opened in the customer's name, and credited to his current account. That keeps the current account in credit; but it causes the borrower to pay interest on the full amount of the loan, whether he uses all of it or not. With the overdraft, on the other hand, he pays only on the sum he uses from time to time. In either case the interest is charged to the customer's current account—at the close of each half-year if the advance continues, or on any earlier day on which repayment is made.

DEPOSIT ACCOUNTS

In its wider sense the term "deposits" is used by bankers for all sums lodged with them by their customers, whether on current account or otherwise. In a narrower sense, it is used to denote only sums left with a bank on "deposit account." A deposit account differs from a current account in two chief points. The first is that a withdrawal cannot be made from the account until the expiration of due notice given. The second is

that a bank with which a sum of money is placed on time deposit pays interest for the use of the money.

A banker is liable to repay on demand the whole or any part of the sums his customers leave with him on current account. For that reason he must keep a considerable portion of these sums always available in notes and coin, or immediately convertible into notes and coin; and on the portion always available he is unable to make any profit by lending it out at interest. As the money left with him on deposit account is not repayable until after notice, he is freer to use it, and he can lend it all on suitable repayment terms. Besides, as customers cannot draw cheques on their deposit accounts, and are not paying into these accounts from day to day cheques to be collected from other banks, a banker has much less work to perform in keeping deposit accounts than he has in keeping current accounts. These are the reasons why he is able to allow interest to deposit customers. He lends out their money at a higher average rate of interest than he pays for its use.

The interest receivable on a deposit account at a bank is not, however, so good as the return that can be obtained by investment in the better classes of stocks and shares. On the other hand, a deposit account is safe, and it is useful to the depositor as a means of earning interest on a sum that is at liberty for a time only. Further, a bank deposit can be made and withdrawn without the trouble that is attendant on buying and selling securities through the Stock Exchange, and the amount of the deposit cannot alter in the meantime as the market value of a Stock Exchange investment probably would.

The rate of interest allowed on deposit accounts varies with "bank rate," which is the Bank of England's official rate for discounting bills of exchange. For deposits repayable on seven days' notice the London banks usually all allow the same rate of interest; when bank rate changes, announcements may be seen in the Press of their new deposit rate. As a rule, it is 2 per cent below bank rate; but deposits may be made subject to longer notice of withdrawal, such as a month or three months, and then the depositors may be able to arrange for a higher rate, particularly when the deposits are of substantial amount. The interest due on a continuing deposit is generally calculated half-yearly. Any balance of interest due at the time will be paid

when the deposit is withdrawn; but if the depositor has a current account at the bank, the half-yearly interest on the deposit will be credited in his current account as it falls due.

In acknowledgment of sums placed on deposit with them some of the banks give each depositor a small deposit pass book in which the deposit is entered to his credit, and additions or withdrawals credited or debited as they occur. Others of the banks issue deposit receipts, in form similar to the following—

NOT TRANSFERABLE

No. 408239

DEPOSIT RECEIPT

METROPOLITAN BANK, LIMITED

Branch

£ 19..

RECEIVED of

the sum of

to be placed to Deposit Account with the Bank.

Entered

Receipt Clerk For METROPOLITAN BANK, LIMITED,

Manager

Cashier

This Deposit is subject to . . . . . days' notice of withdrawal.

This receipt to be given up on withdrawal of the whole or any part of the deposit.

On the reverse side of the Deposit Receipt there is printed a form that the depositor fills in and signs when he requires repayment. If he withdraws only a part, a new receipt is issued for the balance.

BANKS AS LENDERS

A banker is a dealer in money, or in rights to money value. His business consists to a great extent of buying the use of money at one price and selling the use of it at a higher price, a large part of every bank's profits being made in that way. The price a bank pays for the use of money may be interest, as in the case of sums entrusted to it on deposit account; or it may be services, as in the case of current accounts on which no

interest is allowed and for the handling of which no charge is made. As the bank buys and sells only the *use* of the money, its depositors can claim repayment from the bank and the bank can claim repayment from its borrowers. Repayment, however, does not consist of returning the actual notes or coins deposited or lent, but only of an equivalent amount of money in any legal or acceptable form.

Some insight into the manner in which banks lend out the funds placed with them may be gained from the bank balance sheet on this page, and the position it presents may be taken as representative of banking practice generally. On the date of the balance sheet this bank's liabilities for funds left with it by customers could not be much less than the £464,249,757 shown as owing on Current, Deposit, and other acounts. What it had lent out and invested appears amongst the assets as—

	£
Money at Call and Short Notice	25,089,239
Investments at or under market value	118,869,021
British Treasury Bills	27,035,202
Other Bills Discounted	21,463,608
Advances to Customers and Other Accounts	209,255,066
Total	£401,712,136

BALANCE SHEET OF MIDLAND BANK, LIMITED
31st DECEMBER, 1938

Liabilities	£
Capital paid up	15,158,621
Reserve Fund	12,410,609
Current, Deposit, and other Accounts	464,249,757
Acceptances and Confirmed Credits	8,734,236
Engagements	8,483,612
	£509,036,835

Assets	£	£
Coin, Notes, and Balances with Bank of England		53,651,380
Balances with, and Cheques on other Banks		17,813,029
Money at Call and Short Notice		25,089,239
Investments at or under market value		118,869,021
Bills Discounted:		
British Treasury Bills	27,035,202	
Other Bills	21,463,608	
		48,498,810
Advances and other Accounts		209,255,066
Liabilities of Customers for Acceptances, Confirmed Credits and Engagements		17,217,848
Bank Premises and other Properties		9,689,274
Shares in Yorkshire Penny Bank, Ltd.		937,500
Investments in Affiliated Companies:		
Belfast Banking Co., Ltd.		1,795,836
The Clydesdale Bank, Ltd.		3,195,114
North of Scotland Bank, Ltd.		2,579,843
Midland Bank Executor and Trustee Co., Ltd.		444,875
		£509,036,835

Of that total £230,718,674, or more than half, is accommodation given to customers in loans and discounted bills. This is the part of its loans on which the bank gets its highest return of interest, and we may presume it to be lent mostly for business purposes. The Treasury Bills are all bills payable in three months, issued from time to time by the Government and taken up by the bank at a discount. Money at Call and Short Notice consists of sums lent on the Money Market in London in the manner a later chapter will explain.

HOW BANK ADVANCES ARE SECURED

The security that a banker will accept against an advance may take any of a number of forms, some of them more acceptable to him than others. When security is taken in either of the two forms first dealt with below, namely discounted bills of exchange and documents of title to goods, such as bills of lading, the advance will be made for the duration of the single transaction to which the bill of exchange or bill of lading refers. The bank will be repaid when the discounted bill is met on its due date by the acceptor, or when the goods covered by the bill of lading are sold and payment is received by the bank's customer from the buyer. Some of the other kinds of security described may be given by the borrower for funds to finance a single deal. They are more likely, however, to be given for a continuing advance of indefinite duration, subject to the banker's notice of recall, the borrower using the advance for making general payments from time to time, and not for the carrying through of any specific transaction.

1. **Discounted Bills.** The form and uses of bills of exchange will be described at some length in Chapters 28 and 29. Banker's discount and its calculation have been explained in Chapter 21. A debtor, by "accepting" a bill that his creditor has drawn upon him, gives an undertaking, enforceable at law, to pay a stated sum at a stated time. As already explained "discounting" a bill consists of advancing to the holder the amount of the bill, less interest at a given rate per annum for the time the bill has still to run until maturity. The customers for whom a banker discounts bills of exchange may be the drawers of the bills; but they may be other persons who have acquired the bills for value given. If the banker considers the drawers or any other

parties to the bills to be sound financially, and the bills to be genuine trade bills, he is pleased to add to his profits by discounting them. He looks upon bills as, on the whole, excellent security for money lent. They (*a*) spread the risk of loss over a large number of borrowers, (*b*) in comparatively small sums; and (*c*) the money is lent out for short periods only. As, from time to time, numbers of the bills fall due and are paid, new ones come along to take their place.

The banker who discounts a bill becomes the owner of it. He takes it in exchange for the advance, keeps it until the due date, and then presents it to the acceptor for payment. Should payment not be forthcoming he has the right to turn for satisfaction to the customer for whom he discounted the bill; but, if he likes to exercise it, he has an alternative right of recourse to any other party whose name appears on the bill as drawer or indorser. The more names there are on a bill, the greater, therefore, is the security that it gives. Should it be dishonoured by non-payment, the banker can choose, from amongst drawer and indorsers, any party he knows or believes is able to pay.

Banker's discount, it should be noted, is calculated as interest on the amount of the bill, and not, like true interest, on the sum advanced. The amount of a discounted bill is credited by the banker to the customer's current account, and the discount is debited. Should the acceptor fail to pay when the bill falls due, the banker debits the full amount back to the customer, together with any expenses he has incurred through the dishonour—unless he prefers to look to another party for repayment. The rate of discount charged by the banks and by bill brokers for approved bills varies with "bank rate," which is the official published discount rate of the Bank of England.

2. Bills of Lading. A bill of lading is a document issued by or for a shipowner in respect of goods to be carried by his ship. In a later chapter the nature and purpose of the bill of lading will be dealt with more fully. For the present we have to notice that it constitutes the title to the goods shipped, that its indorsement by the person in whose favour it is made out, and the handing over of the document, transfer the right to claim the goods at the port of destination. A bill of lading, either by its original wording or by subsequent indorsement, may make

the goods deliverable to the order of a bank. In such case the bank controls the disposal of the goods, and it can hold the bill of lading as security for an advance made against their value. Like those given on bills of exchange, bankers' advances on security of bills of lading are made on individual trade transactions. Both kinds serve to finance the movement of goods from the place and time of production to the place and time of sale.

The advance by the bank may be made to an exporter in this country until the bank or its agent abroad collects payment from the foreign buyer to whom the goods are shipped. In these circumstances it is usual for the exporter to draw a bill of exchange on his customer abroad and hand it to the bank. To the bill of exchange he attaches (1) the invoice for the goods and the shipping charges, (2) the bill of lading, which we have seen gives the bank control over the disposal of the goods, (3) the policy of marine insurance covering loss or damage to the goods on the sea.

The offices in this country of dominion and foreign banks do an extensive bill business with exporters shipping goods to places where these banks have branches. They or our home banks may merely collect the amounts of the bills, and account to the drawers for the proceeds after payment has been obtained from the drawees. At the drawers' request they may advance against the documents the greater part of the value of the goods, accounting for the balance when collected. Or, again, they may buy the bills outright, paying to the exporter the whole of the value less their charges for interest and collection. Banks abroad, also, make advances to exporters in their own countries on foodstuffs, raw materials, and manufactured goods coming direct to buyers here, or on foodstuffs and raw materials consigned to agents here who see to their being sold on the produce exchanges in our ports.

Advances are made, also, to merchants in this country who have imported goods and who need the money, either for payment of bills of exchange drawn on them by their foreign suppliers, or for the duty that must be paid before the Customs Authority will set many kinds of imported goods free. Until the importing merchant is able to effect a sale, the goods will probably lie in a warehouse at the docks. But in that case the

shipowner's bill of lading will be given up by the importer, and a dock or warehouse warrant will be issued in its place by the port authority. As the dock warrant then carries the title to the goods, the bank making the advance will hold it as security, together with a policy or certificate of insurance against loss by fire during the period of warehousing. A bill of lading or a dock warrant held by a bank may not be handed over until the purchaser of the goods claims it in exchange for payment made to the bank, or until the borrower gives the bank a "trust receipt" for the document, when it is necessary to get the goods released before the buyer will pay.

3. **Marketable Securities.** These are certificates of stocks and shares or Government or debenture bonds, such as can be sold freely on the Stock Exchange. The fact that the stocks, shares, or debentures can be disposed of in that way makes them acceptable security to the lending bank. The shares, etc., should be fully paid; and as provision against a possible fall in the market price of the security, the bank keeps a margin between its present market value and the sum advanced. Borrowers on Stock Exchange securities may not wish to sell their holdings in order to raise the money they need, either because they intend their borrowing to be temporary only, or because they wish to retain the securities in their own names as qualification for directorships or votes in the undertakings that have issued them, or for other reasons.

If the advance applied for is a large one, and if it is expected to continue for a time, the bank will usually require the security to be formally transferred into the names of its nominees. If, on the other hand, the advance is small or only temporary, the bank may be satisfied with deposit of the certificates of title under a memorandum of agreement signed by the borrower, giving the bank the right to require formal transfer if need be. Sometimes the bank takes what is known as a "blank transfer," i.e. a transfer executed by the borrower but not by the bank, and to be completed by the bank only when necessity for that arises. In any case the bank will have power to sell should repayment of the loan not be forthcoming after notice requiring repayment has expired.

4. **Mortgages and Charges.** Many a business house, with the object of providing premises suitable to its needs, buys the

freehold of the site, and erects upon it a building of the kind it wants. Other houses acquire the freehold of the premises in which their businesses have developed, to make sure that their occupation of them will not be disturbed in the future. Much of the cost of land and buildings so acquired may be met with borrowed money secured by mortgaging the land and buildings to the lenders. Banks do sometimes make loans on mortgage, or take a mortgage to secure loans entered into otherwise. But the nature of banking business requires, as a rule, that a bank's advances be much less permanent, and that the security on which they are made be more quickly realizable. If, then, a bank does take title deeds to property as security, it is usually for an advance of quite temporary duration.

When the borrower is a company and the loan is not merely temporary, it may be secured by one or more debenture bonds that give the bank a mortgage on any land and buildings the company possesses, and a charge on all the other assets. That security, however, is again too permanent and too difficult to realize quickly for banks to look upon it with favour. Loans of that kind must usually be obtained from sources which seek the interest as investment income, and which are not under the same necessity as banks to keep their assets liquid. If a bank does lend money on a mortgage deed, its name should be joined with that of the borrower in the policy that insures the buildings against fire. The bank may want to hold the policy; and, to satisfy itself that the policy is kept in force, it will ask the borrower for the renewal receipts as the premiums fall due and are paid.

5. Other Securities. Another type of security taken by banks is a guarantee given by a third party for repayment of a loan or overdraft granted by the bank to its customer. Such a guarantee would be required to be given on the bank's own form. The guarantor may be a single person acceptable to the bank as such, or the guarantee may be given jointly by more persons than one. Sometimes it is the guarantee of a company given for a repayment of money borrowed by a subsidiary or an affiliated concern. In Chapter 12 it was explained that such a guarantee, to be enforceable at law, must be in writing and signed by the giver. In addition to the guarantee, security in some other form may be taken as collateral.

For personal borrowing, a life-insurance policy may be offered to the bank as security. If a policy for a substantial sum has been running for a number of years, the annual premiums that have been paid give it a value against which a loan of useful amount can be raised. A bank lending on a life policy will ascertain from the insurance office what the surrender value of the policy is, and will keep the loan within that value. A formal assignment of the policy to the bank will be required, which will be lodged with the insurance office. The bank will desire to see that the premiums are paid as they fall due, and the policy so kept in being. It is, however, not necessary to go to a bank for a loan on security in this form. With less formality a loan up to the surrender value of the policy can be obtained from the insurance office itself, as life insurance offices are always ready to earn interest on the funds they hold by granting loans to their policy-holders. The "surrender value" at any time is the sum that the insurance office would repay the policy-holder if he were then to abandon the insurance and surrender the policy.

BANK DRAFTS, CUSTOMERS' BILLS, BANK CREDITS

All our commercial banks issue, on customers' signed requests, *drafts on foreign banks* in favour of the payees the customers name. They collect for customers drafts that the customers have received from abroad. But they also issue drafts payable in this country on demand, or on the expiration of a stated number of days, and drawn on their own head office or branches, or on other banks; and they collect similar drafts issued by other banks.

On their customers' instructions the banks present bills of exchange to the drawees for acceptance or for payment. For their customers they also pay, on due presentation, bills the customers have accepted payable at the banks. Some of the banks need no authority other than the customer's signature in the acceptance, whilst others take on a form for the purpose a signed instruction to pay. Again, by arrangement made by a customer, a bank may accept on his account bills from abroad drawn upon the bank here for goods shipped to the customer. Acceptance by a well known bank is preferable to that of a less

known purchaser of goods. By it payment of the bill is made all but certain, whilst negotiation becomes more easily, and discounting more cheaply, effected.

A bank in this country will by instruction of a bank abroad *open a credit* of stated amount, in favour of a British manufacturer or supplier, to be held available until a specified date, for payment of goods ordered from him by a purchaser in the country of the foreign bank. A British bank will make arrangements on behalf of a purchaser here for a credit to be opened abroad for a similar purpose. When the goods ordered are ready, payment is obtained by the supplier drawing, on the bank where the credit is opened, for the value of the goods as shown by invoices attached to the draft. If the terms notified to the supplier require his draft to be accompanied by bills of lading and a marine insurance policy, the credit is known as a "documentary" one; but when these documents are not required, a "clean credit" is the name by which it is described. A "confirmed credit" means that it has been confirmed by the bank where it lies available.

To a customer about to travel abroad, his bank will issue a *letter of credit* addressed to a bank in the foreign town that the customer intends to visit, its issue being notified to that bank direct. The letter of credit requires the foreign bank to hold a stated sum at the traveller's disposal, to be drawn upon by him according to his needs. An alternative method for supplying a traveller abroad with funds is for the bank here to give him a *circular note* for a stated sum, the note being addressed to several banks each in a different town on the traveller's route. When he presents the circular note to any one of the banks indicated, that bank indorses upon it the amount he then draws out, so that the note shows the balance only as available for his further demands. A third form of this service is the issue of *travellers' cheques*, each drawn on the bank here for a round sum in sterling of convenient size, and signed by the bank's customer at the time they are issued to him. On presentation to any of the bank's foreign agents named upon them, these cheques will be cashed at the current rate of exchange. When taking payment of one of these cheques the traveller indorses it, and so gives the paying bank the means of comparing his signature as indorser with the signature he made as drawer.

VARIOUS FURTHER SERVICES

1. **Banknotes.** At one time many English banks issued their own notes; but now the only English banknotes in circulation are those of the Bank of England. In Scotland and Ireland the banks have always maintained their own note issues, and they do so still. But as the one-pound note is their lowest denomination, Bank of England ten-shilling notes are now used throughout the Kingdom instead of the half-sovereigns that circulated in previous days.

2. **Credits for the Accounts of Others.** A bank accepts money paid in by any person for credit of the account of another person or of a company or institution. Gas and electricity accounts, and school fees, are frequently paid in that way. A bank also takes money paid in at one branch for credit of an account at another of its branches, or sometimes at a branch of another bank. The takings of multiple shops are banked locally and transferred free of charge daily or weekly to their head office account at their head office bank. Commonly, too, banks accept donations for credit of funds raised for charitable or other social purposes. Subscriptions to loans of the Government and of public authorities, and to capital issues of commercial companies, are usually paid into any branch of the bank of the issuing body.

3. **Standing Orders and Dividend Mandates.** Bank customers may give "standing orders" for their banks to make and charge to their accounts on the due dates recurring payments of fixed amount such as rents and annual subscriptions. Holders of shares and stocks may give dividend or interest "mandates" to the companies and public bodies concerned, requiring all dividend and interest payments, as they become due to the holders, to be made direct to their bankers for credit of their accounts. Debenture bonds and similar documents with coupons attached for periodical interest are often left by the owners with their banks for the coupons to be detached and the interest collected as it falls due.

4. **Bankers' Opinions** about the financial standing of their customers can, as we learned in Chapter 12, be obtained without charge by prospective or actual creditors, if inquiry is made through the creditors' banks. A banker will not report about a customer direct to an inquirer, except in the case where the

customer has himself asked the bank specially to do so, or where both parties bank at the same place.

5. Safe Deposit. Title deeds to property, certificates of stocks and shares, debenture and other bonds, jewellery and other articles, and documents of value, usually in deed boxes bearing the owners' names, are often left with banks by their customers free of charge, for safe custody in the banks' strong-rooms. The banker gives a receipt for the box or package left, and he requires the receipt to be handed back when the property is reclaimed. On documents of money value, left with a banker for purposes connected with his business as banker, he has a general lien as against any sum owing to him by the owner of the documents. It is doubtful, however, if the lien applies when the articles are left for safe custody only.

6. Stock Exchange, Income Tax, and Trustee Business. By their customers' orders banks buy or sell Stock Exchange securities, employing a stockbroker to carry the transactions through, and charging a commission for their services. They offer customers expert services in making claims for refunds of income tax the customers are entitled to, and in dealing with other income-tax matters. They offer, also, the services of departments organized for carrying out the duties of executors and trustees under the wills of deceased persons.

QUESTIONS

1. Explain clearly the several benefits that a business man may enjoy by keeping a bank account.

2. State how you would proceed to open a current account at a bank, and mention the books with which you would be supplied. Of what advantage is such an account to a trader?

3. What is a paying-in slip? Give a specimen with entries.

4. What is the usual procedure in opening a current account with a bank by (*a*) a partnership, (*b*) a joint stock company? (*L.C.C.*)

5. What precautions does a banker take in opening a current account with (*a*) an individual, (*b*) a joint stock company; and why are these precautions necessary?

6. Explain: (*a*) How a current account at a bank is operated by the bank's customer; (*b*) How the bank is remunerated for conducting the account.

7. Take the following as being the transactions for the month of September on an overdrawn bank account. Assume that the cheques paid in were actually collected on the dates named, and show how

you would calculate interest on the account for the month at 5½ per cent per annum—

		£	s.	d.
Aug. 31.	Balance overdrawn . . .	629	8	6
Sept. 6.	Notes paid in	80	–	–
11.	Cheques paid out . . .	248	16	–
14.	Cheques collected . . .	105	3	3
18.	Cheques paid out . . .	94	10	–
25.	Cheques collected . . .	185	5	7

8. What is the difference between a bank loan and an overdraft? Examine the advantages and disadvantages of each to a trader who requires financial accommodation temporarily. (*R.S.A.*)

9. What is the difference between a current account and a deposit account in a bank? What considerations would influence you in opening one rather than the other? (*L.C.C.*)

10. Explain carefully: (*a*) How a deposit account is operated; (*b*) How the terms that a banker offers for a deposit account differ from those he offers for a current account; (*c*) Why the terms differ.

11. In what different quarters does a banker lay out the funds he has at his disposal? How has he acquired the funds he so lays out? How does he keep himself prepared to meet his customers' demands for repayment of money they have left with him?

12. Banks have been described as repositories for cash and as sources of loans. Explain these two functions and the connexion between them. (*U.L.C.I.*)

13. Describe: (*a*) Two kinds of security on which a banker may make an advance that is restricted to the duration of a single transaction for the carrying through of which the borrower requires the advance; (*b*) Two kinds of security on which a banker may lend money that the borrower may use for an indefinite period.

14. Why do banks show such willingness to discount bills of exchange? Analyse carefully all the elements of security that enter into the acceptability of such bills. (*R.S.A.*)

15. Explain fully the position of a banker in regard to a bill of exchange he has discounted for a customer.

16. On what kinds of security will a banker usually make an advance to an exporter of goods, and how will the banker obtain repayment?

17. On what kinds of security will a banker usually make an advance to an importer of goods, and how will the banker obtain repayment?

18. Name three classes of security accepted by banks against advances by loan or overdraft. Briefly describe the usual formalities that take place between the parties when such an advance is arranged. (*L.C.C.*)

19. Describe briefly how (*a*) certificates of stocks and shares, (*b*) mortgages and debentures, (*c*) life assurance policies, and (*d*) guarantees, are made to serve as security for loans or overdrafts granted by banks to their customers.

20. Briefly explain any four of the following terms: (*a*) Bank draft, (*b*) Acceptances for customers, (*c*) Documentary credit, (*d*) Letter of credit, (*e*) Circular note, (*f*) Travellers' cheques.

21. What services do banks render to their customers in regard to (*a*) standing orders, (*b*) dividend warrants, (*c*) status reports, (*d*) safe deposit?

CHAPTER 26

THE HANDLING OF CHEQUES

BANK cheques are a modern method of making payments that did not come to be widely used until about the time that the joint stock banks were started. The first of these to be set up in London—apart from the Bank of England, founded for a special purpose in 1694—was the London and Westminster Bank, which opened its doors in 1834. The first in the English provinces was established in 1826.

RISE OF THE CHEQUE SYSTEM

Before the rise of the cheque system banknotes were the usual means of making payments otherwise than by coin. At the close of the eighteenth century and the beginning of the nineteenth, the many failures of private banks in England and the expansion of the country's trade made some improvement in banking facilities necessary, and banks of the joint stock type began to be established. The Bank of England, however, enjoyed a privilege in regard to note issue within a sixty-five-mile radius of London, as the London private bankers had ceased to issue notes, and the charter of the Bank of England prohibited the issue, by any corporate body within that area, of notes payable on demand. Deprived of the right to issue notes, the new banks turned their attention to the encouragement of payment by cheques drawn on current accounts. Because of its greater suitability to trade conditions, the cheque soon became the general method of settling credit transactions between business houses, as distinct from ready-money sales to the public at large. Though other countries make use of bank cheques, it is in the lands of English-speaking peoples that the cheque system has been developed to the greatest extent.

THE FORM OF A CHEQUE

The form that a cheque takes is illustrated by the two imaginary specimens that follow. It will be noticed that each

of these specimens takes the form of an order addressed to a particular banking office, that the order is dated, and that it instructs the bank to pay a stated sum of money to persons named or to their order. Though cheques do not say so, they are always payable by the bank on demand. A cheque, too, is always signed by the maker of the order, who is always a customer of the bank addressed, and it is out of the customer's current account at the bank that payment of the cheque is to be made. To regulate the manner in which cheques are drawn upon them the banks supply books of forms and counterfoils,

SPECIMEN No. 1

D209627 7th July, 19..

BANK OF THE PROVINCES, LIMITED

CITY SQUARE, LEEDS

PAY *Fearnley, Sanderson & Co., Ltd.* or, order

Sixty-three pounds two shillings and sixpence

2d. STAMP

C *£63—2—6* *Gregory & Wright*

SPECIMEN No. 2

FEARNLEY, SANDERSON & CO., LIMITED

ST. PAUL'S CHURCHYARD

LONDON, E.C.4

H347821 23rd May, 19..

METROPOLITAN BANK, LIMITED

THREADNEEDLE STREET, LONDON, E.C.2

PAY *Hattersley, Sons & Co.* ..... . or order

One hundred and thirty-eight pounds 13/6

2d. STAMP

T *£138—13—6* For and on behalf of

FEARNLEY, SANDERSON & CO., LIMITED

Geo. W. Sanderson Director

Henry Bradley Secretary

printed with blank spaces for dates, names, and amounts. They charge only for the stamps they have had impressed upon the forms, and not for the printing, except in some of the cases where the cheques have been specially printed to the customer's instructions. The forms provide for the amount being expressed, for greater certainty, both in figures and in words. Should words and figures differ, the bank will return the cheque for the drawer's correction, unless the payee attaches to it a slip, claiming the smaller amount, which will then be paid. A cheque is not legal tender; that is, the person to whom it is offered may refuse to take it, and may ask for payment in Bank of England notes or coin. As one cannot tell whether the drawers have funds at their banks to meet them when presented, it would not be fair for cheques to be a compulsory form of payment.

The cheque is a late variety of an old document known as the "bill of exchange." In its legal aspects a cheque is governed by the Bills of Exchange Acts, in which it is defined as "a bill of exchange drawn on a banker, payable on demand." The legal definition of a bill of exchange will be given in a later chapter. For the present we may say that—

> a cheque is a signed order addressed to a bank by one of the bank's customers and requiring the bank to pay on demand a stated sum of money to a person named or to bearer.

To come under the provisions of the Bills of Exchange Acts the order must not make payment subject to any condition. Because of the condition that requires the completion of a receipt form before payment is made, the specimen order shown on the next page, even if it were drawn on a bank, would not legally be a cheque, and for that reason it would not be regulated by the provisions, to be explained later, that apply under the Acts to cheques and other bills of exchange. But if the requisition for a receipt is merely an instruction to the payee and not a condition on which payment by the banker is made to depend, that does not prevent the order being a cheque. A *post-dated cheque*, which is one bearing a future date, may be given by the drawer because he does not wish the payee to get payment for a time, or perhaps because he has not enough money in the bank to meet it. The bank will not pay a post-dated cheque before the date it bears. And the

holder should not pass it on to anyone, because it would then be made to serve the same purpose as a bill of exchange payable at a future date. Such a bill for a sum over £10 must be impressed with a stamp of higher value than the twopenny stamp required on a cheque.

CORPORATION OF LONDON

Valuation and Rating Department

No. 734 6th December, 19..

VALUATION COMMITTEE

THE CHAMBERLAIN OF LONDON,
GUILDHALL, LONDON, E.C.2.

has been authorized to pay out of the Poor Rate Account £42 16 1
General Rate Account 6 8 4

Total £49 4 5

unto *Fearnley, Sanderson & Co., Ltd.* . . . . . the sum of *Forty-nine pounds four shillings and fivepence* if the form of receipt hereunder is duly stamped, dated, and signed by the payee.

£49—4—5 Town Clerk

Countersigned, Chairman

Accountant Auditor

Received the day of , 19.., from the Chamberlain of London the above-named sum in accordance with particulars furnished.

Signature

£ of payee

N.B. This document must be paid through a bank, and if not presented within one month it is liable to be cancelled.

THE PARTIES TO A CHEQUE

In each of our specimen cheques three parties appear, that is, three persons or sets of persons who take *part* in the cheque transaction. The bank customer who gives and signs the order is the *drawer* of the cheque; the bank on which it is drawn is

the *drawee*, becoming the *payer* when it pays; and the party to whom payment is ordered to be made is the *payee*. In the first of our specimens Gregory & Wright of Leeds are the drawers; Bank of the Provinces, Ltd., is the drawee; and Fearnley, Sanderson & Co., Ltd., are the payees. Two more names of parties, namely *indorser* and *indorsee*, are explained below.

Cheques are documents that may be passed from hand to hand carrying their value with them, and in certain circumstances many of them give the new holder a good title, even when there is some defect in the title of the person from whom he takes the cheque. But as a cheque is payable on demand, it is better for the payee to have it presented at once for payment at the drawee bank, that is, if he has a bank account of his own through which he can collect it. If he has not a bank account, he will be obliged to get payment through someone who has, unless the cheque is one that can be cashed over the counter of the paying bank, and the bank is conveniently situated for the payee to collect the money in that way. It should be kept in mind that the longer a cheque is held, or the longer it remains in circulation, the greater are the chances that the drawer's funds will become exhausted or the cheque fall into wrong hands.

ORDER AND BEARER CHEQUES

Each of the two cheque examples we have shown is known as an *order cheque*, because in each the bank is instructed to pay the person named "or order"; that is, to pay him or any other person to whom he may require payment made and to whom he may have handed on the cheque. The payee's order, if he makes one, should appear on the back of the cheque, and is called his *indorsement*. He is then known as the indorser, and the new party, if any, that he names for receipt of payment, is known as his indorsee. A cheque, however, may be drawn payable to a person named "or bearer." In that case it is called a *bearer cheque*, and it differs from an order cheque in being transferable from one person to another without indorsement by the payee or any subsequent holder.

The mere omission from a cheque of the words "or order" will not make it payable to bearer, nor will the omission

prevent the payee from indorsing the cheque to someone else. A cheque that read "Pay John Brown twenty pounds" would have the same effect as one that read "Pay John Brown, or order, twenty pounds." If the printed word "order" on the face of a cheque is altered to "bearer," the alteration must be authorized by the signature of the drawer. The deletion of the printed words "or bearer" would convert a bearer cheque to an order one, if the deletion were made by the drawer; and it may be made with or without the addition of his initials, and with or without the substitution of the words "or order." But a cheque originally drawn payable to bearer cannot be converted to an order cheque except by the drawer himself.

SPECIAL AND BLANK INDORSEMENT

Just as the payee of an order cheque may indorse it to an indorsee, so the first indorsee may indorse to a second, the second to a third, and so on. We may say, therefore, that

> indorsement is the signed authority, given to the paying bank, by which the payee or an indorsee of a cheque requires payment to be made to some other person to whom he hands the cheque.

A *special indorsement* is one in which the indorsee is named, for example,

> *Pay Lorrimer and Mumford or order,*
> *Hattersley, Sons & Co.*

Blank indorsement is, however, the kind that is usual on cheques. A blank indorsement consists merely of the signature of payee or indorsee, and it leaves the rest of the indorsement blank, so that any subsequent holder of the cheque may convert the indorsement to a special one by filling in, over the indorser's signature, either his own name or the name of any other person whom he requires the bank to pay. Blank indorsement causes an order cheque to become payable to bearer, and the cheque can then be passed on without further indorsement. Special indorsement, on the other hand, keeps an order cheque payable to order. If a special indorsement follows a blank indorsement on a cheque that was drawn to order, it overrides the effect of the blank indorsement, and makes the cheque an order one again.

As we have seen, a bearer cheque does not need to be indorsed when it is passed on by one holder to another. Nevertheless, when the holder of a cheque—whether payable to order or to bearer—presents it to the drawee bank for payment over the counter, or hands it to his own bank for collection, the bank requires him to indorse it. The indorsement is made in blank; and it shows from whom the cheque was taken, should the cheque for any reason be returned unpaid to the collecting bank, or should any question about it afterwards arise at the paying bank. When a bank customer desires to draw money out of his current account for his own use, he writes and signs a cheque payable to himself. If the cheque reads "Pay self or order," he will indorse it before receiving payment; and then he will be drawer, payee, and indorser, all in one. A cheque drawn payable to "Wages or order" may be treated as payable to "self or order," and indorsement be required; but by some banks a cheque so drawn is paid without indorsement.

FORMS OF INDORSEMENT

The general rule regarding form of indorsement is (1) that the signature in the first indorsement must agree with the payee's name as given on the face of the cheque by the drawer, and (2) that in any subsequent indorsement the signature must agree with the indorsee's name, if any, given in the indorsement immediately preceding.

By that rule a cheque payable to *Bernard Walton* should be indorsed "Bernard Walton"; but "B. Walton"—presumably the indorser's usual signature—would also pass as correct. Similarly on a cheque payable to *Mr. V. Brookfield*, the paying bank would pass as correct "Victor Brookfield" or "Vernon Brookfield," or simply "V. Brookfield." Were the cheque drawn in favour of *Miss V. Brookfield*, "Violet Brookfield" or "Valerie Brookfield," or simply "V. Brookfield," would again pass.

In the indorsement of a cheque payable to *Messrs. D. Morton*, the signature "D. Morton" will not suffice. Either "D. Morton and D. Morton" or "D. and D. Morton" will be required. Further, the indorsement "C. H. Gilbert" on a cheque payable to *C. Gilbert* or to *Charles Gilbert* is incorrect; and, if the cheque were payable to *C. H. Gilbert*, neither "C. Gilbert" or

"Charles Gilbert," nor "H. Gilbert" or "Harold Gilbert" would pass.

When a cheque is drawn in favour of *joint payees*, as "John and Mary Grimshaw," it should, as a rule, be indorsed by both or all, thus—

John Grimshaw
Mary Grimshaw.

If, however, one or other had authority to sign for both, the indorsement would then take this form—

For self and Mary Grimshaw,
John Grimshaw.

Should a payee or indorsee be *incorrectly described*, as when his name is wrongly spelt, he indorses in the way he is described. Thus, Henry Leighton described as *Henry Layton* would sign "Henry Layton"; and Robert A. Berrie described as *Robert Bury* would sign "Robert Bury." In such cases, however, the payee or indorsee may, and usually does, add his correct signature; for example—

Dougal McAlister
Dugald MacAlistair.

The option, however, of omitting or adding the correct name does not apply to a *limited company*. For Section 93 of the Companies Act, 1929, requires that the company's correct name must appear, including the word "limited," if that is part of the name. So it is now a common practice to use for indorsements a rubber stamp that bears all the more usual variations given to the name of a company or firm in cheques made payable to it. Thus our friends Fearnley, Sanderson & Co., Ltd., probably use an indorsement stamp something like the following—

per pro. Fearnly, Sanderson & Co.
Fearnly, Sanderson & Co., Ltd.
Fearnley, Sanders & Co.
Fearnley, Sanders & Co., Ltd.
Fearnley, Sanderson
Fearnley, Sanderson & Co.
Fearnley, Sanderson & Co., Ltd.
..... Secretary.

CONCERNING SIGNATURES

A title is no part of a person's signature. If the payee of a cheque is described as Mr., Mrs., Miss, Madame, or Esquire, that is a form of address not to be repeated in the signature when the person so described indorses. On a cheque payable to *Miss Susan Grundy* she should indorse "Susan Grundy" only. For the same reason *Captain R. T. Poulson* should indorse "R. T. Poulson"; he may, however, if he wishes, add his description after his signature, thus—

R. T. Poulson, Capt. R.N.

Should Susan Grundy marry and then receive a cheque drawn payable in her maiden name, she would indorse the cheque as follows—

Susan Adams, née Grundy.

And a cheque drawn in favour of *Mrs. John Adams* should be indorsed—

Susan Adams
wife of John Adams,

or *Susan Adams*
widow of John Adams, deceased.

In an earlier chapter it was stated that, in signing his firm's cheques, a partner usually writes the firm name only. If one person has been given authority to do so, he may sign the name of another person, without adding any indication that he is signing another's name and not his own. That, however, is not usual, and, except in the case of a partner, is not likely to occur in the drawing of cheques. As a rule, when a person signs a cheque for someone else, he uses the procuration signature; for example—

Per pro. Gregory & Wright,
Albert C. Butler.

But a director or secretary of a company usually adds his designation, with "for" at the beginning instead of "per pro," as in—

For Fearnley, Sanderson & Co., Ltd.,
Geo. W. Sanderson, Director.

The banks pass either of the last two forms, so long as the signatures are those that the customer has authorized the bank

to accept. In the drawing of companies' cheques, however, the longer "for and on behalf of" is commonly used, being printed on the cheque forms with the object, apparently, of making the representative capacity of the signing officer doubly clear. But a form like—

Geo. W. Sanderson,

Director of Fearnley, Sanderson & Co., Ltd.

is incorrect. It might make the writer of the signature personally liable as the drawer of the cheque, for the second line of this example is merely a description of Mr. Sanderson, and is not an indication that he signs for the company. The following example—

For Fearnley, Sanderson & Co., Ltd.,

for Geo. W. Sanderson, Director,

Edwin B. Brown

is also incorrect, because a person with authority to sign for a company or for another person has no power to delegate that authority to anyone else.

An attorney in signing a document for the grantor of the power of attorney generally signs thus—

Herbert Eddleston Smithson,

by his attorney *Jonathan Wilkes.*

Finally, we have to notice the signature of a person who cannot write. Instead of writing his name, he makes "his mark," to which a witness adds the markman's name, and the witness's own signature and address, thus—

	his		Witness—
Peter	X	*Pickersgill*	*Henry Keeble,*
	mark		Lloyds Bank,
			Burtonbury.

CROSSINGS AND THEIR EFFECT

An *open cheque*, which is one that is not crossed, can be cashed at the counter of the bank on which it is drawn. The banker, it is true, can get the person presenting it to indorse it; but if it is a bearer cheque it is payable to *any* holder who

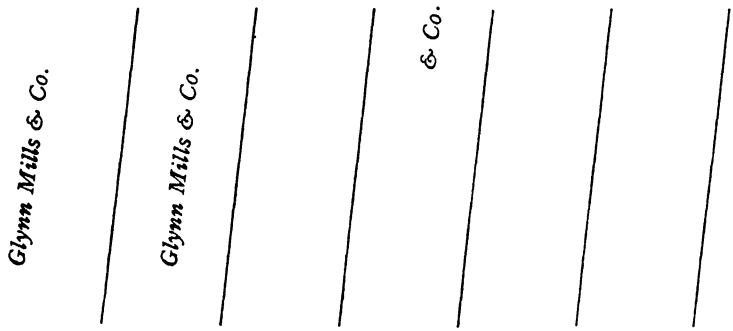
presents it for payment. On the other hand, if it is an order cheque, the holder's signature, when obtained, should agree with the payee's name on the face of the cheque, or with the indorsee's name in the indorsement that immediately precedes the holder's. But, again, unless the banker happens to know the person presenting the cheque, he cannot tell whether the indorsed signature is genuine or not. He can only make sure that it is regular in form. There is, therefore, some risk of an open cheque being paid to a person who has forged the payee's or an indorsee's signature; and the purpose of crossing a cheque is to reduce or eliminate that risk.

A *crossing* consists of the name of a bank written across the face of a cheque, or it consists of two parallel lines drawn across the face of the cheque, with or without the name of a bank between them. Numbers 1 and 2 of the specimens on the next page are called *special crossings*, because they name the collecting bank to which payment is to be made. Numbers 3 and 4, because they are left open so that the name of any bank can afterwards be inserted, are called *general crossings*. The " & Co." in No. 3 specimen is supposed to be the ending of the name of the prospective collecting bank, and it dates from the days when most of our banks were private ones with names ending in " & Co." These crossings are instructions to the paying banker, the meanings of which were established by custom, and afterwards became part of the provisions of the Bills of Exchange Act, 1882. But the legal provisions about crossings apply only to cheques, to some other documents such as postal and money orders, to bank drafts, and to bank orders requiring attached receipts to be completed before payment is given. They do not apply to bills of exchange other than cheques.

A *general crossing means* that the drawee banker is not to pay the cheque over his counter but must either allow it to a collecting bank for credit of a customer of that bank, or must himself credit it to a customer of his own bank. Only in the latter case is any cheque likely to reach the paying bank with the crossing still blank, for every bank sees that *all* cheques handed to it for collection are crossed with its own name before it parts with them. A *special crossing* means that the collecting bank to which the paying bank must account for

the value of the cheque is the one that the special crossing names, and no other.

A crossed cheque, then, *cannot be cashed over the counter* either of the bank on which the cheque is drawn or of any other bank, except at the risk of the bank that pays the cash. For the Bills of Exchange Acts make a banker liable to the true owner of a crossed cheque for any loss arising from the



No. 1 No. 2 No. 3 No. 4

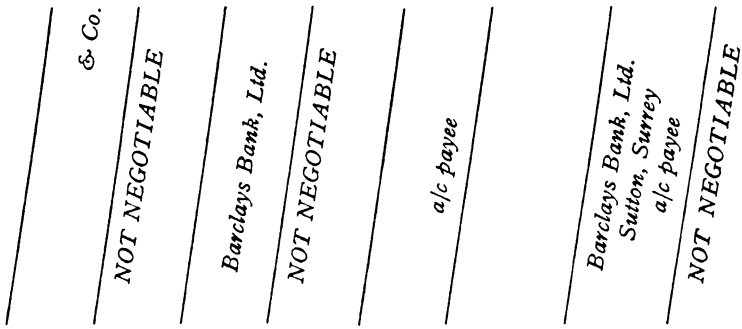
banker's failure to observe and act upon the implied instructions that the crossing contains. The requirements that a crossed cheque shall be credited to a customer's account, and not paid in cash to anyone who calls with it, keeps trace of the person who received value for the cheque. And, as a trader is not usually willing, without due precaution, to change a cheque for a stranger, that makes it difficult for anyone but the person entitled to it to receive payment of a cheque that has been crossed by the drawer.

A cheque *may be crossed by any party to it.* If the drawer does not cross it, the payee or any subsequent holder may cross it, or may convert a general crossing to a special one. A banker who cannot himself collect a cheque crossed to himself may cross it to a second banker who is his collecting agent. In any other case, however, a cheque must not be crossed to more than one bank. The banks issue books of cheques printed with general crossings for customers who want crossed cheques, and that is now the form of cheque mostly used by business houses. The fact that cheques are not usually crossed specially at the time of drawing results from the drawers' not knowing which

are the banks of their payees, or from their not troubling to write in the banks' names when they do know them. A practice was followed at one time of "opening" a cheque which had a printed crossing, the drawer doing so by writing against the crossing the words "Pay cash," and initialing them. The practice is now discouraged; for it was found that crossed cheques that had been stolen were sometimes opened in that way, the thief having used the drawer's signature as a copy from which to forge initials or full signature to the opening instruction.

"NOT NEGOTIABLE" CROSSINGS

Either a special or a general crossing may have added to it the words "not negotiable," as in Specimens 5 and 6 on this page. It should be understood, however, that these words have no effect whatever except as an addition to a crossing. The



No. 5 No. 6 No. 7 No. 8

words do not prevent a cheque so crossed from being transferred from one holder to another; but they do prevent the person who takes such a cheque from obtaining a good title to it if the title of the person from whom he takes it is defective. By the quality of negotiability that ordinarily attaches to bills of exchange, a person who gives value for a cheque gets a good title to it notwithstanding any defect, short of forgery, in the previous holder's right to it, provided he takes the cheque honestly and without notice of defect. The words "not negotiable" on a crossed cheque take away that quality, and give a new holder no better title than his predecessor had. Placed in the crossing by the drawer they tend to restrict the

transfer of a cheque from hand to hand; and, if anyone other than the rightful owner gets credit for the cheque, they prevent him from retaining its value.

A banker who collects a cheque crossed as in Specimens 5 and 6 is at liberty, though the crossing is a "not negotiable" one, to credit the cheque to the account of any customer who claims it, whether the customer is the payee named by the drawer or not. But if the words "account payee" appear in the crossing, as in Specimen 7, they serve as an instruction, which by custom bankers observe, requiring the cheque to be credited to the payee's account and no other. Their effect is to make payment to the rightful person safer still. The safest of all forms of crossing, however, is one like Specimen 8, which includes the words "not negotiable" and "account payee," and not only names the payee's bank, but gives the address of the branch at which he keeps his account.

QUESTIONS

1. When did the use of cheques become customary in this country? What circumstances led to the adoption of the cheque system, and why has it become so extensive?

2. Show the form of a cheque for £204 18s. 8d. supposed to be drawn on a London bank by Rowland Smith & Co., Ltd., in favour of Peters & Hughes. By what name is each of the parties to this cheque described?

3. What is a bank cheque, and what purpose does it serve? Describe point by point the form that an uncrossed cheque takes, and explain the necessity for or the significance of each point.

4. Submit an imaginary specimen of an order to pay that is not a cheque in the legal sense, even though it is addressed to a bank and is payable on demand.

5. What is a post-dated cheque? What should the person who takes a post-dated cheque do or not do with it, and why?

6. Explain in what different ways the receiver of an "open" cheque can obtain value for it. Which course do you consider the best for the receiver to take, and why do you consider it the best?

7. State clearly the differences in form and in effect between an order cheque and a bearer cheque. How may an order cheque be converted to a bearer one, and a bearer cheque to an order one?

8. What are the meanings of "indorsement," "indorser," and "indorsee"? Give one example of a special indorsement, and one of a blank indorsement, explaining how they differ in effect.

9. If you were about to take a cheque drawn payable to someone other than yourself, what indorsement or indorsements would you

require on the cheque before taking it, and why? Would you make any difference in your requirements as between an order and a bearer cheque?

10. Show how indorsement may be made by or for the payees of order cheques drawn as stated hereunder.

(*a*) Payable to Hubert S. Waddington.
(*b*) ,, ,, Mr. H. S. Waddington.
(*c*) ,, ,, Miss H. S. Waddington.
(*d*) ,, ,, Mrs. Hubert Waddington.
(*e*) ,, ,, Herbert Waddingham, when the payee's correct name is Hubert S. Waddington.
(*f*) ,, ,, Messrs. H. Waddington.
(*g*) ,, ,, H. Waddington & Co., and indorsed by Hubert S. Waddington, a partner in the firm.
(*h*) ,, ,, H. Waddington & Co., and indorsed by their authorized employee, Walter Brook.
(*i*) ,, ,, H. Waddington & Co., when the correct name of the payees is H. Waddington & Co., Ltd.
(*j*) ,, ,, H. Waddington & Co., Ltd., and indorsed by the Secretary of the company.

11. Of what does a crossing on a cheque consist, and by whom may it be made? What is the purpose of a crossing on a cheque, and how is that purpose achieved?

12. Without writing out the cheque forms in full, show specimens of two special crossings and of two general crossings. Explain the exact significance and effect of each of the two kinds of crossing.

13. What is meant by the term "negotiability" when it is used in regard to cheques and other bills of exchange? When are the words "not negotiable" effective on a cheque, and what effect exactly do they then have?

14. Without showing the cheques in full, give two examples of how the words "not negotiable" may appear on cheques. Give, also, two examples of the use on cheques of the words "account payee," and explain of what service these words are.

15. Supply names and amount yourself, and write out a specimen of a cheque drawn in the safest manner you know.

16. What is the position of a banker who pays a crossed cheque without due regard to the crossing? Is it permissible for the receiver of a "not negotiable" cheque to pay it away to someone else instead of handing it to his bank for collection? If he did pay it away, what would be the position of the new holder of the cheque?

CHAPTER 27

COLLECTION AND PAYMENT OF CHEQUES

COLLECTION of cheques in this country is effected almost entirely by a system of exchange and payment known as "clearing." The system was evolved and developed gradually as the use of cheques increased and the quantity to be handled by the banks grew to the enormous dimensions it has reached to-day. The manner in which the bankers' clearing arrangements work is sketched below.

CLEARING INSTITUTIONS

In the early years of the London banks, "walk clerks" were sent out from each bank with drafts received from customers which had to be collected from the other banks. Towards the close of the eighteenth century the walk clerks appear to have adopted the practice of meeting daily at a convenient rendezvous to exchange their charges, and so save the toil of each clerk visiting in turn all the banks for which he had drafts to deliver. Out of such unofficial arrangements the London Bankers' Clearing House developed as cheques came more and more into use as the means of making payment. In the course of time, clearing-houses on the London model came to be established, also, in the more important commercial centres of the provinces.

Provincial clearing-houses exist in Manchester, Liverpool, Birmingham, Newcastle upon Tyne, Bristol, Leeds, Bradford, Sheffield, Hull, Nottingham, and Leicester. Each deals with the exchange of cheques drawn on certain bank offices within the local clearing area. The banks in a provincial town not within the area of a provincial clearing-house make arrangements for the exchange of cheques amongst themselves. All cheques for collection that a provincial bank receives, that are payable outside its own town or local clearing area and are drawn on branches of any bank other than its own, are sent to London daily to be dealt with in the London Bankers' Clearing House. They reach the clearing-house mostly through the head

office, or a clearing office, of the bank in London, a few of the members having more than one clearing office. If the local bank has not a clearing office in the Metropolis, it uses a London clearing bank as clearing agent.

London is far and away the most important clearing centre, and deals with a volume of cheques very many times greater than any of the provincial centres. The members of the London Bankers' Clearing Houses are now—

Bank of England	Martins Bank, Ltd.
Barclays Bank, Ltd.	Midland Bank, Ltd.
Coutts & Co.	National Bank, Ltd.
District Bank, Ltd.	National Provincial Bank, Ltd.
Glyn Mills, Currie & Co.	Westminster Bank, Ltd.
Lloyds Bank, Ltd.	Williams Deacon's Bank, Ltd.

The last to be admitted was the District Bank which became a member in January, 1936. Owing to amalgamations the number of members is now much smaller than it used to be.

Any English bank that is not a member of the London Clearing House is obliged to employ one of the members for collection and payment of cheques to be cleared through London. The London Clearing House is only for banks in England and Wales. Scottish and Irish banks use clearing houses of their own in Edinburgh, Glasgow, Dublin, etc., though between themselves and the English banks private arrangements exist for dealing with each other's cheques. Five Scottish banks and two in Northern Ireland are controlled by or associated with banks in England.

THE LONDON CLEARINGS

Many changes in the clearing system were made during the recent war, and at the time of writing it is impossible to say whether the pre-war methods here described will be re-introduced.

The original clearing in London was confined to banks whose offices were situated within a few minutes' walk of the clearing-house, which has been located for more than a hundred years in Post Office Court, Lombard Street. Clearing banks within that restricted area still have a clearing to themselves, through which they pass cheques and drafts payable by other clearing banks within the area. In 1858, however, as a result

of pressure by the country or provincial banks, a second daily clearing was instituted for cheques drawn on these banks. It was called the "Country" Clearing to distinguish it from the original one, which then got the name of "Town" Clearing. Before that time country cheques were sent direct from the receiving to the paying bank, drafts on London coming back in payment. Much more recently a third clearing, known as the "Metropolitan," was started in 1907. The Metropolitan Clearing is for cheques and drafts payable by banks outside the Town area and within a defined circuit of Outer London. The Country Clearing takes cheques drawn on all banks beyond the Metropolitan circle and within England and Wales; but bills or drafts other than cheques payable at country banks do not pass through the Country Clearing. The letter T, M, or C, printed on cheques, shows through which of the London clearings each bank's cheques must pass.

The London Bankers' Clearing House is the joint property of the member banks, each of which has accommodation on the premises for its own clearing clerks. The work of clearing is under the supervision of inspectors, who are the servants of the Clearing House Committee. Cheques to be cleared are first sorted according to the different clearings and listed by adding machine at the offices of the member banks, the cheques for each of the other clearing banks in a separate batch or "parcel." They are then sent to the clearing-house for the relative clearing, when each parcel is handed over to the staff of the bank that has to pay. There the "in-clearers" of the paying banks list the amounts and agree the totals with the "out-clearers" of the collecting banks, subject to adjustments for errors or differences not settled or discovered before clearing closes.

THE DAILY SETTLEMENT

On the clearings of any given day Bank A has an agreed or provisionally agreed total to collect from Bank B, and Bank B has a similarly agreed total to collect from Bank A. The excess of the greater total becomes a debt due from one of the two banks to the other. A balance of indebtedness on one side or the other is struck in the same way between Bank A and each of the other members. In the end Bank A will, no doubt, have balances to receive from some of the members, and

balances to pay to the others. If it has to pay in all more than it has to receive, its head clearer gives an order, countersigned by the clearing-house inspector, requiring the difference to be transferred from its account at the Bank of England to the Clearing House Account for the day in the Bank of England books. If Bank A has to receive the difference, its head clearer makes an order, countersigned again by the inspector, for the amount to be transferred from the Clearing House Account to its own account.

As all the other members observe the same procedure, and as the process of clearing is nothing more than an exchange in which the receiving banks and the paying banks each deal with the same cheques, it follows that the total of the balances paid into the Clearing Account should be the same as the total of the balances drawn out. Differences that cannot be settled before a clearing is closed are settled as soon as possible afterwards. At one time each bank settled with every other member bank separately, paying or receiving Bank of England notes. Later each bank paid or received notes for only its final balance on the day's clearing. Since 1854 the day's final balance has been settled simply by book entry at the Bank of England, without the passing of any note or coin.

The Bank of England uses the Town Clearing on the outward side only, for cheques and bills it receives drawn on other banks in the Town area, cheques and bills that the other banks receive drawn on the Bank of England being paid into the bank direct. In the other clearings, however, the Bank of England uses the inward side for cheques drawn on its branches, as well as the outward side for cheques on other banks.

WHEN THE FATE OF A CHEQUE IS KNOWN

It is one of the rules of the clearing-house that every cheque sent for clearing shall have stamped on its face the name of the collecting bank and its clearing office. Without that it would be difficult to discover to which bank a cheque should be returned when the drawee bank could not pay it. Cheques passed through the Town Clearing, i.e. cheques drawn on banks within the Town area, are paid (or returned unpaid) on the day of clearing. Their fate, therefore, is known to the out-clearing banks in London by closing time on the day these

banks received the cheques either from their customers or from country banks. The Metropolitan is the first of the daily clearings, and it deals with cheques received the day before in the city, the suburbs, or the country. It takes place early, so that the in-clearing banks can have the cheques delivered to the suburban branches on which they are drawn in time for unpaid returns to be back in the city the same day.

The fate of cheques drawn on country banks takes longer to ascertain, as settlement of the Country Clearing of any day is not made until two days later. When a business man in Newcastle upon Tyne receives a cheque drawn on a Bristol bank, he pays it into his bank in the north-eastern city. The Newcastle bank at the close of business on the day it receives the cheque posts it to its head office or clearing agent in London. Next morning it reaches London and passes through the Country Clearing to the head office or clearing agent of the Bristol bank on which it is drawn. Later, on this the second day, it is posted from London to the Bristol bank, which it reaches on the morning of the third day. The cheque is then debited by the Bristol bank to the drawer's account, that is, if he has funds in the bank to meet it. If he has not, or if for any other reason the cheque cannot be paid, it must be returned on the same day by post *direct* to the collecting bank in Newcastle. The fact of its return is notified to the bank's London office at the same time, so that adjustment can be made next day in the settlement of the clearing of two days before. In the ordinary course of collection, therefore, a banker in Newcastle knows on the fourth day (the third after it was paid in to him) how a cheque on Bristol has fared. That applies not only to places as distant as Newcastle and Bristol, but also to towns as near to London and to one another as Croydon and Kingston upon Thames. Only when a country cheque is paid in before midday to a bank in the City of London can it catch the Country Clearing of that day, and its fate be known a day earlier.

RETURN OF CHEQUES NOT PAID

If the bank on which a cheque is drawn cannot pay it when presented for payment, the bank returns the cheque on the day of presentation. A rule of the clearing-house is that every

cheque returned unpaid must be marked to show the reason for its return. A number of markings used are given below—

1. *Refer to Drawer,* at one time abbreviated to R/D, is the commonest marking on a returned cheque. Instead of telling the reason for return, however, it seems to say that the party entitled to know must ask the drawer. This marking is used when the drawer has no funds or insufficient funds in his account to meet the cheque. A cheque is never paid in part, and in England funds insufficient to pay a cheque in full are not held in reserve towards full payment later. It is possible, therefore, for a larger cheque to be dishonoured by non-payment, and a smaller one presented later to be paid out of the balance that was insufficient for the earlier one. Other markings sometimes used in the same circumstances are N/S for "not sufficient," I/F for "insufficient funds," N/F for "no funds," and N/E for "no effects." Abbreviations are falling into disuse.

2. *Out of Date.* Banks do not pay cheques drawn upon them after six months from the date of drawing. They return such a cheque to have the date altered, the alteration initialed by the drawer, and the cheque presented again. Dividend warrants may be returned after three months to be verified and re-presented.

3. *Payment Stopped.* The drawer of a cheque may change his mind and decide to countermand payment after he has issued a cheque. He can then write and sign a note to his bank describing the cheque by number, date, amount, and payee's name, and instructing the bank not to pay. The bank being obliged to obey the instruction would return the cheque marked "payment stopped" or "instructions not to pay." Loss or supposed loss of a cheque is the usual reason for stopping payment.

4. *No Orders* is a marking that might be placed on a bill of exchange not paid on presentation, when the acceptor of the bill had made it payable at the head office of his bank, and had omitted to inform his local branch of the fact so that the head office could be notified. If a bill were made payable at the local bank without advice, the bank would probably pay it, taking the signature in the acceptance as authority to do so.

5. *Effects not Cleared* means that the drawer of the cheque returned with this marking has cheques or other orders paid

in, which are still in the process of collection. The drawee bank cannot hold the cheque until the effects have been cleared; but must return it at once. The cheque should be presented again without delay.

6. *Cheque Mutilated.* If a cheque presented for payment is badly mutilated, the drawee bank presumes that the mutilation has been intentional, with the object of destroying the cheque and so cancelling the order to pay. The cheque will be returned unpaid. Sometimes a cheque is torn across in opening the envelope containing it. In that case the payee should join the two parts with a strip of paper gummed on the back, and should write across the joining, "accidentally torn by me," adding his signature. The cheque will then usually go through.

7. *Other Markings* that explain themselves are—

Not dated.	Indorsement required.
Post-dated.	Second indorsement required.
Drawer's signature differs.	Indorsement irregular.
Alteration requires initials.	Crossed two banks.
Words and figures differ.	No account.
Stamp required.	Account closed.

BANKER'S POSITION AND RESPONSIBILITIES

1. **Banker as Agent.** A banker is the debtor of his customers for funds of theirs in his keeping, and he owes the duty of a debtor towards them to pay when payment is due. For loans and overdrafts he has granted to customers he is their creditor, with a creditor's rights against them for repayment and for interest. But many of a banker's services are rendered by him in the capacity only of his customers' agent. It is as agent that he pays to others cheques his customers draw upon him; and, unless he himself acquires a cheque or bill for value given, it is as agent that he collects payment of cheques or bills his customers have handed to him. To his customers, therefore, he is responsible for any loss they incur through his negligence in the performance of his duties as agent.

2. **Delay in Presentation.** A collecting banker would be liable to his customers for any loss they suffered through unnecessary delay by him in presenting cheques for payment. That is why the provincial banker always sends cheques

forward to his clearing bank in London on the day they come into his hands; and it is why his clearing banker sends them to the clearing next available after they reach him. For a similar reason banks on which cheques are drawn always return unpaids on the day the cheques are presented to them. Delay on the part of any bank might cause a party entitled to payment to miss some opportunity of obtaining it.

3. **Wrongful Dishonour.** As agent a banker might be liable to his customer, the drawer, if by mistake one of the customer's cheques were returned unpaid to the bank that sent it for collection. The return would cast an unfavourable reflection on the drawer's reputation. If his ability to obtain credit were lessened by the bank's action, the customer would be entitled to claim for the damage suffered. The same rule applies to an error made in writing up a customer's pass book, if as a result of the error the customer issued a cheque which the bank dishonoured because of an actual insufficiency of funds in his account to meet it.

4. **Loss through Forgery.** If a customer's signature has been forged in the drawing of a cheque, the order to pay is not that of the customer. Should the banker pay the cheque, he has no authority to debit the amount to the customer's account, and he must, except in special circumstances, bear the loss himself. The effect of a forged indorsement is dealt with in Chapter 29. When a forgery consists of raising the amount of a cheque, say, from six pounds to sixty, or from ten pounds to one hundred and ten, again the banker has as a rule no right to charge the drawer when the cheque is paid. There is a possibility of his being able to do so only on his showing that negligence of the customer had contributed to the accomplishment of the fraud. For example, the customer might have written his cheque so carelessly as to facilitate the forger's purpose, or he might have signed a cheque without taking due precaution to prevent the amount being improperly altered afterwards by one of his own clerks.

If a cheque must be signed before the exact amount for which it should be drawn can be ascertained, the drawer can protect himself by writing across the face of the cheque a limiting indication such as "Under Ten Pounds." In the interest of themselves as well as their banks many business

houses take precaution against fraudulent alteration of their cheques, and use a cheque-writing machine which prints the amount in words more quickly than it can be written by hand, and shreds the printed words into the tissue of the paper in a way that makes any passable alteration impossible.

5. **Termination of Authority.** The authority of a banker to pay his customer's cheques is terminated by death of the customer, so that, if a cheque had been outstanding and were presented after the banker learned of the drawer's decease, it would not be paid. The right to deal with the deceased customer's bank balance devolves on his executors or administrators, and the banker will allow them to draw on the account on exhibition of probate or letters of administration. In the case of a joint account, however, death of one of the joint proprietors of the account does not end the banker's authority to pay. Immediately on satisfactory evidence of death being exhibited, the right to dispose of the funds in the joint names passes to the survivor or survivors. Again, death of a partner or a director who has signed an unpaid cheque for his firm or his company will not cause payment to be refused when the cheque is presented, for the death of an agent has not the same effect as death of a principal.

The banker's authority to pay ceases, also, when he learns that a customer has committed an act of bankruptcy, or has been declared a person of unsound mind. If the customer is a company, the banker's authority to pay the company's cheques ceases on the passing of a resolution to wind up the company or on the filing of a petition to wind up. In these circumstances the right to dispose of the customer's funds legally passes to his trustee in bankruptcy, to the one to whom the care of the estate of the person of unsound mind is committed by the court, or to the duly appointed liquidator of the company. But the banker will require exhibition of the official order of appointment before he honours the signature of trustee, committee, or liquidator.

Further, a banker refuses to honour any cheque drawn against an account in respect of which a *garnishee order* has been served upon him. A garnishee order is issued by the court against funds due from a third party (in this instance, the banker) as a means of providing for satisfaction of a creditor's claim that

his debtor (the banker's customer) will not pay. The banker maintains his refusal to honour any cheque drawn on the account so long as the garnishee order remains in force.

When the drawer of a cheque has not sufficient funds at the bank to meet it, the banker will, as a matter of course, refuse payment, unless his knowledge or opinion of the customer's stability gives him faith to pay the cheque and to trust the customer for repayment later. Dishonour of a cheque, however, does not give the person entitled to payment any claim against the bank, his remedy being against the drawer or any subsequent party from whom he took the cheque.

6. Banker's Lien. Apart from agreement to the contrary between a banker and his customer, the banker has a general lien on property left with him in his capacity of banker. That means he may retain possession of any such property until a sum due from his customer is paid. As the lien applies only to articles left with a banker in the ordinary course of banking business, there is some doubt about what it would attach to. Negotiable instruments, such as bills of exchange, left with the banker to be collected by him when due, would come under it. Bearer bonds, also, might come under the lien, if they were in the banker's possession for him to detach interest coupons and collect the interest as it became payable. But if the bonds were left at the bank for safe custody only, it is thought the lien would not apply to them as that service would probably not be viewed by a court of law as ordinary banking business.

OBTAINING ASSURANCE OF PAYMENT

In an urgent case the banker who has a cheque to collect can post it direct to the bank on which it is drawn, and can ask for a draft on London in return. A cheque to be collected urgently might be one received by a trader who, not knowing the standing of his customer, the drawer, was unwilling to dispatch goods to the customer before the cheque was paid. The banker presenting the cheque direct to the drawee bank would attach to it a prepaid telegram form, and would ask the bank to inform him by wire whether the cheque was paid or not. He would then notify his customer. If the collecting bank had a branch of its own in the town of the drawee bank

it would probably post the cheque in question to its own branch there, asking the branch to present the cheque for payment and to wire back its fate.

A practice is recognized in connexion with the Town Clearing, whereby *cheques are marked* by drawee banks at the request of collecting banks. The cheques marked are late ones that have missed the day's clearing, and the marking consists of an indication that the cheque is good for its amount. Cheques so marked must be passed through the clearing next morning, and in the meantime the bank collecting them credits them to their customers or their country branches as if they had already been paid. Sometimes the bank on which a cheque is drawn is asked by the drawer before he dispatches the cheque to mark or certify it as good. That may happen when the cheque is to be used in circumstances where it is customary to require settlement in banknotes. For example, it might be resorted to when the agreed price is to be handed over on completion of the purchase of a business, or of house property or business premises. A banker's draft, however, is a better form in which to pay when it is not convenient to make use of notes and when there must be no doubt on the vendor's side about the certainty and finality of the payment received.

EFFICIENCY OF THE CHEQUE

Before cheques came into general use, the work they now do was performed, so far as it was then necessary, by notes and coin. In one respect a banknote is more acceptable than a cheque. It is the promise to pay of an institution the public has learned to trust, and its advantage over the cheque lies in the greater certainty about its value. Like coin issued by the Government, it is, therefore, a suitable medium for payment between strangers. Its peculiar advantage in that respect, however, becomes a disadvantage from another point of view. Were banknotes used instead of cheques, business men would have to keep great quantities of notes on hand, and would have to carry about large sums in notes. Either on business premises or on the public highway notes could and would be stolen; and the thieves could without much difficulty manage to get value for them. Some safer form of payment, particularly of payment at a distance, would be required.

The cheque is used mostly in circumstances where the person to be paid already knows something about the payer's reputation. It is used largely to settle accounts where credit has already been given to the debtor who draws the cheque in payment—where the creditor has previously made up his mind that the drawer is worthy of credit. In these circumstances there is not the same necessity for payment in a money medium that carries the certainty of its value on its face. And, when that necessity no longer exists, the cheque shows marked superiority on other points. Some of them are enumerated below—

1. CONVENIENCE OF FORM. A cheque pays the exact amount due, paying it in one written order, so that a number of notes need not be carried or posted, and it does away with the provision, for shillings and pence, of coin that is weighty to carry and unsuitable for remittance by post.

2. LITTLE INDUCEMENT TO THEFT. The cheque does not need to be drawn until the time for payment arrives, and it is of no value until completed by the drawer's signature. For that reason it offers little inducement to a thief before it is signed, and until then there is little likelihood of loss arising, except through forgery of a drawer's signature, which is difficult to accomplish.

3. RISK IN REMITTING IS SMALL. The signed cheque of the average man does not pass readily from hand to hand like a note, for only a person who knows the drawer can assess its value. That makes it difficult to dispose of a stolen cheque, and reduces the precaution necessary in sending it through the post. When a cheque has been lost, the drawer can be asked to stop payment at the bank and to give a new cheque in place of the lost one.

4. FACILITY FOR TRACING. A cheque names the drawer who issues it and the bank that has to pay it. Usually, too, it names the party to be paid; and, if he pays it away again, it may name the person to whom he pays it. Also, in most cases the paying bank knows who presents it there. All that makes it easier than is possible with notes and coin to trace the course of a cheque that has got into wrong hands and been paid.

5. RESTRICTION OF NEGOTIATION. A cheque may be

crossed, which prevents it being paid over the counter of the drawee bank, and makes payment obtainable only by credit to a bank account. It may be drawn in such a form as to be payable only to the person named as payee by the drawer. Even when negotiation is not restricted, a cheque is usually identified with only one payment and, showing date, amount, and names of parties, it serves as a record of the transaction.

6. PAYMENT BY BOOK-ENTRY ONLY. The use of cheques saves the great increase of floating currency in notes and coin that would be needed without the cheque system of payment, because it permits of settlements between parties, whether near or distant, being effected merely by the recording of transfers of value in bank accounts.

QUESTIONS

1. How, when, and for what purpose did the London Bankers' Clearing House come into existence? Name six cities of provincial England in which local bankers' clearing-houses have been established, and explain what cheques pass through them.

2. What banks are now the members of the London Bankers' Clearing House? Where and how do these banks prepare the cheques they send to the clearing-house? How is the clearing-house staffed?

3. Name the different clearings daily carried through in the London Bankers' Clearing House. Explain with what cheques each of the clearings deals, whence the cheques come for clearing, and where they go when cleared.

4. Sketch the procedure of clearing bank cheques in London, describing how the cheques are exchanged by the banks, how their totals are agreed, and how settlement is effected.

5. Describe the position that the Bank of England occupies and the part it plays in connexion with the London cheque-clearing system.

6. When a cheque presented through the clearing-house cannot be paid by the bank it is drawn upon, how does that bank know to which collecting bank the unpaid cheque must be returned? How long for each of the three London clearings does it usually take for the fate of a cheque to be known by the bank that sent it for collection? How in urgent circumstances can the fate of a country cheque be learned more quickly than is usual?

7. Explain why and in what circumstances the following markings are made on cheques presented for payment and returned unpaid—

(*a*) Effects not cleared.
(*b*) Refer to drawer.
(*c*) Drawer dead.
(*d*) Payment stopped.

Name without explanation six other reasons for payment of cheques being refused by the banks they are drawn upon.

8. What is meant by a cheque being (*a*) out of date, (*b*) mutilated; and what should the person claiming payment do in each case? What is a banker's lien?

9. Explain why a banker may incur liability to his customer (*a*) when the banker has delayed presentation of a cheque handed to him for collection, (*b*) when he has by mistake dishonoured one of the customer's cheques.

10. Define the position between banker and customer when the banker has paid and debited to the customer's account a cheque that contains a forgery. How can a cheque be protected against fraudulent raising of the amount?

11. Explain by what various causes a banker's authority to pay his customer's cheques will be terminated.

12. Name and comment upon several characteristics that give the cheque unquestionable superiority over other media for the making of payments between business houses.

CHAPTER 28

BILLS OF EXCHANGE IN USE

ALTHOUGH a cheque is a bill of exchange of a particular kind, and of the kind most widely in use, we nearly always call it by the distinctive name of "cheque." The term "bill of exchange" we keep usually for the other and less common specimens that are not cheques. As cheques are bills of exchange that are drawn on banks and are payable on demand, the other bills comprise all those payable on demand that are not drawn on banks, and all those not payable on demand, whether drawn on banks or not. Again, some bills are known as *inland bills* and some as *foreign bills*. These descriptions are, of course, applied by us to bills of exchange that are being handled in this country, that is, in the British Isles, including the Channel Islands and the Isle of Man, but excluding Eire. To us a bill of exchange is an inland bill when it is both drawn and payable in this country, or when it is drawn here on a person resident here. All others are foreign bills; they include those drawn in this country and payable abroad, those drawn abroad and payable here, and those both drawn and payable abroad which are for a time in the possession of someone here.

EXAMPLES OF INLAND BILLS

Our first example is meant to represent a bill of exchange drawn on a firm of retail shopkeepers by their wholesale suppliers. In this case we presume the shopkeeper customers have arranged with their suppliers for three to four months' credit on their purchases. This bill, then, we may take to be for the value of the goods supplied by Fearnley, Sanderson & Co., Ltd., to Langridge & McBride during the month of June. The bill is drawn by Fearnley, Sanderson for the total of the month's account without deduction of any discount. In the ordinary course, payment of June account would have to be made in July to secure the usual discount; but, as these customers pay by a bill that gives them three months' extra credit, they lose the discount and are required to pay net.

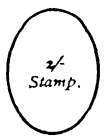
Payment by bill in circumstances such as these is a practice adopted less frequently now than it used to be. Now suppliers usually trust to their customers' remitting by cheque when their accounts fall due, in accordance with the terms agreed upon. In some instances, however, the drawing of bills may still be resorted to, with the object of holding a not very reliable payer to fixed dates of settlement.

INLAND BILLS OF EXCHANGE

No. 1. Bill for a Month's Trade Account—

St. Paul's Churchyard,
London, E.C.4.
1st July, 19..

£115 10s. 6d.



Three months after date pay to our order the sum of *One hundred and fifteen pounds ten shillings and sixpence* for value received.

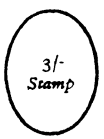
For Fearnley, Sanderson & Co., Ltd.,
Henry Bradley,
Secretary.

Messrs. Langridge & McBride,
22 Paragon Place,
Belfast.

No. 2. Set of Three Bills Used in the Purchase of a Business—

12 Market Place,
Westborough
20th February, 19..

£235



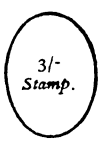
Two months after date pay to our order the sum of *Two hundred and thirty-five pounds* for value received.

Robert Greenwood & Son

Mr. Harold G. Cook,
51 Hilldown Road,
Westborough.

12 Market Place,
Westborough.
20th February, 19..

£235



Four months after date pay to our order the sum of *Two hundred and thirty-five pounds* for value received.

Robert Greenwood & Son

Mr. Harold G. Cook,
51 Hilldown Road,
Westborough.

12 Market Place,
Westborough.
20th February, 19..

£235



Six months after date pay to our order the sum of *Two hundred and thirty-five pounds* for value received.

Mr. Harold G. Cook,
51 Hilldown Road,
Westborough.

Robert Greenwood & Son

The three bills in our second example are intended to fit a different set of circumstances. We have imagined Robert Greenwood & Son to be the vendors of a retail business, and Harold G. Cook to be the purchaser. We have assumed that the purchase price is made up of £1365 for stock taken over at an agreed valuation, and £750 for shop fixtures and fittings, for goodwill, and for the benefit of a lease that has still five years to run. We have assumed also, that £1410, or two-thirds of the total purchase price, is being paid in cash, the remaining third to be paid in three equal instalments in two, four, and six months' time. Three bills are drawn for the instalments, and on the day appointed for completion of the transfer of the business the purchaser pays down the cash portion of the agreed price, at the same time signing across each of the bills his "acceptance" of the terms of the bill. As it is often inconvenient for the buyer of a business to find the whole of the purchase money immediately, payment in the manner here indicated is not unusual.

DATE WHEN PAYMENT FALLS DUE

Bills of exchange may be drawn payable on demand, at sight, or on presentation, all of which variations are the same in effect. Short-dated bills are commonly drawn payable at three, seven, or ten days after sight, or at seven or ten days after date. Longer-dated inland bills are usually drawn payable at one, two, three, or more months after date, though they may be drawn at thirty, sixty, ninety, or more days after sight. There is no regulation about what length of time a bill may be made to run before "maturity," i.e. before the date when payment will become due. Thirty or sixty days "after sight" means

thirty or sixty days after the date on which the bill is presented to the drawee for his acceptance.

In bills of exchange the word "month" means calendar month; and, for any bill not payable on demand, the date of payment is determined by excluding the day from which the time begins to run and including the day of payment. A bill of exchange is invalid if it is drawn to be payable on or after an event that is not certain to occur, as on the arrival of a ship, for the ship named may never reach the port at which it is expected. A bill, however, may be made payable on, or at a fixed period after, the happening of an event that is certain to happen, although at the time of drawing the bill the date when the event will happen is uncertain.

On any bill payable in this country at a future date *three days of grace* are added to the time named for payment, unless the bill states otherwise. Normally payment must be made on the third day of grace; but, when the third day of grace falls on a bank holiday (other than Christmas day or Good Friday), or when it falls on a Sunday preceded by a bank holiday, the bills is due on the succeeding business day. When the last day of grace falls on a Sunday (other than above), Christmas day, or Good Friday, or on a day appointed by royal proclamation for public fast or thanksgiving, the bill becomes due on the business day preceding. A bill, therefore, payable at three days after sight, accepted on 10th June, becomes payable on 16th June, and one payable at sixty days after sight, accepted on 20th August, becomes payable on 22nd October, if 16th June and 22nd October are business days. Because "month" in this connexion means calendar month, a bill dated 1st September and drawn payable three months after date will, as a rule, fall due for payment on 4th December. And one drawn at two months from 28th February (or 29th in a leap year) will become due in three days after the last day of April, and be payable on 3rd May.

ACCEPTANCE AND COLLECTION

In our first example Fearnley, Sanderson & Co., Ltd., would prepare a statement of Langridge & McBride's account for the month of June. They would then draw a bill of exchange for the amount of the account, and would send the bill along

with the statement under a covering letter, asking the drawees, their customers, to accept the bill and return it. Acceptance is written across the face of the bill and consists of the drawees' signed assent to the order the bill contains. A bill on demand becomes payable on presentation to the drawee, and for that reason does not need to be accepted. Even when a bill is payable at a future date, acceptance, though usual, is not essential, unless the bill stipulates for acceptance or is to be paid by someone other than the drawee, or unless the bill is drawn payable "after sight." In the last instance acceptance is necessary in order to fix the date when payment will become due.

Acceptance very often makes the bill payable at the acceptor's bank; and, when an acceptance states where a bill is to be paid, the address given is termed the "domicile" of the bill. Usually, too, the acceptance names the date on which it was given; but that is a material requirement only when the bill is drawn payable after sight. Except in that case the bare signature of the drawee across the face of the bill constitutes sufficient acceptance without any addition. In the absence of a previous understanding between himself and the drawer, the drawee is under no obligation to accept a bill; but he may, of course, accept it if he is willing to do so. Before acceptance a bill of exchange is sometimes called a "draft"; after it has been accepted the name "acceptance" is frequently given to the bill as a whole. In the drawing of a bill by a company the signature of the secretary or of a director is usually sufficient; but, when a company accepts a bill drawn upon it, the acceptance must be signed in the same manner as one of the company's cheques.

When the bill in our example has been returned to them accepted, Fearnley, Sanderson may hand it to their bank immediately with an instruction to the bank to hold the bill and to collect the amount when payment falls due. They may, on the other hand, hold it themselves until the due date approaches, and then pay it into their bank for collection at once. In either case the London bank would effect collection through its agents in Belfast, and when collection had been made the bank would notify Fearnley, Sanderson that the amount had been received and credited to their account. As an alternative Fearnley, Sanderson, on receipt of the acceptance,

might ask their bank to discount it, should they desire to have the value of the bill advanced for present use. The bank would be willing to take the bill and credit the value to its customer at once, subject to discount at the current rate, if it had faith in the customer's ability to refund the money should the bill be dishonoured at maturity, or if the bank knew the acceptors and considered them good for payment of the bill when it became due. Langridge & McBride might have made the acceptance payable at the head office of their bank in Belfast, their account being kept at a local branch. In these circumstances it would be necessary for them to advise the head office, through the branch, of the coming presentation of the bill.

LANGRIDGE & McBRIDE'S ACCEPTANCE

Due 4th October, 19..

£115 10s. 6d.

2/- Stamp

Three months after date pay to our order the sum of *One hundred and fifteen pounds ten shillings and sixpence* for value received.

Messrs.
Langridge & McBride,
22 Paragon Place,
Belfast.

Accepted 6th July, 19.. ; payable at the Bank of Northern Ireland, Donegall Street, Belfast.

Langridge & McBride.

St. Paul's Churchyard,
London, E C 4.
1st July, 19..

For
Fearnley, Sanderson & Co., Ltd.,
Henry Bradley,
Secretary.

When a maturing bill has not been made payable at the acceptor's bank, it will, in the absence of other instructions, be presented for payment at the acceptor's place of business. The bank presenting the bill might then ask to be paid in notes before handing over the acceptance in exchange. A cheque would not in every case be acceptable discharge of the bill, as the collecting clerk would not know at the time whether the cheque, if taken, would itself be paid on presentation.

ADVANTAGES OF INLAND BILLS

To a creditor an accepted bill of exchange for an account due from a debtor fixes not only the sum to be paid, but also a date

on which payment is to be made. Should the acceptor not pay when the bill falls due, his failure to do so casts a reflection upon his trustworthiness, which is noted by the banks or other parties through whose hands the dishonoured bill passes on its way back to the drawer. Moreover, the acceptance of a bill amounts to an undertaking, recognized by the courts as binding on the acceptor, to pay on the date named. It amounts, also, to an acknowledgment by the acceptor that he owes the sum named—an acknowledgment that the creditor can enforce in the courts without his having to answer any dispute raised by the debtor about incorrectness of the amount, about wrong delivery, or about defect in the goods for the value of which the acceptance was given. These considerations usually cause the acceptor of a bill to strive to meet the bill, if he possibly can, when payment becomes due. Should it happen that he cannot possibly meet it, he will usually try before the due date to come to an amicable arrangement with the drawer for a renewal of the bill at interest for a further term, or preferably for payment of part of the amount and renewal of the balance.

To a creditor, again, when he finds himself hampered in the conduct of his business because of inadequacy of capital, an acceptance that he can discount at his bank is often a welcome means of raising funds needed to pay off a creditor of his own. With full faith in a debtor's ability to pay when the time for payment shall arrive, his creditor may, nevertheless, request the debtor to accept a bill for the amount of an account not yet due, the bill to be payable on the date when the account would otherwise become due for settlement. Having got the bill accepted, the creditor will usually discount it—but he may take a less usual course. He may indorse the accepted bill and hand it over to a creditor of his own, if the latter will take it, leaving the creditor to collect it or, perhaps, to discount it in his turn. Bills so used enable a trader to change his book debts into a form that makes them immediately available for discharging claims upon himself.

To a debtor his willingness to accept a supplier's draft, with the greater certainty of payment that an acceptance gives to the supplier, may be the means of the debtor's obtaining credit, or an extension of credit, that would be denied him without the accepted bill. We have seen that Langridge & McBride get

three months more than the usual length of credit by accepting at the beginning of each month a bill for the value of the goods supplied them during the month preceding. They thereby secure the opportunity of selling the goods or a large part of them, and so putting themselves in funds, before they are called upon to pay. They are, in effect, getting the use of capital supplied by their creditors during the lengthened period of credit, paying for its use in the discount they forgo on their purchases, just as if they had raised additional capital by loan and were paying interest on that.

BOOK ENTRIES OF BILL TRANSACTIONS

From the book-keeping point of view bill transactions are divided into the two main classes of *Bills Receivable* or those payment of which is to be received, and *Bills Payable* or those payment of which is to be made, by the business in whose books the transactions are being recorded.

Bills Receivable. 1. When a bill is received that is payable in this country on demand, such as a bank draft on London remitted by a customer abroad, it is treated in the counting-house as cash, and is paid into the bank immediately for collection. Entered to debit of the bank in the Cash Book like a customer's cheque, it is posted from there to credit of the remitter's account in the Ledger.

2. Where a business comes into possession of many bills payable at future dates, it usually records their receipt in a Bills Receivable Book similar in ruling to the specimen on page 441. Each entry in this book is posted to credit of the account of the person from whom the bill is received, the monthly or other periodical total of the book being posted to debit of a Bills Receivable Account in one of the business ledgers. When transactions in bills receivable are not numerous, each may be recorded in the Journal, as it occurs, by a debit to Bills Receivable Account and a credit to the person from whom the bill is received, whether that person is acceptor, indorser, or other party.

3. Where bills receivable are held to await maturity, each one is taken from the bill portfolio as its date of payment approaches, and is handed to the bank in time for collection on the day it is due. It is then entered in the debit column of

the Bank Account in the Cash Book and credited from there to Bills Receivable Account.

4. Should a bill receivable, sent for collection, be returned by the bank dishonoured by non-payment, its return is recorded by a credit to the Bank in the business Cash Book, and a debit therefrom back to the person's account to which the bill was credited when it was first received. That record, both debit and credit, is made for the amount of the bill, together with the amount of the charges made by the bank in consequence of the dishonour.

5. When a bill receivable is discounted at the bank, an entry is made in the business Cash Book debiting Bank Account with the full amount of the bill, and the entry is posted to credit of Bills Receivable Account in the Ledger. For the discount that the bank charges, another entry is made in the Cash Book to credit of Bank Account, that entry being posted to debit of Discounts Account. It is sometimes objected that discount on bills should not be recorded in the same ledger account as discount on trade accounts. The only other course, free from objection, would seem to be the keeping of a separate account for Discounts on Bills; but that would not be worth while, unless bill discounts were of frequent occurrence and considerable volume. An objector to the first course would find it difficult to maintain that discount on a bill is essentially different from discount on a trade account. Both are agreed deductions from the full amount of a debt, and both are agreed to because of the receipt of payment at a date earlier than that on which the debt can be claimed in full. Again, to charge discount on a bill to Interest Account is no less free from objection than to charge it to the ordinary Discounts Account, for discount on a bill of exchange has less similarity to interest on a loan or overdraft than it has to discount on a trade account.

6. If a bill that has been discounted at the bank comes back dishonoured, record of the dishonour is made, as in (4), by an entry in the Cash Book crediting the Bank with the amount of the bill and the charges, and by posting the entry to debit of the ledger account of the acceptor or other party from whom the bill was taken.

Bills Payable. 1. In a business house that regularly accepts

BILLS RECEIVABLE BOOK

Date Received	From Whom Received	Led. Folio	Amount £	s	d	Drawers	Acceptors	Date of Bill	Term	Due date	Remarks
19.. July 8	Langridge & McBride .	L51	115	10	6	Ourselves	L & McB	19.. July 1	3 months	19.. Oct 4	
	Bills Receivable a/c .										

BILLS PAYABLE BOOK

Date Accepted	To Whom Given	Led. Folio	Amount £	s	d	Drawers	Payees	Date of Bill	Term	Due date	Remarks
	Bills Payable a/c .										

bills of exchange for its liabilities a Bills Payable Book will be kept in a form like that shown on page 441. An entry will be made in that book to record each bill accepted. Each entry will be posted to debit of the ledger account of the supplier or other person to whom acceptance is given, and the monthly or other periodical total of the book will be credited to Bills Payable Account. Where, however, the accepting of a bill of exchange is only an occasional occurrence, the entry recording it will be made in the Journal.

2. When an acceptance that has been given is paid at maturity by the acceptor's bank, record of the transaction will be made in the Cash Book by an entry crediting the bank with the sum paid, and by the posting of that entry to debit of Bills Payable Account.

3. If the acceptor of a bill of exchange should fail to pay it when duly presented for payment, he must have the dishonour of the bill recorded in his books. The record should be made through his Journal by a debit to Bills Payable Account for the amount of the bill, a debit to General Expenses or perhaps to Bank Charges Account for the amount of the charges incurred, and a credit for the amount of the bill and the charges to the account of the person to or for whom the acceptance was given.

PROMISSORY NOTES

Promissory notes are seldom used for ordinary trade debts. Mostly they are made use of as acknowledgments of money lent. For example, a trader, temporarily in need of funds, may give a promissory note such as Specimen No. 1 for a loan made to him by a friend. A note payable on demand instead of at a future date would read: "On demand I promise to pay . . ., etc." Where a business house takes money on deposit and at interest from customers, a promissory note in a form like Specimen No. 2 will usually be given for each sum so taken. If part of the sum lent or deposited is repaid or withdrawn, the old note will usually be surrendered and cancelled, and a new one for the balance issued in its place. Sometimes, in circumstances such as those of Specimen No. 1, an acknowledgment of the part repaid will be given on the back of the original note, which will then be good for the balance only.

PROMISSORY NOTES

SPECIMEN NO. 1

Alma House,
Faulkner Street,
Manchester.

£250

1st April, 19..



Three months after date I promise to pay Mr. Walter Wheatley or his order the sum of *Two hundred and fifty pounds* for value received.

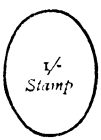
Arthur H. Tomlinson

SPECIMEN NO. 2

12–16 Broad Avenue,
Leeds.

£100

10th August, 19..



One month after notice we promise to repay Mrs. Edna V. Anderson of Daisy Bank Cottage, Wharfe Milton, the sum of *One hundred pounds* held by us on deposit subject to interest at Five per cent per annum payable on 30th June and 31st December in each year until the deposit is repaid.

Gregory & Wright

SPECIMEN NO. 3

The Ronaldshay Club,
Ronaldshay Place,
Sutton Heathfield.

£82 7s 6d.

1st June, 19..



Six months after date we jointly and severally promise to pay Messrs. Hill, Vale & Rivers of Birmingham the sum of *Eighty-two pounds seven shillings and sixpence* for work done at this address.

Percival Smith, 14 South Drive, Sutton Heathfield.
Herbert Brown, 22 Heath Road, Sutton Heathfield.
Duncan Robertson, 30 Mill Lane, Sutton Heathfield.

When the interest in our second example is paid each half-year, the company paying it will deduct from the payment income tax at the standard rate then in force. On money deposited with a firm or company by its employees, the terms agreed upon might provide for interest to be paid at a lower rate, such as $3\frac{1}{2}$ per cent per annum, without deduction of tax. With the standard rate of income tax at 5s. in the pound, "tax-free" interest amounting to £3 10s. would be the equivalent of $\frac{20}{16}$ths of £3 10s., or £4 13s. 4d. subject to tax deduction.

A joint and several note, such as Specimen No. 3, is for circumstances in which a creditor desires to have an effective claim on more than one individual for the sum owing to him. Here the claim might be for the cost of fitting out and decorating the meeting-room of a society or club, when payment had been agreed to be taken in two equal instalments payable in three and in six months' time. The signatures on the note would then probably be those of three members of the committee. In this specimen the words "jointly and severally" give the creditor, or payee of the note, the right to sue a second signatory, if action taken against one has failed, and the further right to use the third signatory if action against the other two has not brought the creditor satisfaction. Were the words "jointly and severally" absent from the note the creditor holds, he could not bring a second action for recovery of the money should the first action prove unsuccessful. A joint and several note signed by two persons might be used, again, when the second person to sign it was giving his name by way of guarantee for repayment of a loan made by the payee of the note to the first signatory.

WHY BILLS ARE USED IN FOREIGN TRADE

We have seen that the kind of bill of exchange known as a cheque is the most usual form of payment in the home trade, and that bills of other kinds are not in extensive use for inland transactions. In trade with any countries other than the nearer European ones, however, the purchaser's cheque is not an acceptable means of payment. As between distant countries, a trader's cheque on his bank abroad would take too long to collect. For example, if goods sold by a London merchant to

a customer in Capetown or Buenos Aires were to be paid for after delivery by the customer's cheque drawn on his local bank, the seller here would have to wait, first for the goods and the invoice to reach the customer, then for the customer's cheque to arrive in London, even if he sent it without delay. Next, he would have to wait for the cheque to be returned through the banks to Capetown or Buenos Aires for collection, and, lastly, for notification of payment to come back to London. Besides, when payment was eventually credited to the merchant's bank account here, the value received would, because of currency conversion and collection expenses, probably be considerably less than the sum originally due.

A further objection to the use of cheques in foreign trade is that the seller would in many cases be unwilling to grant, to customers so far away, the credit that payment by cheque after delivery would involve. At such distance it may often be much more difficult than it is at home to obtain satisfactory assurance of a purchaser's trustworthiness, or successfully to attempt the enforcement of payment against a debtor who has failed to remit. Similar considerations must, of course, be taken account of by sellers abroad in regard to purchasers here. For reasons such as these bills of exchange other than traders' cheques are in much more general use for payment of foreign than for home-trade transactions.

WHEN FOREIGN BILLS ARE USED

Specimen No. 1. Where the steps in making a payment are begun by the remitter without the knowledge of the payee, or where a creditor leaves to his debtor the initiative of remitting, the money can be sent by a bank draft similar to Specimen No. 1. This example falls within the definition of a cheque because it is drawn on a bank and is made payable on demand; also because it is drawn by one bank on another bank. A draft made by one office on another office of the same bank is not a bill of exchange, and therefore not a cheque, because it is not "addressed by one person to another." This cheque, however, is more acceptable to the Australian payee than the remitter's own cheque would be; because, the drawer being a bank instead of a less known trader, there need be scarcely any uncertainty about obtaining payment, and the cheque being

FOREIGN BILLS OF EXCHANGE

SPECIMEN NO. 1. ORIGINAL AND DUPLICATE OF FOREIGN BANK DRAFT

METROPOLITAN BANK, LIMITED

No. 24389

£50 14s. 6d.

Threadneedle Street,
London, E.C.2.
13th November, 19..

2d. STAMP

Pay against this cheque the sum of *Fifty pounds* Australian currency for office, duplicate being unpaid.

ORIGINAL *Under Fifty-five pounds*

from our balance to .. or order *fourteen shillings and sixpence* account of your London

To *Commonwealth Bank of Australia,*
Perth.

per pro. Metropolitan Bank, Limited
Robert Bright, Manager
Henry Smart, Accountant

METROPOLITAN BANK, LIMITED

No. 24389

£50 14s. 6d

Threadneedle Street,
London, E.C.2.
13th November, 19..

2d STAMP

Pay against this cheque from our balance to
Messrs. Grant & McKenzie or order
the sum of *Fifty pounds fourteen shillings and sixpence*
Australian currency for account of your London
office, original being unpaid.

DUPLICATE
Under Fifty-five pounds

To *Commonwealth Bank of Australia,*
Perth.

per pro. Metropolitan Bank, Limited
Robert Bright, Manager
Henry Smart, Accountant

payable not in the country of the drawer but in that of the payee, the amount can be collected without any delay. Such a draft as this may, of course, be sent equally well in the reverse direction, from Australia to England; but in whichever direction it may travel it need not be drawn so as to be payable on demand. Were it drawn payable on an indicated future date it would not be a cheque, though it would still be a bill of exchange—a bank bill as distinct from a trade bill or one drawn on a trader by a trader.

A bill or cheque like this specimen, or a similar one sent in the reverse direction, might accompany an order for goods or produce, the value of which was already known to the person sending the order. It might, however, be sent in settlement of the balance due to an Australian exporter on a shipment of produce received in London to be sold on his account. In that case the Australian, probably, would have previously drawn for part payment a bill that had been accepted, and had been or would in due course be paid by the London importer to whom the produce was consigned. Such a bill, again, might be a remittance sent by the head office of an English merchanting house to its Commonwealth branch, or it might arise out of other circumstances and be made for some other purpose. Foreign bills are usually drawn in sets of two or three. The "duplicate" in this example would be posted by a later mail than the "original"; but it would not be presented for payment unless the original had been lost in transit, and then the duplicate would be presented and paid in place of the lost original.

Specimen No. 2. We may suppose that the circumstances in which this bill has been drawn are that Nicolas Ferranti of Valetta has sent an order for goods to be shipped to him by our old friends Fearnley, Sanderson & Co., Ltd., of London. We may assume that the order has now been executed, that the goods have been packed for conveyance by sea and dispatched to the docks for shipment, also that the risks of loss or damage during transport to Valetta have been covered by insurance. A specimen invoice corresponding to this draft appears in Chapter 32, where the routine of exporting goods is described. A signed bill of lading in acknowledgment of receipt of the goods would be obtained in duplicate or triplicate from the shipping company.

FOREIGN BILLS OF EXCHANGE

SPECIMEN No. 2. BILL DRAWN BY EXPORTERS ON CUSTOMER ABROAD

St. Paul's Churchyard,

No. 1004 for £34 5s. 6d. London, E.C.4.

10th December, 19..



At *sixty* days after sight of this First of Exchange (Second of same date and tenor being unpaid) pay to the order of the *Metropolitan Bank, Limited,* the sum of *Thirty-four pounds five shillings and sixpence* for *goods shipped by S.S. "Stuart Prince" from London.*

Mr. Nicolas Ferranti, For Fearnley, Sanderson & Co., Ltd.

Strada Marina, *Henry Bradley,*

Valetta, Malta. Secretary.

St. Paul's Churchyard,

No. 1004 for £34 5s. 6d. London, E.C.4.

10th December, 19..



At *sixty* days after sight of this Second of Exchange (First of same date and tenor being unpaid) pay to the order of the *Metropolitan Bank, Limited,* the sum of *Thirty-four pounds five shillings and sixpence* for *goods shipped by S.S. "Stuart Prince" from London.*

Mr. Nicolas Ferranti, For Fearnley, Sanderson & Co , Ltd.

Strada Marina, *Henry Bradley,*

Valetta, Malta. Secretary.

The suppliers of the goods would draw on their customer in Malta a bill in a set of two—a first and second of exchange—as shown in the specimen. Usually in a transaction such as this the bill of exchange is handed by the drawers either to their own bank in London or to the London office (if it has one) of a bank of the drawee's country. From this point the method of dealing with the bill varies according to the terms on which the suppliers have agreed or are willing to part with control of the goods.

HOW FOREIGN BILLS ARE HANDLED

1. **Collection Only.** The bank here may be asked simply to send the bill to Malta for collection, and to account to the

drawers for the proceeds when they are received. The first of exchange will be sent out by the bank on the first available mail, the second of exchange by the next mail in case the first of exchange miscarries. Only one of the bills, however, will be presented by the collecting Maltese bank for acceptance and for payment. Copies of their invoices, together with the bill of lading in duplicate, will be mailed direct by the suppliers of the goods either to their customer or to his clearing agent in Valetta. As the bill of lading is the title to the goods, giving the holder of it the right to claim them at the port of destination, this procedure means that the suppliers are prepared to trust to their customer's accepting the bill on presentation by the bank in Malta, and to his paying it when the bank again presents it for payment sixty days later.

2. Documents Attached. Exporters, however, have not always sufficient faith in a customer abroad to let him get possession of the bills of lading, and so of the goods, before acceptance or payment of the bill of exchange drawn for them. Instead of posting the bills of lading direct to the customer or his agent in the distant port, they might attach to the first bill of exchange a set of duplicate invoices, one copy of the bill of lading, and the marine insurance policy or certificate. To the second of exchange they would then attach another set of invoices, together with a second copy of the bill of lading, and they would hand all these documents to the bank here. According to their knowledge or experience of the customer they would instruct the bank to hand over the bill of lading on acceptance of the draft, or to hold the bill of lading until payment was made. In the former case the bill of exchange might be marked "D/A," meaning documents to be surrendered on acceptance; in the latter case it might be marked "D/P," for the documents not to be given up until payment. In the second case the goods would be warehoused under control of the bank at the customer's port until payment was received. But, should the customer want possession of the goods before the bill ran out its sixty days, he could offer payment earlier, and he would then obtain a rebate on the amount of the bill at the customary rate per cent per annum.

There are two good reasons why an exporter draws a bill for the value of the goods when he has executed a customer's

order, instead of requiring the customer to enclose a bank draft in payment when the order is given. In the first place, a buyer abroad is usually unwilling to pay before the goods reach him; in the second place, if he were willing to pay beforehand, he could seldom tell at the time of ordering what exact sum he ought to remit. Usually, then, a bill is drawn on the customer when his shipment is ready, and settlement of the transaction is not completed until, after having sent the bill out for collection, the exporter's bank has received payment back. That, however, keeps in the hands of the exporter the initiative in the procedure of obtaining payment. Even when dealing with a trusted customer, that procedure is better than shipping the goods without drawing, and so leaving to the customer the taking of the first move in the making of payment. It is better still where the exporter does not know enough about the purchaser abroad to trust him fully, for a documentary bill (i.e. a draft with bill of lading and marine insurance policy attached) keeps the goods controlled by the bank acting in the exporter's interest until, according to his wish, either acceptance or payment of the bill has been obtained.

3. **Advance by Bank.** Even when an exporter takes the initiative in regard to payment, by drawing on his customer abroad at the time of shipment and by getting his bank to send the bill out for collection, he has still to wait whilst the bill is on its way out, whilst the bill runs from the date of acceptance to the date of payment, and whilst the payment when made is being remitted from abroad to his bank here. But before his customer's payment arrives, the exporter has to settle accounts with the manufacturers or dealers who supplied him with the exported goods. Not one transaction only, but all he enters into from period to period, he may have to finance between the date of shipment and the date when payment will come back.

Should an exporter not possess sufficient capital of his own with which to do that, he will probably ask his bank for an advance on each bill when he draws it and hands it to the bank for collection. As it is part of the business of banks to finance transactions of their customers, the exporter's bank is usually willing to help him in that way, although the bills on which advances are made have not yet been accepted by the drawees.

The exporter, having obtained an advance, is then free to proceed with further purchases. His bank may even buy the bills or some of them outright, its security against non-payment of any bill being in the value of the goods for which the bill has been drawn. By holding all copies of the bill of lading, made out or indorsed to itself, the bank keeps control of the goods in its own and the exporter's interest until payment is received. The insurance policy, also made over to the bank, gives it the right to claim payment from the insurers for any loss of or damage to the goods whilst they are in transit. The balance, due to an exporter who has already been given an advance on a bill, is paid over to him when payment of the bill reaches his bank here, and in its charges the bank includes interest on the advance from the time it was made to the time when payment is received.

MISCELLANEOUS POINTS

It may happen that a documentary bill is not accepted when presented to the drawee for that purpose, or that, having been accepted, it is not paid when presented for payment. Against that eventuality the bank may take instructions from the exporter at the time of receiving the bill from him. Sometimes a bank takes a *letter of hypothecation*, which gives it power to realize its security by selling the goods at the port of destination, should the documentary bill on which it has made an advance not be accepted or paid. In other cases of the dishonour of such a bill the bank's agents abroad will write or telegraph here for instructions, asking whether the goods should be sold at once, or warehoused for a time, or shipped back to the exporter or to the order of his bank.

Foreign bills are customarily drawn in the currency of the drawee's country, for example in dollars for New York, in pesos for Buenos Aires, in belgas for Brussels, and in florins for Amsterdam. They may, on the other hand, be drawn in sterling, with or without the phrase "exchange as per indorsement." Except in the case about to be mentioned, a sterling bill is converted into the drawee's currency on the day when the bank here takes the bill, and at the rate of exchange then current, the rate being named in the bank's indorsement and the converted amount noted on the face of the bill. But a

sterling bill may be drawn "payable at the —— Bank's current drawing rate for demand drafts on London." Then conversion is made at that rate by the collecting bank in the drawee's country on the day he pays the bill, and the exporter here, who has drawn the bill, is relieved of the risk of any loss that he might otherwise suffer through an adverse change in the rate between the date of payment and its receipt. Again, there may be included in the bill an interest clause making it payable with interest added at a specified rate per cent per annum from the date of the bill to the approximate date on which remittance of the amount collected shall arrive in London. Where the bank here has advanced either the full face value of the bill or part of the value, the interest on the whole or on the sum advanced belongs to the bank. The drawer of a bill may also, if he so desires, instruct his bank to collect from the drawee all charges of collection, so that he may receive the amount of the bill in full.

A foreign bill may be drawn payable to the drawer's bankers or their order, or it may be drawn payable to the order of the drawer and indorsed by him to the bank when he hands it in for collection. Bills drawn on their customers by exporters are commonly made payable at so many days after sight instead of so many days or months after date, presumably because of the uncertainty, more prevalent in former days than now, about the time when any such bill will reach the drawee abroad. To certain countries there are customary tenors or usances, i.e. periods during which the bills are drawn to run before payment becomes due; but that does not prevent other bills being drawn for different usances than are usual for any given market. Bills drawn in triplicate are not so common as they used to be, a set of two copies or "vias" being now usually sufficient in the improved communications of our day. A foreign bill of which only a single draft is made usually reads "At . . . days after sight of this sola of exchange . . ." Sometimes one of a set is negotiated in the drawer's country whilst another of the set is sent forward to the drawee's country for acceptance, a note being added to the one negotiated that the accepted copy may be claimed at a given address in the town or country of payment. A bill is said to be "retired" when it is withdrawn by the acceptor paying it before it falls

due. When the acceptor, being unable to pay at the due date, arranges to give a new bill payable at a later date in place of the old one, he is said to "renew" the bill, and interest for the additional time is usually added to the old amount. When a bill is received back accepted by the debtor on whom it was drawn, a receipt (stamped if the bill is for £2 or over) should be given; but when the bill is paid a receipt is not necessary, the acceptance being simply collected like a cheque from the payer's bank, or handed back to the acceptor in exchange for the cash when payment is collected at his office.

BILL STAMPS

Every bill of exchange drawn in the United Kingdom must be stamped before it is drawn. The stamp required is as follows—

1. On bills payable on demand, at sight, or on presentation, or at three days after date or sight, the duty is twopence, and the stamp may be either an impressed or an adhesive one.

2. On bills not payable on demand or at three days after date or sight, and on all promissory notes, whether payable on demand or not, if the bills or notes are drawn or are payable in the United Kingdom, an *ad valorem* (varying with value) duty is imposed, as follows—

Where the amount does not exceed	£10,	stamp	2d.
Where it exceeds £10 but not	£25,	,,	3d.
,, ,, ,, £25 ,,	£50,	,,	6d.
,, ,, ,, £50 ,,	£75,	,,	9d.
,, ,, ,, £75 ,,	£100,	,,	1s.
For every additional £100 or part of	£100,		1s.

If the bill is issued in this country, the stamp must be impressed.

3. Bills drawn abroad and payable abroad, if negotiated in the United Kingdom, require in addition to the foreign stamp (if any) a United Kingdom stamp as follows—

Where the bill is payable on demand, or where it does not exceed £50 in value, stamp as above.

Where it exceeds £50, but not £100, stamp 6d.

For every additional £100 or part of £100, stamp 6d.

The stamp required on a foreign bill not drawn here is an adhesive one. When the twopenny rate applies, a postage stamp is used, as on receipts; but in other cases a special foreign bill stamp of the value required must be affixed.

A stipulation in a bill or note for interest to be paid on the amount of the bill or note does not affect the value of the stamp

required, unless the interest is calculated and included in the sum named. Any person dealing with a bill or note that is insufficiently stamped is liable to a penalty of £10. When a bill is drawn in a set of two or three, only one of the set is stamped.

An IOU (I owe you), such as: IOU Five pounds—*Charlie Brown*, not coming within the definition of a bill of exchange or promissory note, and not being a receipt for money paid, is not subject to stamp duty.

QUESTIONS

1. Explain how cheques differ from other bills of exchange, and how a foreign bill of exchange differs from an inland bill.

2. Grime & Maunder of Sherwood Hill, Nottingham, owe to Robert Hutchinson & Co., Ltd., of Gresham Place, London, E.C.2, an account of £99 10s., which was due net on 1st August. They agree to accept a bill of exchange drawn on them by Hutchinsons at three months from that date for the amount of the account with interest added at 5 per cent per annum. Show the form that the bill will take when accepted, and the value of the stamp required.

3. State the rule for determining the dates of payment of bills of exchange payable in this country. Name the dates on which the following will be due for payment—

(*a*) A bill drawn at ten days from 1st April.
(*b*) A bill drawn at two months from 29th February.
(*c*) A bill drawn at sixty days from 15th May.

4. What is meant by "acceptance" of a bill of exchange, and how is acceptance of a bill indicated? On which bills is acceptance usually obtained, and on which must it be obtained before presentation for payment? What is meant by the "domicile" of a bill of exchange?

5. If you were to draw on a customer of yours in this country a bill of exchange at three months' date, how would you procure acceptance of the bill? When you had procured acceptance, from what various courses could you choose in order to realize the value of the bill?

6. Where do acceptors of bills of exchange usually make the bills payable? If a bill of exchange does not state at what address it is payable, where will it be presented for payment? In what form will payment probably be required in the latter case, and why will it be required in that form?

7. Explain clearly what two main advantages a manufacturer or a wholesaler can secure by getting a slow-paying customer to accept a bill of exchange drawn on him for the amount of an account he owes.

8. Show in what way the accepting of a bill of exchange drawn on him by a creditor for goods supplied can be of benefit to a trader whose

working capital is too restricted to enable him to pay his accounts promptly.

9 What is meant by "discounting" a bill of exchange? If a bill for £235 due in four months from 1st June is discounted for the payee by his bank on 11th June at 4½ per cent per annum, what will be the net amount that the bank will place at his disposal?

10. Show a ruling that you consider suitable for a Bills Receivable Book. Enter in it particulars of a bill accepted by Henry Rogerson, and received from him on 6th October, the bill being drawn in your favour at three months from 1st October for £110 5s. and made payable at the Home Counties Bank, Banbury. How will you record the transactions in your ledger accounts?

11. What entries would you make in your accounts if the acceptance described in Question 10 were: (*a*) collected for you at maturity by your bank; (*b*) dishonoured by the acceptor when your bank on your instructions presented it for payment?

12. What records should the payee make in his accounts for the transaction described in Question 9? If it happens that the bill mentioned in that question is dishonoured by non-payment, what records should the payee make when the dishonoured bill is returned to him by his bank?

13. Show a ruling suitable for a Bills Payable Book. Enter in it particulars of the bill described in Question 10, assuming that the bill is drawn by and made payable to George Masterton, and that it is accepted by Henry Rogerson on 5th October. State, also, what records Rogerson should make in his ledger accounts (*a*) when he gives the acceptance, (*b*) when the accepted bill is paid by his bank.

14. Show the form of a stamped promissory note, payable after one month's notice and given on 30th September, 19.., to Edwin H. Reeves of The Maples, Congleton, for £100 placed by him on deposit, subject to interest at 5 per cent per annum, with Brundett & Williamson, carrying on business at Palatine Buildings, Chorlton Street, Manchester.

15. Show the form and the value of the stamp for a joint and several promissory note given by Percy Walters and Arnold Hickman of Lincoln, to Charles Christian Collingwood of the same city, for £125 payable at six months from 1st January, 19... Explain the effect of the note being given as a joint and several one.

16. For what reasons are the purchasers' cheques on their local banks not a form of payment acceptable to exporters here for goods shipped by them to customers in distant lands?

17. Goods are sold by Taylor & Broadridge, merchants of Water Street, Liverpool, to Fraser & Ramsey of Bridge Street, Toronto, the goods and charges amounting to $1015. Show the form of the first of a set of two bills drawn by the sellers on the purchasers for that amount, and payable at thirty days after sight to the order of the City of Liverpool Bank.

18. Explain in detail (*a*) how the bill in Question 17 would be dealt with if the Liverpool merchants waited for payment until the amount

was collected for them by their bank; (*b*) how the bill would be dealt with, and what security the bank would hold, if it credited the merchants at once with two-thirds of the amount, and with the remainder after receiving payment from Toronto.

19. What is a "documentary bill"? What is meant by "documents against acceptance" and by "documents against payment" in connexion with bills of exchange drawn for goods exported?

20. Explain what you understand by "retiring" a bill of exchange. Subject to what conditions is it customarily permissible for a foreign purchaser to retire a bill he has accepted for goods imported by him?

21. When an exporter in this country draws a sterling bill of exchange on his foreign customer, what purposes are served by his making the bill (*a*) payable with interest from the date of drawing to the date of receiving payment here; (*b*) payable at the rate ruling in the drawee's country on the day of payment, for drafts on London?

22. (*a*) When must the stamps required in this country on bills of exchange be adhesive stamps?

(*b*) When must they be impressed stamps?

(*c*) When may they be either impressed or adhesive?

CHAPTER 29

THE BILLS OF EXCHANGE ACTS

STATUTORY provisions regarding bills of exchange are contained in four Acts, namely, the Bills of Exchange Act, 1882, the Bills of Exchange (Crossed Cheques) Act, 1906, the Bills of Exchange (Time of Noting) Act, 1917, and the Bills of Exchange (1882) Amendment Act, 1932. The 1882 Act is the main statute, running to one hundred sections. The others are short amending Acts containing one effective section each. Some of the provisions have been explained in previous chapters, and need not be repeated here.

BILL OF EXCHANGE DEFINED

By Section 3 of the Act of 1882 a bill of exchange is defined as—

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

More shortly, if less precisely, we may say that a bill of exchange is a written and signed order by which the person addressed is definitely required to pay at a named or ascertainable date a stated sum of money to a person indicated. A cheque is a bill of exchange coming within that definition, but restricted by Section 73 on two points, namely, that the order must be addressed to a bank and must be payable on demand.

A bill or cheque is valid although it is not dated; also it may be dated on a Sunday, and it may be ante-dated or post-dated (Sect. 13).[1] If the date has been omitted in the drawing of a bill payable at a stated period after date, or in the acceptance of a bill payable at a stated period after sight, any holder may insert the correct date or what he believes to be the correct date, and the bill will be payable accordingly. (Sect.

[1] Except where stated otherwise, the references in this chapter are to the Bills of Exchange Act, 1882.

12.) Section 20 provides, further, that where any material particular, other than the drawer's signature, is omitted in a bill, the holder is presumed to have authority to fill in the omission in the manner intended. By Section 5, a draft in which drawer and drawee are the same person may be treated as either a bill of exchange or a promissory note. The same rule applies where the drawee is a fictitious person or a person without capacity to contract. An example in which drawer and drawee are the same person is a draft issued by one office on another office of the same bank. It does not come strictly within the definition of a bill of exchange or cheque, because it is not "addressed by one person to another."

CERTAINTY ESSENTIAL

It will be noticed that a feature running through the definition of a bill of exchange is the requirement of certainty. The order must be written, the drawer must sign it, the person who has to pay must be named, payment must not be made to depend on the fulfilment of any stipulated condition, and both the time and the amount of the payment must either be fixed by the bill as drawn or be clearly ascertainable later from the terms of the bill. Certainty on these points is essential in an undertaking to pay, the nature of which permits it to pass in exchange for value through the hands of several parties before payment becomes due to the final holder.

Section 6 requires that the drawee or drawees, if not named, must be indicated with reasonable certainty, and that a bill must not be addressed to two or more drawees in the alternative or in succession; but, by Section 15, drawer or indorser may insert in a bill the name of a person to whom the holder may resort "in case of need," where the bill becomes dishonoured by non-acceptance or non-payment. Section 7 provides that, unless a bill is payable to bearer, the payee or payees must be named or indicated with reasonable certainty; also that, if the payee is a fictitious person, the bill may be treated as payable to bearer. According to Section 22, should a bill be drawn or indorsed by an infant or by a corporation not having power to do so, such drawing or indorsement gives the holder of the bill the right to receive payment or to enforce it against any of the other parties. By Section 9, the amount payable is

still a "sum certain," although it is to be paid with interest, or by instalments, or at an indicated rate of exchange. When a discrepancy occurs between the amount shown in words and that shown in figures, the amount in words should be paid. A bank, however, usually returns for correction a cheque in which words and figures do not agree. Section 10 enacts that where the time of payment is not mentioned (as is usual in a cheque), the bill is payable on demand. The rules about days of grace and computation of date of payment have previously been given.

RULES ABOUT ACCEPTANCE

Acceptance, as assent to the drawer's order, must be written on the bill and signed by the drawee; but signature alone will suffice except in certain cases, as explained in the preceding chapter. (Sect. 17.) The acceptance may be given on a bill that has not yet been signed by the drawer, or on one that is otherwise incomplete. It may be given, also, on a bill of which acceptance or payment has already been refused, or on one that is overdue. (Sect. 18.) Every acceptance is ineffectual until it has been completed by delivery of the accepted bill to the party entitled to it, or until notification that the bill is accepted has been given to the party entitled or in accordance with his directions. (Sect. 21.)

There are two kinds of acceptance as defined by Section 19. A *General Acceptance* is one that assents without reservation to the order of the drawer, whilst a *Qualified Acceptance* makes assent subject to some expressed variation of the terms in which the bill was drawn. A qualified acceptance may be—

(*a*) Conditional, causing payment to depend on the fulfilment of some condition stated;

(*b*) Partial, assenting to payment of only part of the amount for which the bill was drawn;

(*c*) Local, stipulating for payment at a particular place, and there only—an acceptance to pay at a particular place being a general one unless it expressly states that payment is not to be made elsewhere;

(*d*) One qualified in regard to time of payment;

(*e*) An acceptance given by one or more of the drawees, but not by all.

Section 44 states that the holder of a bill may refuse to take a qualified acceptance and that he may treat a bill so accepted as dishonoured. When any qualified acceptance other than a partial one has been taken without assent of the drawer or an indorser, the drawer or the indorser is discharged from liablity on the bill; but, unless the drawer or indorser expresses his dissent when he receives notice of a qualified acceptance, he is deemed to have assented to it.

SIGNATURE AND LIABILITY

A person cannot be made liable on a bill of exchange as drawer, indorser, or acceptor unless he has signed the bill in that capacity. If a party to a bill signs in an assumed name, he is liable upon it as if he had signed his proper name. Also, the signature of a firm on a bill may be given by one of the partners alone. (Sect. 23.) A bill, however, that has not been signed by all the partners of a firm, will not bind the firm if it is not a trading firm where business is such as may normally require bills to be drawn, indorsed, or accepted by it.

It is not necessary that a party to a bill should sign it himself; his signature may be written on the bill by another person if he has given that other person authority to do so. (Sect. 91.) A signature in procuration form will bind the party for whom it is made, provided the writer in making it acts within the limits of the authority given him. (Sect. 25.) The writer, whether drawer, indorser, or acceptor, who adds to his signature words indicating that he signs in a representative capacity, is not personally liable on the bill; but the additional words must be a clear indication that he is signing for or on behalf of someone else who is named, and must not be merely a description of himself. (Sect. 26.)

Section 24 contains the important enactment that, where a signature on a bill has been forged or made without the authority of the person represented by it, the signature is (subject to the provisions of the Act) wholly inoperative, conveying no right to any subsequent party to retain the bill, to give a discharge for it, or to enforce payment of it against any party to the bill, unless that party is precluded from setting up the plea that the signature is forged or unauthorized. The remedy of the holder of a bill that contained a forged or

unauthorized signature would usually be a claim for damages, if he could enforce that, against the person from whom he took the bill. Section 64 provides that, where a bill has been altered in any material particular without the assent of all parties then liable upon it, the bill thereby becomes void, except against the party who made, authorized, or assented to the alteration, and against subsequent indorsers. Material alteration includes alteration of date, sum payable, time of payment, and place of payment. If, however, the alteration is not apparent, a "holder in due course" may enforce payment in accordance with the original tenor of the bill.

HOLDER AND VALUE GIVEN

Holder in Due Course is the name given in Section 29 to a holder who has taken (1) in good faith (i.e. honestly), (2) for value given, (3) a bill complete and regular on the face of it, (4) before it was overdue, (5) without notice of any previous dishonour, or (6) of any defect (short of forgery) in the title of the person from whom he took it. By Section 30 every holder of a bill is presumed to be a holder in due course until it is discovered that the bill is affected by some illegality such as duress or fraud, and then he must prove that, subsequently to the illegality, value was in good faith given for the bill. Section 38 makes a holder in due course free from any defect in the title of previous parties as well as from personal defences available between any of them, and it gives the holder in due course the right to enforce payment against any party liable on the bill.

An Accommodation Party is a person who signs a bill as drawer, acceptor, or indorser for the purpose of lending his name to some other person, and without receiving value in return. Such a party is liable to any holder-for-value, whether that holder, when he took the bill, knew the signature to be that of an accommodation party or not. (Sect. 28.) An example of an accommodation bill would be one drawn by A on B, and accepted by B without his having received value for it, so that A could raise funds by discounting the acceptance, or could negotiate it for value in goods or money to someone else. In other circumstances the accommodating party may simply indorse or "back" a bill drawn between other parties, thereby

enhancing the bill with his name and reputation, and making it easier to negotiate or discount. The party receiving the accommodation would, of course, be liable to furnish the party giving it with funds for payment of the bill when the giver was required to pay. The value given for a bill of exchange, whether payable on demand or at a future date, may be any consideration sufficient to support a simple contract; but it may also be a debt or liability previously existing which would not usually be good consideration for a simple contract. (Sect. 27.)

NEGOTIATION AND INDORSEMENT

A bill is "negotiated" when it is transferred from one person to another in such circumstances as to make the transferee the holder of the bill. (Sect. 31.) An instance of the transferee not being the holder occurs when a bill is handed to a banker for collection only, for the banker then collects it as agent of the holder and not as holder himself. When a bill is drawn payable to bearer or when it has become payable to bearer by blank indorsement, it is negotiated by delivery only from the holder parting with it to the holder receiving it. When a bill is payable to order it is negotiated by the transferring holder's indorsement completed by delivery; and, if the indorsement is omitted, a transferee for value acquires with the bill the right to have the omission made good. (Sect. 31.) As explained in a previous chapter, indorsement may be made in blank by signature only, or it may be a special indorsement naming an indorsee; and any holder under a blank indorsement may convert it to a special indorsement by inserting above the indorser's signature a direction for the bill to be paid to or to the order of himself or some other person. (Sect. 34.)

The requisites of indorsement, as particularized in Section 32, are—

1. That it be written on the bill and signed by the indorser, or made on an issued copy of the bill, or on an "allonge" attached to the bill to provide space for additional indorsements.

2. That it be an indorsement of the entire bill, and not an indorsement purporting to transfer only a part of the bill, or a part to one indorsee and the remainder to another or others.

3. That, where there are two or more payees or indorsees, each must indorse unless, as in the case of partnership, one has the authority to indorse for all.

4. That, where payee or indorsee is wrongly described, he may indorse as described, with or without the addition of his proper signature.

5. That, where there are more than one indorsement on a bill, each is presumed to have been made in the order in which it appears.

6. That indorsement may be blank or special, or that it may be made in restrictive terms.

An indorsement is *restrictive* when it prohibits the further negotiation of the bill, as "Pay D only"; or when it does not operate as a transfer of ownership, and states that it is given as authority to deal with the bill only in a manner directed, as "Pay D for the account of X," or "Pay D or order for collection." An indorsee under a restrictive indorsement acquires thereby the right to receive payment or to sue any party his indorser could have sued. If he transfers the bill within the restriction imposed all subsequent parties take the bill subject to the restriction. (Sect. 35.) Should a bill be indorsed conditionally, the payer may disregard the condition, and payment will be valid whether the condition is fulfilled or not. (Sect. 33.) By Section 16 the drawer or an indorser may give a qualified indorsement negativing or limiting his liability, as when indorsing as an agent only he adds the words "without recourse to me" or their equivalent, *sans recours*. Again, drawer or indorser may give a "facultative" indorsement, waiving as regards himself some or all of the holder's duties, by adding such words as "notice of dishonour waived," or *retour sans frais* when noting or protest charges are not to be incurred in case of dishonour.

A bill negotiable in origin continues to be negotiable until it is restrictively indorsed or is discharged. But a person to whom an overdue bill is negotiated takes it subject to any defect of title attaching to it at maturity; and a person taking a bill that is not overdue, knowing it to have been dishonoured, takes it subject to any defect attaching to it at the time of dishonour. A demand bill is deemed to be overdue when it appears to have been in circulation an unreasonable length of time. Except where an indorsement bears a date after maturity of the bill, every negotiation is presumed to have taken place before the bill became overdue. (Sect. 36.) When a bill is negotiated back to a previous party, he can re-issue the bill;

but he cannot afterwards enforce payment against any intervening party to whom he was previously liable. (Sect. 37.)

PRESENTATION FOR ACCEPTANCE

The cases in which bills must be presented for acceptance are stated in Section 39. These have been mentioned in the preceding chapter, where it has also been explained that, though in other cases presentation for acceptance is customary, it is not legally necessary. Where a bill payable after sight is negotiated, the new holder must either present it for acceptance or again negotiate it within what in the circumstances is a reasonable time. If he fails to do so the drawer and all previous indorsers are discharged from liability on the bill. (Sect. 40.)

Regulations governing the manner of presentation for acceptance are enumerated in Section 41, as follow—

1. Presentation must be made at a reasonable hour on a business day before the bill is overdue, and by the then holder or his agent, to the drawee or to someone authorized to give or refuse acceptance on the drawee's behalf.
2. Where authorized by agreement or by usage, presentation through the post is sufficient.
3. A bill addressed to two or more drawees must be presented to all, unless one has authority to accept for all.
4. Where the drawee is bankrupt, presentation *may* be made to his trustee; and, where the drawee is dead, to his personal representative.

Reason to believe that a bill will be dishonoured is no excuse for not presenting it; but, presentation as required is excused, and the bill must then be treated as dishonoured—

1. Where the drawee is dead or bankrupt, or is a fictitious person or a person without capacity to contract on the bill;
2. Where, after exercise of reasonable diligence, presentation cannot be effected;
3. Where, though presentation has been irregular, acceptance has been refused on other grounds.

A bill is dishonoured by non-acceptance when on due presentation acceptance is refused or cannot be obtained, or when presentation for acceptance is excused and the bill remains unaccepted. When a bill is dishonoured by non-acceptance the holder acquires a right of immediate recourse against the drawer and indorsers, and presentation for payment

is not required. (Sect. 43.) If the person, duly presenting a bill and not obtaining its acceptance in the customary time, does not treat the bill as dishonoured, the holder loses his right of recourse against the drawer and indorsers. (Sect. 42.) The effect of a qualified acceptance has already been dealt with.

PRESENTATION FOR PAYMENT

Except where presentation for payment is excused, a bill must be duly presented for payment if the drawer and indorsers are not to be discharged from liability upon it. Regulations governing presentation for payment contained in Section 45 are as follow—

1. Where the bill is not payable on demand, it must be presented on the day it falls due.
2. Where the bill is payable on demand it must be presented within what in the circumstances is a reasonable time after issue to keep the drawer liable, and within a reasonable time after indorsement to keep an indorser liable.
3. Presentation must be made by the holder or his agent at a reasonable hour on a business day, and at the proper place, either to the payer or to someone authorized to give or refuse payment on his behalf.
4. A bill is presented at the proper place: (i) when presented at the place specified in the bill, or (ii) at the address given for the drawee or acceptor, if no place of payment is specified; (iii) when no place of payment is specified and no address given, at the drawee's or acceptor's place of business if that is known; if not, at his ordinary residence; (iv) in any other case, to the drawee or acceptor wherever he can be found, or at his last known place of business or residence.
5. Where authorized by agreement or usage presentation through the post is sufficient.
6. If, after exercise of reasonable diligence in presentation at the proper place, no person can be found to give or refuse payment, further presentation is not required.
7. If no place of payment is specified in a bill that is drawn on or accepted by two or more persons not in partnership, presentation must be made to all.
8. When the drawee or acceptor is dead, and no place of payment is specified, presentation should be made to his personal representative, if such can be found.

By Section 46 delay in presentation for payment is excused if it is caused by circumstances beyond the holder's control, and if it does not arise from his fault; but when the cause of

delay ceases the bill must be presented with reasonable diligence. Moreover, presentation for payment is dispensed with—

1. When after exercise of reasonable diligence it cannot be effected; but reason to believe that the bill will be dishonoured does not dispense with presentation;
2. Where the drawee is a fictitious person,
3. By express or implied waiver of presentation;
4. On the part of the drawer, where the drawee or acceptor is not bound to pay the drawer, and the latter has no reason to believe the bill will be paid;
5. On the part of an indorser, where the bill was made or accepted for his accommodation, and he has no reason to believe it will be paid.

A bill is dishonoured by non-payment when on due presentation payment is refused or cannot be obtained, or when presentation for payment is excused and the bill is overdue and unpaid. When a bill is dishonoured by non-payment, the holder acquires a right of immediate recourse against the drawer and indorsers of the bill. (Sect. 47.) A bill, when presented for payment, should be exhibited to the person from whom payment is demanded. When paid it should be handed over to the party paying it. (Sect. 52.)

NOTICE OF DISHONOUR

Notice of the dishonour of a bill by non-acceptance or by non-payment must be given to the drawer and to every indorser whom it is intended to hold liable on the bill; but, if notice of dishonour by non-acceptance has been given, notice need not be given of dishonour on a subsequent presentation for payment. (Sect. 48.) To be valid, notice of dishonour, according to Section 49—

1 Must be given by or for the holder or an indorser who is liable on the bill;
2. May be given by an agent either in his own name or in that of any of the parties entitled to give notice;
3. May be given in writing or orally, and in any terms sufficient to identify the bill and intimate the dishonour return of the dishonoured bill to the drawer or to an indorser being sufficient notice;
4. May be given to the party entitled to it himself or to his agent; if the party is dead it should be given to his personal representative; if he is bankrupt, to the trustee;
5. Should be given to each of joint drawers or joint indorsers, unless one has authority to receive it for the others;
6. Must be given within reasonable time as defined by the section;

7. Should be given within a similar length of time by any party who receives notice to any previous party whom he desires to hold liable;

8. Is deemed to be duly given, if sent by post properly addressed, notwithstanding any miscarriage that may occur in the post.

The circumstances in which notice of dishonour is excused or dispensed with are given in Section 50, and are somewhat similar to those in which failure to present for acceptance or for payment is overlooked.

PROTEST ON DISHONOUR

Noting and protest are usually performed by a notary public appointed for this and similar purposes. Noting consists of the notary making a record in his register, as evidence of dishonour, after he has presented the dishonoured bill again. That is the first step towards the issue of a formal protest that can be produced as evidence in a foreign court. Rules governing noting and protest are stated in Section 51.

1. For a dishonoured inland bill neither noting nor protest is necessary in order to preserve the right of recourse against drawer and indorsers; but the holder may have dishonour by non-acceptance or by non-payment noted, if he so desires.

2. Dishonour of a foreign bill by either non-acceptance or non-payment should be protested, if drawer and indorsers are not to become discharged; but, when a foreign bill has already been protested for non-acceptance, protest for non-payment may not be required.

3. Should the acceptor of a bill become insolvent, the holder may have the bill protested for better security.

4. Protest of a bill is dispensed with, and delay in noting or protest is excused, in circumstances which dispense with or excuse notice of dishonour.

5. The form of protest must be signed by the notary and must contain a copy of the bill. It must specify the person for whom protest is made; it must state the place and date of protest, the reason for making protest, the demand made and the answer given, if any, or the fact that drawee or acceptor cannot be found.

6. The bill must be protested at the place of dishonour, unless it has been presented through the post and has been returned through the post on dishonour. Then it may be protested at the place to which it comes back.

By the Bills of Exchange (Time of Noting) Act, 1917, the time previously allowed for noting was altered, and now noting must be done not later than the business day next following

that of dishonour. Noting having been effected within the time required, protest when necessary may be completed at a later date. Section 52 of the 1882 Act provides that, unless the acceptor has expressly stipulated to the contrary, omission to present a bill cannot discharge him from liability upon it. Nor can he be discharged by omission to protest the bill or to notify him of dishonour. Section 57 gives the holder of a dishonoured bill the right to recover from any party liable the amount of the bill (or its equivalent at the rate of exchange then ruling), together with interest from the date when payment was due and expenses incurred in noting or protest.

INTERVENTION FOR HONOUR

When a bill of exchange has been *noted or protested for non-acceptance* or for better security, any person not already liable upon it may, with the holder's consent and before the bill is overdue, accept it for the honour of any party liable upon it, and for the whole or any portion of the amount. The acceptance for honour must be written and signed on the bill itself; and, if it does not state for whose honour it is made, it is deemed to be for the honour of the drawer. The date of maturity of a bill payable after sight and accepted for honour is calculated from the date of noting for non-acceptance. (Sect. 65.) An acceptor for honour *supra* protest undertakes to pay the bill on due presentation to him, provided it has first been duly presented to the drawee for payment, and has been protested for non-payment if the drawee has not paid. (Sect. 66.) Should an acceptor for honour fail to pay on due presentation to him, the bill should be protested again for non-payment on his part. (Sect. 67.)

When a bill has been *noted or protested for non-payment* any person may intervene and pay it for the honour of any party liable upon it. Payment for honour *supra* protest to operate as such, and not as a mere voluntary act, must be preceded by a declaration of intention to pay, made by the payer for honour or by his agent and stating for whose honour payment is being made, that declaration to be appended to the protest and attested by the notary. Payment for honour discharges all parties to the bill subsequent to the one for whose honour payment is made; and it gives the payer for honour all the rights

of the holder he has paid, as regards the party for whose honour he has paid and all preceding parties. The holder on receiving payment must hand over the bill and the protest to the payer or honour. (Sect. 68.)

LIABILITY OF PARTIES AND THEIR DISCHARGE

By accepting a bill the acceptor engages to pay it when it falls due, and he is precluded from denying to a holder in due course (1) the existence of the drawer, his capacity to draw the bill or the genuineness of his signature as drawer; (2) the existence of the payee or his capacity to indorse, but not the genuineness of his indorsement. (Sect. 54.)

By drawing a bill the drawer engages that on due presentation it shall be accepted and paid; also that if it should be dishonoured, he will pay the then holder or repay any indorser who has been compelled to pay the bill. He is precluded from denying to a holder in due course the existence or capacity to indorse of the payee. (Sect. 55.)

Similarly, *by indorsing a bill* the indorser engages that on due presentation it shall be accepted and paid; also that, if it should be dishonoured, he will pay the holder or repay any indorser subsequent to himself who has been compelled to pay the bill. He is precluded from denying to a holder in due course the genuineness and regularity of the signature of the drawer and of each indorser previous to himself. To his immediate or any subsequent indorsee he is precluded from denying the validity of the bill or of his title to it when he indorsed it. (Sect. 55.) Anyone signing a bill otherwise than as drawer or acceptor incurs to a holder in due course the liability of an indorser. (Sect. 56.)

When a bill payable to bearer is negotiated without being indorsed, the "transferor by delivery" does not thereby become liable on the bill itself as an indorser would; but he does become liable to his immediate transferee on an implied warranty that the bill is what it purports to be, that he has a good title to it, and that he does not know of any fact rendering it valueless. (Sect. 58.) In Chapter 15 we saw that similar warranties are implied in a sale of goods.

A bill is discharged by payment in due course made by or on behalf of the drawee or acceptor. It is not discharged, however,

on payment by the drawer or an indorser, for the drawer or indorser who pays can enforce repayment to himself by the acceptor or by any party to the bill previous to himself. (Sect. 59.) A bill is also discharged if the holder or his agent intentionally cancels it (Sect. 63), or if the holder gives a written renunciation of his rights against the acceptor. The holder may in like manner renounce his rights against any party on the bill. (Sect. 62.)

When the holder of a bill loses it before it is overdue he can require the drawer to supply him in its place with another bill of the same tenor; but the drawer may insist in return on the holder giving him an indemnity against the risk of the old bill turning up again for payment. (Sect. 69.)

BANK CHEQUES AND CROSSINGS

When the banker on whom a cheque is drawn pays it in good faith and in the ordinary course of business, he is deemed to pay the cheque in due course, although the payee's supposed indorsement or any subsequent indorsement is, in fact, forged or made without authority. (Sect. 60.) That relieves the paying banker of responsibility in regard to the genuinenesss of indorsements on cheques, but not of the duty to see that all indorsements are regular in form, as explained in Chapter 26. It should be noted that this protection is given to the paying bank only, and only in regard to indorsement. If the bank pays a cheque on which the drawer's signature is a forgery, the bank must usually bear the loss.

When the paying banker pays a cheque with a general crossing otherwise than to a banker, or pays a cheque with a special crossing otherwise than to the banker named in the crossing or his agent for collection, the paying banker becomes liable to the true owner of the cheque for any loss the true owner may sustain in consequence. Should a cheque be crossed specially to two collecting banks, the paying banker must refuse payment under the same liability, unless the additional crossing is one made to the collecting agent of the bank named in the first crossing. (Sect. 79.)

When the banker on whom a crossed cheque is drawn pays the cheque in good faith, without negligence, and in accordance with the crossing, the paying banker and the drawer also (if

his cheque has reached the payee) shall be placed in the same position as if payment has been made to the true owner. (Sect. 80.)

The effect of the words "not negotiable" added to a crossing is stated in Section 81, which says that a person who takes a crossed cheque bearing these words "shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had."

When a banker in good faith and without negligence receives payment for a customer of a cheque crossed generally or specially to himself, the banker shall not incur any liability to the true owner of the cheque by reason only of having received the payment for the customer. (Sect. 82.) The Bills of Exchange (Crossed Cheques) Act, 1906, gives the collecting banker this protection against any defect in his customer's title, although he has credited his customer's account with the cheque before receiving payment of it.

The provisions regarding crossings do not apply to any bills of exchange other than cheques. Section 95, however, extends them to dividend warrants not in the form of a cheque, and the Bills of Exchange Act (1882) Amendment Act, 1932, makes them applicable to a bank draft payable on demand by an office of the drawing bank. By Section 17 of the Revenue Act, 1883, they are also applicable to any document issued by a bank customer to enable any person to obtain payment from the bank of the sum the document names.

PROMISSORY NOTES

By Section 83 a promissory note is defined as—

> An unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer.

Every promissory note is incomplete until it has been delivered to the payee or the bearer; and any note may contain, in addition to the promise, a pledge of security for payment. Two or more persons may join in the making of a note, and they will be liable upon it either jointly or jointly and severally, according to its tenor. If a note reads "I promise to

pay, etc.," and is signed by two or more persons, their liability is joint and several. (Sects. 83–5.)

Should a note payable on demand be indorsed to a new holder, it must be presented for payment within what in the circumstances is a reasonable time. If not, the indorser is discharged; but the rights of the holder are not otherwise affected by the delay. Presentation for payment is not necessary in order to keep the maker liable, unless the note stipulates for presentation at a particular place. A note which has been indorsed must, however, be presented for payment to make the indorser liable. In applying the provisions regarding bills of exchange to promissory notes the maker of a note is deemed to correspond to the acceptor of a bill, and the first indorser of a note to the drawer of an accepted bill payable to his order. As it is the maker of a note that engages to pay, a promissory note does not need to be accepted, and the rules about acceptance of bills do not, therefore, apply. (Sects. 86–9.)

QUESTIONS

1. Give the statutory definition of a bill of exchange. State what provisions the Bills of Exchange Act, 1882, contains about the dating of a bill and of the acceptance.

2. If a form of a bill or cheque were given to you by the drawer, signed by him, but with the spaces for payee's name and amount left blank, what would be the legal position between you and the drawer in regard to the blanks?

Name a common example of a draft in which drawer and drawee are the same. State whether or not you consider the example to be a bill of exchange. Say what provisions the Bills of Exchange Act, 1882, makes about such a draft.

3. What rules are laid down in the Bills of Exchange Act, 1882, about certainty in regard to the drawee, the payee, the amount, and time for payment of any bill?

If a person who has not power to contract on a bill of exchange draws or indorses a bill and negotiates it, what is the position of the party to whom he negotiates the bill in regard to obtaining payment of it?

4. Explain how the date of payment is computed in this country on a bill of exchange payable at a stated period after date or sight.

5. What is meant by "acceptance" of a bill of exchange?

What forms may a general acceptance take and when does acceptance become effectual? Name three different stages other than the usual time in the duration of a bill of exchange, at which acceptance may be given.

6. Say what you understand by "qualified" acceptance. Name and describe four different classes of qualified acceptance.

7. Explain carefully the effect of qualified acceptance on the rights and liabilities of the various parties to a bill of exchange.

8. Is the drawee of a bill of exchange bound to accept it?

Can anyone be made liable on a bill of exchange before he signs it? What is the position of a person who, in placing a signature on a bill of exchange, uses an assumed name?

In what form or forms should the signature of a partnership be placed on a bill of exchange? Can a person, as distinct from a firm or company, sign a bill of exchange otherwise than by his own hand; and if so, what form or forms may such a signature take?

9. Show an example of the acceptance of a bill of exchange signed by procuration for a firm, and one signed for a company by a director and the secretary. Show, also, an example of a signature in which the writer describes himself as director of a company and intends by it to make the company liable on a bill of exchange, the signature, however, being such as may make the director liable instead of the company.

10. What precisely is the effect of the forgery of a signature on a bill of exchange, and what redress, if any, can a person obtain who becomes a party to the bill after the forgery?

11. Name three examples of "material alteration" on a bill of exchange, and explain clearly what effect material alteration has.

12. Define "holder in due course," and explain the position such a holder occupies as a party to a bill of exchange. What constitutes good consideration for the giving of a bill of exchange, and when is it necessary or not necessary to show that value has been given for a bill?

13. What is an "accommodation bill," and for what purpose is such a bill given? What are the liabilities between themselves and to other parties of the persons who give and receive a bill by way of accommodation?

14. What is meant by the "negotiation" of a bill of exchange, and in what different ways can bills of exchange be negotiated? What is a blank indorsement and what is a special indorsement?

15. What requisites of indorsement does the Bills of Exchange Act, 1882, prescribe?

16. What is meant by the indorsement of a bill of exchange being (*a*) restrictive, (*b*) conditional, (*c*) partial, (*d*) qualified, and (*e*) facultative?

17. When is a bill that is payable on demand deemed to be overdue? How are the rights of a person affected who takes a bill knowing it to be overdue or to have been dishonoured?

18. When is it necessary for a bill of exchange to be presented for acceptance? When and how does delay in presentation for acceptance affect the holder's rights?

19. State what you know concerning the regulations given in the Bills of Exchange Act, 1882, about how presentation for acceptance is to be effected, and about when it is excused.

20. When is a bill of exchange dishonoured by non-acceptance? What is the result of dishonour by non-acceptance, and what are the holder's duties in that event?

21. State what you know concerning the regulations given in the Bills of Exchange Act, 1882, about how presentation for payment is to be effected, and about when it is excused.

22. When is a bill of exchange dishonoured by non-payment? What is the result of dishonour by non-payment, and what are the holder's duties in that event?

23. State what you know concerning the regulations given in the Bills of Exchange Act, 1882, about notice of dishonour.

24. Describe the procedure of noting and of protesting a bill of exchange. What purpose do they serve, and in what circumstances are they necessary?

25. What are the rules about the time when a dishonoured bill should be noted, and about the place where noting should be effected? What sum or sums is the holder of a dishonoured bill entitled to recover, and from whom?

26. What do you understand by "intervention for honour" in connexion with a bill of exchange? In what circumstances and after what formalities may it take place? What rights are acquired by the party intervening for honour?

27. What liabilities do the drawer, the acceptor, and an indorser of a bill of exchange respectively undertake? What is a "transferor by delivery," and what liability does he incur?

28. In what different ways may the liability on a bill of exchange of all or of any one of the parties be discharged? What is the position of (*a*) an indorser who has passed to a subsequent party a bill since dishonoured, (*b*) the "holder" of a bill that has been lost or destroyed?

29. What protection does Section 60 of the Bills of Exchange Act, 1882, give to a banker in paying a cheque drawn upon him, and on what conditions is the protection given?

30. What is the position of a banker who pays a crossed cheque otherwise than in accordance with the crossing? What is the rule about a cheque that bears two crossings to different banks?

31. What protection is given by Section 80 of the Bills of Exchange Act, 1882, and on what conditions is it given, to a banker who pays a crossed cheque, and to the drawer of such a cheque?

32. What protection do the Bills of Exchange Acts give to a banker who collects a crossed cheque for a customer whose title to the cheque turns out to be defective?

33. To what documents besides cheques do the statutory regulations about crossings apply? How may the words "not negotiable" be used on a cheque, and what exactly is their effect when they are used as permitted?

34. Give the statutory definition of a promissory note. State what a note may contain in addition to the promise of payment; also what is meant by a note being "joint and several."

35. What rules apply to a promissory note in regard to the necessity or otherwise of presenting it for payment, and what consequences may arise from failure to present it for payment? With what modifications do the statutory provisions regarding bills of exchange become applicable to promissory notes?

SECTION VI—FOREIGN TRADE

CHAPTER 30

DEALING WITH IMPORTED GOODS

SOME countries are engaged mostly in growing commodities such as wheat and timber and rubber, or in rearing live stock for beef or mutton or wool. Other countries, like our own, are largely engaged in manufacturing from natural materials such goods as textiles and clothing, or bars of iron and steel and machines of various kinds. Some countries, again, supply cultivated products like oranges and cotton, which we cannot grow; and some work ores and minerals, like tin and oil or gold and diamonds, of which we have either no native supply or only an inadequate one. Countries with little mechanical industry need the manufactures of our mills and workshops; and we want to sell to them the excess we can produce but will not use. With insufficient resources of our own we need part of the excess of food and raw materials that other countries produce, and they are wishful that we should buy some of their surplus from them. Out of such reciprocal needs and desires trade between the nations has developed and is maintained.

MATTERS DEALT WITH ELSEWHERE

In Chapter 2 a list was given of the chief kinds of foodstuffs we import and of the quantities we take. The manner of preparing foreign supplies of mutton and of wheat, of organizing their sale, and of transporting them to our market, was dealt with there in some detail. Competition of these imported foods with our home-grown supplies was discussed. In Chapter 3 a list was shown of the kinds of raw materials we import, and of a year's total values. The sources of those foreign products were indicated, and the marketing organization here and abroad for raw cotton and raw wool was described at some length. Communication with other countries by letter, telegraph and telephone, and by sea and air was referred to in Chapter 17. The form and the handling of bills of exchange,

by means of which payment of foreign goods is customarily made, have been explained in Chapter 28. In the same place circumstances in which the use of foreign bills arises have been described, together with variations in the manner of collecting payment of the bills or obtaining advances upon them.

Chapter 34 will give some further description of banking facilities for the sending of payments abroad. It will describe how foreign money, for the balance only between collections and payments it has to make, is bought or sold by each bank in the Foreign Exchange Market in London. That chapter will also explain how, when the total of collections and the total of payments cannot be matched in the Market, except at unacceptable rates, only the excess on one side or the other is paid or received by the banks in bullion or specie. It will show, further, how importers can protect themselves against the risk of rates rising against them in the meantime, and can buy beforehand "forward exchange" for payments they contract to make in the future. Chapter 36 will describe the organization existing in London for discounting bills of exchange, and for holding them until they mature; also the relation of the banks—home, Dominion, and foreign—to the discount or bill market and to international trade.

CUSTOMS REGULATIONS

His Majesty's Custom House, headquarters of the Customs and Excise Department of the Government, is situated in Lower Thames Street, London; but the Department has many other offices in London, in the ports around our coasts, and in inland towns. Customs offices are maintained by the Government for two main purposes. The first is the collection of duties levied on all imports not admitted into this country duty free, together with the repayment of duty when "drawback" can be claimed. The second main purpose is the continuous compilation and publication of statistics of the quantities and values, the sources and destinations, of all goods passing through our ports, and of the ships that carry the goods. On the Customs staffs there also devolves the work of seeing that shipowners and merchants observe a number of formalities made compulsory by the Merchant Shipping Acts, the Food and Drug Acts, the Merchandise Marks Acts, the Aliens Acts, and other statutes.

Excise duties, or those levied on home products such as alcoholic liquors or artificial silk, come under the surveillance of the same department. Some duties are levied with the object of raising revenue to meet Government expenditure. But many customs duties have been imposed in recent years for the protection of our home manufactures from detrimental competition by foreign-made goods. Some, again, are *specific* duties, charged on the goods at so much per unit of weight or measurement; whilst others are *ad valorem* duties, charged as a percentage of the value of the goods, including the freight charge for bringing them and the cost of insuring them on the way. A classification of all goods liable to British customs duty is published in the *Import and Export List*, or in the *Customs and Excise Tariff*, and descriptions of goods for customs purposes should agree with those given in the official classification.

CLEARING IMPORTED GOODS

Ship's Report. Within twenty-four hours of the arrival in any of our ports of a ship from abroad, a Ship's Report in the prescribed form must be lodged at the Custom House. This report states whence the vessel has come, and gives particulars of the ship, cargo, dutiable stores, passengers, and crew. It contains a declaration of its truth signed by the captain or by an officer to whom the captain has delegated the duty of making the report. It must show the numbers and marks of all packages carried, the kinds of goods they contain, descriptions of cargo carried loose, and the names of all consignees. Particulars of the cargo are taken from the ship's Manifest which is a summary of the bills of lading issued at the port of departure to the shippers of the goods. The Customs give the report a rotation number, such as $\frac{39}{876}$, the top figures indicating the year and the lower ones the particular entry in that year. Subsequent documents submitted in relation to the entry or to any part of the cargo it covers should bear the rotation number.

Customs Entry. Within fourteen days of arrival each consignee of cargo or his authorized agent must make a signed Customs Entry, giving in the required form full details of the goods arriving for him. These Customs Entries and the Ship's Report are checked the one against the other. One copy of

H.M. CUSTOMS AND EXCISE

Port of Importation .... No. 107 (SALE)

ENTRY FOR HOME USE EX-SHIP OF GOODS LIABLE TO ANY AD VALOREM DUTY(a)

Name and Full Address of

Importer (b) ...
(IN BLOCK CAPITAL LETTERS)

Merchant paying the duty ...

Consignor (b) ...
(IN BLOCK CAPITAL LETTERS)

Dock or Wharf of Discharge ... Place of Examination ...

Class and Group (I. and E. List)

Collector's No. and Date

DUTY PAID

Cashier

Passed for Payment	Initials
£ : :	

Ship's Name	Ship's Nationality (c)	Date of Report	Ship's Rotn. No	Rate of Exchange	Port for Place of Foreign Loading

Marks and Numbers	Number of Packages	For Official Purposes Only	Quantity in Words and Description of Goods in accordance with Requirements set out in Note (d)	Name of Country		Net Quantity of Goods in Figures	Value (g)			Duty							
				Whence Goods Consigned (e)	of Origin (f)					Rate	Amount						
											Ad Valorem			Specific (h)			
1	2	3	4	5	6	7	8			9	10			11			
							£	s.	d.		£	s.	d.	£	s.	d.	

Previous Prime Entry (if any)

No. Date

Total Amount of Duty Payable .. £ : :

51—(B.337)

NOTICE

Under the Customs Law a penalty is incurred by any person who makes and subscribes or causes to be made and subscribed any false declaration in any matter relating to the Customs

(1) Name of Importer or Agents (1)
(2) Place of business
(3) Delete the words inapplicable
(4) Value in words at length.

FOR NOTES (a) to (i) SEE BACK OF FORM

DECLARATION as to Quantity, Description, Value, and other particulars

I (1) . . . . . of (2) . . . . .

do hereby declare that I am the (3) *Importer or duly authorized Agent of* . . . . . *who is the Importer* of the goods contained in this bill of entry and that I enter the goods therein stated as goods charged at value at the sum of (4) . . . . . .

. . . . . .

and I further declare that the quantity, description, value, and other particulars above stated are true and complete

Dated day of . 19

(Signed) . . . . . .

Importer or Agent (2)

	Initials
Authority verified .	.
C105 compared . . .	.
Values Slip, etc , compared .	. .
Calculations checked	....

Allocation of Duty

Class (Form 394)	Amount

FOR OFFICIAL USE ONLY (Long Room)

For deposit other than G.O 12/30

Amount of Deposit £ : :

No. and Date

Cashier

GOODS LIABLE TO ANY DUTY AD VALOREM

SPECIAL NOTE. Importers are advised in their own interests to read carefully this form and the notes thereto before giving their Certificate. Under Section 168 of the Customs Consolidation Act, 1876, as amended by Section 16 of the Finance (No. 2) Act, 1915, any person making or subscribing or causing to be made or subscribed any false declaration in any matter relating to the Customs is liable to a Penalty of £500, or to two years' imprisonment with or without hard labour for each offence.

CERTIFICATE A

DECLARATION TO BE MADE BY OR ON BEHALF OF AN INDEPENDENT IMPORTER IN THE CASE OF GOODS IMPORTED ON PURCHASE OUTRIGHT (SEE NOTE (4))

Here insert full name of signatory.

I . . . . . hereby declare that I am

Delete whichever is inapplicable. See note (2) below.

(1) the importer
(ii) the .. of .. who is/are the importer(s)

Insert number of invoices.

of the goods specified in the attached invoice(s) dated and amounting to . and I further declare

In the case of commodities which are sold and resold prior to importation the declaration in par. (1) should be amplified by the addition of the words "and that the price shown is the ultimate c.i.f. price, i.e. the last c.i.f. price prior to importation.

(1) that the importer(s) has/have purchased the goods outright from who is/are the vendor(s) for the total amount shown on the said invoice(s) and that no further payment either direct or indirect, with the exception of the charges shown below, has been or will be made by me/the importer(s) in respect of the goods,

Delete the sections inapplicable. See Note (3).

(2) that any *sterling amount* shown in the invoice(s) is payable
(i) in sterling,
(ii) in foreign currency, viz converted at current rate of exchange;
(iii) in foreign currency, viz. converted at the fixed rate of to the £1;
(iv) on a gold basis, viz.

and that this amount is not otherwise subject to adjustment on account of fluctuations in the rate of exchange except as follows:

Delete the sections inapplicable. See Note (3).

(3) that any *foreign currency amount* shown in the invoice(s) is payable
(i) in foreign currency as invoiced;
(ii) in sterling converted at current rate of exchange;
(iii) in sterling converted at the fixed rate of to the £1;

(iv) on a gold basis, viz

and that this amount is not otherwise subject to adjustment on account of fluctuations in the rate of exchange except as follows . . . . . .

(4) that in addition to the sum stated above the following charges are payable by the importer(s), viz.—

Delete the sections inapplicable. Insert "None" if all are deleted. See Note (3)

(i) commission at per cent (or similar remuneration) payable to
(ii) foreign imposts, e g excise duties or octroi,
(iii) packing,
(iv) inspection fees;
(v) carriage to port of shipment,
(vi) loading charges,
(vii) freight,
(viii) insurance,
(ix) unloading charges;
(x) royalty,
(xi) other charges incidental to the purchase and importation of the goods, viz . . . . . .

Delete if inapplicable See Note (3)

(5) that the sum stated is exclusive of Customs duty;

(6) that to the best of my knowledge and belief no person participating in the control of the vendor's business or holding shares therein also participates in the control of the importer's business or holds shares therein and that no part of the profits on the sale of the goods in this country after importation will accrue either directly or indirectly to the vendor or to any person participating in the control of the vendor's business.

Signed . . .

Date . . . . . .

NOTES

(1) Failure duly to deliver a certificate on Form C105 to the Collector at the port of importation renders the importer liable to a penalty of £50.

(2) Declarations may be made—
(a) by the actual importer if an individual;
(b) in the case of a private company or firm, by one of the partners,
(c) in the case of any other company, by a director or by the secretary,
(d) by any employee duly authorized in writing by one of the aforementioned persons

(3) Unless all deletions are initialed by the signatory, the certificate will not be accepted. Deletions of two or more lines may be in the form Z with the initials at each end of the deletion. Persons other than the signatory are warned that by tampering with the form after signature they may render themselves liable to heavy penalties.

(4) Any importer whose business is wholly or partly under the same control as that of the consignor whether by common directorate, shareholding, or otherwise, or whose relations with the consignor are not solely those of buyer and seller, is regarded as associated with the consignor and must not sign certificate A. The nature of the association should be briefly stated in paragraph 1 of certificate B

each Customs Entry, known as the "bill," goes to the Statistical Office for record purpose; another copy, known as the "warrant," is handed on to the examining officer, who passes the goods if they correspond to the particulars in the entry form. Different forms of entry are required in different circumstances. One form, *Entry for Free Goods*, is for goods that are admitted duty free; a second, *Entry for Home Use ex Ship*, shown on pages 480–1, is one for dutiable goods the importer intends to clear through the Customs at once; a third, *Entry for Warehousing*, is for dutiable goods to be warehoused until the duty is paid at some future time and delivery then claimed. Customs entry of goods liable to *ad valorem* duty must be accompanied by a declaration (Form C105, pages 482–3) made by the importer or a partner in the importing firm, or by a director or the secretary of the importing company, or by an employee authorized in writing. The declaration certifies the amount to be paid to the vendor as substantiated by an original copy of his invoice, the rate of exchange or other basis on which payment is to be made, and whether any additional charges are to be borne by the importer. Other formalities of clearing imports may be carried through by the importer himself, or by a transport company or other agent to whom he has given written authority.

Goods in Bond. At all the large ports warehouses suitable for storing wines, spirits, tobacco, tea, sugar, coffee, and other dutiable commodities, or some of them, have been approved by the Customs Authorities. They are used for the warehousing of such goods when the importers desire to postpone payment of duty, often of large amount, until they can make arrangements for selling the goods. These warehouses in which merchandise is held for payment of duty are controlled by the Customs, under their own locks when the warehouses areclosed, and by their own officers in attendance when they are open. They are called Bonded Warehouses, because the proprietors of them have been required by the Customs to enter into bonds as security for the goods being held safely against payment of the duty. The goods are stored under warehousing numbers, with the rotation number of the importing ship, and are marked with their weights or quantities. The importers of the goods may take delivery of parts of consignments held in

their names by paying duty on the quantities they require, and obtaining orders from the Customs for delivery of these by the warehouses. For the further convenience of importers the taking of samples, or operations such as blending and bottling, may be carried out by arrangement while the goods are in bond. Rent is, of course, charged by the warehouse proprietor for the storage of the goods and for any other accommodation given.

Incorrect Description. Customs officers have the right to extract from imported packages sample quantities or articles for examination and for ascertainment of the correct duty payable. Goods incorrectly invoiced by the suppliers abroad may be seized by the Customs, and either released on payment of the proper duty and probably a penalty in addition, or sent to the "King's Warehouse" to be sold. Penalties will certainly be imposed on importers when it is found that they have intentionally entered goods by incorrect descriptions with the view of escaping duty. If, for want of a sufficiently detailed invoice, the importer is unable to give a correct description, he should enter the goods by what is called a *Bill of Sight*, giving such information as he possesses. After the Customs have examined the goods the entry can be perfected and the correct duty paid. Goods on which the duty cannot be collected are held in the King's Warehouse for a month, and are then sold as forfeited.

Drawback. When goods on which customs or excise duty has been paid are afterwards exported, drawback of the duty may be claimed; but notice of intention to export must be given on a *Notice to Pack and Shipping Bill*, so that the goods can first be examined by a Customs officer. A bond must also be given by the exporter for due completion of the shipment. Parcels arriving by post and by air are likewise subject to customs regulations.

SHIPOWNER AND DOCK AUTHORITY

Two parties besides the Customs have to be satisfied before imported goods can be removed out of their control. They are the shipowner and the dock authority. The shipowner requires payment of the freight (which is his charge for carrying the goods by ship) unless it was paid beforehand by the sender.

The dock authority has dues to collect for the use of the docks, charges for handling the goods when they are landed, and rent for storing them for a time if that should be necessary before they can be taken away. Both shipowner and dock authority have a lien on the goods for the amount of their charges; and, unless the person claiming the goods has arranged for a credit account, they will not be released until the charges have been paid. As regards the shipowner *release of the bill of lading* is given at his office in the port of discharge or at the office of his agents there. It takes the form either of a delivery indorsement on the bill of lading itself, or of a separate delivery order to the dock. Possession of the goods cannot be obtained without surrender of the released bill of lading—or, perhaps, of an acceptable indemnity should the bill of lading have gone astray. The reason is that the bill of lading carries the title to the goods, its transfer from one party to another transferring the right to claim them.

The shipowner's release should be presented at the dock office, as it gives permission for the goods to be handed over. Before parting with them, however, the dock office will either collect what charges are due, or satisfy itself about their future payment. The consignee should *arrange for the removal of the goods*, giving instructions about their disposal—whether they are to be delivered to his own or another address in the port of arrival, to be dispatched by rail or road to an inland town, to be taken by barge to some other dock or wharf, or to be warehoused until later delivery is required. Parcels from Continental countries are commonly collected there by one of the many transport agencies handling such traffic, and are sent in bulk with other collections to the care of the agency's office at this end. The office here then sees to the Customs requirements, release of the goods from shipowner and dock, and delivery to the addressee. In other cases, if delivery instructions are sent to the shipowner's office, along with the surrendered bill of lading duly indorsed by the consignee, the instructions will be passed on to carting agent or railway company, all charges being collected on final delivery or debited to the consignee's account.

When goods are to be warehoused for the consignee he should obtain a *Dock or Warehouse Warrant* for them. This warrant,

like a bill of lading, is a document of title that may be transferred from one holder to another. It must be given up when full delivery is required, or be handed back to be marked with the quantity delivered when only part delivery is taken. The warehouse may be one belonging to the dock authority, or it may be the property of a separate company; but in either case rent is chargeable at a fixed rate for the time the goods are stored, and the owner of the goods should see that they are covered by fire insurance. A *Landing Account* made by the dock or wharf proprietors shows when and from what ship the goods were landed. It gives a description of the goods, the weights or quantities and the numbers and marks of the packages. Should any arrive damaged the landing account states which they are, and the dock survey officer gives a certificate of the extent of the damage. The certificate serves as a basis for a claim under the policy by which the articles were insured during transit.

IMPORTS AGAINST PURCHASERS' ORDERS

Many of the goods that arrive here from abroad have not yet been purchased by anyone in this country. They are sent here for sale by methods we shall mention soon. For the present we deal with imports arriving in execution of orders received by the foreign suppliers before they shipped the goods. Some of these orders are given here on samples shown here by selling agents of foreign manufacturers. But others of the orders are given abroad by British buyers visiting the business premises of the foreign suppliers; and others again are sent through the post on samples and prices submitted here by post. On the following pages we present seven examples of invoices relating to imports, coming here from as many different countries, in fulfilment of purchasers' orders. In all but the last example fictitious names have been substituted for the actual ones.

Example No. 1 is for one bale containing 10 pieces of furnishing fabric manufactured at Osnabrück in Germany. As stated on the invoice, the price charged included the cost of transport and the British import duty, the bale having been delivered free in London. Being all cotton, these goods were subject to duty at the rate of 20 per cent of their imported value, including cost of transport but excluding Customs duty. One

Import Invoice No. 1

ADOLF SCHMIDT A.G.

OSNABRÜCK, den 13 April, 19..

RECHNUNG

FIRMA: Fearnley, Sanderson & Co., Ltd.,
St. Paul's Churchyard,
London, E.C.4.

Sent through N.V. Expeditie Onderneerning van Gend & Loos, Vlissingen.

	Stück		Yards	Preis	£	s.	d.
		O/M 4342					
FS & C London 5163	10	47-in. Fadeless Furnishing Fabric, No. 87 Design No 10 .	692½	10½	30	5	11
One bale		Gross weight 156 kg. Net weight 152 kg					
		All cotton, foreign manufacture.					
		The above price includes the cost of carriage and import duty.					

TERMS: Free London warehouse, duty paid.
Prompt cash 7–10 days, less 3¾% discount.

Adolf Schmidt A.G.
M. Kleinert.

of two invoices exhibited to the Customs was returned with a rubber stamp indorsement, showing the ship's name and the date of the ship's report. It also showed the value for duty as £24 6s., and the duty payable as £4 17s. 2d., i.e. $\frac{5}{8}$ths and $\frac{1}{8}$th respectively of the amount of the invoice after deducting the prompt cash discount of 3¾ per cent. It will be noticed from the invoice that the bale was forwarded through Gend & Loos at Flushing. They, in turn, consigned it via Harwich to the care of the British Commercial Transport Co., Ltd., of London, who cleared the goods and had them delivered to the purchasers.

The clearing agents here would pay the import duty and claim the payment back through their correspondents from the German manufacturer. On the face of the invoice returned from the Customs (from which this specimen has been copied) there appears a small stamp impression made by the Customs Office at Parkeston Quay, Harwich, which gives the date when the duty was paid there and the serial number of the payment. Settlement of the manufacturer's invoice was effected by the purchasers' own cheque drawn on their bank in London in favour of Adolf Schmidt A.G., and posted direct to Osnabrück. The cheque was presented for payment by the Bank of England, to whom it had been remitted after indorsement by Schmidts to the Reichsbank-direktorium, Berlin, and by them to the Bank of England.

Example No. 2 is an invoice for two bales, Nos. 6 and 7, of cotton sheeting from Holland. Like our previous example, this one shows the marks on the bales; also, as every shipping invoice should, it shows what each bale contains. These goods were shipped to London, where customs formalities and delivery arrangements were attended to by the British & Foreign Maritime Agencies, Ltd. Here again, as is usual with goods sold by Continental manufacturers' agents in this country, the prices charged cover free delivery and customs duty. The clearing agents paid to the Customs Office at Adelaide House, E.C.4, £7 16s. 8d. for duty calculated at 20 per cent of $\frac{5}{6}$ths of the amount of the invoice after deduction of 9s. 1d. (charges for handling the bales in London) included in the price but not subject to duty. In this instance, by the suppliers' instructions, payment was made to B. W. Blijdenstein & Co.'s bank in London, either for credit of the suppliers' account at that bank or for transfer to their account at Enschede.

Example No. 3. This invoice is one from Hronov (in pre-war Czechoslovakia) for goods bought on terms similar to those of the two preceding examples as regards duty, free delivery, and discount. In this case, however, the material consists of artificial silk and cotton in the proportions named on the invoice. For that reason the rate of duty payable is either 5s. for each pound weight of artificial silk the material contains or 43⅓ per cent of the total value of the purchase, whichever is the greater. The cheque drawn on a London bank that was

Import Invoice No. 2

Telegram Adres:
PIETERZON
ENSCHEDE

Bankers:
TWENTSCHE BANK N.V.
AMSTERDAM & ENSCHEDE

ENSCHEDE,
Holland, 21st May, 19..

Messrs.
Fearnley, Sanderson & Co., Ltd.,
St. Paul's Churchyard,
London, E.C.4.

Debet aan H. G. PIETERS & ZONEN N.V.

For goods sold to yourselves, carriage and duty paid to London domicile; payment, prompt cash less 3¾ per cent discount.

		£ s d
FSC London 6/7	2 Bales containing— 18 pieces White Sheetings 803 70/1 in. × 60 yards	
Made in Holland	Bale 6: 2/58, 2/56, 1/61, 4/60, 1/59½ ,, 7: 1/33, 5/60, 1/53, 1/54½ 1029 yards at 11½d. per yard . . .	49 6 2
	3¾% discount	1 17 0
	E & O E	47 9 2

	Bale 6	Bale 7
Gross weight . . .	169 kg	126 kg.
Net weight . . .	161 kg	119 kg.
Measurements . . .	74 × 51 × 72 cm	51 × 40 × 109 cm.

Import Invoice No. 3

JOSEF & KAREL JELINEK

Weaving, Dyeing, Bleaching, Finishing

Messrs. HRONOV,
Fearnley, Sanderson & Co , Ltd., Czechoslovakia,
London 10th September, 19..

For the undermentioned goods sent on your order and for your account and risk by mediation of

Messrs Alfred Deutsch & Co , Reichenberg

one bale FS & C 1279 insured, forwarded free to your address, St. Paul's Churchyard, London, E C.4, duty paid.

TERMS: Price in British currency, payable less 3¾ per cent discount within 7 days.

	Yards	Price	Pounds Sterling
			£ s d
Gr W. 89 kos, Bale No 1279			
Meas. 97 × 88 × 62 cm.			
Kilos Net 80 300 Net Net 77·780			
18–90 cm Argentina 6519			
6032—20 7, 21·3 m 22·6, 23 2 y			
6041—22·3, 22 1 m 24 4, 24·2 y			
6042—21 8, 22 0 m 23 8, 24 0 y			
4024—20 0, 19 3 m 21 8, 21 1 y			
3008—21 0, 20 0 m 22 9, 21 8 y			
3009—21·0, 16·4 m 22·9, 17·9 y			
5024—23 5, 18·5 m 25 7, 20 2 y			
5033—21·3, 21 0 m 23·2, 22 9 y			
1000—20 5, 21·9 m 22 4, 23 9 y			
408 9 yds			
Comp 2·1 yds			
	406 8	2/6	50 17 0
Less 3¾% discount			1 18 2
British £			48 18 10

The duty is included in the above invoice price.
Weight per sq metre = 231 grams } 41½ per cent artificial silk.
Number of threads per sq cm. = 77·6 } 58½ per cent cotton.

sent to Hronov in payment of the goods was indorsed by the payees to the Böhmischen Union Bank, Prag, and remitted by that bank, with a guarantee of the payees' indorsement, to the Midland Bank, Overseas Branch, London, for collection.

Examples 4 and 5. In these two examples the goods were bought at prices expressed in foreign currency. The amount of van de Wiele's goods, charged in Belgian francs, was remitted by a cheque on Brussels obtained from a London foreign banking house. At the time of payment the rate of exchange was 28·60 belgas to the pound. As a belga equals five Belgian francs, the sterling cost of the draft was £50 19s. 3d. The invoice of Dupont & Lecroix was paid similarly by London banker's cheque on Paris obtained from them at the rate of 178 French francs to the pound, making the sterling equivalent £16 15s. 9d. The purchasers paid for these foreign drafts by cheques on their own banking account in London.

The Belgian goods came by the John Cockerill Line from Ostend, clearing of the goods through the Customs being effected by the shipowner's office at Tilbury Dock. The two parcels for the Calais invoice were cleared through the Customs at Dover by Hernu, Peron & Stockwell, Ltd., London. In both of these transactions the import duty and the transport charges were payable by the purchasers, to whom the accounts for duty, freight, and other charges were rendered by the Cockerill Line in the first example and by Hernu, Peron in the second. Duty on van de Wiele's goods was levied at 30 per cent *ad valorem*, the rate applicable to curtains made of cotton lace. The Customs converted the invoice amount at the exchange rate of 29 belgas to the pound, and added 12s. for freight payable in addition, so making the sterling value for duty £50 17s. 3d. and the amount of the duty £15 5s. 1d.

The invoice of Dupont & Lecroix was also for lace curtains; but, as the invoice shows, their composition was partly cotton and partly rayon or artificial silk. The proportion of 6·020 kilograms of rayon to 12·380 kilograms of cotton made them subject to the same alternative rates of duty as the goods in Example No. 3. The Customs added to the invoice amount 70 francs for freight, and converted the total at the exchange rate of 178⅛, giving the value for duty as £17 1s. 9d. In this case they appear to have had each lot of goods weighed

Import Invoice No. 4

HUIS VAN DE WIELE

Manufacturen van Kanten

Telegrafisch adres
WIELE KANTEN
ZWEVEZELE

Telefoon
ZWEVEZELE 173

ZWEVEZELE, den 1 September, 19..

Messrs. Fearnley, Sanderson & Co., Ltd.,
St. Paul's Churchyard,
London, E.C.4.

O/933							Francs
5374,	56·00 m.	Store filet coton frangé à			16·00		896·00
5722,	54·20 m	,,	,,	,,	,, 16 00		867·20
5562,	55 00 m	,,	,,	,,	,, 16·00		880·00
5563,	33·80 m						
	30·40 m.	64·20	,,	,,	,, 24·00		1540 80
5718,	53·50 m						
	28·00 m	81 50	,,	,,	,, 19 00		1548·50
5636,	35·40 m						
	8·60 m	44·00	,,	,,	,, 16 00		704·00
5718,	51·00 m	,,	,,	,,	,, 19 00		969·00
							7405·50
			1 Caisse				30·00
							7435·50
			Discount 2%				148·10
			Final Amount				7287·40

J. van de Wiele.

Import Invoice No. 5

MANUFACTURE DE RIDEAUX, ARTICLES D'AMEUBLEMENT
BRODERIES, DENTELLES

DUPONT & LECROIX

CALAIS
67 Rue de l'Eglise
Téléph: 7.87

Société à Responsabilité Limitée
Capital, 50,000 Francs

Messrs. Fearnley, Sanderson & Co., Ltd.,
St. Paul's Churchyard, Londres.

Les articles suivants expédiés à leurs risques et périls et payables dans Calais le

CALAIS, 12 Août, 19..

Dessin	Pièces	Genres	Prix	f.	c.
14665	6	Stores 140 × 220 . . .	110	660	00
14784	36	Paires 60 × 95 . . .	17·5	630	00
		O/M 962 colis No. 1			
14807	6	Stores 140 × 225 . . .	69	414	00
14707	6	,, 140 × 225 . . .	62	372	00
14618	6	,, 140 × 220 . . .	84	504	00
14644	4	,, 140 × 220 . . .	102	408	00
		O/M 963 colis No. 2			
			Net	2988	00

2 colis G.V. Port Du, Emballage gratuit
Fabrication française
Rideaux confectionnés, Coton et rayonne
Poids = Coton 12·380 kg., Rayonne 6·020 kg.
Valeur = 371·40 240·80
Poids: Net = 18·400 kg.
Brut = 19·900

Import Invoice No. 6

R. G. BOTTERILL & CO.

Invoice No. 4343

SHANGHAI, China, 11th November, 19..

INVOICE of goods shipped by the undersigned per S.S. "Flintshire" from Shanghai to London for account and risk of Messrs. Fearnley, Sanderson & Co , Ltd., St. Paul's Churchyard, London, E.C.4.

Order No as under. Date as under Draft at sight payable to the Mercantile Bank of India, D/P.

One case Linen and Cotton Goods.

Marks and Numbers	Quantities and Descriptions		Selling Price to Purchaser @	Amount £	s	d
FS London No 1	Your Order M 5468—14/9/19 .	Ref				
	22 Sets of 5 pcs Crash Linen Luncheon Sets, Cut Work Emby 54 in × 16 in	4037	6/4½	7	–	3
	15 Sets of 7 pcs Crash Linen Luncheon Sets, Cut Work Ven Motifs 54 in × 14 in	4038	14/7½	10	19	1
	3 Dozen Ecru Cluny Round 6 in	1058	6½		1	8
	8 ,, ,, ,, 10 in.	1058	1/3½		10	6
	4 ,, ,, Oblong 14 in × 20 in	1058	5/2½	1	–	10
	39 Sets of 5 pcs Cotton Bridge Sets, C W Ven Motifs, Fillet edge, 36 in × 12 in	4016	2/8½	5	4	10
	17 Sets of 7 pcs Crash Linen Luncheon Sets, Mosaic Emby 54 in × 14 in	4046	19/6	16	11	6
				41	8	8

C I.F. London

Net weight, 81½ lb

R G Botterill & Co.

separately, and to have charged only Design No. 14618, on the last line but one of the invoice, at the *ad valorem* rate of 43⅓ per cent, making the duty on that lot £1 4s. 10s. To the rest of the goods they appear to have applied the specific duty of 5s. the lb., charging £8 18s. 9d. for 35¾ lb. of material, and making the total duty £10 3s. 7d.

Example No. 6 is for one case of lace and embroidered cotton and linen articles from R. G. Botterill of Shanghai, shipped to London by the Glen Line S.S. *Flintshire*. As the invoice shows, a bill of exchange, payable at sight to the Mercantile Bank of India, Ltd., was drawn on the purchasers for the value of the goods. That draft in sterling was presented to the drawees before the arrival of the ship in London; and in exchange for the drawees' cheque for the amount the London office of the bank handed over the discharged draft, together with the bills of lading. When the bills of lading were indorsed by the consignees they were passed on to the agents of the steamship line, who released the goods, cleared them through the customs, and had them delivered to the purchasers' warehouse. Freight had been paid to London by the consignors in Shanghai, so that only some small sums for dock, cartage, and agency charges remained to be paid by the purchasers in addition to the customs duty. That was charged, as in Example No. 4, at the rate of 30 per cent *ad valorem*, and amounted to £12 8s. 7d.

Example No. 7. This, our last example, is a copy of an invoice for a quantity of linen material from Russia. The invoice contains a summary of two specification slips that were attached to it, a copy of the first of which is shown following the invoice. One copy of the invoice arrived direct from Leningrad, and another came through the Moscow Narodny Bank, Ltd., of London. By the terms of the contract payment was to be made to that bank within forty-eight hours of the bank's advice of the arrival of the shipping documents, subject to an interest charge of $\frac{1}{30}$ per cent per day (say 1 per cent per month) for any delay in payment. The goods are charged at C.I.F. price, i.e. the price includes the cost of the linen, of the marine insurance, and of the freight, these being payable by the suppliers.

It is interesting to note, further, that the contract between

Import Invoice No. 7

All-Union Corporation for the exportation of flax and hemp fibres and other products of flax and hemp cultivation

"EXPORTLEN"

MOSCOW

Invoice No. 28/2562 — Leningrad Branch, 25 V. 19..

Messrs. Fearnley, Sanderson & Co , Ltd ,
St. Paul's Churchyard, London, E.C.4

Bank Moscow Narodny Bank Ltd , London

Contract 2834, 27/II/19.. Shipped by S.S. "Cooperatzia," London

Goods	Pkgs	Weight Gr	Weight Net	Unit Price	Amount in Sterling
		Kg	Kg		£ s. d.
White Linen as specifications attached Order No 784					
No 159 . .	8	1929	1553		426 16 5
No 155 . .	17	4228	3372		919 8 8
	25	6157	4925		1346 5 1
				Discount 5%	67 6 3
					1278 18 10
War Risk, 0·125% on £1480 . . .					1 17 0
					1280 15 10

SPECIFICATION No. 159

No	Gr	Net	Merchandise	Pieces	Yards
81802	228	181	White Linen No 439, 73 in.	34	679·7
3	250	203		18	761·7
4	240	193		21	734·4
5	245	198		21	741·6
6	235	188		21	710·7
8	227	180		35	680·7
82224	252	205		20	781·1
6	252	205		22	762·5
8 Cases	1929	1553 kg		192	5853½

@ 1s 5½d. per yard = £426 16s. 5d.

the buyers and the sellers was made on a gold basis. If the price of gold in London rose between the date of the contract and the date of payment, the sum due was to be increased in proportion to the rise. On payment to the bank of a cheque for the invoice amount the purchasers received the bills of lading and the insurance policy, both being indorsed in Russia to the bank in London, and by the bank here to the purchasers. As the sterling price of gold did rise by a few pence an ounce in the interval between order and payment, the bank made a supplementary claim for a corresponding increase in the invoice amount.

The purchasers of the goods in their turn indorsed the bills of lading and sent them to the proprietors of the Thames wharf at which the cases were landed. The wharfingers next got the bills of lading released by the steamship agents, and claimed from the purchasers the 20 per cent customs duty with which the goods were chargeable. Then they cleared them at the Customs office and delivered them to the purchaser's instructions, later sending in for payment a note of charges for their services.

IMPORTS FOR SALE HERE

Commodities that reach this country before they have been purchased by anyone here are usually offered for sale in one of the produce or raw material "exchanges" that exist in the port of arrival for the disposal of such imports. In London several of these exchanges, like others of the City's institutions, have grown out of more or less informal meetings at certain of the old coffee houses, where persons interested in the sale or transport of particular classes of sea-borne commodities were in the habit of gathering to transact their business. Naturally such rendezvous were kept at points in proximity to the docks and wharves at which the merchandise was at that time landed.

1. **The Baltic Exchange**, in St. Mary Axe, was mentioned in Chapter 2 in dealing with our imports of wheat; and two of the features common to some produce exchanges are to be found there, namely, the grading of the produce offered, and an active "futures" market. The manner of carrying through dealings in futures has already been outlined in Chapter 2.

At the Baltic, futures contracts are governed by the rules of the London Corn Trade Association; and, as Canada is the chief source of supply, future contracts in wheat are based on the Canadian grade known as "Northern Manitoba No. 3." Besides dealings in other kinds of imported grain and in oil-seeds, contracts are made on this Exchange for the export of coal, for the chartering of ships, for cargo freights, and for marine insurance. In Liverpool, favourably situated for trade with the wheat-growing countries of the Western World, a similarly important grain exchange, known as the "Atlantic," functions under the rules of the Liverpool Corn Trade Association.

2. **The Corn Exchange.** On the Baltic, grain imports are dealt in at first hand in quantities equal to ship-loads, many of them for future delivery. At the Corn Exchange in Mark Lane, the produce offered has moved beyond the import stage. There it is the more immediate needs of the home trade and the manufacturing requirements of brewers, millers, and bakers that are supplied. Sales are made by brokers acting for merchants who have acquired stocks by transactions on the floor of the Baltic Exchange, or by purchase of home-grown supplies in the country. Grain of all kinds is offered here for wholesale distribution; and planting seeds, fertilizers, and cattle and poultry foods for farmers are also on sale.

3. **The Wool Exchange** in Coleman Street and the sales that periodically take place there were described in Chapter 3. The Wool Exchange has no dealings in futures, and there is no grading of the commodity offered. It has, however, another feature typical of many produce exchanges, in that its sales are effected by auction, after inspection of samples by the buyers. The wool offered there is purchased by merchants and spinners, not only in this country, but on the Continent as well.

4. **The Liverpool Cotton Exchange** also came under notice in Chapter 3, as the most important of the produce markets dealing with the first stage in the distribution of raw cotton imported or to be imported by this country. The absence of auction sales distinguishes the procedure there from that of the Wool Exchange; but a developed system of grading that is started in the exporting country, and a very active futures market, are features which bring its operations into correspondence with those of exchanges where wheat imports are

sold. As explained in Chapter 2, the facilities offered by a futures market make it possible to transfer, to the professional dealer in futures, the risk of loss through change in the ruling prices, between the date when a contract is entered into, and the later date by which delivery of the merchandise can be obtained or will be required.

5. **The London Commercial Sales Rooms.** In these sales rooms in Mincing Lane a large variety of produce changes hands, including tea, coffee, cocoa, sugar, spices, dried fruits, jute, hemp, and gums. Transactions are carried through between brokers or dealers, who represent importers on the one hand and manufacturers or wholesale traders on the other. Some of the commodities, such as tea, are sold regularly by auction; and, in a number of commodities of kinds that can be classified in standard qualities or types, dealings in futures are conducted under the rules of the relative trade associations.

6. **The Rubber Exchange,** a development of the rapid rise in importance of rubber as a commercial commodity, is situated in a new building, Plantation House, Mincing Lane, the property of the Rubber Trade Association. Its members consist of importers, brokers, and dealers. There are no auctions, and all transactions must be arranged through the brokers. A broker cannot hold stock and must not himself be a purchaser or a seller; but must act only as a link between an importer who wants to sell and a dealer who wants to buy. The importer members are the plantation owners or their representatives in London; the dealers' customers are the manufacturers who use rubber in the making of their products.

Nearly all the transactions entered into on the Rubber Exchange are future contracts for standard quality; but, whether the transaction is for "spot" or "futures," payment of the contract price is not made until delivery. Transactions, again, may be effected either on ordinary or on the much more usual settlement terms. By the latter, heavy losses through the failure of dealers are guarded against, the buyer having to pay or receive, at each fortnightly settlement until the contract ends, the difference between the contract price and the settlement price of the day. Any dispute that the parties cannot settle between themselves must go to arbitration as provided for by the rules of the Exchange.

7. The Metal Market and Exchange, situated in Whittington Avenue, Leadenhall Street, is the most important metal market in the world. Its members deal in copper, tin, lead, and spelter; also to a smaller extent in silver, as mentioned in a later chapter. Purchases and sales by other members of the exchange must be made with what are known as "ring members"; and, as these transactions are the first stage in the distribution of the metals to manufacturers and dealers, they are made in minimum lots of many tons each. Business starts at noon, and each metal is dealt in by itself in turn. When dealings close, a committee fixes a price for the day for each metal. A buyer receives the whole of his day's purchases from one firm whom he is required to pay at the price the committee fixed. The difference between that and the price at which each of his several purchases was negotiated is settled between him and the member with whom he made each deal. Like other produce exchanges where dealings in futures are conducted, the Metal Exchange provides producers and merchants with a means of protecting themselves against loss through future change in the prevailing price of their commodity.

8. The Fur Exchange. This, the last of our examples of produce exchanges, is of recent establishment, its present quarters having been opened in February 1933. They are in the building of the Hudson's Bay Company at Beaver House, Great Trinity Lane. Before the exchange was opened members of the London Fur Traders Association conducted their business more informally in one of the local cafés. Business is transacted daily, the attendance consisting of merchants and brokers, manufacturing furriers, and shippers. A large proportion of the transactions are "spot"—for goods in stock and for immediate delivery. Purchases are made after inspection of stocks held, as skins even of the same kind of animal differ widely in quality. There are, however, transactions for forward delivery of standard skins of kinds that can be graded, and some bought here by standard for foreign account never come to London. Periodically auction sales are also organized, the most important of these being held three times a year. Each lasts about a month and is attended by buyers from many countries, for the fur sales of London have grown in importance whilst those held at Leipzig have declined. The Hudson's Bay

Company takes the leading part; but pelts are offered from all quarters of the globe, and many of the smaller skins now come from fur farms carried on in Canada and elsewhere.

INVOICES AND ACCOUNT SALES FOR PRODUCE

After he has effected a sale, the produce broker will send an invoice to the buyer. The invoice will give particulars and value of the commodity sold, with the addition of any commission due from the buyer to the broker. To the principal for whom the broker acted as seller he will send an "account sales" after the buyer's payment has been received. This account sales will show, again, description, quantity, price, and total value of the commodity sold. The broker will deduct any outlay he has incurred specially for the lot in question, or a fair proportion of any general expense, such as the cataloguing of this and other lots offered at the same auction. He will also deduct the commission chargeable to his principal, and will pay over the remaining balance.

If the seller for whom the broker acts is himself only an agent acting as importer here for the consignor abroad, he will have received a *pro forma* invoice for the goods, and will have used it, together with a special form of declaration, for clearing them through the Customs. After settlement by the broker, the importing agent in his turn will render an account sales to his principal abroad. It will show what the merchandise realized on sale; and it will show deducted (*a*) the selling broker's charges and commission, (*b*) all other charges, such as freight, insurance, duty, warehousing, and cartage, payable on or after importation, and (*c*) the importer's own commission. If a draft has already been accepted or paid by him on account of the proceeds of sale, the amount of the draft will also be deducted. Any balance then remaining due to the exporter abroad will probably be remitted to him by a bank draft payable in his own country.

On an invoice for imported merchandise there may appear one or more of the terms now to be defined. *Tare* is the weight of the case, cask, or sack containing goods sold by weight. *Gross weight* is the weight of the goods and the container; *net weight* that of the goods alone. *Draft* is a customary allowance, made on the sale of imported produce, to cover any loss

in weight that has occurred since the goods were shipped or invoiced from abroad. *Ullage* is the quantity by which the liquid contents are found to be less than the full capacity of the cask containing them.

BROKER OR DEALER AS MIDDLEMAN

The owner of imported produce usually desires to have the commodity sold without much delay. One reason for that may be that the producer has not, as yet, had any return for his outlay during production, that he needs payment in order to recoup himself for his expenditure, and to put himself in funds for further production. Another reason may be that production or movement of the produce has been financed by a bank, that the bank desires early repayment for its security, and that the borrower wants to be relieved from interest charges. The produce exchange is an organization for the purpose of facilitating the disposal of imports. The broker's justification for his services is that, in such a market, he performs the special duty, in which he is expert, of procuring buyers for would-be sellers, and sellers for would-be buyers. Usually, too, he helps in the process of distribution of the commodity, by breaking up the bulk of a seller's imports amongst a number of buyers of smaller lots.

If buyers or sellers attempted to dispense with the broker's services they would have themselves to perform his duties or their equivalent. Having acquired special ability within the organization of his market, he can perform these services more efficiently, and therefore more economically, than either the buyer or the seller, without such training, could. His commission is small, its adequacy depending on the volume of turnover he handles. Except to large buyers who, because of the size of their purchases, can deal direct with importers, the services of the broker as a middleman are probably well worth the remuneration he gets.

In an earlier chapter we saw the middleman at work as a wholesaler, helping to move goods from the manufacturer to the retailer, on their way to the final user. We shall see him soon as the foreign exchange broker helping to bring would-be buyers of foreign currency into touch with would-be sellers. We have seen him, also, as a dealer in cotton or wheat futures,

helping genuine buyers and sellers of actual commodities to protect themselves against the risk of loss, through prices rising or falling before they can procure the supplies they will want, or before they can dispose of the stocks they will have to sell. It is only when the services of the middleman do not help towards efficiency and economy in the processes of exchange and distribution that they fail to be justified.

QUESTIONS

1. Explain what causes are active in the development and maintenance of trade between nations.

2. What purposes do Customs Offices serve? With what objects in view are duties levied on commodities imported into this country, and on commodities produced here? How are customs duties calculated?

3. For what purposes are customs duties imposed on certain goods entering the United Kingdom? What precautions do the Government take to ensure that all dutiable goods shall be brought into account? (*L.C.C.*)

4. What is the difference between customs and excise duties? How are dutiable goods dealt with if the duty cannot be paid immediately the goods are ready for distribution? (*R.S.A.*)

5. Explain briefly what is meant by (*a*) Ship's Report, (*b*) Customs Entry, (*c*) Importer's Declaration, (*d*) Drawback

6. Write a short note about (*a*) Bonded warehouses, (*b*) Incorrect description in customs entry.

7. State clearly what you understand by (*a*) Release of bill of lading, (*b*) Shipowner's and dock authority's lien, (*c*) Landing account, (*d*) Dock or warehouse warrant.

8. Give a brief account of how a consignment of dutiable goods may be dealt with from arrival in port here to delivery to the purchaser who had ordered them from the foreign supplier.

9. How do foreign manufactured goods reach the English consumer? Illustrate your answer by reference to some such commodity in common use. (*R.S.A.*)

10. Suppose that you, in England, purchased on credit a parcel of goods from a manufacturer in another European country, and that the means of remitting payment were left to your choice. How would you pay your foreign supplier (*a*) if he charged the purchase to you in sterling, (*b*) if his invoice to you was made in the currency of his own country? Explain in each case through what channels the payment would reach the seller of the goods, and the charge for it reach your own bank account.

11. On what price basis are dutiable imports charged with *ad valorem* duty on their entry into this country? Show by imaginary example how the invoice value is modified for the purpose of duty (*a*) when the goods are to be delivered free of duty and charges at the purchaser's

address, (*b*) when he has to pay all charges incurred in bringing them from the foreign seller's place of business.

12. Explain how and by what instrument of payment, and by the services of what agency, it is usual for a foreign seller to a purchaser here to make sure that the goods are not delivered to the purchaser, until payment for them has been collected here on the seller's behalf.

13. What do you understand by the term "produce exchange"? Describe in a general way how imports are dealt in by the members of such an exchange. Why are some kinds of imported goods disposed of through produce exchanges whilst other kinds are not?

14. Name four of the more important produce exchanges in this country, indicating in what kind of commodity the members of each are interested, and mentioning any special features of its organization.

15. Enumerate different kinds of imported commodities sold at London Produce Exchanges. Choose one such commodity, and trace the course it takes from its entry into the English port to its receipt by the consumer.

16. Mention two commodities usually sold by standard, and two commodities usually sold by sample. Can you suggest any reason why some commodities are customarily sold by standard and others by sample?

17. What is meant by dealings in "futures"? Explain your answer by reference to the cotton or wheat markets. Do you consider such dealings useful to business? (*U.L.C.I.*)

18. Explain what purposes a futures market serves, how it is commonly organized, and how settlements between buyers and sellers are made in such a market.

19. Explain what is meant by (*a*) futures market, (*b*) spot price, (*c*) hedging. (*R.S.A.*)

20. Explain what you understand by the "grading" of commodities dealt with in a produce market, and what advantages are to be gained in buying and selling by type or standard or grade, instead of by sample.

21. Write a brief account of any two of the following documents used in the import trade: (*a*) Customs entry, (*b*) Broker's sold note, (*c*) Broker's account sales, (*d*) Importer's account sales. (*L.C.C.*)

22. Explain the part played by brokers in the distribution of imported foodstuffs and raw materials. (*R.S.A.*)

23. What is the economic function performed by brokers? Illustrate your answer by reference to the organized markets for cotton and for grain. (*R.S.A.*)

CHAPTER 31

MARINE TRANSPORT AND INSURANCE

OURS being an island country, our trade with other countries must always be conducted across the intervening seas. Emissaries of trade may make the crossing in person by aeroplane; and the letters of trade are to an increasing extent being carried by air-mail, whilst more immediate communication is widely obtainable by submarine telephone or telegraph cable, and by radio wave. Ships, however, still carry some of our letter post, and most of the travellers between this and other countries still use sea passage. As regards merchandise, except for limited quantities passing by air for reasons of urgency, all our imports and exports of goods are sea-borne. The ships that carry them may be "liners" sailing regularly between the same home and foreign ports; or they may be "tramp" vessels moving about under cabled instructions, loading cargo wherever it is to be found and discharging it where required.

THE LAW OF CARRIAGE

1. At Common Law. By the rules of the old common law administered in this country, a carrier by sea had liabilities similar to those of a carrier by land. Any carrier who makes it his ordinary business to carry for payment, and from one place to another, the goods of any person who offers them is called a "common carrier." As explained in Chapter 13, a common carrier is liable for all loss of or damage to the goods he carries, unless the loss or damage is caused by (1) act of God, (2) King's enemies, or (3) inherent vice; or unless he is now specially exempted by statute, or has made a contract relieving himself of some specified liability. Because they viewed their liabilities as too onerous, both land and sea carriers sought means to evade them—land carriers, perhaps, by notices displayed in their offices, and sea carriers by clauses introduced into their bills of lading.

2. Statutory Provisions. With the growth of transport Parliament found it necessary to intervene. The Carriers Act of

1830 gave the common carrier by land exemption from liability for loss of, or damage to, certain kinds of articles of high value in small bulk, unless their nature and value were declared by the sender and an extra charge paid. Exemption for goods of other kinds could only be obtained by special contract between the carrier and the sender. The Railway and Canal Traffic Act of 1854 required such a special contract with a railway or canal carrier to be in writing signed by or for the sender, and to be reasonable.

As regards carriers by sea, the Merchant Shipping Act of 1894 exempts the owner of a British ship from liability (1) for loss or damage by fire, and (2) for theft of gold, silver, jewellery, or the like, unless its value has been declared in writing at the time of shipment, provided that loss in either case has not been due to the shipowner's fault or privity. Subject to the same provision, the liability of the owner of any ship is limited for loss of life or personal injury, or for loss of or damage to goods, in his own or another ship, when the loss has been caused by the bad navigation of his ship. The limit is £8 per ton of his ship's tonnage where only material loss is sustained, and £15 per ton where personal injury or loss of life has occurred with or without material damage also. This limitation applies to damage to vessels, and by the Merchant Shipping Act of 1900 to any damage on land or water due to improper navigation.

By special contract the shipowner or sea carrier still exempts himself from liability he would otherwise bear for loss of or damage to the goods he carries. The special conditions are inserted in the charter-party by which a ship is hired, or in the bill of lading given when goods are received for shipment. The Carriage of Goods by Sea Act of 1924 standardized conditions attachable to bills of lading for outward shipments from this country, and any attempt to increase the exemption given to the carrier under these rules is illegal. By them the carrier is relieved of liability for loss or damage resulting from faulty management of the ship, fire, perils of the sea, act of God, war, strike or lock-out, inherent defect in the goods, insufficiency of packing or of marks, and other contingencies. In no other event is the shipowner or carrier to be liable for more than £100 per package, unless the nature and value of the contents are declared before shipment and are stated in the bill

PRINCE LINE

LEITH, MIDDLESBROUGH, ANTWERP & LONDON to MEDITERRANEAN

Shipped in apparent good order and condition by.....
at the port of LONDON on board the Steamship. .....
.....PIECES AND/OR PACKAGES OF MERCHANDISE,

stated to be marked, numbered and described as in this Bill of Lading (weight, measure, brand, contents, quality and value unknown), to be conveyed and delivered to.....or assigns, at.....(or as near thereto as she may safely get)

Freight, Charges and Primage to be paid by Shippers in exchange for this Bill of Lading.

AND IT IS MUTUALLY AGREED AS FOLLOWS—

1. THE RULES—Carriage of Goods by Sea Act, 1924—This Bill of Lading shall have effect subject to the terms and provisions of the Carriage of Goods by Sea Act, 1924, and of the rules comprising the Schedule thereto. The Carrier shall also be entitled to claim and shall have the full benefit of all limitations of and exemptions from liability conferred on the Carrier and/or the Ship by public law.

2. PAYMENT OF FREIGHT—Freight and/or charges shall be deemed to have been earned on shipment, ship, or goods lost or not lost. Parcels for different consignees collected and made up in a single package addressed to one consignee, shall pay full freight at the rate applicable to the highest rated parcel in the package.

3. LIEN—The Carrier shall have a lien upon the goods, and the right to sell the same by public auction or otherwise, at his discretion, for freight, dead freight, demurrage, detention, charges, expenses, fines, and losses of any kind.

4. STOWAGE—The goods may be stowed in poop, forecastle, deck house, shelter deck, or any covered-in space commonly used in the trade for the carriage of goods, and such goods shall be deemed for all purposes to be stowed under deck.

5. VOYAGE—The Carrier shall have the following liberties, any warranty or rule of law to the contrary notwithstanding—
   (*a*) To sail with or without pilots and/or tugs, to adjust compasses, to be drydocked at any time, at any place, for any purpose, with or without cargo on board, to tow or be towed, and to assist vessels in all situations.
   (*b*) To proceed to and use any port or ports or place or places in any rotation for any purposes whatsoever, whether in or out of or beyond the customary or advertised route, and all such ports or places shall be deemed to be included in the intended voyage.
   (*c*) To carry Livestock and/or goods of any description on deck.

6. METHODS OF CONVEYANCE—
   (*a*) The Carrier shall be at liberty to lighter or otherwise carry the goods to or from the ship and/or to tranship.
   (*b*) In case of accident, or should the ship put into a port of refuge or from any cause not commence or proceed in the ordinary course of her voyage, the Carrier shall be at liberty to discharge into craft and/or land the goods or any part thereof and/or store, afloat or ashore and/or tranship and/or forward to destination.
   (*c*) In case of quarantine or if entry into the port or place of discharge or transhipment or staying thereat would render the ship liable

to quarantine there or at any other port or place, or if the ship is prevented from entering the port or place, or is likely to be delayed thereat owing to blockade, interdict, war, strikes, lockouts, disturbances, ice, storms, or any other cause whatsoever beyond the Carrier's control, the Carrier shall be at liberty to proceed to the nearest convenient port and there land the goods and/or store, afloat or ashore, and/or transport and/or forward same to their destination by land or water at the sole risk of the consignees and/or owners of the goods, who shall pay all extra freight, charges and expenses incurred.

7. METHODS OF DELIVERY—
   (*a*) Delivery of the goods shall be taken by the consignees from the ship's tackle immediately the ship is ready to discharge, or, at the option of the Carrier, the goods may be discharged and stored, afloat or ashore, at the sole expense and risk of the consignees, but subject to Carrier's lien.
   (*b*) The Carrier shall be at liberty to discharge day and night, holidays included, as fast as ship can deliver, regardless of weather conditions, and the Carrier shall be under no liability to notify the consignees of the arrival of goods, any custom of the port to the contrary notwithstanding.
   (*c*) Any loss or expense caused owing to Customs, Consular or other regulations not being complied with, or to Customs permit and/or other necessary papers not being lodged within twenty-four hours after ship's entry at the Customs, or when required, will be charged to consignees and/or owners of the goods, who shall indemnify the Carrier, and the Carrier shall be at liberty to return the goods to the port of shipment at the sole risk and expense of the owners of the goods.
   (*d*) The goods shall in all cases be landed by the ship's Agents, at consignee's risk, and the landing charges shall be payable by the consignee against delivery.
   (*e*) At TUNIS Droit d'accostage to be paid by consignee
   (*f*) At MALTA the landing charges shall be paid at the rates prescribed by the Tariff for the time being in force.
   (*g*) At ALEXANDRIA the landing charges shall be paid at the rates following.—
      (1) Landing direct from ship to quay, P.T. 8 per freight ton (minimum charge, P.T. 3).
      (2) Landing by means of lighters, P T. 15 per freight ton (minimum charge, P.T. 8).

8. SURRENDER OF BILL OF LADING—Subject to the Law in force at the port or place of discharge, the Bill of Lading, duly endorsed, must be surrendered in exchange for Delivery Order or the goods.

9. GENERAL AVERAGE—General Average shall be payable according to York/Antwerp Rules, 1924, and shall be adjusted at any port or place selected by the Carrier. In the case of salvage services rendered to the cargo during the voyage by a ship owned by or in the service of the same Shipowner, such salvage services shall be paid for as fully as if such salving ship or ships belonged to strangers.

10. BEFORE LOADING AND AFTER DISCHARGE—The rights and immunities as set forth in Article IV of the Rules scheduled to and as applied by the Carriage of Goods by Sea Act, 1924, shall extend and apply to loss or detention of or damage to goods in the actual custody of the Carrier, or his servants, prior to loading on and subsequent to the discharge from the ship on which the goods are carried by sea as fully as if the same were set forth seriatim herein, provided always that neither the Carrier or the ship shall under any circumstances be liable for loss or detention of or damage to goods arising from any cause whatsoever when the goods are not in the actual custody of the Carrier or his servants.

In accepting this Bill of Lading the Shipper, Consignee, Owner of the goods, and the holder of the Bill of Lading expressly agree to all its terms conditions and exceptions, whether written, printed, stamped or incorporated.

IN WITNESS WHEREOF.. .... Bills of Lading, all of this tenor and date, one of which being accomplished the others to stand void, have been signed by the Agents of the said Carrier.

Dated in LONDON this.....day of..... 19

of lading. On pages 508–509 is shown the main part of a bill of lading such as might be used for the carriage of the package to Malta, the invoice for which appears on page 539. Particulars of the goods as declared by the shipper are inserted in a space provided on the left-hand margin. A ship that carries consignments accepted from any exporters offering them is called a "general" ship.

THE BILL OF LADING

Perusal of the wording of this British bill of lading will show (1) that it states certain goods or packages have been shipped from London on a vessel named, (2) that it sets out at some length the conditions on which the carrier agrees to convey the goods, and (3) that by the bill of lading the carrier undertakes to deliver the specified goods to a party indicated, or to any other party to whom the former may assign the right to receive them. The bill of lading, therefore, serves as (1) a formal receipt, issued by or for the shipowner or the carrier using the ship, and bearing evidence of the goods having been received aboard, (2) a precise statement of the terms on which the carrier contracts to transport the goods, and (3) a document that carries the title to the goods, with the right to claim delivery on surrender of the bill of lading at the port of destination, or to transfer the title in the meantime.

We have already noticed, however, that the carrier may himself retain the goods until the freight charge has been paid, or hand them over to be held until then by the dock authority or dock warehouse company. The consignee's or assignee's claim to take possession of the goods is thus subject to that lien, and to release of the bill of lading by the carrier or his agent at the port of delivery. We have also previously seen how the holding of all the issued copies of a bill of lading by a lending bank or its agents, together with the requirement for release and surrender of the bill of lading before delivery of the goods, gives the bank control over the disposal of the goods, and security for its loan against their value, whether the loan is made to an exporter or an importer. Again, by getting a bank or other agent in the consignee's country to hold the bill of lading until the bill of exchange drawn for the value of a shipment has been met, the exporter here can retain control of the

U. S. S. R.

BALTIC
STATE STEAMSHIP LINE
Leningrad, Mezhevoi kanal, 5.
Telegraphic address:
LENINGRAD MORFLOT

trading under . ..... flag, owners

BILL OF LADING

No.....

Shipped in apparent good order and condition. Received for shipment by/from ....
. . ..

on board the steamship / motor vessel called the whereof master is . . . .

and now lying in carrier . . . .

. . ..the following goods:

Rate of freight:

..

Received on account of freight

. . ..

To be paid by consignee

. . . .

. .

Marks and Numbers	Description of goods	Number of packages or pieces	Gross weight	Measurement	Remarks

Being marked and numbered as above but not guaranteed hereby for the adequacy of marks and to be carried and delivered subject to all conditions, terms, and clauses inserted into this bill of lading in the like apparent good order and condition from the ship's deck (either into lighters or on the quay at master's option) where the responsibility of the carrier for the carriage of aforesaid goods shall cease

The goods to be delivered at the port of or as near there as the ship may safely get always afloat, to the consignee . . ..
. ...
.. ..

or to his or their assigns, on payment of freight as per margin of this bill of lading and all other charges due under this contract of carriage.

Nothing in this bill of lading, whether printed, or written, or stamped, shall limit or affect the above-mentioned conditions If the freight and all charges in connexion with the contract of carriage payable on or before delivery of goods have not been paid, the carrier, on delivery of the goods to warehouse (warehouseman), or into lighters (lighterman), or other custodian entrusted to hold the goods for their owner, shall be entitled to stipulate that the said custodian shall not part with the possession thereof until payment has been made of full freight and any other charges due under this contract of carriage.

Neither the weight nor the measure of goods carried in bulk as well as the conformity of all kinds of goods with their description in this bill of lading are checked by the carrier on loading.

The shipper, the receiver of goods and the holder of the bill of lading as well as any other person interested hereby expressly accept and agree to all printed, written or stamped provisions, terms, and reserves of this bill of lading, including those on the back hereof

In witness whereof the master, carrier or his agent has affirmed to .. bills of lading, all of this tenor and date, one of which being accomplished the others to stand void One bill of lading, duly endorsed, is to be given up in exchange for the goods, or for a delivery order for same.

Dated in ... .this.. ....day of..... ....19....

Master.. . ...

goods so long as his claim remains unpaid, and yet give delivery of them immediately payment is collected.

Every bill of lading must show in the space provided the description (as supplied by the shipper) of the packages or the goods for which it is issued; also the identification marks and numbers the packages bear, or the quantity or weight of the goods shipped. Usually a bill of lading is issued in a set of two or three signed copies, each of which in this country must first be stamped with a sixpenny stamp. In addition, an unstamped copy of the bill of lading issued for each portion of a ship's cargo is handed to the master of the ship, whilst another unstamped and unsigned copy may be supplied to each shipper for reference purposes only. As stated in the bill of lading, when one of the issued copies has been surrendered against delivery of the goods, the other issued copy or copies become void. If the carrier or his agent should be confronted by two simultaneous claimants, each presenting a bill of lading for the same goods, it is his duty to apply to the court for an interpleader summons. He then withholds delivery whilst the court hears the disputants, but he remains ready to give delivery to the person whose claim the court upholds.

It will be noticed that in our first example the shipowners stipulate that the kind, quality, quantity, and value of the goods shipped are unknown to them. In a second example (for goods from Russia such as are described in one of the specimen invoices in Chapter 30) it is similarly stated that the carriers have not checked the quantities and descriptions given. A clause to this effect is inserted in bills of lading as a rule, its object being to protect shipowner or carrier against any claim that might be made for delivery of goods corresponding exactly to the description supplied to him. As goods for shipment are very often such as must be previously packed, the carrier is usually unable to verify the particulars given; and any loss he does incur through misdescription he is entitled to recover from the shipper. Should it be found in the course of loading that any article or package is damaged, or that any is missing, a note of the damage or shortage will be made on the bill of lading. When that happens, the bill of lading is said to be "foul"; otherwise it is described as "clean."

Though bills of lading may be and frequently are transferred

from one party to another, they are not negotiable instruments in the sense that banknotes are negotiable. Unlike a banknote, a bill of lading can never bring to a transferee any better title than his transferor had. If a person, in exchange for value given by him, takes a genuine banknote, in good faith and without knowledge of any defect in the title of the person from whom he takes it, he obtains a perfect title to the note, and can retain it against any claimant. But when a bill of lading changes hands, any defect there may have been in the title of the transferor passes to the transferee, even when he acquires the document in good faith and gives value for it. When, however, a bill of lading is assigned for value to a third party, an unpaid vendor of the goods for which it was issued loses his right to stop the goods in transit, and cannot make any claim upon the assignee.

OTHER SHIPPING DOCUMENTS

When, for example, goods arrive by river barge or lighter, and are loaded from the barge to the ship, a *Mate's Receipt* is obtained for them, which is afterwards exchanged at the shipping company's office for the bill of lading. Like a bill of lading, a mate's receipt is described as "foul" when it bears any indication of damage or shortage in the goods received; and it is described as "clean" when it acknowledges receipt of the cargo in good condition. For a package of small size and value it is usual to issue a single *Parcel Receipt* instead of a set of two or three bills of lading; but the parcel receipt must be surrendered in the same way as a bill of lading before possession of the package can be obtained by the consignee. The *Dock or Warehouse Warrant* that is issued for goods to be stored at the docks for a time has already been mentioned. It, also, is a document of title to the goods it represents, as the transfer of the warrant from one person to another transfers the right to claim the goods. A dock warrant bears a three-penny revenue stamp, and it has to be surrendered when delivery of the goods is required.

A *Charter-party* is the written contract by which the use of the whole or part of a ship is hired from the owner. The ship may be hired for a specified voyage, or it may be hired for a time, such as "about six months." An exact time is not named

in the charter-party, because an exact date cannot be fixed on which the last voyage contemplated under the charter can be completed. Usually the owner of the ship engages and pays the master, officers, and crew, and insures the vessel; but sometimes crew and everything else except the ship itself is found by the charterer. The time charterer is often a shipowner who is short of tonnage of his own for seasonal trade on a route he serves. The voyage charterer, on the other hand, may be a merchant who has occasion to transport a shipload of some commodity he is interested in. The ships that are available in the chartering market are the "tramp" type—vessels not engaged in regular sailings between certain ports. A charter-party names the ship to be hired, states the duration of the charter or what voyage is to be undertaken, and fixes the rate at which the owner is to be paid. It may say what kind of cargo is to be carried, and a voyage charter will state where the vessel is to be loaded and where discharged. "Lay days" or "running days" are the times allowed by a voyage charter for loading and unloading, and "demurrage" is the charge to be imposed at so much a day should the times allowed be exceeded. A charter-party requires a sixpenny revenue stamp.

The manner of packing goods for export and the shipowner's charges for freight will be dealt with in Chapter 32.

MARINE INSURANCE

1. **The Policy.** When goods are sent abroad it is usual for an insurance policy to be taken out, under which there can be recovered from the insurers the money value of loss of or damage to the goods, should there occur during the voyage any loss or damage insured against. Insurance of goods going abroad is resorted to for two reasons. The first is that the risk of loss or damage during transport by sea is much greater than during transport by land. The second is that many exemptions from liability are allowed to sea carriers by law, or are stipulated for by the terms of the bills of lading they issue. A ship, however, is itself in danger of loss or damage as well as the cargo it carries; so it is usual also for the shipowner or the charterer to effect insurance against the risks that he runs. On pages 516–7 is shown the form of Lloyd's policy for insuring ships or cargo leaving this country, and on pages 518–9 a specimen

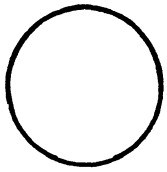
policy for goods coming here. Careful perusal of these examples will enable the reader to gain some understanding of the terms and conditions contained in a contract of insurance of this kind. The first example is the form of policy, issued at Lloyd's in London, by which exporters might insure a shipment of goods such as is represented by the invoice to Nicolas Ferranti of Malta, as shown in Chapter 32. The second example is copied from a policy issued in Holland, such as might be used for the two bales of sheeting imported from H. G. Pieters & Zonen N.V., of Enschede, an invoice for which appears amongst the specimens of foreign invoices given in Chapter 30.

2. Taking Out the Policy. A policy of marine insurance may be taken out at Lloyd's or with an insurance company that transacts marine insurance. Lloyd's is an association, incorporated by Act of Parliament, of persons interested in maritime affairs, with its headquarters in Leadenhall Street. *Lloyd's Register of Shipping* in Fenchurch Street keeps a register of British ships classified according to their degree of seaworthiness, the highest class of which is described by the well-known term, "A1 at Lloyd's." The association also maintains a report service of ships' movements, its reports being compiled from information transmitted by agents posted at many points throughout the world where vessels pass or call. But the particular activity of Lloyd's that concerns us here is not an activity of the association as such, but a service rendered by those members individually who undertake the business of marine and other kinds of insurance. These members are either underwriters or brokers.

Lloyd's underwriters are the members who actually take upon themselves the risks that shipowners, exporters, and others desire to insure against. The description of "underwriters" came to them because of their subscribing their names to the slips containing proposals of insurance that they decide to accept, and to the policies issued therefor afterwards. The *brokers* are other members of the association who, for a commission, procure from the public business for the underwriters to take up. When a Lloyd's broker is approached by a client proposing insurance, he or his clerk writes the particulars on a slip. The particulars include the name of the ship, the ports between which the insurance is required, the kind of

FORM OF LLOYD'S MARINE INSURANCE POLICY

No Policy or other Contract dated on or after 1st Jan., 1924, will be recognised by the Committee of Lloyd's as entitling the holder to the benefit of the Funds and/or Guarantees lodged by the Underwriters of the Policy or Contract as security for their liabilities unless it bears at foot the Seal of Lloyd's Policy Signing Office.



Any person not an Underwriting Member of Lloyd's subscribing this Policy, or any person uttering the same if so subscribed, will be liable to be proceeded against under Lloyd's Acts.

S.G.

£

Be it known that

as well in *their* own Name, as for and in the Name and Names of all and every other Person or Persons to whom the same doth, may, or shall appertain, in part or in all, doth make Assurance, and cause *themselves* and them and every of them, to be insured, lost or not lost, at and from

upon any kind of Goods and Merchandises, and also upon the Body, Tackle, Apparel, Ordnance, Munition Artillery, Boat and other Furniture, of and in the good Ship or Vessel called the

whereof is Master, under God, for this present Voyage,
or whosoever else shall go for Master in the said Ship, or by whatsoever other Name or Names the same Ship, or the Master thereof, is or shall be named or called, beginning the Adventure upon the said Goods and Merchandises from the loading thereof aboard the said Ship *as above*
upon the said Ship, &c, *as above* and shall so continue and endure, during her Abode there, upon the said Ship, &c.; and further, until the said Ship, with all her Ordnance, Tackle, Apparel, &c., and Goods and Merchandises whatsoever, shall be arrived at *as above*
upon the said Ship, &c., until she hath moored at Anchor Twenty-four Hours in good Safety, and upon the Goods and Merchandises until the same be there discharged and safely landed; and it shall be lawful for the said Ship, &c, in this Voyage to proceed and sail to and touch and stay at any Ports or Places whatsoever *and wheresoever for all purposes*
without Prejudice to this Insurance. The said Ship, &c., Goods and Merchandises, &c., for so much as concerns the Assured, by Agreement between the Assured and Assurers in this Policy, are and shall be valued at

Touching the Adventures and Perils which we the Assurers are contented to bear and do take upon us in this Voyage, they are, of the seas, Men-of-War, Fire, Enemies, Pirates, Rovers, Thieves, Jettisons, Letters of Mart and Countermart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes, and People, of what Nation, Condition, or Quality soever, Barratry of the Master and Mariners, and of all other Perils, Losses, and Misfortunes, that have or shall come to the Hurt, Detriment, or Damage of the said Goods and Merchandises and Ship, &c., or any Part thereof; and in case of any Loss or Misfortune, it shall be lawful to the Assured, their Factors, Servants and Assigns, to sue, labour, and travel for, in and about the Defence, Safeguard and Recovery of the said Goods and Merchandises and Ship, &c , or any Part thereof, without Prejudice to this Insurance; to the Charges whereof we, the Assurers, will contribute, each one according to the Rate and Quantity of his sum herein assured. And it is especially declared and agreed that no acts of the Insurer or Insured in recovering, saving, or preserving the property insured, shall be considered as a waiver or acceptance of abandonment And it is agreed by us, the Insurers, that this Writing or Policy of Assurance shall be of as much Force and Effect as the surest Writing or Policy of Assurance heretofore made in Lombard Street, or in the Royal Exchange, or elsewhere in London.

Warranted free of any claim based upon loss of, or frustration of, the insured voyage, or adventure, caused by arrests, restraints or detainments of Kings, Princes or Peoples.

And so we, the Assurers, are contented, and do hereby promise and bind ourselves, each one for his own Part, our Heirs, Executors, and Goods, to the Assured, their Executors, Administrators, and Assigns, for the true Performance of the Premises, confessing ourselves paid the Consideration due unto us for this Assurance by the Assured

at and after the Rate of

IN WITNESS whereof we, the Assurers, have subscribed our Names and Sums Assured in *LONDON*.

N.B.—Corn, Fish, Salt, Fruit, Flour, and Seed are warranted free from Average, unless general, or the Ship be stranded; Sugar, Tobacco Hemp, Flax, Hides, and Skins are warranted free from Average under Five Pounds per Cent ; and all other Goods, also the Ship and Freight, are warranted free from Average under Three Pounds per Cent., unless general, or the Ship be stranded.

(In the event of accident whereby loss or damage may result in a claim under this Policy, the settlement will be much facilitated if immediate notice be given to the nearest Lloyd's Agent.)

FORM OF A MARINE INSURANCE POLICY ISSUED IN HOLLAND

We the Undersigned insure to You
or to whom the same does, may or shall appertain, in part or in all, friend or foe, each for the sum underwritten hereafter from
and all circumjacencies to

with or without transhipment
Risk from warehouse to warehouse without cessation.

In case of loss or damage apply to

Upon any kind of Goods and Merchandises, whatsoever, ready or not ready and in the last case with or without notice] oaden or to be loaden into the *steam-* ship, which God preserve, called
whereof is master *N N.* or whosoever else shall go for same, or how the ship or the master shall be spelled named or called or whatever be the designation, charter or sort of the said ship.

Further { *with* order / *or without* order } as far as required by the Law.

The said ship

With resignation to and accepting all the conditions of the Bill of Lading and the Charter Party.
General average will be paid irrespective of percentage.

Free from expenses caused by demurrage and wintering and free from average under three per cent.

We agree herewith that the insurance aforesaid shall commence at the time and date that the aforesaid merchandise shall be brought on the quay or shore, in order to be loaden from there on board the said ship or in boats, barks or lighters in order to be conveyed therein on board the said ship and shall continue until the said ship be arrived at the port or ports as above mentioned, and the said goods be discharged without any damage or loss and safely landed in the power of you the Insured or your mandatary, provided that the discharge be made within fifteen days after the arrival of the ship on its destination, unless the discharge out of lawful obstacle could not have taken place within that period, which in case of disaster or damage is to be proved It shall be lawful for the said ship to navigate forward and backward, to veer and to turn in all directions and forcibly or freely call at such ports and roads as the master or masters may choose to do for the benefit and progress of the aforesaid voyage, and if the master or masters, forced by necessity shall discharge the aforesaid goods and re-load them in any other ship or ships, small or big, what they shall have power to do, without waiting for our consent, we shall continue to run the risk, as if the goods have never been unloaden
The risk further contains all perils of the sea, storm, wreck, stranding, oversailing, boarding or collision, forced alterations of course, of the voyage or the ship, jettison, fire, force, washing overboard, capture, privateers, rovers, detainments, declaration of war, reprisal, carelessness, negligence or barratry of the master and mariners, occurring without fault or knowledge of you, the Insured and all other fortunes of the sea, foreseen or not foreseen, usual or unusual none excepted, which claims shall be paid by us, each in proportion of our amount underwritten and without deduction, within three months after having duly been proved And in such cases we wholly authorize you the Insured and all others to do everything possible, either to our detriment as well as to our profit for the safety of the interest insured herewith, to sell the same if necessary and to distribute the produce, without being bound to ask for our authorization or consent, provided giving us notice as far as circumstances enable, the damage as well as the expenses will be paid by us irrespectively whether the latter have been made with or without success, provided all this does not exceed the sum insured and we therefore shall give credit to the statement thereof on duly justified proofs or on the oath of those who will have sworn it
Further on condition that we shall not be allowed to invoke against the Insured the art 251 of the Commercial Code, unless the judge mentioned hereafter, might find terms in good faith and according to usages of this place, whilst the Insured Interest cannot or may not be abandoned to us, unless the same be lost without any doubt or reason for its recovery, in which cases however the consent and approbation of the judge will be required before this stipulation can be applicated The Insurance being further effected on the special condition that art 267 and 662 of the Commercial Code, the last art as far as is concerned the mentioning of the name of the original Insured, will not be invoked by us and that art 747 of the same Commercial Code will not be invoked against us, the Insured having renounced this last article It has further been stipulated that, should there arise any difference about this policy, the consequences thereof or the insurance contracted therewith, the parties will submit to the "Arrondissements Rechtbank" (court of justice of the district) at Amsterdam, and when appealed, if the difference is susceptible for it, to the decision of the Provincial Court of Justice of North Holland, or the Court of Justice which might take its place in future
And this at the rate of per cent for which we the Undersigned have debited in account the Assured
We herefor are bound with ourselves and our possessions present and future, and as men of honour we renounce all sophistries and exceptions being contrary to this contract Made up in good faith and irrespective all good or evil tidings according to the usages of the Exchange at Amsterdam, this 19

in case of difference between the text of this policy (so far not written with hand or machine or printed in red) and the Exchange-policy on goods, deposited on December 6th 1917 by the Joint Underwriters Association of Amsterdam with Notary Mr H Th M Muller, only the conditions of this last one will be in force

The part printed in italics is considered as written by hand

cargo or other interest being risked, the money value for which it is to be insured, and whether payment may be claimed for any kind of loss that may occur, or only in any of some events. This slip the broker or his clerk presents to one of the underwriters in Lloyd's underwriting room. If the risk proposed is a large one the underwriter may accept only a part of it, signing or initialing the slip (usually for a group of underwriters he represents) for the sum he undertakes to insure. The slip is then presented to a second underwriter, who may sign on behalf of his group for a further sum; then to a third, if necessary, and so on until the whole risk has been accepted. The slip binds the underwriters by or for whom it has been signed to complete the contract by executing a formal policy. The policy is prepared by the broker on a Lloyd's form, and is issued by him to the insured when he has got it signed by or for the underwriters concerned. The broker is responsible to the underwriters for payment of the premium, that is, for the charge in consideration of which they have assumed responsibility for the risk.

A Company Policy is obtainable at any of the offices of an insurance company engaged in marine insurance, or from an agent appointed by and seeking business for such a company. The insurance companies use their own forms of policy, and they compete with Lloyd's underwriters for the business that is going. An insurance company is usually a joint stock institution with large funds at its disposal. The practice at Lloyd's is to spread each risk over a number of individuals so that, when a claim must be met, only a small part of it shall fall on each insurer. A company, on the contrary, usually takes up the whole of a risk offered to it; but to protect itself, also, from too heavy claims it may place out, with reinsurance offices, some proportion of the total of the risks it has accepted.

KINDS OF MARINE INSURANCE POLICY

To be enforceable in the courts every contract of marine insurance is required by the Marine Insurance Act, 1906, to be expressed in a written or printed policy; and by the Stamp Act, 1891, the policy must bear a revenue stamp, the value of which varies with the nature of the policy.

A *Voyage Policy* is one that effects insurance for the duration

of a single voyage. The subject of insurance may be (1) the ship itself, (2) the whole of the cargo or any single consignment forming part of the cargo, or (3) freight that the shipowner or charterer has to collect at the end of the voyage. A *Time Policy* is one that insures a ship for a period of time during which a number of voyages may be accomplished. The Marine Insurance Act, however, limits the duration of such a policy to twelve months unless it contains a "continuation clause." That clause will keep the insurance in being for an additional thirty days, or until the earlier completion of the last voyage begun within the period for which the policy was given.

A kind of policy in frequent use is known as a "floating" or "open" policy, taken out for a round sum large enough to cover a number of consignments made at different times. A floating policy may be used by an export merchant here who continually sends goods over the same route. As he ships each consignment he declares its value against the policy, and he obtains a certificate showing that the particular consignment is held insured. Alternatively, an importer abroad may have a floating policy taken out here, and he may get his shipping agent at this end to see that the necessary declarations are made and the certificates obtained. It is a common practice, also, for insurance of cargo to be made to cover more than just the voyage. For example, a "warehouse to warehouse" clause in the policy would cause the goods to be insured for land or river risks before they reach the ship at the port of loading, and after they leave the ship at the port of discharge.

LEGAL ASPECT OF INSURANCE

Marine insurance, like insurance against fire or burglary, is a contract of indemnity only. When an insured person suffers a marine loss covered by his policy he is entitled to make a claim on his insurers in respect of the loss; but he is not entitled to compensation greater than the loss suffered. In the case of a *valued policy*—that is, one in which a monetary value is named, and so agreed upon beforehand—a loss whether total or partial would be paid on the basis of that value. It is customary in marine insurance to include in the declared value a reasonable margin as profit to the buyer abroad; for, if the goods insured should not reach him, he would not be able to replace them

quickly, and would lose the profit he expected to make by selling them. In that respect a marine policy differs from a fire policy, because under a policy for fire alone nothing will be paid in anticipation of profit. Where a claim has to be made on an *unvalued policy* of marine insurance—on one in which the value of the insured goods has not been named—the customary practice is to take as the insured value the cost of the goods to the claimant with 10 per cent added.

Insurance is also what is termed a contract *uberrimae fidei*, which means that the utmost good faith must exist between the parties in the making of the contract. Any concealment or misstatement by the proposer, even if made unintentionally, will give the insurer the right to cancel the contract, if a knowledge of the true facts would have led him to refuse insurance, or to accept it only on other terms. But the insured, on his side, may for a similar reason also become entitled to rescind the contract. For example, an insurer, knowing that an overdue ship had actually reached its destination, might grant insurance in connexion with that ship to an applicant who had not learned of its safe arrival. In such a case the insured would have the right to claim cancellation of the policy and return of the premium, when he discovered that his insurer, whilst accepting the proposal, was aware that the risk had already ceased. Again, a person submitting a proposal must have a monetary interest in the risk to be insured, though the interest need not actually exist at the time of taking out the policy, if it comes into being before a loss occurs. By the Marine Insurance Act, what is known as a "P.P.I. policy"—one that states the policy itself to be proof of interest, or one that contains words to that effect—is void. Gambling by insurance on marine losses makes the insurer liable to fine or imprisonment. When an insurer has paid the holder of his policy for any loss or damage covered by the policy, he is entitled by the principle of subrogation to assume any rights the insured could have enforced against third parties.

Warranties. It is usual for a number of clauses to appear on a marine insurance policy as additions to the adopted basic form. The "Memorandum" at the end of the Lloyd's form is an example; but others may be added either by being written or printed in the margin of the policy, or by a printed slip

attached at the margin. When any added clause is contrary to a provision in the body of the policy it overrides the latter and is substituted for it. To the Lloyd's policy from which our example has been copied a slip of ten *Institute Cargo Clauses* was affixed. The "Warehouse to Warehouse Clause" we have previously mentioned was one. Another was a "Deviation Clause" holding the cargo covered at a premium to be arranged should deviation from the vessel's proper course become necessary. A third was a "G/A Clause," providing for general average being payable according to the York-Antwerp Rules as required by the bill of lading. Two further clauses (modified on the slip in question) were the usual F.C. & S. (free of capture and seizure) Clause, warranting the policy free from any claim in consequence of capture, seizure, etc., during warlike operations; and a usual warranty against loss or damage caused by strikes, labour disturbances, and civil commotion. It should be understood that, in insurance practice, a "warranty" has the effect allowed to a "condition" in the general law of contract. If the warranty is infringed, or if the event should occur from which the policy is warranted free, the insurer is not bound by the policy.

The *form of Lloyd's policy* is ancient; but it is kept in use because its phrases have been frequently submitted to the interpretation of the courts, and their exact significance and effects are known and understood. And, though the form of company policies is different, the difference is more in the arrangement than in the result. The Marine Insurance Act, in a schedule which contains a specimen policy in Lloyd's form, adds a number of rules for the construction to be put upon such terms as "lost or not lost," "at and from," "touch and stay," "pirates and thieves," "restraint of princes." *Perils of the sea* are unexpected accidents, and not damage by wind or water such as happens on any voyage. *Jettison* means the throwing overboard of cargo or tackle in order to lighten a ship in difficulties. *Barratry* is any wrongful act, such as stealing the ship or appropriating cargo, wilfully committed by the master or the crew, to the prejudice of the owner of the ship, the charterer, or the owner of any cargo. The *sue, labour, and travel* clause provides for payment of expenditure incurred in trying to prevent a loss insured against.

KINDS OF MARINE LOSS

Under a marine policy the insurer is liable only for loss or damage of which the "proximate" (i.e. the immediate or direct) cause was one of the perils insured against. Unless other losses are specifically included in the policy the proximate cause must be a "peril of the sea" as already defined. Except where the Marine Insurance Act or the policy itself provides otherwise, the insurer is not liable for loss or damage to ship or goods if it arises from delay or deviation in the prosecution of the voyage. As regards freight, the insurer sometimes relieves himself of liability, by warranting the policy free from any claim for loss of freight caused by delay in the arrival or unloading of the vessel.

1. **Total Loss.** In marine insurance a loss may be either total or partial. Again, a total loss may be either actual or constructive. *Actual Total Loss* occurs when the thing insured is destroyed, or when the insured party is deprived of its benefit, for example, by the ship or the goods being sunk at sea. An actual total loss is deemed to occur, also, where the subject-matter is so changed by damage that it ceases to be the kind of thing that was insured, as when goods have been rotted or dissolved by sea water.

Constructive Total Loss occurs when the ship or merchandise or other thing insured is reasonably abandoned because its actual loss appears inevitable, or because the expense of preventing its total loss would exceed its value when saved. The party insured may in such circumstances claim for a partial loss, or he may elect to abandon his property and claim for constructive total loss. If he decides to abandon, he must give his insurer notice of abandonment without unnecessary delay. His right to justify abandonment will not then be prejudiced should the insurer refuse to agree.

2. **Particular Average.** In this connexion the word "average" is used in its ancient sense of damage. The term "particular average" is used to indicate a loss that is partial (as distinct from a "total loss"), and that arises from a peril insured against. But, to be a particular average loss, it must have occurred accidentally or fortuitously as distinct, again, from a "general average" loss, which is one brought about intentionally for the safety of the ship and cargo as a whole. A particular average loss falls entirely upon the party whose property has

suffered; but if he has insured (as is usual) against the risk of such a loss, he makes under the terms of his policy a claim upon his insurers for the amount of the loss. Examples of particular average loss falling upon the shipowner or his insurer are damage by storm to the ship, or loss of or damage to part of the ship's gear. Examples of particular average loss falling upon a cargo owner or his insurer, are loss by storm of part of a cargo, such as timber carried on deck, or damage to textiles or foodstuffs by sea-water or smoke which had got into the hold where these were stowed.

It will be noticed that the "Memorandum" at the end of Lloyd's form of policy warrants the insurance entirely free of particular average on certain commodities that easily sustain damage, unless the ship is stranded; that on some less susceptible articles it warrants the policy free of particular average of less than 5 per cent of the total value insured; whilst on the ship, on freight, and on all other goods, the warranty exempts damage of less than 3 per cent. What is known as the "F.P.A. Clause," in the form now generally added to policies, introduces several further exceptions to the application of the Memorandum, but does not alter the percentages named. The effect of these percentages is to relieve underwriters from the possibility of having to meet numerous small or trivial claims. Where certified damage exceeds the stated percentage, the practice of underwriters is to pay in full.

On the ship itself, however, or on a large consignment comprising many packages, even the lower 3 per cent exemption was found to throw upon the ship or cargo owner a loss greater than he was willing to bear himself. As regards cargo, therefore, the practice was begun of attaching to the policy a clause providing for the exemption percentage being applied to each case, bale, or other package separately; or, perhaps, to each series of ten bales taken in the running order of their landing numbers. That made the exempted margin, under the first of these provisions, 3 or 5 per cent of the value of only each single package; and, under the second, 3 or 5 per cent of the value of only the first ten landed, or the second or third ten, and so on, of the total number of packages in the consignment.

The amount to be claimed for a particular average loss is arrived at by (1) ascertaining the gross value (i.e. the value

of the goods, including charges and import duty paid) which has been realized or is realizable for the goods as damaged, and the gross value which they would have realized had they been landed sound, (2) finding what percentage the difference (between damaged value and sound value) bears to the sound value, and (3) calculating the claim as the same percentage of the amount for which the goods were held insured under the policy. Goods landed in damaged condition are subject to inspection by an officer at the port of landing, whose duty it is to give a survey certificate or report of their condition. This certificate becomes the basis of any insurance claim to be made in respect of the damage. *F.P.A.* (free of particular average) means that the goods are not insured against particular average loss. *W.P.A.* (with particular average), or *W.A.* (with average), means that particular average losses are insured.

3. **General Average** differs from particular average in its being (1) a loss of extraordinary or unusual kind, (2) incurred voluntarily and reasonably, (3) for the preservation of the property of all the parties interested in the ship, freight, and cargo, when it is in peril common to or shared by all. For example, the master of a ship in difficulties may jettison part of the ship's tackle or part of the cargo, with the view of being able to bring the rest of the ship and cargo to safety. Such a loss, being incurred for the safety of as much as possible of the ship and cargo as a whole, should be borne in common by all parties interested in the voyage. Maritime law, observed by all sea-going people, requires the loss to fall on each party in proportion to his interest. When the risk has been insured against by the party, his share of the loss is borne for him by his insurers. But the rules of general average were worked out long before insurance came into practice, and they operate independently of the insurance contract, so that any party who has not insured will have to bear his share of the loss himself.

A general average loss may be a "general average sacrifice" such as we have just described, or it may be a "general average expenditure" such as the cost of putting the ship into a port for shelter, or for repair considered necessary to its safety. *F.G.A.* in marine insurance means "foreign general average," or general average according to the law in force at the port of destination in another country. Bills of lading and marine

insurance policies now usually provide for general average being adjusted according to the York-Antwerp Rules, a set of rules agreed to and amended at conferences held at several places from 1864 to 1924, and attended by delegates from various countries. It is the duty of the shipowner to set on foot the preparation of a statement of general average loss and of the contributions required to make the loss good to the parties who have suffered. The work is put into the hands of a professional average adjuster selected by him. *F. A. A.* means that the insurance so described is free of all average, general or particular, and that a claim cannot be made against the insurers except in the event of T.L.O.—total loss only.

QUESTIONS

1. Why are the subjects of marine transport and marine insurance of greater interest in relation to the trade of Great Britain than to the trade of some other countries?

2. What is a "common carrier"? What were the liabilities at common law of common carriers by land or sea? How did they seek to free themselves from some of these liabilities?

3. Give examples of statutory provisions now in force by which (*a*) carriers by land, and (*b*) carriers by sea, are relieved of some of their liabilities at common law.

4. What do you understand by (*a*) a general ship, (*b*) act of God, (*c*) inherent vice? Give examples of (*b*) and (*c*).

5. Explain clearly what several purposes a bill of lading serves.

6. What particulars of the goods for which it is issued must a bill of lading show? By whom is a bill of lading issued, and why are more copies than one usually given? What happens if delivery of the same goods is claimed (*a*) simultaneously, (*b*) successively, by two persons each holding a copy of the bill of lading for the goods?

7. Why does a bill of lading say that the quantity, quality, and value of the goods it represents are unknown to the issuer? What action of the issuer of a bill of lading causes it to be described as "foul," and why is such action necessary? What do you understand by a "lien" on goods landed from a ship, and by whom can such a lien be exercised?

8. Explain as clearly as you can in what respect a bill of lading differs from a fully negotiable instrument.

9 What are (*a*) a mate's receipt, (*b*) a parcel receipt issued by a shipowner, (*c*) a dock or warehouse warrant? What purposes do they respectively serve, and how are they each dealt with for these purposes?

10. Write a short description of a charter-party, stating what you know of its contents and its uses.

11. For what reasons is it customary to take out policies of insurance for goods carried by sea? From what differently constituted establishments are policies of marine insurance issued?

12. Explain the constitution of Lloyd's in regard to the services that association renders, and particularly in respect of liability on insurances undertaken by its members.

13. State what are the peculiarities of (*a*) a voyage policy, (*b*) a time policy, and (*c*) a floating policy of marine insurance.

14. What are the meanings in connexion with marine insurance of the terms (*a*) contract of indemnity, (*b*) contract *uberrimae fidei*, (*c*) valued policy and unvalued policy, (*d*) continuation clause?

15. Name three "clauses" that are customarily added to Lloyd's form of marine policy. What is the effect of adding a clause that is inconsistent with a stipulation in the body of the policy? How does the effect of a warranty in an insurance policy differ from the usual effect of a warranty in an ordinary contract?

16. Explain in regard to marine insurance (*a*) the meaning of the term "subrogation," and (*b*) the meaning and effect of the phrase "policy proof of interest."

17. What is meant in marine insurance by (*a*) peril of the sea, (*b*) jettison, (*c*) barratry, (*d*) proximate cause?

18. Define the term "total loss" in regard to marine insurance, and explain two kinds of total loss.

19. Explain as clearly as you can when a loss at sea comes under the designation of "particular average." Give two examples, and say by whom such a loss is borne.

20. Explain the effect of the warranty appended to Lloyd's policy, providing for certain articles being insured free of particular average, or free of particular average claims under stated percentages. How has it been found necessary to modify this warranty in practice?

21. State shortly how the amount of a claim for particular average loss on merchandise is calculated, and how merchandise landed in damaged condition is dealt with for the purpose of such a claim.

22. Give a careful explanation, with examples, of what is meant by "general average," and of how the different parties interested in a marine adventure are effected by it.

23. (*a*) What are the meanings of the abbreviations F.P.A., W.P.A., A.A.R., F.A.A., and F.G.A.?

(*b*) What are the duties of an average adjuster, and who engages him when his services are needed? What are the York-Antwerp Rules?

24. Explain (*a*) general average sacrifice, (*b*) general average expenditure, and (*c*) by whom such sacrifice or expenditure is borne, and why.

25. What is a bill of lading? Explain its importance in respect of the carriage of goods, and of a sale of the goods. Is it a negotiable instrument? If so, why; and if not, why not? (*R.S.A.*)

26. What is (*a*) a charter-party, (*b*) a bill of lading? What is a right of stoppage in transitu, and how may it be affected by the transfer of the bill of lading? (*R.S.A.*)

27. Describe the course of business when it is desired to insure at Lloyd's against sea risks on goods. State in what respect an insurance broker differs from other agents. (*L.C.C.*)

CHAPTER 32

WORK OF THE EXPORTER

How the exporter can obtain payment in various circumstances for goods that have been or are being sent abroad is explained in Chapters 28 and 34. In this chapter we deal with some further features that are not found, or not found to the same extent, in home trade. Points about carriage by sea, and about how an exporter can safeguard himself against loss at sea, have just been treated of in Chapter 31. Some other peculiarities, such as the means of negotiating and communicating orders or the methods of packing merchandise, are due to distance and conditions of ocean transport, whilst some are due to differences in language and customs. Others, again, arise out of the policy pursued by most countries of discouraging imports that would compete in sale with their own manufactures, or in production with their own labour supply.

ORDERS FROM ABROAD

Orders from abroad reach suppliers here *through various channels*. They may come addressed direct to manufacturers or wholesale traders here, who will execute the orders and send the goods direct to the foreign purchasers. The manufacturer or wholesaler, however, may receive his foreign orders through a commission agent he has appointed in the country of the purchasers; or he may receive them through his own travelling salesman maintained there permanently, or sent out periodically, to keep in touch with old customers and to open with new ones when he can. When a selling agent in a foreign country takes upon himself the responsibility for bad debts, the extra commission paid him in consequence is called *del credere* commission. The periodical traveller will take out samples of the goods then on offer, and the permanent salesman or agent will have new samples sent to him as the old ones are withdrawn. Some of the orders coming here may be obtained without the intervention of salesman or agent. They may be

obtained merely by the submitting of samples and prices, either on the supplier's own initiative, or at the request of the purchaser, who may have been prompted to write for them by seeing in his local Press an advertisement of goods that interested him.

Many trading establishments (retail as well as wholesale) in the British Dominions and America have *buying offices in London* conducted by their own staffs or by appointed agents. To the offices of these staffs or agents manufacturers offer likely goods they have available, or submit samples and prices in reply to inquiries; and from these offices they obtain any orders that are forthcoming. Sometimes these buying offices will be able themselves to place orders on general instructions received from their head offices. Sometimes they will have to submit suggestions to their headquarters abroad, and to await replies. But sometimes, again, the headquarters officials interested will be on buying visits to this country, and will be able to place orders or refuse offers at the time.

A merchant house here may export goods in return for imports it has received for sale from its own branch office or its agent abroad. In that case each office or agent keeps *a running or current account* with the other, the balance of which, with interest allowed and taken, is agreed between them from time to time, and settled by remittance when desirable. Formerly it was more usual than now for orders coming here each to include goods of very different kinds—perhaps textile materials and agricultural implements, wearing apparel and gramophones, crockery and printed books. Such an order is, by old custom, called *an indent*, and the agent who receives it gets prices, places orders, and takes all needful steps to have the goods ready for shipment at the time required. Unless the indent specifies particular brands or makes, the agent is free to procure the goods wherever they can best be purchased, keeping in view, of course, as regards prices and qualities, the interest of his principal abroad.

A buying agent here pays each supplier of the goods, sends his principal the suppliers' invoices, charges him in addition the expense of shipment and insurance, and an agreed commission for his own services. He probably obtains payment by sending for collection a bill of exchange drawn by him on his

principal when the goods have been shipped, and in the meantime he probably gets an advance from the bank on security of the documents. Unless he is a merchant with adequate packing facilities of his own, he usually instructs each supplier to deliver the goods, when they are ready, to a *packing house*. That establishment sees to the whole consignment being suitably packed for sea transport, arranges for shipment, and perhaps for insurance, in accordance with the export agent's instructions. Similar procedure is followed by the buying offices maintained here by trading businesses in other countries. The following is a representation of the kind of instructions issued, from a buying office in London, with an order for goods to be shipped to departmental stores in the United States—

PACKING

1. Mark all goods to show the country of origin.

2. Attach to the ends of all packages labels marked with Country of Origin, Description of Contents, Quantity in Package, Number of Department Ordering, and the Order Number.

3. For address, mark each package thus—

. . . . . .

4. Stencil on each package its measurements and weight.

INVOICING

1. Begin each item with the description of the goods. If any are made of different materials, specify the materials and indicate the chief constituent. For example, "Art. silk and cotton cloth, chiefly art. silk." State the net weight of each constituent.

2. State, as the case may require, either (*a*) "Home market value, duty included, is not higher than the invoiced price," or (*b*) "Home market value, duty included, is . . . . per cent higher than the invoiced price."

3. If packing is not separately charged, append a note stating that the prices charged include the cost of packing.

4. Show (*a*) All package numbers and marks.

(*b*) Gross and net weights of each package.

(*c*) Department Order No. — goods for each department to be invoiced separately.

5. Deduct prompt cash discount from each invoice.

6. Send to us on the day you dispatch the goods....copies of each invoice.

7. Any drawback allowable should be claimed by you, and allowed to us in the price charged. Goods subject to drawback should be invoiced separately. The invoice should show the amount claimed, and that it is not included in the price charged.

FORWARDING

1. To arrive before ship closes for cargo on . . . .
Forward to S.S. . . . . .
at . . . . . .
to order of our agents . . . . . .

2. Send to the agents on the day of dispatch a copy of the invoice, and notification of how the packages have been sent.

3. You are *not* to insure the goods.

In the export trade it is even more imperative than in the home trade that *orders shall be exact and clear* in every particular, not only about the goods required, but also about the time and manner of shipment, and about insurance and payment. Time should not be needlessly lost in writing, or expense incurred in cabling, to a distant country for confirmation or correction of a doubtful point. For the same reason care should be exercised in the preparation of invoices; and for the further reason that any error in an invoice is likely to lead to trouble with, and perhaps to the imposition of a fine by, the customs authority at the port of destination. Information about the customs requirements of the importing country can be obtained from any of the consuls of that country resident here. It may also be obtained from the British Department of Overseas Trade, Dolphin Square, London, S.W.1.

Lastly, if it is unwise, without any assurance about payment, to deliver goods ordered by unknown persons in this country, who are comparatively near at hand, it would be foolish indeed to supply unknown and unrecommended purchasers in distant lands. A trader abroad, who has already been buying from

this country, should not be averse from giving to a new supplier *references to previous suppliers* here whose reports about him would be satisfactory. He should be willing also to permit inquiry being sent to his bank. If he is well known in his own locality, an inquiry made at the London office of his bank by the bank of the exporter here, should bring a report about him without the necessity for writing or cabling abroad.

FOREIGN TELEGRAMS

Why Necessary. The spread of air-mail services has brought appreciable acceleration in the conveyance of letters to and from distant places. To exporters the air services are particularly useful for the sending of samples or patterns which the telegraphic systems cannot take, and for which the slower sea-going mails had previously to be used. In the conduct of negotiations between distant countries, however, the time occupied by letter post, there and back, is still so long that it would often be an irksome deterrent to the closing of a bargain or the fixing of a preliminary arrangement. In these circumstances recourse must be had to the speedier means of communication by submarine or wireless telegram.

How Sent. Any foreign telegram may be handed in at a post office where telegrams are taken; and full details regarding rates, routes, and regulations are given in the *Post Office Guide.* Foreign telegrams may also be handed in at an office of any of the telegraph companies serving the countries to which the telegrams are to be sent. To the nearer European countries telegrams are sent by the Post Office over cable routes in which the Government holds interest. Empire routes and services are now co-ordinated under the control of an operating company named Cable & Wireless, Ltd., with its head office at Electra House, Victoria Embankment, London; but the company's lines reach many places besides British Dominions and Dependencies. Other cable routes are owned and operated by the Western Union Telegraph Company, the Commercial Cable Company, and the Great Northern Telegraph Company, which also keep offices open here for business with the public.

Different Rates. The *Post Office Guide* divides foreign telegraph services into two groups—the European and the Extra-European Systems. For the latter group rates are

shown under three chief classes, namely, Ordinary, Deferred, and Letter telegrams. Deferred telegrams are charged at one-half the ordinary rates, and suffer only such delay as is necessary to give precedence to higher-rated messages. Night-letter and daily-letter telegrams are charged at one-third the ordinary rates, subject to a minimum charge as for twenty-five words. They are normally delivered on the morning after they have been handed in. The European system provides letter-telegram services in addition to those at ordinary rates; but it has no deferred rates.

Plain Language and Code. Whilst deferred and letter telegrams must always be written in plain language, ordinary telegrams may be written as an alternative in code or cipher. Code is defined as artificial words, or as real words used in other than their ordinary meanings. Cipher consists of groups of figures having a secret meaning, or of letters that are neither plain language nor code. In plain language fifteen letters are allowed to each word in counting the charge for telegrams. In code or cipher only five letters or five figures are allowed at the single-word rate; but the rate is a little less.

Use of Code. In the export, as in other sections of foreign trade and shipping, the use of code became general because formerly telegraphic rates to other countries were much higher than they are now. The more distant the country, the higher was the rate; but by reason of the greater distance communication by letter post took longer, and rendered the need for telegraphing more pressing. Where the charge ran to a few shillings for each word, extensive use of telegrams in ordinary language was prohibitive; so the practice was developed of making a single telegraphed word to stand for a phrase or sentence, and books of code words, with the meanings assigned to them, were published for general use. Merchants, too, set to work themselves to produce, for their own and their customers' use, small private codes. These were ingeniously constructed to yield the fullest effect in the message each word conveyed, and they were adapted to the limited and peculiar needs of the merchants' own businesses. When ten letters were formerly allowed for a single code word, two letters might be used to signify one phrase, three another, and so on. A single code word might thus be made to carry the whole of certain orders

or instructions; but, under the present limit of five letters, the ten-letter code word is now charged as two. As ordinary rates were gradually reduced, and facilities for deferred and letter telegrams provided, the need for code decreased. With the ordinary rate reduced to one-third for a letter telegram, so that three plain-language words can be used instead of one code word of only five letters, and with delivery to be made to the addressee the following day, the sender's trouble of finding suitable code words and the receiver's trouble of decoding them may be saved, whilst more freedom of expression may be indulged in. Still, with letter-telegram rates ranging, for example, from 4d., a word for New York to 1s. 1d. a word for Dutch East Indies, there is opportunity yet for economizing by the use of code.

Examples of Code. Below are two short examples taken from five-letter code books in common use—

1. From Bentley's Code—

Code Word	Translation
OJAVK	price is too high
NEFPA	others are offering less
OHWER	the best price obtainable is
SHIZT	$7\frac{1}{16}$ pence

2. From ABC Code, 6th Edition—

PEPHA	do not deliver the goods
YADMO	before payment is made
YAGAI	if payment is not made
PFASY	sell the goods on best possible terms

PRICES IN EXPORT TRADE

In quoting or charging for goods for shipment various terms are in use to denote what services, if any, are covered by the price, in addition to the bare cost of the goods at the place where they are offered or have been bought. The following are the more usual examples—

Loco Manchester describes the price of goods unpacked at the works or warehouse in Manchester. The term "ex works" or "ex warehouse," without any added qualification, would appear to mean loco price increased by the cost of any packing necessary before removal. None of these terms includes cost of removal.

F.O.R., or free on rail, Manchester, includes the cost of the goods, together with the cost of packing and that of carting to and loading into railway truck at Manchester.

F.O.B., or free on board, Southampton, means that the price includes the cost of the goods together with packing, local cartage, railway carriage or road-motor haulage to Southampton docks; also dock dues and any further charge necessary to place the goods on board the ship.

F.A.S., or free alongside ship, may be used when goods are taken by barge alongside the ship in midstream. It would not include the charge for transferring the goods from the barge to the ship. As no dock is used, no dock dues are incurred.

C. and F., or cost and freight, includes the same as the F.O.B. price, together with the charge for carrying the goods from the port of departure to the port of destination. It includes neither the insurance of the goods during transport, nor the dock dues and customs duty payable on arrival.

C.I.F. (colloquially pronounced "siff") stands for cost, insurance, and freight. It covers the same as the C. & F. price with marine insurance added. "C.I.F. Malta" means that the price charged to the buyer takes the goods free up to entering port at Malta, and insures them during the voyage.

Franco Barcelona means that the price to the buyer covers the cost of the goods, and all charges to take them through the port of Barcelona. *Franco Domicile* means that every transport and delivery charge is included in the price, and that the goods are to be delivered free at the buyer's place of business, whether it is situated at the port of arrival or in an inland town. *Franco* invoices would usually be made out in the currency of each buyer's country.

We have previously seen that many kinds of manufactured goods are delivered free of charges to the buyers in London, because they cannot be sold here on less advantageous terms than the products of our own mills. It is a benefit to the purchaser, whether here or abroad, to be given a C.I.F. or franco price. He then knows exactly, or is better able to estimate, what will be the full cost on which to base the selling price of his purchase.

Examples of Price Calculation. The invoice shown on page 539 charges to Nicolas Ferranti goods at prices that are

F.O.B. It may have been agreed with the customer that freight and insurance were to be paid by him in Valetta. If, on the contrary, they were paid in London and were to be charged to the customer, his invoice would be increased by the addition of these charges, thus—

	£ s. d.	£ s. d.
Net total of goods, as invoiced . .		34 5 6
Add charges—		
Freight on 16 ft 4 in. at 45s. . .	18 5	
Primage at 10%	1 10	
Bills of lading and stamps . .	2 –	
Insurance F P.A 3s., stamp 3d. .	3 3	
	1 5 6	
Plus 5% . .	1 3	
		1 6 9
		£35 12 3

An invoice made out at loco instead of F.O.B. prices would have the following charges also added: (1) cost of "making up," that is, folding, parcelling, and ticketing to suit the buyer's market, (2) packing in cases or bales, (3) carriage to ship and dock dues. If, however, the goods had been *sold on C.I.F. terms*, the prices quoted would have been raised by the ratio that the amount of the additional charges bears to the gross amount of the goods at F.O.B. price. The ratio here is nearly 1 : 26. Adding approximately $\frac{1}{26}$th to each price, we get 7d. for the first one, 6½d. for the second, 9½d. for the third, and we have no charges to append to the invoice. The invoice items and the total would then be as follows—

	£ s. d.	£ s. d.
Item (1) 475½ yds @ 7d. . .	13 17 5	
(2) 241 yds. @ 6½d. . .	6 10 6	
(3) 407¾ yds. @ 9½d. . .	16 2 10	
		36 10 9
Less 2½% . . .		18 3
		£35 12 6

The result is that the net amount of the goods has been raised by £1 7s., or by just 3d. more than the amount of the assumed charges.

To illustrate, next, the conversion of an English price per unit for the purpose of *quoting in foreign currency*, let us take as example 1s. 5½d. a yard. Stated as a decimal fraction of £1, the price is £0·0729167 almost exactly. If the dollar exchange rate at the time were 4·87, the dollar price per yard would be—

$$\$0{\cdot}0729167 \times 4{\cdot}87 = \$0{\cdot}355, \text{ or } 35\tfrac{1}{2} \text{ cents}$$

With the Paris rate at 176⅝, the price per metre in French francs would be—

$$0{\cdot}0729167 \times 176\tfrac{5}{8} \times 39{\cdot}37 \div 36$$
$$= 12{\cdot}8789 \times 1{\cdot}0936$$
$$= 14{\cdot}085 \text{ francs}$$

INVOICES FOR ABROAD

The specimen invoice on page 539 is made out in the form to be used for export to Malta. It is the invoice for which a bill of exchange drawn on this buyer is shown in Chapter 28. On the back of the invoice form there is printed for completion by or for the exporter, the blank *Certificate of Value and Origin* reproduced on pages 540–1. The part of this certificate dealing with value is required for the Dominions and the Colonies, to ensure as far as possible that custom duty there shall be levied on the correct value of the imported articles. The remaining part dealing with origin is used to permit goods of British origin to enter the importing country under preferential rates of duty.

Because the textile goods described in our specimen invoice contain 50 per cent or more of cotton, artificial silk, or cotton and artificial silk combined, their entry into Malta is subject to quota, unless they are accompanied by a further certificate stating that they have been spun, woven, and finished in the British Empire. This second certificate is required by Malta in common with other British Colonies (such as Bermuda, Jamaica, Gold Coast, Malaya), but not by the Dominions. It is obtainable from any of a number of Chambers of Commerce in the United Kingdom, and is given on a signed declaration to the same effect made by the exporter. He may be required to support his declaration by the signed statement of the manufacturer of the goods.

Place and Date . *London, 10th December, 19..*

INVOICE of *Cotton and Art. Silk and Cotton Piece Goods* supplied by *Fearnley, Sanderson & Co., Ltd* of *St Paul's Churchyard, E.C.4,* to . *Nicolas Ferranti* of *Valetta, Malta* ... to be shipped per S S *"Stuart Prince"*

Order No 0136/137

Country of Origin	Marks and numbers on packages	Quantity and Description of Goods	Selling Price to Purchaser @	Amount £	s.	d.
United Kingdom		One bale containing— 13 pieces Casement Cloth, 46 in wide 72 52% cotton, 27 48% art. silk 30 yds 35 yds 34 yds 30 ,, 35 ,, 36½ ,, 39 ,, 35 ,, 32 ,, 39½ ,, 49 ,, 45½ ,, 35 ,, 475½ yds. Net weight, 117½ lb.	6½d.	13	7	6
United Kingdom		6 pieces Printed Cretonne, 40 in. wide, all cotton 38½ yds 40 yds 41 yds 40 ,, 40 ,, 41½ ,, 241 yds.	6½d	6	5	6
United Kingdom	NF 341 MALTA	10 pieces Printed Cretonne, 47 in wide, all cotton 37½ yds 40½ yds 42 yds 39 ,, 41 ,, 42 ,, 40 ,, 41½ ,, 42 ,, 42 ,, 407½ yds	9½d.	15	10	1
				35	3	1
		Discount 2½%			17	7
		Measurements, 51 × 24 × 23 inches Net weight, 2 cwt 3 qr. Gross ,, 2 cwt 3 qr 14 lb.		34	5	6

Enumerate the following charges, and state whether each amount has been included in or excluded from the selling price to purchaser—

	Amount in currency of exporting country	State if included in above selling price to purchaser
(1) Cartage to rail and/or to docks		Yes
(2) Inland freight (rail or canal) and other charges to the dock area, including inland insurance		,,
(3) Labour in packing the goods into outside packages		,,
(4) Value of outside packages		,,
(5) If the goods are subject to any charge by way of royalties		No

State full particulars of Royalties below—

NOTES. 1. If all goods shown on the invoice have the same Country of Origin, such country need not be shown in a separate column, provided it is clearly indicated in a conspicuous place on the Invoice—i.e. "Country of Origin England."

2. Goods admissible under the British Preferential Tariff should not be shown on the same invoice as goods of foreign origin.

MALTA

Certificate of Value and Origin and Invoice of Goods

(Import Duties Ordinance (1917) *Amendment Act*, 1934)

FORM D

COMBINED CERTIFICATE OF VALUE AND OF ORIGIN, AND INVOICE, FOR THE ASSESSMENT OF *ad valorem* DUTIES ON THE "INVOICE PRICE" OF GOODS

(1) Here insert Manager, Chief Clerk, or as the case may be.
(2) Here insert name of firm or company.
(3) Here insert name of city or country.

I, ... (1) ..... of (2) ..... of (3)..... manufacturers / suppliers of the goods enumerated in this invoice amounting to .....hereby declare that I

(4) These words should be omitted where the manufacturer or supplier himself signs the Certificate.

[(4) have the authority to make and sign this certificate on behalf of the aforesaid manufacturers / suppliers and that I] have the means of knowing and I do hereby certify as follows—

VALUE

1. That this invoice is in all respects correct and contains a true and full statement of the price actually paid or to be paid for the said goods, and the actual quantity thereof.

2. That no arrangements or understanding affecting the purchase price of the said goods has been or will be made or entered into between the said exporter and purchaser or by anyone on behalf of either of them either by way of discount, rebate, compensation, or in any manner whatever other than as fully shown on this invoice, or as follows (5)[.....

(5) Here insert particulars of any special arrangement.

ORIGIN

(This part is for use only where goods are entitled to Preferential Tariff Rates)

(Delete whichever of 3 (*a*) or 3 (*b*) is not applicable. If 3 (*a*) is used, delete 4 and 5. If 3 (*b*) is used, insert required particulars in 4 and 5)

3 (*a*) That every article mentioned in the said invoice has been *wholly* produced or manufactured in (6). . ...

3 (*b*) That every article mentioned in the said invoice has been either *wholly or partially* produced or manufactured in (6)

4. As regards those articles only partially produced or manufactured in (6) . . ..

(*a*) That the final process or processes of manufacture have been performed in that part of the British Dominions

(*b*) That the expenditure in material produced in (6) . ... and/or labour performed in (6) . . calculated subject to qualifications hereunder, in each and every article is not less than (7) . . .. . per cent of the factory or works costs of such article in its finished state *

5. That in the calculation of such proportion of produce or labour of the (6) ....none of the following items has been included or considered—

"Manufacturer's profit or remuneration of any trader, agent, broker, or other person dealing in the articles in their finished condition, royalties, cost of outside packages or any cost of packing the goods thereinto; any cost of conveying, insuring, or shipping the goods subsequent to their manufacture."

*NOTE In the case of goods which have at some stage entered into the commerce of, or undergone a process of manufacture in a foreign country only that labour and British Empire material which is expended on, or added to, the goods after their return to the United Kingdom or other part of the British Empire shall be regarded as the produce or manufacture of the United Kingdom or other part of the British Empire in calculating the proportion of labour and material in the factory or works cost of the finished article.

Dated at *this* . . . *day of* .... .19 ...

Witness . . . . *Signature* . . . .

(6) Insert "United Kingdom" or name of other part of the British Dominions.

(7) Insert "twenty-five" "fifty" or "seventy-five" as the case may be.

*State here general nature or class of goods.

Place and Date .. *London, 27th March*, 19..

*INVOICE of . *Printed Cotton and Rayon Tissue* . ...

supplied by *Fearnley, Sanderson & Co., Ltd.* .. ..

of .. *St. Paul's Churchyard, E C.4* .. . .

to . *W. R. Paterson & Son* . . ..

of *Union Square, Port Elizabeth, South Africa* . . ....

to be shipped per *"Dunnottar Castle"* . . ..

Order No. 6655

Country of Origin	Marks and numbers on packages	Quantity and Description of Goods	Current domestic values in currency of exporting country (See pars 3 and 4 of certificate) @	Current domestic values in currency of exporting country (See pars 3 and 4 of certificate) Amount	† Selling Price to Purchaser @	† Selling Price to Purchaser Amount
				£ s. d		£ s. d
United Kingdom	W R / 31 / P S / PORT ELIZABETH	One bale containing— 1 piece 47 in Printed Warp Rayon Shadow Tissue 71% Cotton, 29% Art Silk Colour 31 56 yards Square yards = 73 3/8 Net weight = 22 lb Art. Silk = 6 38 lb.	1/5 3/8	4 1 1	1/4	3 14 8
		2 pieces 47 in Printed Warp Rayon Shadow Tissue 72 1/2% Cotton, 27 1/2% Art Silk Colour 32 67 yards " 35 54 " 121 "	1/5 3/8	8 15 2	1/4	8 1 4
				12 16 3		11 16 0
		Square yards = 157 1/8 Net weight = 47 4 lb. Art. Silk = 13 035 lb. Discount @	3 1/2%	9 0		8 3
				£12 7 3		£11 7 9

We certify that the difference shown between the Current domestic value and Selling price to purchaser is due only to drawback of Excise duty collected in England, and amounting to £0 19s. 4d.

† When goods are shipped "on consignment," that fact should be indicated in the column headed "Selling Price to Purchaser," and the Current Domestic Values inserted in the column provided for that purpose, as in the case of ordinary sales.

NOTE. In the case of South Africa, the supplier or manufacturer as the case may be must insert opposite each article described on the invoice and in the columns headed "Current Domestic Values" and "Selling Price to Purchaser" the gross value or price thereof, and at the end or in the body of the invoice the rates of discount or the allowances (if any) granted or permitted by him on such or similar goods.

Every export invoice should give accurate descriptions of the articles it represents, so that they may pass the foreign customs without delay, and so that they shall be charged to duty under the appropriate divisions of the country's tariff classification. For other parts of British Dominions or Possessions similar or slightly modified forms of invoice and certificate are needed. Most of them, like those for South Africa and Australia, for example, are required with double money columns, as in the specimen on page 542. Also, the certificate of value to be given with this form contains the following additional paragraphs—

3. That the domestic values shown in the column headed "Current Domestic Values" are those at which the above-mentioned firm or company would be prepared to supply to any purchaser for home consumption in the country of exportation and at the date of exportation identically similar goods in the usual wholesale quantities at subject to per cent cash discount, and that such values include/exclude the cost of outside packages, if any, in which the goods are sold in such country for domestic consumption.

4. That the said domestic value includes any duty leviable in respect of the goods before they are delivered for home consumption, and that on exportation a drawback or remission of duty amounting to has been/will be allowed by the revenue authorities in the country of exportation.

Consular Invoices. Invoices made out on their own special forms are required by a number of countries outside the British Empire. On completion such an invoice must be presented to that country's consular office in the exporter's locality for the consul's visa. On page 544 are shown copies of the certificates required to be completed on the back of the consular invoice of the United States of America. The form to be completed for the invoice itself is an ordinary form used in the export trade. The consul retains one copy, posts a second one to the U.S.A. Customs at the port of entry of the goods, and hands the others back to the exporter, who will post them to his customer or to his agent at that port. Forms for South American consular invoices are printed in the language, Spanish or Portuguese, of the importing State.

FORMS OF CERTIFICATE AND INVOICING INSTRUCTIONS APPEARING ON THE FORM OF CONSULAR INVOICE REQUIRED FOR THE UNITED STATES OF AMERICA

FORM 138
(Amended May, 1924)

DECLARATION OF SELLER OR SHIPPER, OR THE AGENT OF EITHER, WHEN MERCHANDISE IS SHIPPED IN PURSUANCE OF A PURCHASE OR AN AGREEMENT TO PURCHASE

I, We, ...

acting in the capacity described below, truly declare that . . . . . .

. . . . . .

of . . . . . .

is are *the* {*seller sellers*} *or* {*shipper shippers*} *of the merchandise described in the within or attached invoice; that the merchandise is sold or agreed to be sold; that there is no other invoice differing from the within or attached invoice, and that all the statements contained herein and in such invoice are true and correct.*

I, We further declare that . . . . . .

. . . . . .

. . . . . .

and that it is intended to make entry of said merchandise at the port of . . . . . .

in the United States of America.

Dated at . . . . . *this* . . . . . *day of* . . . . . .

(Seller)

(Shipper)

(Agent of seller)

(Agent of shipper)

CONSULAR CERTIFICATE

FORM 140
(Amended May, 1924)

. . . . . .
(Date)

I do hereby certify that this invoice was this day produced to me by the signer of the above declaration.

I do further certify that I am satisfied that the person making the declaration above is the person he represents himself to be, and that a fee of $2.50 *United States gold, equal to* . . . . . *(Local currency), has been paid by affixing stamps to the duplicate copy of this document.*

Witness my hand and seal of office the day and year aforesaid.

. . . . . .

. . . . . *of the United States of America.*

REQUIRED CONTENTS OF THIS INVOICE

(1) The port of entry to which the merchandise is destined
(2) The time when, the place where, the person by whom, and the person to whom the merchandise is sold or agreed to be sold
3) A detailed description of the merchandise, including the name by which each item is known, the grade or quality, and the marks, numbers, or symbols under which sold by the seller or manufacturer to the trade in the country of exportation, together with the marks and numbers of the packages in which the merchandise is packed
(4) The quantities in the weights and measures of the country or place from which the merchandise is shipped, or the weights and measures of the United States
(5) The purchase price of each item in the currency of the purchase
(6) The kind of currency, whether gold, silver, or paper
(7) All charges upon the merchandise, itemized by name and amount when known to the seller or shipper, or all charges by name (including commissions, insurance, freight, cases, containers, coverings, and cost of packing) included in the invoice prices when the amounts of such charges are unknown to the seller or shipper
(8) All rebates, drawbacks, and bounties, separately itemized allowed upon the exportation of the merchandise

INSTRUCTIONS ISSUED BY THE SECRETARY OF THE TREASURY RELATIVE TO THE REQUIRED CONTENTS OF INVOICES

When special form of invoice is required by the United States customs authorities, and when the required information cannot be given on the face of this invoice form, it should be attached to and be in lieu of the printed invoice form

DRAWBACK OF DUTY

On the face of our South African specimen, and in the additional paragraphs required in the certificate of value for this two-column form of invoice, reference is made to drawback or remission of duty previously paid on goods that are being exported. In our example it is excise duty (paid on artificial silk or rayon material manufactured in this country) that is in question. In another case it might be customs duty paid on importation of foreign goods that are passing back out of this country as exports. In order not to handicap our own trade, and particularly our manufactures, in competing with other countries' products in foreign markets, the Government allows repayment to the exporter of any duty that has previously been paid on the goods he exports. The duty may not have been paid directly by the exporter; in many instances it will only have been paid indirectly by him in the price he has given for duty-paid goods to the manufacturer or merchant from whom he bought them. Imported goods which are subject to duty if retained for home consumption, but which are in fact intended for export only, may be left in bond until they are required for export. No duty will then need to be paid upon them, and no drawback will be repayable.

When an exporter intends to claim drawback of duty, a prescribed form of *Notice to Pack and Shipping Bill* must be completed, and sent to the local office of Customs and Excise, in time for the goods to be inspected before they are packed for dispatch. The completed form must show description, quantity, and value of the goods; marks, numbers, and addresses of the packages; and the rate or amount of the drawback claimed. Further, a bond must be given for the due exportation of the goods. In verifying the claim the inspecting customs officer may require production of a copy of the exporter's invoice to his customer. He may also require production of the supplier's invoice to the exporter, and of the manufacturer's written statement of the percentage of dutiable constituent that has entered into the finished goods. If the claim is found to be in order there will later reach the exporter a warrant, or *Debenture* as it is called, for repayment of the duty. Before he hands the warrant to his bank for collection, the exporter is required to

complete the form of receipt that the warrant contains; also to sign on the warrant a declaration that the goods have been shipped, that they are not to be re-landed, and that the claimant is entitled to the repayment.

PACKING REQUIREMENTS

Kinds of Packing. Owing to the extra risks peculiar to transport by sea, and to the rougher handling goods may undergo in loading and unloading, they are usually given much greater protection in packing for shipment than for road or rail carriage at home. We have seen that exporters often entrust this work to packing houses that specialize in making-up, casing, and baling goods for export. Textile exports of good quality are packed in wooden outside cases with inner casings of tin. When the cases have been filled, the lids of these tin linings are soldered down all round to keep them air- and moisture-proof. The sealed metal lining also helps to prevent pilfering of the contents. When textile goods of lower values are exported in ordinary cases, or in bales with outer wrappers of canvas, they have inner linings of paper and one of some waterproof material. As previously stated, textile materials in pieces must have the pieces "made up" in certain forms. For some remote destinations the packages are also required to conform to customary sizes and weights, as when they will have to be landed by lighter, or carried for long distances on mule back or on the heads of native porters.

Small lots to be conveyed by any of the foreign transport services or by post may be packed in cardboard cartons or in several coverings of stout paper. Small parcels are usually addressed in the ordinary way; but it is customary for bales and cases to have a "mark" stencilled on each package instead of the full address The mark may consist of a small geometric form such as a triangle or a diamond, with the initials of the consignee and the distinctive number of the package forming part of the mark. When a consignment consists of several packages, they are numbered in series; but otherwise the marks on them are the same, which helps to keep the lot together during its several handlings at different stages of conveyance. So as to make the destination quite plain, the name of the port where it is to be put ashore should form part

of the mark on each package, and should always be stencilled in full.

Advantages of Good Packing. When cases are used for protection of goods during shipment, the cases are likely to be made specially to fit the contents they are to carry. For that purpose the goods are first stacked in the shape they are to take in their case, then the pile of goods is measured and the case made some two inches larger in each outside dimension. Packing cases for shipment of goods are made to fit their contents neatly so as to prevent damage by the contents working loose and being shaken about in transport. For the same reason goods being baled are packed tightly in mechanical presses, and are hooped or wired whilst under pressure. The more securely goods are packed, the better condition they will be in on arrival. Besides, securely packed goods are less subject to the kind of loss described in Chapter 31 as particular average. They, also articles (such as sawn timber or bars of iron) so little liable to damage that they need not be packed at all, may be insured "free of particular average" with some advantage in the insurance rate.

That cargo, of the kind we have been describing, is charged for freight according to the space it occupies, is another reason for packing it into as small compass as possible without compressing it to the point of damage. Because a ship's capacity is limited in respect of both space and weight of cargo, it would not be equitable to charge light and bulky consignments by weight, or heavy consignments taking up little room by measurement. So shipowners charge freight on some kinds of cargo by weight, and on other kinds by measurement, the unit for the latter being the "ton measurement" of 40 cubic feet. For articles requiring special stowage special charges will be made.

Cargo Measurement. The cubic content of packages may be calculated in vulgar fractions, or in duodecimals by feet, primes, and seconds, where a prime is one-twelfth of a foot and a second one-twelfth of a prime. The following examples of the two methods of calculation show that a case measuring 3 ft. 3 in. × 2 ft. 9 in. × 2 ft. 6 in. has a capacity of approximately $22\frac{4}{12}$ cubic feet—

(*a*) $3\frac{1}{4} \times 2\frac{3}{4} \times 2\frac{1}{2} = \frac{13}{4} \times \frac{11}{4} \times \frac{5}{2} = \frac{715}{32} = 22\frac{11}{32}$ cubic feet.

(*b*)

Feet	Primes	Seconds	
3	3	0	Multiplicand
2	9		1st multiplier
6	6	0	product of 3 ft. 3 in. and 2 ft.
2	5	3	product of 3 ft. 3 in. and 9 in.
8	11	3	product of 3 ft. 3 in. and 2 ft. 9 in.
2	6		2nd multiplier
17	10	6	product of 3 ft. 3 in. and 2 ft. 9 in. and 2 ft
4	5	7½	product of 3 ft. 3 in. and 2 ft. 9 in. and 6 in.
22	4	1½	product of 3 ft. 3 in. and 2 ft. 9 in. and 2 ft. 6 in.

FORMALITIES OF DISPATCH

When the goods have been packed and are ready for shipment they have to be sent, by road or rail, to the dock, or to the port and dock, from which the ship will sail. A *Shipping Note* has to be sent to the superintendent of the dock, describing the packages, advising him of their arrival, and stating for what ship they are intended. British Customs records of exports are compiled from a *Specification of Goods Exported*, completed for each consignment on the official form, and delivered to the customs at the port of shipment within six days of the clearance of the ship. The specification gives a description of the goods, and states their quantities with their F.O.B. values.

Steps must be taken, also, to effect *insurance of the goods*. If a form of shipping instructions similar to the one shown on page 551 is filled in by the exporter and sent to the shipping company or its agents, they will see to the insurance and to the customs specification. The reader will notice, in this form, the references to customs entry at the head of the Description column, and to insurance F.P.A. or W.A. near the foot of the form. The British Customs keeps its records of textile exports in *square yards*, which causes materials of various widths to be reduced to a common standard. The widths of materials must, therefore, be noted as well as lengths. Taking our Malta invoice, for example, we can calculate the number of square yards in the first item thus—

$$475\tfrac{1}{2} \times 46 \div 36 = 607\tfrac{7}{12} \text{ square yards;}$$

or we can calculate it thus—

At	36 in.	wide	the sq. yds.	would be	475·5
,,	9 in.	,,	,,	,,	118·875
,,	1 in.	,,	,,	,,	13·2083
,,	46 in.	,,	,,	,,	607·583

Or $607\frac{7}{12}$

It is necessary, further, to procure the *bills of lading*, so that they can be sent out along with the invoices for the goods and the insurance policy. It will be remembered that possession of the goods cannot be obtained at the port of arrival without surrender of one of the bills of lading. When bills of lading are made out to the exporter's order he should indorse them before disposing of them. Whether the invoices and other documents are all posted to the purchaser direct, or are sent through a bank along with a bill of exchange for the value of the goods and charges, depends on the terms agreed to for payment. In the latter event one copy of the invoice, and a letter saying how the other documents have been dealt with, should go direct to the purchaser, and all should be sent in time to reach their destination as soon as, or earlier than, the goods. If the consignee's address is not in the port of arrival itself, but somewhere inland, the documents or some of them may be sent to a clearing agent at the port. He will surrender the bills of lading, pay dock dues and charges, see the goods through the Customs, and pay the duty. Then he will have the goods dispatched to the purchaser at his inland address.

The regular exporter obtains from a commercial stationer copies of the bill-of-lading form of the particular shipping line, fills in himself the number of copies he requires, and presents them at the shipping company's office for signature. If a shipowner has to look to the exporter for payment of the freight, he is not obliged to issue the completed bills of lading until his charges have been paid. Should he, however, trust the exporter to pay the charges in due course, he will send the bills of lading to the exporter along with his note of charges. Freight and shipping charges on exports from this country are usually paid at this end, and they are added to the foreign customer's invoice, unless the goods have been sold on C.I.F. or franco terms.

PRINCE LINE

SHIPPING INSTRUCTIONS

Goods forwarded from to Dock per

Carriage Paid

STEAMER'S NAME	PORT OF DESTINATION

Marks	Numbers	No. and Description of Packages		Net Weights Quantity, Origin, and Description of Goods for Customs entry	Gross Weights T	C	qr	lb.	Value £
Total No. of Packages									

SHIPPER'S NAME AND ADDRESS	CONSIGNEE'S NAME AND ADDRESS *(For Bill of Lading) (use "ORDER" or CONSIGNEE'S NAME)*

PLEASE STATE

Number of Stamped Bills of Lading required and to whom to be sent

Amount of *Insurance* to be effected £ and whether *F.P.A.* or *With Average* (Strike out the terms not required)

Breakage of Glass, China, Earthenware, Marble, etc., not Covered except specially stated

Dated at this day of 19..

Signed

ALL FREIGHT AND CHARGES DUE IN EXCHANGE FOR BILL OF LADING

PRINCE LINE, LTD. (LONDON LINES DEPT.) **Furness, Withy & Co., Ltd.,** Agents

56 LEADENHALL STREET, E.C.3

On referring to the charges mentioned in connexion with the Malta invoice shown earlier in this chapter, the reader will now understand how the cubic capacity of that bale and the freight charge for it were arrived at. The *primage* shown there is a regular addition which formerly was paid to the master of the ship to ensure due care of the cargo; but it has long since become part of the freight charge. The items for bills of lading and insurance explain themselves, and the final addition of 5 per cent is an all-round increase in the charges which has lately been imposed.

DEFERRED REBATE

With the view of eliminating uneconomic competition, shipping companies with established sailings on the same or similar routes took to conferring with each other for the fixing of agreed freight rates and the arranging of sailings. To keep hold of their business, they offer to regular shippers a *deferred rebate* on their freight charges, on condition that the shippers continue to use only the conference lines. The rebate is probably the amount of primage included in their original charges, and it does not become payable until after the lapse of six months or more. The exporter claims it by completing and sending in periodically, and on the form provided, a list of the shipments he has made, and the freights he has paid, during the period. The loss of the rebate that would follow their desertion of the shipping ring keeps exporters from using any rival sailings that might be started; and, again, diminishes the chances of any new rival being able to secure cargo in paying volume. Dissatisfaction with this rebate practice led associations of exporters in the Dominions to the alternative of making, with the shipping companies, freight agreements to cover all their exports over a period of years. That gave to the exporters the best rates that could be arranged, and to the shipping companies assurance of cargo for regular sailings.

QUESTIONS

1. What are the chief methods by which orders are obtained in foreign trade? (*U.L.C.I.*)

2. Explain briefly the work of (*a*) the export agent in this country, (*b*) the buying office here of an Australian Store Company, (*c*) the export packing house.

3. (*a*) Describe the organization of the export trade, and distinguish between the various types of undertakings engaged in it.

(*b*) A native merchant of India wishes to buy a miscellaneous assortment of British goods. Describe the process by which he will obtain them.

4 Explain (*a*) what an indent is and how it is dealt with, (*b*) *del credere* commission, (*c*) shipping mark, and (*d*) clearing agent.

5. Why is telegraphic communication more necessary in foreign trade than in home trade? Explain what are the different classes of rates at which foreign telegrams may be sent. What is a plain language telegram? What is code and what are its uses?

6. (*a*) Take a loco price as basis, and explain what charges must be added to make that price into (1) an F.O B. price, (2) a C.I.F. price

(*b*) Name other kinds of prices that may be quoted for goods, and explain in each case what charges the price includes (*L C.C.*)

7 You are prepared to sell 60 pieces of Grey Cotton Rollering, 1860 yards in all, at 7½d. per yard ex warehouse. What price per yard would you quote a Colombo buyer, C.I F. Colombo, if the packing of 3 cases cost 12s 6d. each, carriage to docks 10s. 6d , dock charges 9s. 4d., bills of lading 2s 6d., freight £9 6s , and if insurance A A.R. from warehouse to warehouse at 15s per cent cost 11s. 9d.? (*L.C.C*)

8 Explain (*a*) Certificate of value and origin, (*b*) consular invoice, and state why these documents are sometimes required. (*L.C.C.*)

9. From the particulars given below make out, in the form required by the South African Customs, an export invoice for goods supplied by Fearnley, Sanderson & Co., Ltd , of St Paul's Churchyard, London, E.C 4, to Grainger & Brown of George, Mossel Bay, in execution of order No F.2364, and dispatched on 29th March for shipment by the *Athlone Castle*

Twelve pieces Rayon and Cotton Casement Cloth 46 in. wide, 33·75 per cent art silk and 66·25 per cent cotton, lengths in yards, 2 at 79, 2 at 29¾, 32½, 35¾, 36½, 3 at 37, and 2 at 46. Domestic value 9$\frac{5}{8}$d. the yard, F O B. price to purchaser 8½d the yard, the difference representing excise duty repayable on export, cash discount 3½ per cent; net weight of goods 115·8 lb , weight of art silk 39·06 lb , duty repayable at 1s. the lb.

Shipping mark, G.B 207, George, Mossel Bay.

10 Explain what you understand by drawback of duty on goods exported, in what circumstances it would be allowed, and how it would be obtained.

11 Describe different methods of packing goods for export, and explain any advantages that better packing gives.

12. On what different units of quantity may freight charges for cargo be calculated? Why should different units be used?

Explain what a "ton measurement" is, and show by an example of your own how you would calculate the quantity on which freight would be charged for a shipment of two cases of the same size containing textile goods.

13. Take the invoice to Nicholas Ferranti of Malta, shown in this chapter, and calculate the number of square yards of material to be declared to the British Customs in respect of all the material this invoice represents.

14. When goods for export have been packed and are ready for dispatch to the ship, what several steps remain for the exporter to take before the formalities of exportation are complete?

15. Explain the practice of deferred rebate, and the purposes served by this practice, in connexion with the shipment of goods.

SECTION VII
THE MONETARY STRUCTURE

CHAPTER 33

FORM AND FUNCTION OF MONEY

MONEY is a highly important element in the lives of the people who make up a modern State. As the means by which we each obtain the things we must have, it is a necessity to us all. As the means by which we may obtain other objects of legitimate desire, it is a great help towards fuller realization of life's potentialities. Yet in these days we find that money is still, as it has often been in the past, a considerable source of trouble to those charged with making it available to the community at large. We shall deal in a later chapter with some aspects of the management of the nation's supply of this necessity. Here we treat chiefly of the forms our money takes, of the purposes it serves, and of the manner in which it is made use of.

DEALINGS WITHOUT MONEY

Most of us to-day exchange for money the services or goods we have to offer; then we re-change the money for other goods or other services that we require. But when there was no money or not enough of it, the worker had to give his labour in direct exchange for the necessaries of life, except in so far as he could himself produce things he needed. In our dealings with backward peoples that have not learned the use of money, we may still give necessaries in exchange for labour, and manufactured articles in exchange for natural goods or produce. Even between civilized communities in times of money difficulty, bargains have been struck to take, say, so much coal for so much beef, or a quantity of cotton cloth for a quantity of wheat. When goods are exchanged for goods, we call the transaction *barter*; but when money is exchanged for goods, or goods for money, we say that the parties *buy and sell.*

Barter was the only way in primitive society for one man to

acquire from his fellow something he needed much more than a surplus he had himself of something else. Nevertheless, it must have been, probably more often than not, a clumsy proceeding not altogether satisfactory to one or both of the parties. What A could spare was probably not the kind of thing B wanted, or what B could give not an article that A cared to take. Again, when both were satisfied about the kind of article the other offered, either of them might consider the quantity or the quality not good enough to make the bargain fair. Want of suitable means, not yet discovered, for effecting acceptable exchanges of their unequal belongings must have deprived them of many utilities they might otherwise have possessed and enjoyed. It was for such reasons that advancing society hit upon the device of money—a medium of value that its members could take in exchange for the various goods or services they had to dispose of, and that they could give away again, as and when they so desired, in exchange for other goods or services they might then need.

EVOLUTION OF COINED MONEY

Many different articles have been made use of in the past to perform the functions of money. For example, our word "pecuniary," coined from Latin *pecunia* meaning "money," and said to be derived from *pecus* meaning "cattle," may still bear evidence of the fact that cattle, a commodity most useful to pastoral peoples, were customarily taken and given in exchange for desirable goods of other kinds. It may be that the transfer of the cattle themselves was superseded by transfer of discs of hide engraved with heads of oxen, and used as tokens carrying rights to the animal units of value they represented. At any rate, we still use the phrase "head of cattle" in mentioning an ancient method of measuring individual or tribal wealth. And the lawyer's word "chattel" for an article of movable property, also our more familiar "capital," seem to go back to a common origin with "cattle." Furs and hides, corn and salt, tobacco even, copper and other base metals, as well as silver and gold, have all been made to serve as money; and we are told that cowrie shells from the Indian Ocean still circulate as a native form of currency.

As peoples developed in efficient conduct of their affairs they

seem to have selected silver and gold as the most suitable substances to use for money. At first the merchant would weigh out at the time of purchase the quantity of precious metal he had to pay. Then, probably, pieces of convenient size would come to have their weights already marked upon them. It is interesting to note that the pound we still retain as our money unit was once a pound weight of silver metal, and that it is still divisible into 240 pennies, just as the pound troy is divisible into 240 penny-weights. In time, however, the responsibility for stamping the values was assumed by the government of the land, as the authority most to be trusted to mark the pieces justly, and with the view of protecting its subjects from error or fraud in payment. So the cowrie shells and the leathern discs at last became coins of the realm struck in the Government Mint, with issue in any other quarter prohibited under severe penalties for offenders. All coins in use now are impressed by Government stamp full over both faces; and all, except those of the lowest values, are milled all round the edge, as a preventive of the practice that once obtained of clipping and "sweating" the coins for illicit gain.

THE BRITISH COINAGE

Before 1816 the gold coin that circulated in this country was the guinea, fixed for currency purposes as the equal of twenty-one silver shillings. At that time silver coins as well as gold coins were issued to pass at the same value as that at which their weight of uncoined metal of the same fineness would sell. But the ratio of value between gold and silver in the uncoined or bullion state changed from time to time then, just as it does now. It changed then and changes still in the same manner as the ratio of value between other commodities changes, and from similar causes. The gold and silver coins of those days were intended to circulate side by side at a permanent ratio fixed by law; yet they were minted from metals the relative value of which as bullion was not constant. It followed that either the silver or the gold coins circulating at the fixed ratio were likely at any time to be worth more as metal than as money. Whichever metal was under-valued as currency would go out of circulation. Coins of that metal would be melted down by goldsmiths or silversmiths, because it would cost

these craftsmen less to acquire coins from which to manufacture their products than to buy uncoined metal. Coins so undervalued would also be shipped abroad in payment of foreign debts, because they would as bullion in another country buy more goods than they would buy here by "tale" at their coin value.

Originally the guinea was intended to be the equivalent of twenty silver shillings, and the representative in coin of the unit of account, namely, the pound. It had become in time the equivalent of twenty-one shillings as a result of the variations referred to above in the ratio of value between gold and silver metal. By the Coinage Act of 1816 a new gold coin, the sovereign, became the standard coin of this country. It was made equivalent to twenty shillings in silver coins, each shilling being equivalent, as before, to twelve penny coins of bronze. The standard coin was thus brought into correspondence again with the pound, as unit of account.

Sovereigns and half-sovereigns were required to be minted free of charge, so that each gold coin had the value of its own weight in gold bullion of the same fineness. The free minting of silver was never resumed, so that our coinage came to be based on gold only, the silver coins as well as the bronze ones becoming mere tokens for such portions of the gold pound or sovereign as they represented. The silver put into each coin of silver was a quantity of less value than that given to the coin as a token. On the one hand, the fact that the metal in the silver coins was of a value less than that given to them as money prevented them from being sent out of the country as metal, or melted down to make silverware. On the other hand, their token value was maintained because, within specified limits of amount, they were legally required to be accepted in payments, and because the quantity issued from time to time was restricted to that needed for meeting the demand for means with which to pay fractions of the pound.

The sovereign and the half-sovereign consist of gold 22 carat or $\frac{11}{12}$ths fine. Gold in the pure state being too soft to withstand the wear of coinage, two parts of copper are added to twenty-two parts of pure gold in order to make the metal harder. The Coinage Act of 1816 provides for gold $\frac{11}{12}$ths fine being coined at the rate of one pound troy to £46 14s. 6d. (or

44½ guineas), that is, at the rate of 40 pounds troy to 1869 sovereigns. As the pound troy consists of 5760 grains—

$$1 \text{ sovereign} = 5760 \times 40 \div 1869 = 123{\cdot}2745 \text{ grains}$$

and as the pound troy contains 12 ounces,

$$1 \text{ ounce of gold} = £46{\cdot}725 \div 12 = £3\ 17\text{s.}\ 10\tfrac{1}{2}\text{d.}$$

Our gold coins, however, are now withdrawn from circulation. Their content is at present, therefore, a matter rather of historical interest than of practical importance, except when the coins are used, as an alternative to bullion, for shipment in settlement of balances of indebtedness between this country and others. Until 1920 an ounce of silver $\frac{37}{40}$ths fine was minted into 5s. 6d. in coin, but since that year the metal used for our silver coins has been an alloy containing 50 per cent silver.

FUNCTIONS OF MONEY

The functions of money, the duties it is meant to perform, or the purposes it is intended to serve, are usually stated under the two heads of *medium of exchange* and *measure of value*. As shown below, each of these has brought in its train a secondary function, the first having led to the use of money as a *store of value* and the second to its use as a *standard for deferred payments*.

1. **Medium of Exchange.** We have already seen that in times past the difficulties of carrying through exchanges of goods by barter greatly hindered the distribution of the products of man's labour, and deprived him of many things he might otherwise have enjoyed. Developing society, therefore, began to experiment with one or another of various commodities by introducing, as a general practice, the taking or giving of value, in the form of that commodity, in exchange for other kinds of goods that were being disposed of or acquired. Labour and its products could be exchanged temporarily for agreed quantities of the commodity thus selected as the means of receiving or making payments. Then, either all at once or a portion at a time, and as circumstances dictated, the commodity acquired as payment could be re-exchanged for other necessary or desirable things. In the course of time, however, the more advanced communities all came to adopt silver and gold as the

substances most suitable for use as the means of payment when goods changed hands.

Money, then, is a medium or intermediary instrument, into which value in the form of goods or services of one kind can be converted by the person disposing of them, and from which the value can be re-converted by him into goods or services of some other kind he desires to acquire. The second conversion may be made in the same locality as the first, or in a more or less distant place. Again, it may be made almost immediately after the first, or it may not be effected until after an interval of indefinite duration. But, in this last case, the money used serves not only as the medium or agency through which one thing of value is exchanged for some other. It serves also as a means of holding or *storing up value* until at some future date, as yet unknown, the holder of the money finds re-exchange desirable and possible. In these days we manage very many of our money transactions without the handling of metal money, but we have not been able to dispense with it in all. For the services in which we do not now make use of it we have substituted documents such as banknotes and cheques, these giving to their holders rights of claim to certain values that are named in the documents in terms of money.

2. Measure of Value. That this is a function of money, distinct from medium of exchange, appears plainly when we consider that the value, asked or offered for an article, has usually to be named before any sale or purchase takes place; also, that it has to be named in many instances where sales or purchases are attempted without success and where, therefore, the medium of exchange does not come into use. Before any commodity could have been adopted as the form in which payment would be commonly acceptable, the commodity selected must already have had a recognized value for other purposes, for no seller would have been willing to take payment in something the worth of which was unknown or doubtful to him. When it came to be accepted as the medium in which payments were customarily given and received, the money commodity would naturally become, also, the common measure by which the values of all other kinds of commodities were calculated for proposed sales or purchases, and for other purposes.

Just as we use the yard as a standard unit when quantity is measured by length, and the pound avoirdupois as a standard unit when quantity is measured by weight, so we use the pound sterling, with its divisions of shillings and pence, as the standard unit in which values are expressed. Value expressed in terms of money is called *price*; and, whether for actual or prospective transactions in goods or services, or merely for the merchant's periodical taking stock of his position, goods, trade debts, other possessions, and liabilities are invariably priced in the money current in the particular community. But, whilst serving as the accepted measure of value in present transactions or valuations, money has become, besides, a *standard for deferred payments*. It has become, that is, a measure of the sums to be paid at future dates for rents under tenancies or leases, for interest on and repayment of loans, for salaries under service agreements, for sales for future delivery or payment, and generally under contracts fixing rates of payment to be made during longer or shorter periods ahead.

BANKNOTES

So far in treating of money in its more modern form we have viewed it as consisting entirely or mainly of metal coins. That view, however, is not the true one now. The greater or most valuable part of the money to be found in the pockets of the people of this country at the present time consists of bank-notes; and that is the position also in others of the leading countries of the world. Until 1914, the view that what we might call pocket currency consisted chiefly of coins was truer in regard to England than in regard to some of those other countries. For many years before 1914 there was no lower denomination of banknote in England than the note of £5; and there was in circulation a large quantity of gold sovereigns and half-sovereigns. But these gold coins were withdrawn in the early part of the war of 1914–18, being required for payment of purchases abroad. Government notes of £1 and 10s. were issued by the Treasury to take the place of the gold withdrawn, and to provide the additional currency required at home in the conditions of the time.

In 1928 the notes that had been issued by the Treasury were replaced by £1 and 10s. notes of the Bank of England. Seven

years earlier, under the operation of the Bank Charter Act of 1844, the last of the English country issues ceased. The Bank of England, therefore, is now the only issuer of banknotes in England.

Since their foundation the Scottish and Northern Ireland banks have had the right, which they continue to exercise under regulation, to issue notes of their own of the value of £1 and upwards.

Bank of England notes of all values are legal tender up to any amount in England and Wales, and now those for £1 and 10s. are legal tender, also, in Scotland and Northern Ireland. Being "legal tender" means that they are not to be refused by sellers or creditors when they are offered in payment of purchases or sums due. Scottish and Northern Irish banknotes are not a form of legal tender; but that makes little or no difference in practice to their being acceptable payment within their own areas. The remaining provisions about legal tender are that the gold coins which used to circulate could be offered in payment up to any amount, that silver coins can be offered up to forty shillings at one time, the twelve-sided threepenny pieces up to two shillings, and bronze coins up to twelve pence; also, that the correct amount should be offered, as the payer has no legal right to demand change. That arrangement has been described as "composite legal tender."

REGULATION OF NOTE ISSUES

Before 1826 the Bank of England's privilege in the issue of notes took the form that throughout England no banking institution consisting of more than six persons was permitted to issue notes payable to bearer on demand or at less than six months. In those days issue of notes was conceived to be an essential in the conduct of banking business. It was not till later that the use of cheques, which is now so general, began to develop and to deprive notes of much of their importance. This restriction on note issues caused the practice of banking in England to be left in the hands of small private firms of limited resources, and so operated against the growth of a sound banking system. Many of these private and local banks issued more notes than their cash reserves justified, with the result that they were often in difficulties when their customers,

wavering in confidence, presented notes for payment in exceptional numbers. From time to time so many of these banks had to close their doors, and so much inconvenience and loss was inflicted on the trade of the country, that Parliament was led to attempt some regulation of note issues generally. By the Bank Charter Act of 1844 the Bank of England issue came under statutory control, and the country bank issues were put under restrictions that, as events turned out, ultimately brought about their extinction.

The chief provisions of the Bank Charter Act of 1844 that may be noted here are as follow—

1. The business of the Bank was to be divided into (*a*) the Issue Department administered as required by the Act, and (*b*) the Banking Department managed by the governors of the Bank in their own way.

2. The first £14,000,000 of the Bank's note issue was to be made against Government securities. This *fiduciary issue*, as it was called, was fixed at that amount as a point below which experience showed that the note issue was never likely to fall. (The present position is explained later.)

3. Bullion or bar gold and specie or coined gold not held for immediate needs were to be deposited in the Issue Department and notes given out to the Banking Department in exchange. For every note issued in excess of £14,000,000 the Issue Department was to keep in hand coin or bullion—The Currency and Bank Notes Act, 1928, allows £5,500,000 to be held in silver; the remainder was to be held in gold.

4. An account was to be published weekly, showing the position of each department.

The object of these provisions was to ensure the convertibility of the Bank's notes by compelling it to hold in reserve specie or bullion to meet every note there was any likelihood of its being asked at any time to cash. It was this provision for the cashing of notes in gold that, so long as it continued in force, kept the pound sterling in any of its forms at the equivalent of the quantity of gold contained in the sovereign, and kept this country "on the gold standard." The restriction on note issue maintained in favour of the Bank of England did not apply in Scotland or in Ireland, where joint stock banks with larger resources and greater stability were set up earlier than in

England. Nevertheless, in 1845 each Scottish and Irish bank was required by Act of Parliament to hold gold against every note issued in excess of a certain previous average.

In addition to the provisions stated above, the Bank Charter Act of 1844 required the Bank of England on demand to pay out notes for gold bullion at the rate of £3 17s. 9d. an ounce of standard fineness, thus giving the Bank a profit of 1½d. on each ounce it acquired. But as the price of gold metal is now much higher than that in consequence of our having left the gold standard, the Bank is not likely to be asked to buy at that rate. The Bank Charter Act of 1844 also fixed a maximum future issue for each country bank in England at the average of the twelve weeks immediately preceding 27 April, 1844. It prohibited any new right of issue, and it ordained that in certain eventualities the issue of any country bank should lapse. At the same time it gave to the Bank of England a right to claim an increase in its fiduciary issue to the extent of two-thirds of any such lapse. Under these provisions the country bank issues became extinct in 1921, and the Bank of England fiduciary issue rose to £19,750,000. The fiduciary issue was further increased to the large sum of £260,000,000 by transfer to the Bank of England in 1928 of the Treasury note issue, most of which was backed by Government securities only. In 1936 it was reduced to £200,000,000, when £60,000,000 of gold that had accumulated in the Government's Exchange Equalization Account was transferred to the Bank. In 1939 several changes in the amount of the fiduciary were made, with very considerable increases on the outbreak of war and during the war years. (See Appendix.)

Up to 1914 the Bank was obliged to cash its notes in gold coin for anyone who demanded it. When the gold standard was re-established in 1925, that provision was only partially restored, the "gold bullion standard" taking its place. By the new regulation the Bank was not compelled to pay out gold for notes except in the form of gold bars of 400 fine ounces, which could be used in payment of adverse foreign balances. In 1931, however, the Gold Standard Act of 1925 was suspended, and the notes became inconvertible once more. The pound as unit of account was divorced from the standard coin, and became worth less than the gold a sovereign contains.

QUALITIES REQUISITE IN MONEY

The acceptability of the substance selected to serve as money depends upon its possessing several attributes. The first of these appears to be that *the money medium should possess value.* Originally it must have had a value for some purpose other than serving as money, for without that no one would have been willing to take it in payment. When, however, people became accustomed to the use of money, they would take the medium because of its value as money—because they could buy things with it—even if, as in the form of inconvertible notes, it had no value for any other purpose. But, were notes issued, as they have been by some countries in times of war, to such excess that they became of no appreciable worth, they would cease to be acceptable and would fall out of use.

The next requisite is that the money medium *should be readily recognizable* for what it is. If its genuineness or its correct value could not be determined at sight, there would be too much uncertainty attendant on its use for it to serve its purpose satisfactorily. It is as a guarantee of genuineness and correctness that the Government impress appears on all coins minted, and it is as a precaution against their being tampered with that they are stamped and milled all over. For the same reasons very strict surveillance is exercised over the printing of notes, and counterfeiting is held punishable with heavy penalties.

A third requisite is that *the money medium should be portable,* the pieces not too large, heavy, or unshapely on the one hand, or too meagre on the other, for convenience of handling in personal or business use. Gold is suitable for coins of high value because it carries much value in small compass. Gold coins for small values, however, would be too minute, and bronze ones for high values would be too unwieldy; so we use different metals for different values. Notes possess an advantage in that they can be printed for large amounts, and one for fifty or a hundred pounds is a more suitable medium for a payment of that size than coins of the same value, even when they are coins of gold. It is also more convenient to make payments at a distance by means of printed or written orders or promises transmitted through the post, than to transport the required sums in coins.

That the medium used as *money should possess the quality of durability* is a fourth requisite to be found in gold and silver, which do not quickly oxidize or waste away. Notwithstanding this obvious requisite in money that circulates for long periods in the hands of the public, paper money, with little material durability, has largely superseded coin because of its superior advantages in other respects. Notes are more portable than coin, they can be printed to carry higher values than coins of suitable size can carry in weight of metal, and by means of the distinctive number it bears any note can be more easily traced and identified than a coin. Again, though the paper of which notes are made is in a high degree destructible, the rights to which they entitle their holders can be durable enough for two reasons—that they are supported by law, and that notes are now issued only by institutions whose stability is known and trusted. Moreover, the paper that bears the evidence of these rights can be renewed from time to time as soiled and torn notes are withdrawn and replaced by new ones.

In the fifth place, as a necessity in the medium used for money, comes the *requisite of homogeneity*, of all samples of that medium being of similar quality, and of any sample being of uniform quality throughout. This requisite, found in metals because of their fusibility, is not commonly a property of other substances. It permits of the same weight of metal always having the same value at any one time, whether the weight is that of one piece or of many. It is a quality necessary in coins made to circulate at the value of the metal they contain; but it is not a quality necessary in the material of token coins or of notes.

Lastly, a highly important requisite of money is that it *should be stable in value*, a requisite, however, less easy of achievement than any of the other five. Yet it is just this quality that money needs in order to perform efficiently its functions of a store of value and a standard for future payments. For, if it loses much of its value, it will inflict hardship on the owner when he comes to use the money he has saved or stored; and, if it changes much either way, it will similarly affect for the worse one or other of the parties to contracts under which future payments are to be made. Price is value expressed in terms of money, and prices as a whole are subject to considerable rise and fall from time to time. The variations arise from

changes in the supply of and the demand for money, and the things that money buys. Changing prices introduce unsettled conditions into manufacture and trade, whilst rising prices cause workers' fixed wages to become of less real value. How to keep these changes under control, with the object of maintaining the purchasing power of money at a fairly steady level, is a problem much discussed, but one in the handling of which proficiency has not yet been attained.

CHEQUES AND BANKING ACCOUNTS

1. **Cheques and Notes Compared.** A cheque, like a banknote, is a paper document used like a note to pay off a debt, or to pay at once for goods or services bought. The cheque, therefore, fulfils a function similar to that of the note, and it is in that view a form of money. Still, there are differences between them. A banknote circulates from person to person indefinitely, the value it represents being transferred to each new holder merely by handing over the note. A cheque, on the other hand, though it may be passed from one holder to another occasionally, is made use of, as a rule, between two parties once, to settle one transaction only; and it is cancelled when that has been done. A note states that it is payable to bearer, and so it does not name any selected person as being entitled to its value. A cheque, however, usually names the person to whom payment is to be made; and, if it should be used by that person to make a payment to anyone else, he usually has to indorse the cheque when he hands it on.

Again, as notes are intended for use in making an indefinite number of payments, they are issued for round sums, such as ten shillings, and one, five, or ten pounds; whilst cheques, being intended each to settle a single transaction, are drawn each for the exact amount that transaction requires. A note passes freely from hand to hand because it has behind it the known stability of the bank of issue; and, if it is a Bank of England note, because the law has made it a compulsory form of payment like coin issued from the Government mint. The average cheque, on the contrary, could not pass so freely, because it has behind it only the more or less doubtful means of a more or less obscure drawer. Further transfer of a cheque may be prevented through its being so drawn that payment

cannot be obtained except by having the amount placed to credit of the banking account of the payee or some other person. In a community with a highly developed banking system cheques serve the purpose of money in a vast range of transactions, mostly between parties who know something of each other. But, if they serve that purpose with high efficiency in the circumstances of their use, they serve it in a narrower and more restricted manner than the notes and coin which make up the floating currency in the hands of the people, and which are acceptable in all circumstances because they carry authentic evidence of genuineness on their face.

2. What the Cheque Pays Away. We have seen that the material of which cheques are made is in itself of infinitesimal value, and that the effective value the cheques carry for payment purposes lies in the rights they convey to the lawful holders. What is the nature of these rights, and what exactly is it that a cheque transfers from the drawer to the payee? If A sells some goods to B and if B gives A a cheque for the price agreed when the bargain was struck, the cheque is merely an order expressed in money showing that A has a claim of certain value against B, and authorizing transfer from B to A of the amount. From what source and in what form will the claim be paid? It will be paid out of a body of rights or claims similarly recorded in terms of money in B's banking account as due to B from his bank—it being assumed, of course, that B has the necessary rights standing to his credit at the bank. Payment will take the form of a transfer from B's account at the bank to A's account; and payment will still take the form of transfer by record if A's account and B's are kept at different banks, instead of at the same bank.

We may next ask how B came to possess the rights credited to him at his bank, and drawn upon by his cheque. Probably B acquired them in a way similar to that in which A is now acquiring part of them from B, namely, by selling goods or service to C, and being paid by cheque on C's bank account. C in his turn probably acquired them similarly from D, D from E, and so on. These rights are the medium into which each seller converts for a time the value of the things he sells, and which he reconverts afterwards into other things he deems it desirable to buy. The rights standing to credit of these persons

in their bank accounts, and commonly called "bank credit," are thus used to perform the functions of money as medium of exchange and store of value. They, rather than the cheques drawn against them, are a true form of money, the cheque being simply the orders for transfer of portions of that credit money to be made by and between the banks in whose keeping it has been placed. For, whereas the cheques normally serve for single transfers only, and cease to have effect when these have been accomplished, the credit they were drawn against remains, after transfer, an effective medium of payment for use again and again. The only difference, as before and after transfer, in the body of bank credit involved is that, whilst continuing to serve as an effective medium of payment, it passes into the control of new and still newer hands.

Exactly how and when much of the bank credit now in use first came into existence it is impossible to trace, and the question can only be answered in regard to instances coming within observation or practicable investigation.[1] One example might be that the Bank of England bought gold bullion and paid for it by placing its value to credit of the seller's account. Another might be that a commercial bank agreed to make a loan to one of its customers, and credited the customer's account with the sum placed at his disposal. In both cases the book credit so acquired would probably be paid away to one set of persons after another, and its identity soon be lost. In the first case the credit created might be cancelled later by the same person or another withdrawing an equivalent quantity of gold from the bank, and paying for it out of the credit balance of his account. In the second case cancellation might come about by the borrower taking cheques he received from customers of his own, and paying them in against the bank's claim on him for the loan. He would then be withdrawing from the general volume of existing credit an amount that others had transferred to him, and so reducing existing credit by the amount the bank had previously created for his use.

When the Bank Charter Act of 1844 was placed on the Statute Book banknotes were still used extensively in the making of commercial payments. It had not then been foreseen that cheques drawn against bank credits were soon to

[1] For origin of war-time increases, see Appendix.

supersede notes in making most of these payments. Nevertheless it has been, by adding such credit to what would have proved an inadequate and restricted volume of notes and coins, and by making it available through the use of cheques, that the money medium at the disposal of the community has been kept commensurate with its expanding commerce. Nor was it foreseen in 1844 that, whilst the Act placed regulations on the issue of banknotes, it failed to make any provision in regard to the creation and use of bank credit, which was destined to occupy a position of far greater importance than notes in our monetary system, and in its reactions on the conditions in which industry, trade, and finance were to be carried on. Bank credit being the largest section of our money equipment, its control for the benefit of the community as a whole seems to be not less necessary or desirable than the control of notes and coin. What control does exist is exercised without statutory compulsion, and will be discussed in a later chapter.

QUESTIONS

1. What is barter? Enumerate the inconveniences of barter and the advantages of using money in trade. (*U.L.C.I*)

2. Why did silver and gold come to be generally adopted for use as money? Why did these metals when used as money come to take the form of coins? Why did the Government take upon itself exclusively the responsibility for minting and issuing the coins?

3. How and when did Great Britain come to adopt a gold coin as the standard of its currency? What was the position before that change?

4. What is "token money"? What is meant by saying that it is "limited legal tender"? (*R.S.A.*)

5. What is money? Explain the definition that "Money is a medium of exchange and a measure of value." (*R.S.A.*)

6. State what are the functions of money. Explain why each of these functions is useful, and show how money performs each of them.

7. Describe the part that banknotes play in our monetary system, and how the system has changed since 1914.

8. Describe briefly the present English system of currency, and explain what is meant by legal tender. (*R.S.A.*)

9. What is a Bank of England note? How is the issue of Bank of England notes regulated? (*R.S.A.*)

10. How do Bank of England notes to-day differ from (*a*) those issued before we went off the gold standard in 1931, (*b*) those issued before 1914? (*R.S.A.*)

11. "The issue of banknotes, once regarded as an essential function

of a banker, now plays no part in our joint stock banking system." Discuss the changed position of the banknote. (*R S.A.*)

12. What led to the statutory regulation of banknotes in England, and how did the Bank of England acquire the monopoly throughout England and Wales? What is the position of banknote issues in Scotland and Northern Ireland?

13. What is meant by the gold standard? What conditions must be fulfilled before it can be said that the gold standard has been established as the basis of a currency system? (*L.C.C.*)

14. Narrate briefly the history of the gold standard in this country from the beginning of 1914 to the present time.

15. State briefly the qualities which it is desirable a money substance should possess, and consider how far "paper" satisfies the need for these qualities (*R S A.*)

16. Before 1914 gold sovereigns and half-sovereigns circulated instead of twenty-shilling and ten-shilling notes Is gold or paper preferable as a circulating medium? State reasons for your answer. (*R S A.*)

17. "The first essential of a good currency is stability of value." Examine this statement. (*R S.A*)

18. State in detail the differences between banknotes and cheques from the point of view of their functioning as money.

19. Describe the nature of bank balances standing to credit of the accounts of customers of the banks. Show how these balances must be viewed as performing the functions of money.

20. Explain how balances standing to credit of banking accounts came into use as an indispensable addition to the medium of exchange, and why they have become the most important part of our monetary system

CHAPTER 34

INTERNATIONAL PAYMENTS

BETWEEN 1918 and 1939 an intense nationalistic self-sufficiency had become much more pronounced than formerly among the countries of the world, and particularly among the countries of Europe. None of these as a nation wanted to buy more than it was compelled to buy from other nations, so tariffs of import duties and other barriers to international trade were built up and extended. Moreover, the nations defeated in the War of 1914–18 had portions of their previous territories carved away, new nationalities having been set up within them, resulting in a multiplication of frontiers and of trade restrictions. Nevertheless, all these countries were continually wanting to sell; and in them there were always merchants seeking and finding means to get their goods over the barriers other states had erected against them. But goods or services exported must, on the whole and in the long run, be paid for by goods or services imported. A country exerting itself to effect sales abroad must, therefore, normally permit foreign purchases to come in by way of payment for its foreign sales. Further, tariff or no tariff, some commodities that a country cannot itself produce are always in demand by its inhabitants. It follows that some volume of foreign trade must be carried on by every civilized community, and the mechanism of trade settlements between itself and other nations must be kept in working order of some kind.

HOW GOODS PAY FOR GOODS

If trader A buys goods worth £210 from trader B, and if trader B buys goods worth £200 from trader A, accounts can be settled between them by A paying B the difference of £10 only. So, if in a given period Australia buys goods from Britain to the value of £2,100,000, and Britain buys goods from Australia to the value of £2,000,000, the period's transactions can be settled by a payment from Australia to Britain of only £100,000, provided £1 Australian equals £1 British. Such a

settlement, however, presupposes the bringing together of the claims of all parties on each side, and the setting of the total of one side against the total of the other side, so that only for the balance of £100,000 need money be remitted from Australia to Britain to effect a final clearing of mutual debts.

We saw in Chapter 28 that in foreign trade, and particularly in trade between distant lands, the value to be collected through the banks for each sale or shipment is frequently expressed in a bill of exchange drawn by the seller on the distant buyer. Now, let us assume that there is only one bank in Australia and only one bank in Britain, and that the bills drawn by the Australian exporters are handed by them to the Bank of Australia, to be collected through the Bank of Britain from the British purchasers. Also, let us assume that the British exporters draw bills for their shipments, and hand the bills to the Bank of Britain for collection from the Australian purchasers through the Bank of Australia.

When the collections have all been got in, the Bank of Australia will have in hand £2,100,000 collected in Australia on behalf of creditors in Britain. £2,000,000 of that sum will provide the Bank with funds for paying the creditors in Australia their claims on British debtors, leaving in the bank's keeping for the time being a balance of £100,000 of British creditors' money. The Bank of Britain, on the other hand, will hold £2,000,000 collected in Britain on behalf of creditors of Australia, which will provide it with funds for paying most of the British creditors their claims on Australian debtors. It will leave only the balance of £100,000 of British creditors' claims still to be settled by the Bank of Britain, and receipt from the Bank of Australia of the surplus of £100,000 collected by it will put the Bank of Britain in a position to do so. Indebtedness to the extent of £4,100,000 will thus have been discharged by a single payment of £100,000.

There is, of course, in actual conditions a number of banks both in Australia and in Britain taking part in the settlement of debts between the two countries. Also, in actuality, the settlements are often effected by other means than trade bills, some of them being made by bank draft as explained in Chapter 28, and some in other ways. But, shorn of variations and complications for simplicity of illustration, the foregoing sketch

presents a sufficiently true view of the procedure in settling international debts. The illustration is intended to show how in practice the bulk of sums owing in one direction are set off through the intermediary of the banks against the bulk of sums owing in the opposite direction, so that it is only the excess on one side or the other that calls once in a while for treatment.

But, as the sums claimed on each side simply represent goods supplied or services given, if follows that, except for a margin on one side or the other, imports during any given period pay for exports, or *vice versa*. Sometimes three countries may be involved, A taking imports from C to pay for its exports to B, and C taking imports from B to pay for its exports to A. Such triangular movements do not, however, falsify the statement that, for the most part, goods and services given pay for goods and services received, without bringing money into use. In foreign trade, then, we dispense as far as possible with any material form of money, just as in the cheque-clearing system we dispense with material money for the greater part of the payments incidental to internal trade. Indeed, in foreign trade the use of bills with that end in view is a much older practice than the use of cheques at home; for the bank cheque is but a recent specialization of the trade bill that merchants have been accustomed to handle for many centuries.

Imports or exports may consist of goods; but they may also consist of shipping, insurance, or banking services, of the borrowing or lending of capital at interest, or of allowing interest and other sums due to remain in the debtor country as investments. Such services are sometimes called "invisible imports and exports."

SETTLING ADVERSE BALANCES

If the balance of £100,000 had to be remitted from Australia to Britain it would have to come in gold, either as coin or as bullion. Australian banknotes or cheques drawn on Australian bank balances would not be of any use here for paying the £100,000 to the persons entitled to it. The notes or cheques could not be made to circulate as money in Britain. No one would take them except to have them changed as soon as possible into British notes or British bank balances. In the hands of persons here they would only perpetuate the claim of

Britain against Australia, instead of wiping it out. It is in the settling of adverse foreign balances that a country to-day finds its chief need for gold as part of its monetary equipment. In this country the Bank of England used to hold gold in quantity under the statutory obligation of keeping gold in hand against a large part of its note issue. But its notes cannot now be changed into gold coin for internal use, and there would probably be little demand for the coin if it were available. People are satisfied to use the notes instead of the gold, so long as they seem to serve them efficiently as money. When notes can be and are changed into gold, it is for the purpose of shipping the gold to another country to wipe out a standing balance of claims due to that country. Since 1939 all our gold reserve has been held by the Exchange Equalization Account to be used for that purpose and for the checking of serious fluctuations in sterling exchange rates.

It may be, however, that the balance of £100,000 is not remitted. Australia may not find it convenient to send the necessary gold; or she may consider it a better plan to carry the balance forward in the expectation of there being a surplus of exports in the coming period, with claims arising in sufficient numbers to wipe the previous balance out. The expectation will probably be justified, as the extent of trade varies from time to time. The season for moving ripened crops may be approaching, or sheep-shearing may be in progress, with the prospect of grain or wool for export. On the other hand the past period may have included a more than usual quantity of imports intended for constructive work, in addition to the ordinary supply of goods for day-to-day consumption. Should the balance be left unsettled, the Bank of Britain, having paid the claimants here, would hold a debit of £100,000 in the Bank of Australia's account, until the turn in the balance of imports and exports reduced or cancelled the debit. Should, however, the claim against Australia persist, gold would ultimately have to be shipped to settle it, if gold were obtainable. If not, the one-sided demand for payments would lead to a movement against Australia in the rate of exchange at which the two countries bought and sold each other's money. Similar methods would be followed and similar results would ensue whatever the countries concerned.

RATES OF EXCHANGE

1. **Premium or Discount.** A point not explained in the preceding example of how foreign payments are effected is the rate at which Australian pounds can be exchanged for British pounds, or British for Australian. The currencies of both countries used to correspond, both having been constructed on the same model, and based on the same standard coin of gold, the sovereign. When that was the position, any difference in the values of the currencies for exchange purposes appeared as a slight premium or a slight discount on the British pound. The premium or discount arose out of a greater demand for one of the currencies than for the other, that excess on one side necessitating at times the shipment of gold, with the consequent expense of doing so, in order to restore equilibrium. Now, however, both currencies have departed from the gold standard, and departed from it to different extents. The difference at the present time is such that the pound Australian in the exchange market is worth only 16s. of British money, that it takes £5 of the former currency to buy £4 of the latter. The Australian rate of exchange is, therefore, at the time of writing quoted at £125 to £100 sterling, and is said to be at a discount of 25 per cent on sterling.

2. **Mint Par of Exchange.** As regards currencies based on other units, those of most of the leading countries were, until recently, all on the gold standard. In other words, they all had a standard coin of gold, of which their notes and coins represented specified multiples or fractions; notes, coin, and other forms of their moneys being convertible into gold, when required, at the specified multiples or fractions of the appropriate gold unit. The rate of exchange between any two gold-standard countries was then determined primarily by the relative quantities of pure gold in their standard coins. In Chapter 33 we learned that 40 pounds troy of gold $\frac{11}{12}$ths fine were minted into 1869 sovereigns. When coins of gold were circulating in France one kilogramme of gold $\frac{9}{10}$ths fine was minted into 155 napoleons of 20 francs each. Taking one ounce troy as the equivalent of 31·1035 grammes we have—

(*a*) 1 sovereign = (480 × $\frac{11}{12}$ × 31·1035 ÷ 1869) grammes pure gold.

(*b*) 1 French franc = (1000 × $\frac{9}{10}$ ÷ 3100) grammes pure gold.

Then, dividing (*a*) by (*b*), we find—

$$1 \text{ sovereign} = \frac{480 \times 11 \times 31{\cdot}1035 \times 10 \times 3100}{1000 \times 9 \times 12 \times 1869}$$

$$= 25{\cdot}2215 \text{ francs}$$

The above ratio of 25·2215 French francs to one sovereign was called the *mint par of exchange* between the sovereign and the franc, because the quantity of pure gold contained in one sovereign equalled the quantity contained in 25·2215 gold francs. Similar calculations used to show that the mint par of exchange with Holland, for example, was 12·107 Dutch florins to the sovereign, with the United States of America 4·867 dollars to the sovereign, and so on with other countries.

3. **Unsettled Conditions.** We have said such rates and others similarly calculated used to be the mint pars of exchange between what were then gold standard currencies. But, over-issue of paper money, payment so far as it could be enforced of war debts and reparations, tariffs hampering the free flow of goods, the absence of free markets in gold and consequent restrictions on the acquisition of foreign exchange, have all contributed since 1914 to play havoc with exchange rates. Great Britain managed with some difficulty to return to and remain for a short time on its previous gold standard; also France and Belgium each adopted a new gold unit of reduced value. For all three, however, economic forces were too strong to withstand, and one by one their gold units had to be abandoned a second time. Holland and Switzerland had clung to their old gold values throughout, until the collapse of the French currency in 1936 carried them off gold, too. Even the American dollar was, because of local conditions, devalued in 1934.

Though mint par was the theoretical ratio applicable to any two currencies, it did not follow that mint par was the rate usually operative. As in the case of Britain and Australia, so with other countries, a greater buying demand on one side than on the other would carry the rate above or below mint par. But, where gold was procurable for shipment to settle excess indebtedness on one side or the other, the operative rate

would never move farther away, or much farther away, from mint par than the fraction that represented the cost of sending gold, instead of buying currency at higher cost than the sending of gold would incur. These limits above and below par were called the *gold or specie points*. Where gold was not obtainable, that is, where the debtor country was off gold, the rate might move far from mint par, as many rates did.

The course taken then would probably be to let the rate find its natural level in accord with the state of indebtedness between the two countries, and with the difference in the level of prices ruling in each. Because of the uncertainty imported into trading conditions by fluctuation in rates of exchange, and because speculators are always hanging round ready to buy or sell exchange in anticipation of profitable changes in the rates, it has become a practice with a number of Governments each to set aside funds for buying or selling such currency as conditions at the time seem to dictate, and with the object of keeping its own currency steady in relation to some other or others, or at least of preventing it from running into violent changes.

TABLE OF FOREIGN EXCHANGE RATES
(as quoted in 1939)

London on—		
New York	4·68½ – 4·69 dollars	to £1
Montreal	4·70½ – 4·71 dollars	,,
Paris	176⅛ – 177⅛ francs	,,
Zurich	20·60 – 20·64 francs	,,
Brussels	27·84 – 27·88 belgas[1]	,,
Amsterdam	8·81½ – 8·84 florins	,,
Copenhagen	22·35 – 22·45 kroner	,,
Stockholm	19·35 – 19·45 kroner	,,
Berlin	11·66 – 11·70 R. marks	,,
Milan	89 – 89¼ lire	,,
Moscow	24·84 – 24·84⅜ roubles	,,
Buenos Aires	20·31 – 20·36 pesos	,,
Rio de Janeiro	3⅛ (official) cruzeiros	,,
Bombay	17 15/32 – 17 17/32 pence	to rupee
Hong Kong	14⅛ – 15⅛ ,,	dollar
Shanghai	7¾ – 8½ ,,	,,
Australia	£125 Aust.	to £100 London
New Zealand	£124⅜ N.Z. ,,	,, ,,
South Africa	£100⅝ S.A. ,,	,, ,,

[1] A belga = 5 Belgian francs

4. **Table of Exchange Rates.** On page 578 is given a table of typical rates as quoted in London in 1939. Of the two rates given the lower in foreign currency, or the higher if quoted in sterling, is some guide to the price at which an ordinary buyer can buy. The higher in foreign currency or the lower in sterling indicates about what price a seller can sell. The latest rates on all centres can be found published in the daily Press every morning. It will be noticed that Great Britain, South Africa, Australia, and New Zealand all use pounds; that Canada and the United States use dollars; that France, Belgium, and Switzerland use francs; and Denmark, Sweden, and Norway kroner or crowns. The rates were those quoted in the Foreign Exchange Market, which will be described below. As a rule, they are T.T. or telegraph transfer rates, instructions for the transfer of the currency in the foreign country being given by coded telegrams when a purchase is completed at this end.

When the rate of exchange between London and New York is 4·68½, and between London and Amsterdam 8·81½, a sum of £210 14s. 6d. would be converted into U.S.A. dollars, and into Dutch florins, thus—

$$210{\cdot}725 \times 4{\cdot}685 = 987{\cdot}25 \text{ dollars}$$
$$210{\cdot}725 \times 8{\cdot}815 = 1857{\cdot}54 \text{ florins}$$

Conversion at the same rates of 987·25 dollars and of 1857·54 florins into sterling would simply be the reverse of the above process, namely—

$$987{\cdot}25 \div 4{\cdot}685 = £210{\cdot}725$$
$$1875{\cdot}54 \div 8{\cdot}815 = £210{\cdot}725$$
$$= £210 \text{ 14s. 6d.}$$

BANKS AND FOREIGN PAYMENTS

A practical view of how payments pass between two countries will best be obtained by considering how they are dealt with from the standpoint of a business here that buys or sells abroad.

1. **For Goods Sold to a Customer Abroad** payment may reach the seller here in any of several forms. The buyer abroad may arrange through his local bank for a credit of specified amount (against which the supplier can draw for the value of the goods when they are ready) to be opened in the supplier's favour at a

bank here. Again, the buyer abroad may, either at the time of ordering or after delivery of the goods, send payment by means of a draft issued by his local bank on its London office or agents. Alternatively, he may send his own cheque drawn on an account kept by him at a bank in London. The draft or the cheque in the last two cases will be drawn in sterling; and, if the draft is payable on demand as it probably will be, the supplier of the goods will collect it through his own bank in the same manner as a London cheque.

The terms of sale, however, or custom between the parties, may require the seller to draw bills and hand them to his bank here for collection (as described in Chapter 28) through the bank's office or agents in the buyer's town abroad. In that case the bills will probably be drawn and the amount will be collected in the local currency of the drawee or buyer. Then, either the sterling equivalent of the sum collected may be remitted to the seller's bank here by a draft on the remitting bank's London office or agency, or it may be credited at the London office or agency to an account kept there by the seller or his bank. But, should the bank making the collection abroad be a prominent one in an important centre, another course may be followed. The bank may be required to credit the sum it has collected to an account in its own books in the name of the British bank for which it is acting, and to retain the money against presentation of drafts drawn by the British bank for remittances to be made in the opposite direction.

Were a sum sent here in foreign currency, as in notes of the sender's country or by cheque drawn on his bank abroad, the receiver of the money would get his bank here, as the circumstances require, either to buy the foreign notes and credit his account with their exchange value, or to put the cheque in process of collection from abroad and to credit his account with the amount realized in sterling when collection had been made.

2. For Goods Bought from a Supplier Abroad there are, again, several methods of payment available. As before, the buyer can request his bank to arrange for the opening of a credit abroad in favour of the seller of the goods. Or, he can send payment by bank draft payable in the seller's country, and either posted along with his order or remitted after receipt of the goods. He may obtain the draft from his own bank, signing an order for

it as authority for the bank to charge to his account its price in sterling at the current rate of exchange. On the other hand, he may buy the draft from another bank that specializes in foreign business, giving in payment a cheque in sterling drawn on his own bank.

These alternatives are suitable where goods have been bought payable in the currency of the foreign supplier. It is, however, customary for Continental manufacturers to keep selling agents in this country and to offer their products through these agents at sterling prices. In such circumstances buyers here would usually pay by their own cheques posted to the supplier abroad in the same way as they pay by cheques posted to suppliers at home. On receipt of such a cheque the Continental supplier would hand it to his bank, and the bank would collect it through agents here as a sterling bill of exchange payable on demand. An exporter abroad may, of course, draw a bill of exchange on his customer here, and send it for acceptance and collection in the same way that, as we have seen, an exporter here may draw on his customer across the sea. Also, at the request of a foreign supplier who keeps a sterling account at a London bank, his customer here may pay by cheque drawn in favour of that bank and handed to it for credit of the supplier's account. To a foreign manufacturer who both buys raw material and sells finished goods in this country, a banking account in London is useful, not only as a suitable collecting point for sums due to him here, but also as a convenient fund from which to pay creditors here for raw material he has obtained from them.

3. **The Foreign Exchange Market.** When a British bank issues a foreign draft to a customer the issuing bank should have funds lying at the drawee bank abroad to meet the draft on presentation. The necessary funds may have already been provided by the proceeds of bills collected in the foreign centre for the British bank, and retained there to be drawn against by that bank. Should no such collections have been made and should none be forthcoming soon, the bank here will be obliged to buy currency in the foreign centre and place it at the disposal of the bank it has drawn upon there.

But issue and collection of foreign drafts by the British bank will not be dealt with singly. When one of the bank's

branches collects or pays a foreign bill for a customer it will do so through the Foreign Exchange Department of its head office; and when one of the branches issues a foreign draft to a customer it will notify particulars of the issue to the same department. At the Foreign Exchange Department of the bank's head office, foreign collections for all the bank's branches will thus be brought together, and so will advices of all foreign draft issues. The department will then be in a position to deal with collections in and drafts upon any centre or country as a whole. From time to time it will buy currency in any centre where excess of drawings over collections makes that step advisable, and it will sell currency from time to time in any centre where the excess falls on the other side. Some similar procedure will be followed by banks abroad for collections and payments made on their behalf in this country.

How does a British bank manage to acquire command of extra currency it wants in any foreign centre, or to dispose of currency it already holds in any foreign centre where it no longer needs it? Purchase or sale of the currency is effected in the Foreign Exchange Market in London. That market consists on the one part of dealers in exchange, most of them operating in the foreign exchange departments of the head offices of British banks, or in the London offices of banks of other countries. They are in the market as principals buying or selling, according to circumstances, whichever currencies they are short of for present requirements, or whichever they possess in excess. For the other part, until taken over in 1939 by the Bank of England, the market consisted of exchange brokers, who operated from their own offices, and whose function it was to discover at what rates transactions could be carried through between dealers who wanted to buy, and dealers who wanted to sell. The foreign exchange market had in recent years become a highly-developed market that carried its business on at high speed wholly by telephone. Each broker was connected by switchboard and private wires to all the banks he could do business with. Each dealer was connected to numerous brokers, to many branches of his own bank, and to a few important firms outside.

The country's requirements for foreign currency are made known to a great extent to the branches of the big joint stock

banks throughout London and the provinces. Thence the requirements concentrate from each bank's branches to the Foreign Exchange Department of its head office. There, as far as possible, buyers' demands are set in bulk against those of sellers. When a dealer there found himself with a large shortage or a large excess of any currency he dropped to one or several of the brokers some inkling of his requirements. Other dealers did the same, with the result that the deficiencies of some were made up from others' surpluses, and the surpluses of some were used to meet others' deficiencies.

When in business the brokers are agents only, acting for the dealers with whom they are in touch, and remunerated on a fixed scale of commission, of which buyer and seller usually pay half each. On the other hand, the dealers are dealers who hold quantities of the various currencies in demand. They give a price for purchase or for sale, as the case may be, to each of the bank's foreign exchange customers, increasing their stock of the particular currency by each purchase, and reducing it by each sale. To replenish or to deplete their stocks when necessary, they have recourse to the market, buying or selling then, not to meet the limited need of any individual customer, but in quantities such as 250,000 or 500,000 francs, and 25,000 or 50,000 dollars. In the process of negotiation a broker does not disclose the names of prospective buyer and seller until a deal is settled. He then passes the buyer's name to the seller, and the seller's to the buyer, leaving them to finish the transaction between themselves. In the end the seller instructs his agent abroad to transfer the required amount of currency to the buyer's agent in the same country, perhaps in the same city; where it is held against the buyer's orders.

It should be added that the Foreign Exchange Market does not handle exchange between this country and Australia, New Zealand, or South Africa. That is controlled by an association of the banks of each of these dominions, with whom the English banks have to deal direct in buying or selling the money of that dominion. We have previously seen that the rate of exchange with these countries, which, like ourselves, use the pound as their money unit, is quoted as a premium or a discount on our money. For considerable periods the controlling banks keep the rate unchanged.

FORWARD EXCHANGE

So far we have been treating of *spot exchange*, that is, exchange bought or sold for delivery and payment at the time of purchase or sale. Now we have to look into the handling of *forward exchange*, that is, exchange bought or sold for delivery and payment at a future date, maybe one, two, or three months after the purchase or sale is entered into. Quotations for forward exchange are given as a premium or a discount on the spot rate; for example, for three months ahead, a premium of $1\frac{5}{16}$–$1\frac{3}{16}$ cents, and a discount of $\frac{3}{16}$–$\frac{5}{16}$ francs, on the U.S. dollar and the French franc rates respectively. Premium or discount depends on the difference between interest rates in this and the other country, and on the market's estimate of the tendency of the particular currency to rise or fall. Quotations appear daily in the financial columns of the Press. A rise on spot rate in the number of foreign units quoted is in the buyer's favour—a fall goes against him. This forward exchange is one of the developments of recent years in foreign exchange dealings. The development has been occasioned by general unsteadiness of the rates in the unsettled conditions prevailing since 1918, and by very considerable changes that have emerged suddenly at times in the rate for one country or another.

A manufacturer in this country may be required to quote in foreign prices for goods to be supplied some four months later; or he may be offered an order now for goods to be made, and delivered abroad in three months' time. By the date when payment for the goods will fall due, the rate of exchange may have moved some distance in the wrong direction. Payment made then at the new rate may so reduce the sum that the manufacturer will realize in sterling as to cause him an appreciable loss on the transaction. Again, a buyer here may place an order at foreign prices for goods to be delivered to him three or four months afterwards. If the rate of exchange with the supplying country goes against him in the meantime, and so raises his sterling cost, he may not be able to sell the goods at a profit when he gets them. Persons trading with foreign countries labour in the dark if they cannot be certain about the sums they will have to pay or receive on completion of their orders. It is to substitute certainty for uncertainty about the

results of such transactions that a market for forward exchange has come into existence; and the extent of its growth is the measure of its usefulness to business people who buy and sell abroad.

Now, when a manufacturer receives an order from abroad, he can arrange at once with his bank a forward rate for sale to the bank of the foreign money when he will get it from his customer. By selling, to the approximate value of the order, currency for delivery on a date when payment in that currency will have reached him, he eliminates the risk of loss arising through the rate changing unfavourably before that date. The trader, also, who has placed an order abroad can avail himself of similar protection. At the time of ordering he can arrange with his bank a forward rate at which he can buy sufficient currency for the date when payment for the goods will become due. It will depend on the bank's opinion of the standing of the buyer, whether it will trust him faithfully to keep to his part of the bargain when time of payment comes, or will require him to pay a deposit when the purchase is arranged.

As an alternative to selling exchange forward, a bank will on its customer's instructions purchase a block of foreign currency outright, and it will hold the purchased currency for him in the foreign country, to be drawn against, a part at a time, as he needs to use it. Any interest that such a holding may earn abroad will belong to the customer for whom the currency is being held by his bank.

FOREIGN EXCHANGE UNDER CONTROL

Control of foreign exchange rates has in some countries taken the form of prohibiting the acquisition of foreign currency by its merchants for certain purposes or during certain periods. That, of course, makes external trade impossible with that country except within the limits allowed. The exchange difficulties of other countries have led to the opening of clearing offices, where at an agreed rate the debts owing by us to one of these countries are set against the debts owing by that country to us. Payment to a creditor at any time then depends on how much of the total debt on one side can be settled out of the total on the other side.

Before 1914 a method known as the *gold exchange standard*

was adopted by several countries that had no reserve of gold for clearing off adverse foreign balances by the orthodox procedure of shipping gold. From 1899 to 1917 the Indian Government kept the rupee at or near the rate of 15 to the pound by offering in London, for sterling, regulated quantities of India Council bills payable in rupees in Bombay, Calcutta, or Madras. If, occasionally, the rate moved the other way the process would be reversed, and sterling bills would be offered in India payable out of a reserve kept in London. In the extreme conditions which developed later that method had to be abandoned. In the War of 1914–18 Britain kept sterling "pegged" to the dollar at 4·76½, J. P. Morgan & Co., the Government's agents in New York, having instructions to buy at that rate the excess of sterling then offered in the States. The scheme, however, proved too costly to be continued in the circumstances of the time; and it was given up in 1919, the dollar rate falling soon afterwards as low as 3·19.

Control of foreign exchange may take the form of what has been called the *currency exchange standard*, whereby a country keeps its currency in fixed relation to that of a more influential country that is not on the gold standard. When, in 1931, Great Britain had to leave the gold standard, Denmark, Sweden, and Norway also took that course, as well as some of the British territories. Their trade relations with this country were so important that they could not jeopardize them by remaining on a rate of exchange that made their prices too high, in sterling, for this country to buy from them as freely as before. They formed the nucleus of what came to be known as the "sterling group."

Following our departure from gold, Parliament in 1932 set up at the Bank of England an *Exchange Equalization Account*, placing at the disposal of the Account some £175,000,000 of Treasury bills, an amount that was later increased to £575,000,000. By selling to the Bank so many of these bills as occasion required, the Account, or the "control" as it came to be called, obtained funds with which to buy foreign exchange, either to hold it for sale at an appropriate later time, or to convert it into gold with which to acquire more currency when necessary. When the "control" bought dollars or francs, its action would tend to keep their exchange value from falling, and sterling

exchange value from rising. Selling would have the opposite effect. The use of the fund, therefore, acted as a check on movements in our exchange rates as these began to show, and so kept the rates steady or, at least, smoothed out tendencies to violent fluctuation.

In 1928, when France returned to a devalued gold standard, she became the centre of what was known as the "gold bloc," Belgium, Holland, and Switzerland being the other principal adherents. After Belgium in 1935, and France in 1936, were compelled to go off gold, Holland and Switzerland had to follow. Then an agreement was reached by the United States, France, and Britain whereby each country undertook, if necessary, to export gold to either of the others, or to earmark it and hold it for the other's use, with the view of controlling the exchange rate between them. The United States had inaugurated an Exchange Stabilization Fund in 1934, and France now set one up also. Belgium, Holland, and Switzerland soon joined in the arrangement, setting aside funds to use for exchange stabilization purposes.

ARBITRAGE DEALINGS

Arbitrage in foreign exchange is the name given to buying any currency in one centre and selling it in another centre, with the object of making a profit out of a difference of a small fraction in the momentary prices of the two centres. The subject of such an operation may, of course, be something other than foreign currency, for example, stocks and shares or commodities that have an international market. The nature of these transactions necessitates the two deals, the buying and the selling, being effected almost simultaneously, so that the profit in view shall be snatched before the rate in either centre changes. For that reason arbitrage dealings are conducted with the nearer Continental centres by telephone, and with more distant places, such as New York, by urgent cablegram.

An example of dealing by arbitrage in a foreign currency would be the purchase by a London dealer of kroner in Stockholm, and the sale of the same kroner almost immediately in London. Another example might be the buying by cable of dollars in New York, and the selling of them by telephone in Amsterdam. If the dollar rate in London were 4·68½ and the

Amsterdam rate in London 8·81½, the corresponding dollar rate in Amsterdam would be—

$$8815 \div 4685 = 1{\cdot}8815368 \text{ florins for one dollar}$$

$$\text{or } 468{\cdot}5 \div 8{\cdot}815 = 53{\cdot}148 \text{ dollars for 100 florins.}$$

A small fraction better in the Amsterdam rate would yield the profit to secure which the double deal was undertaken. Payment in Amsterdam would be received in florins; but the London dealer, who initiated the transaction, would probably have in prospect the disposal of these, also at a profit, in London.

QUESTIONS

1. Indicate some of the difficulties that have arisen in recent years to hinder the conduct of trade between nations.

2. Outline the procedure by which the exports of a country are, as far as possible, made to pay for its imports. Of what besides goods or produce may the imports or the exports consist?

3. What is implied when it is said that we have "an adverse trade balance"? How is an adverse trade balance brought about? (*R.S.A.*)

4. What do you understand by an adverse balance of payments? How can such a balance be automatically corrected? (*R.S.A.*)

5. "To a country that is off the gold standard the balance of trade is far more important than to a country that is on the gold standard." Do you agree? State reasons for your answer. (*R.S.A.*)

6. How is the rate of exchange quoted between Great Britain and any Dominion using the same unit of currency as Great Britain? Why should there be a difference at any time in the value of the two moneys? By whom are the exchange rates in these cases controlled?

7. How was the rate of exchange determined between Britain and the U.S.A. when both countries were on the gold standard? Why did the rate of exchange vary? (*U.L.C.I.*)

8. What is meant by the mint par of exchange and by the current rate of exchange? What factors cause variations in the current rate of exchange? (*L.C.C.*)

9. What do you understand by the "gold standard"? Why did we return to it in 1925 and go off it again in 1931? (*R.S.A.*)

10. Explain by what various means and through what channels an exporter here may receive payment for goods he has shipped to a foreign buyer.

11. Explain in what several forms a British purchaser of foreign goods may convey payment to his supplier abroad.

12. Describe in brief how the British joint stock banks organize their foreign exchange activities in relation to (*a*) their branch offices and branch customers, and (*b*) the Foreign Exchange Market.

13. Outline the main features of the Foreign Exchange Market in

London, as it existed before September, 1939, explaining who were its personnel and how its operations were conducted.

14. Distinguish between *spot* and *forward* foreign exchange rates. Explain what is meant by the terms *premium* and *discount* in this connexion. (*R.S.A.*)

15. Explain how forward transactions in foreign exchange may be used by a British exporter to diminish risk when he sends a consignment of goods for sale in another country. (*R.S.A.*)

16. How are the facilities, now available for acquiring forward exchange, of advantage to purchasers in this country of goods for future delivery from abroad?

17. Explain briefly what is meant by arbitrage transactions in connexion with the foreign exchanges. (*R.S.A.*)

18. The New York rate of exchange in Paris is quoted in dollars and cents per 100 francs. If the rate of exchange between London and Paris on a given occasion is Fr 124·03 and between London and New York $\$4{\cdot}84\frac{1}{8}$, what should the New York rate be in Paris? (*R.S.A.*)

19. Describe briefly the meaning of (*a*) gold exchange standard, (*b*) currency exchange standard.

20 What is an Exchange Stabilization Fund, in what circumstances is it made use of, and how is it operated?

21. Explain carefully the meanings of (*a*) T.T., (*b*) invisible exports, (*c*) specie points.

CHAPTER 35

DEVELOPMENT OF BRITISH BANKING

PREVIOUS chapters, when treating of banking matters, have been concerned chiefly with describing two parts of our banking system, namely, the services that the commercial banks render to their customers, and the function that the Bank of England performs in providing the community with a banknote currency. We propose now to take a wider survey and to attempt some further description of the growth and the functioning of the banking system of this country. In this chapter we shall treat of the commercial banks, with which the public usually deals and which it knows best; also with the Bank of England which, as the bank of the Government and as the central institution of the banking system, discharges duties largely peculiar to itself.

EARLY ENGLISH BANKS

Some of the services that our banks now offer were first rendered somewhat incidentally by the London goldsmiths. Having strong-rooms for use in their own calling, the goldsmiths were led to take on deposit, and for safe custody, the money of merchants and other persons. When they discovered that a large proportion of the money left with them was always in their hands, they began to lend it out at interest, at the same time offering their depositors interest at a lower rate. Notes that they issued as receipts for the deposits or as promises to repay came to be passed from hand to hand amongst traders in the settlement of business debts, and these appear to have been the origin of the banknote. Also it is believed that depositors sometimes addressed written orders to the goldsmiths requiring payments to be made to third parties named in the orders. In that practice we can trace the beginnings of our present-day use of bank cheques.

The early banks in London as well as those of the provinces were partnership or, perhaps, single-proprietor undertakings. Each town would usually have its own bank, only the larger

centres having more than one; and each bank would usually be independent of all others, being confined to serving the business interests of its own locality. Its services might include the taking charge of customers' money; but it took time for general confidence in bankers to develop, and for the leaving of funds in the keeping of banks to become the common practice it now is. In those days bills of exchange payable at future dates were resorted to more than they are now for the paying of inland debts; and each local bank handled these, discounting for customers such bills as it was prepared to take, and collecting payment through its agents in the acceptors' towns. Cheques had not come into general use, their purpose as a means of cash payment having then been served by notes and coin. The notes were, as a rule, the local bank's own notes, payable by the bank in gold on demand, and circulating amongst the traders and others within the bank's own district. Then as now a bank would make loans to customers; but a loan would be made either in the notes of the bank or by a credit that would be drawn out in notes, as the borrower needed to use the money. When, however, the adaptability, safety, and economy of cheques as instruments of payment began to be discerned and appreciated, they soon grew in favour, their use changing considerably the routine of banking business.

The Bank of England, as we have seen, was placed in a privileged position in regard to note issue. From 1708 to 1826 no body consisting of more than six persons was permitted to issue anywhere in England notes payable to bearer on demand or at less than six months from the date of issue. From 1826 onward the area of the Bank's privilege in note issue was curtailed; but the privilege still remained in force everywhere within a distance of sixty-five miles from London. With the rapid growth of the country's industry, and the accompanying need of increased banking facilities, banking houses rapidly multiplied. In England, however, that need was met by local private banks, too restricted in the monetary resources at their command, too susceptible to changes in trade conditions in the limited area each bank served, and too little observant of the principles by which note issues should be governed. They were frequently in trouble, particularly through over-issue of notes. When there were presented for payment notes

in greater number than a bank could meet, the bank was obliged to close its doors. Failures from time to time inflicted much hardship on the districts where they occurred, and their effects spread to districts beyond.

Because of the belief then prevalent that banking business could not be carried on without issue of notes, the privilege in regard to note issue allowed to the Bank of England from 1708 onwards prevented the establishment in England of any large and powerful banking competitor. That kept the bank facilities of the country in a backward and inefficient state. Except in so far as they were supplied by the Bank of England, banking services were left to be provided by small firms that were often too weak to meet growing demands on their lending power, or to withstand a persistent run on their gold reserves. It repeatedly happened, when public confidence failed, as when a period of too venturesome activity turned to one of depression, that a large number of these banks could not cash all the notes returned to them for payment. Many of those that suspended payment never opened their doors again.

RISE OF THE JOINT STOCK BANKS

The Bank of England, founded in 1694, was the first bank in the British Isles formed with capital subscribed on the joint stock plan. In the type of private bank that existed then and later the capital was supplied by not more than six partners, each of whom was free to take an active share in the conduct of the concern. But in the joint stock type the capital required is subscribed publicly by many persons, none of whom, in the capacity of shareholder only, has any direct say in the management of the business.

In 1826, following a year in which bank failures had been frequent, it was enacted that banks consisting of more than six proprietors, and with the right to issue notes, might be established beyond the radius of the Bank of England's privilege. Then in 1833 another Act was passed, following which joint stock banks began to be set up in London itself for the carrying on of banking business without note issue. By that time the private bankers of the Metropolis had ceased to issue their own notes in competition with the Bank of England. They and the new joint stock banks fostered what came to be known as

"deposit banking." Customers were encouraged to keep their liquid funds at the bank instead of themselves holding their cash in notes ready to meet creditors' demands for payment. A bank customer could then make his payments by drawing cheques against the funds he had available at his bank, as shown by the balance of his account with the bank.

In that manner a beginning was made in the establishment of banking institutions with larger resources, and in the development of banking business on sounder lines. Nevertheless, many banks that still had the right to issue notes continued to part with greater quantities than they were at times able to redeem. For that reason the Government, with Sir Robert Peel at its head, was obliged to take further steps for the regulation of note issues. So the Bank Act of 1844 was passed, some of the provisions of which were that no new note issue was to be permitted in England, that the issues then in existence other than that of the Bank of England were not to be expanded, and that notes in excess of a specified limit were not to be issued by the Bank of England except against coin or bullion held in reserve to meet them. Thereafter, when any English bank of issue was absorbed by a non-issuing bank, two-thirds of the issue could be taken over by the Bank of England; but the remaining third lapsed. Under the operation of that provision all country bank issues in England gradually became extinct, the last disappearing in 1921, when the bank of Fox, Fowler & Co. with branches in Somerset and Devon was absorbed by Lloyds Bank. Though the right to issue their own notes is still exercised by the banks of Scotland and Ireland, the Bank of England is now the only note-issuing bank in England.

HOW THE JOINT STOCK BANKS HAVE SPREAD

At the first the management of the new banks was not always as efficient as it might have been; but in time and with experience it improved. In their early years they were looked at askance as intruders, especially in London by the private bankers and the Bank of England. Though the cheque-clearing system had long been a well-established institution in London when the joint stock banks arrived, they were refused admission to the Clearing House until in 1854 their growing importance ended their exclusion. To-day the joint stock bank

is predominant in the land. As the result of amalgamation and absorption, five big joint stock companies—Barclays, Lloyds, Midland, National Provincial, and Westminster—now conduct or control by far the larger part of the banking business of the country. More than one of the five carry on their business at as many as 2000 branches. By the opening of offices, even in out-of-the-way places, they have offered to expanding trade greatly multiplied opportunities for the use of banking facilities. By popularizing their services they have gathered in as customers innumerable small traders and householders whose like, a generation or two ago, never thought of writing a bank cheque or of owning a bank account.

In 1854 there were twenty-five private banks—small undertakings in comparison with their successors of to-day—that had seats in the Clearing House. The admission of six joint stock banks in that year raised the number of members to thirty-one. To-day, besides the Bank of England and Coutts & Co., which is affiliated to the National Provincial Bank, there are ten members with businesses of much greater magnitude than those of their predecessors; and of these ten one only—Glyn, Mills & Co.—represents the old type of bank without numerous branches. Amongst the six joint stock banks first admitted to the Clearing House there were three—the London & County, the London & Westminster, and the Commercial Bank of London—that have gone to the making of the present Westminster Bank. A fourth—the London Joint Stock Bank—has been amalgamated with the Midland, and a fifth—the Union Bank of London—has become part of the National Provincial. In 1868 the annual clearings in London totalled some £3,400,000,000. For the year 1945 the total was just under £67,000,000,000.

Lloyds Bank of Birmingham gained entry to the London Clearing House by taking over in 1884 two London private banking firms. Its largest single extension, however, occurred in 1918, on its being joined by the Capital and Counties Bank, with many branches in London and surrounding towns. The Midland Bank, also of Birmingham origin, obtained access to the Clearing House in 1891, when it bought up the Central Bank of London. That absorption was followed by amalgamation with the City Bank in 1898, with the Metropolitan Bank

of England & Wales in 1914, and with the London Joint Stock Bank in 1918. The Westminster Bank of to-day is an amalgamation mainly of the London & Westminster with the London & County in 1909, and with Parrs Bank in 1918, the last named having itself absorbed the Alliance Bank of London in 1892, and the Consolidated Bank of London and Manchester in 1896. In 1896 a number of banks having associations with Barclay, Bevan & Co. in London combined to form what is now called Barclays Bank. That was joined again in 1918 with the amalgamated London & Provincial and London & South Western Banks. It has absorbed the Union Bank of Manchester. The National & Provincial Bank was founded in 1833 in London to operate as a bank of issue in the Provinces. It relinquished its note issue, however, in 1865, and then opened branches in London. It now includes the connexions of many of the former private banks of London, acquired either directly or through the Union of London & Smiths Bank, with which it amalgamated in 1917. These are some of the bigger steps in the rise of our five largest banking combinations of to-day, the many smaller steps in their growth being too numerous to mention. In 1895 there were in England and Wales ninety-nine joint stock banks and thirty-eight private banks. Now there are little more than a dozen companies operating.

Of our remaining banking companies Martins, which had been one of the oldest private banks of London, was in 1918 amalgamated with the Bank of Liverpool. The latter had risen in importance by the absorption of a number of local banks in the North of England, and the process of its growth was continued by the taking over of the Lancashire and Yorkshire Bank in 1928. The District Bank, originally the Manchester & Liverpool District Banking Co., which had already spread its connexions beyond the area indicated by the name, was admitted to the London Clearing House in 1937, after amalgamation with the Manchester & County Bank in 1935. Williams Deacon's Bank, as it is now called, resulted from a union in 1890 of the old London bank of Williams Deacon & Co. with the Manchester & Salford Bank, itself a combination of private banks in the Manchester district. The National Bank, admitted to the London Clearing House in 1859, maintains its head office and a number of branches in

London. It does some business in Manchester, Liverpool, and a few other English towns, and it operates to a considerable extent in Ireland.

CAUSES OF AMALGAMATION

By the time the joint stock banks appeared there had already been some signs of combination amongst the private banking firms of the Metropolis. That movement was accelerated when the private bankers saw that the new joint stock banks had come to stay and had entered into keen and effective competition with them. In the provinces also, during the middle years of the nineteenth century, combination by private banks became increasingly frequent, as more and more branches of the joint stock banks were opened. There followed a course of continuous absorption of private banks by joint stock banks seeking to extend their areas of operation. That led on to the absorption of small joint stock banks by larger ones and, round about the year 1900, to the joining of interests amongst larger ones themselves. In the conditions prevailing after the close of the war of 1914–18, there came a number of amalgamations between banks that had grown quite big by previous absorptions. And now a few resulting large banks carry on practically the whole of the banking operations of England, each of the five largest running many offices in London, and many more throughout the English counties.

The process of combining small banks in adjoining districts gave more branches to each of the combined undertakings, and put each in a position better to combat the spreading influence of the joint stock banks. Amalgamation was a source of greater strength, the combined resources of the unified body making it better able, than each bank would have been singly, to meet emergencies in the attitude and demands of the public. Again, the financial needs and facilities of London differ from those of the provinces, and the acquisition of a footing in London gave a country bank new opportunities for the profitable use of its funds. On the other hand, the extension of a London bank's connexions into the country had a steadying effect on its business, lessening its susceptibility to the changing influences of the City. The wider the territory over which a bank's activities were spread, the less would it be affected by

any purely local tendency, whilst funds not called for in one area at any time could be used to meet demands being made upon the bank in another area. Further, banks perform a serviceable function in gathering together, and making available for industrial, commercial, or governmental needs, sums that the owners of the money cannot themselves put out to profit. The more, therefore, that the banks extend their collecting grounds, the less money is there likely to be lying idle in the country. And the more they make known the facilities they offer, the greater will be the benefits the community may derive from using these facilities.

It is probably true to say that the very great multiplication of bank offices has been due in some part to mere rivalry amongst the big banks, or between personalities in control of these institutions. To an onlooker the number of banks seeking customers in many a small town suggests that the quantity of business the town has to offer could be transacted more economically were there fewer offices competing for a share of it. On the other hand, it has to be noticed that the rapid growth of banking undertakings has been the counterpart of a rapid growth of industrial undertakings—that big businesses making large money demands have needed big banks with large resources to help them. Also, it has to be noticed that in the absence of visible signs of weakness the mere magnitude of an undertaking tends to engender confidence in its stability; and confidence in a bank's soundness is a first essential in its relationship to its customers.

Another cause that helped in the growth of the joint stock type of bank was the extension to banks by an Act of 1858 of the privilege, already granted to industrial companies, of registering with limited liability. Before that Act bank shareholders were under unlimited liability to make contribution for the payment of the bank's debts, whether due to customers or others. It was the rule then for a bank's shares to be of large nominal amount, such as £100 each, and for only a fraction of the amount of each issued share to be called up, the remainder being subject to call only in case of necessity. Although the Act of 1858 did not permit any limitation of shareholders' liability in respect of a bank's note issue, that was no drawback to the raising of share capital by early joint stock banks that

had no power to issue notes, nor by English banks in recent years when note issues other than that of the Bank of England had all but disappeared. Bank shares issued now are of much smaller value than those of former times, and it is not now the custom to leave any permanent uncalled balance as a liability attaching to new issues of bank shares, and making them for that reason less desirable investments.

In a process of absorption it would be the stronger of two banks that would take over the weaker. Shares of the stronger bank A would be earning a higher rate of dividend than those of the other bank B, and would therefore command a higher market price. The scheme proposed for the absorption would usually offer to B shareholders, as an inducement to agree, some benefit in market value, or dividend rights, of A bank shares to be given in exchange for those of B. For example, if B shares of £5 each nominal value would sell for £14 10s. each, and A shares of £5 for £18 10s., five A shares worth £92 10s. might be offered for six B shares worth £87. In that way the procuring of B shareholders' sanction to the scheme would be facilitated. Should it be intended that B bank cease as a separate company its shares would go out of existence and the holders of them would get A shares instead. Should, however, B bank continue as a separate company its shares, surrendered in exchange for A shares, would not go out of existence. They would be held by the A bank and they would give to that bank the control of the B undertaking. In either case the purchase price would be paid to B shareholders in A shares, and the A bank would have to issue new shares which, at the value per share agreed upon, would amount to the purchase price under the scheme. It would, however, be with the nominal value only that A bank would credit its capital account for these new shares, and it would be on the nominal value only that it would pay dividend. The excess of the purchase price over the total nominal value of the new shares issued would be credited to Reserve Account, and would go to increase the reserve strength of the A bank.

SCOTTISH AND IRISH BANKS

The Bank of Scotland was established by Act of the Scottish Parliament in 1695, the year following the founding of the Bank

of England. Its capital was in pounds Scots, then the currency of the country, a Scotch pound being worth about one-twelfth of the pound sterling. As a consequence, however, of the Union of Parliaments in 1707, the currency of Scotland was replaced by sterling, the change-over being arranged through the Bank of Scotland. We have seen that by an Act of 1708 the Bank of England gained the privilege of being the only institution permitted to carry on banking business in England with more than six proprietors. That Act did not apply to Scotland, and two more banks with joint stock capitals were established there long before the first joint stock bank commenced business in England. The Royal Bank of Scotland dates from 1727, and the British Linen Co. (now the British Linen Bank) dates from 1746, the manufacture of linen which was one of its original objects having been early abandoned. The other Scottish banks that are still in existence were set up between 1810 and 1838.

Unlike the Bank of England the Bank of Scotland began to open branches in its second year, and its issue of notes included some of £1 each as early as 1704. The issue of notes of £1 and upwards has been a general and continuous feature of Scottish banking. It was never subject to any legal regulation until the maximum amount of note issue permitted to any Scottish bank, without an equivalent bullion reserve, was fixed by Parliament in 1845. Since 1914, however, the £1 and 10s. notes, issued at first by the Treasury and now by the Bank of England, have circulated in Scotland along with the notes of the local banks.

Another peculiarity of Scottish banking from its early years was the practice of allowing a "cash account" to any approved applicant who could produce two sureties acceptable to his bank. That consisted of placing to credit of the successful applicant's account an agreed sum, subject to interest, against which sum he could draw cheques for the requirements of his business or profession. Terms of repayment were easy, and the credit might remain in being indefinitely, provided it was being used regularly for genuine business transactions. A further practice peculiar to Scottish banks was the taking on deposit, and at interest, of sums of £10, or even less, from householders and labouring people. Half-yearly the receipts

given for these deposits could be surrendered for new ones in which the interest that had accrued was added to the principal. When taking renewal of his deposit receipt a holder would also get added to the principal any further savings he had been able to accumulate in the meantime. Only in recent years have the English commercial banks offered interest-bearing deposit facilities for personal savings on a humble scale.

When the Bank of Ireland was founded in 1783 in Dublin it was given a privilege, similar to that then enjoyed by the Bank of England, of being the only bank permitted to carry on business in Ireland with more than six partners or proprietors. As a consequence of that privilege banking services in Ireland were supplied by numerous small private banks. These private banks, as well as the Bank of Ireland, issued their own notes, and nearly all of them failed from time to time, inflicting no little distress upon the country. That led in 1821 to a modification of the Bank of Ireland's privilege, the establishment of joint stock banks being thereafter allowed, but not within fifty miles of Dublin. With the further removal of restrictions soon afterwards larger banks with joint stock capital began to get a foothold and to set up branch offices. The Provincial, Hibernian, Northern, and Belfast Banks all date from 1824 to 1827, the National and the Ulster Banks and the Royal Bank of Ireland from 1835 to 1836, and the Munster Bank (incorporated since 1885 in the Leinster and Munster Bank) from 1864. The note issues of the Irish banks were, along with those of the Scottish Banks, brought under regulation by the Act of 1845. Notes issued in Eire are now under the control of a Currency Commission, and are legal tender within Eire.

We have already noticed that the National Bank, with many branches in Ireland, is operated from a head office in London. The Provincial Bank of Ireland has its head office in London, but has no English branch besides; and no other of the Irish Banks appears to have any office in England. Not so the Scottish banks. Each of these has had an office in the City for many years, and each now conducts one or more branches in the West End as well. The fact that several Scottish and North of Ireland banks are affiliated to English banks has previously been mentioned. Williams Deacon and Glyn Mills & Co. are associated with the Royal Bank of Scotland.

BANK OF ENGLAND TO 1914

The establishment of the Bank of England in 1694 had for its chief object the lending of money to the Government. Nowadays, when a banker lends, it is money deposited with him by his customers that he uses for the purpose, or probably a book credit created by him in favour of the borrower. But the early loans by the Bank of England to the Government were made with money subscribed in the City as the Bank's trading capital. The first loan was £1,200,000, a sum that seems insignificant in comparison with the huge loans raised from the public now. In return for the loan the Bank was to receive interest at 8 per cent per annum, together with £4000 a year as management expenses. Besides the right to that yearly payment, the Bank's charter gave it power to issue notes, to deal in gold and silver and in bills of exchange, and to lend money on security. It is interesting to notice, in contrast to the apparent permanency of the position the Bank holds to-day, that its original charter was made withdrawable by twelve months' notice to be given at any time after 1 August, 1705. Had the Government repaid its loan and given the requisite notice, the Bank would have ceased to function on the fulfilment of its purpose and the expiration of its powers.

In its early years the Bank was faced with opposition from political and financial interests, and it had to meet the rivalry of several actual and projected ventures for making loans to the State and getting privileges in return. In time, however, the opposition subsided or was overcome, and the rival schemes fell through. Instead of coming to an end within the period anticipated by its first charter, the Bank's privileges and powers were renewed from time to time. Each renewal was usually accompanied by an increase in the loan to the Government and by some re-arrangement of the Bank's remuneration. By 1816 the capital of the Bank had reached its present amount of £14,553,000, and the loan to the Government had risen to £14,686,000. In 1833 the permanent loan to the Government was fixed at £11,015,000, and apart from large holdings of "Government securities" that is the figure at which the "Government debt" still stands. In 1826, in consequence of agitation for better banking facilities, Parliament gave legal

recognition to the setting up of joint stock banks, and the Bank of England was urged to open offices in the provinces. Besides its Law Courts branch in London, it has now branches at Birmingham, Bristol, Hull, Leeds, Liverpool, Manchester, Newcastle-on-Tyne, and Plymouth.

Several times, and notably from 1797 to 1821 during and following the Napoleonic Wars, the Bank's obligation to cash its notes on demand had to be suspended for want of the necessary gold. But in 1745, and again in 1797, influential merchants in London met and agreed to take the Bank's notes in payments due to them. In 1833 Bank of England notes were made legal tender except by the Bank itself. The lowest denomination, which had at first been £20 and later £10, was at that time £5, the issue of notes of lower value having been prohibited in 1826. We have seen how the crisis of 1825 involved numerous note-issuing banks in failure, and led to their replacement by joint stock institutions. Nevertheless over-issue of notes continued, so much so that by the Bank Act of 1844 provision had to be made for regulating all note issues—the notes of the Bank of England, and those of the country banks as well. For some years previously the Bank of England issue had not fallen below some £16,000,000. It was considered, therefore, that £14,000,000 could safely be taken as a figure below which the Bank's note issue would not drop in any likely circumstances. The bank was permitted to make a "fiduciary issue" of that amount, that is, an issue against which no coin or bullion need be held for repayment. Government borrowings to the amount of the fiduciary issue, including the permanent loan of £11,015,000, were to serve as security. For repayment of every note issued in excess of £14,000,000 coin or bullion to the full extent of the excess was required to be kept in reserve. One-fifth of the reserve might be silver; for the remainder gold was required.

Further regulations of the Act of 1844 were that the Bank of England was to be divided into an Issue Department and a Banking Department, that a return was to be published weekly showing the position of each department, and that the restriction on note issue by other banks within sixty-five miles of London was to continue. No new bank of issue was to be permitted, and none of the existing country issues was in

future to exceed the average of the twelve weeks preceding 27 April, 1844. Should any of these issues lapse the Bank of England, on obtaining an Order in Council, might increase its fiduciary issue by two-thirds of the lapsed amount, and through the exercise of that power the fiduciary issue was eventually increased to £19,750,000. The same Act also required the Bank to issue on demand notes for gold bullion at the rate of £3 17s. 9d. an ounce of standard fineness, that is, at 1½d. less than the rate at which the gold could have been minted. All these regulations remained in force until the events of 1914 caused them to be modified.

THE BANK AND STERLING SINCE 1914

On page 604 appear copies of two weekly returns of the Bank of England, the first showing the position before the outbreak of war in 1914, and the other showing by comparison changes that had taken place by 1939. In 1847, only three years after the passing of the Act of 1844, so great were the claims being made against the Bank of England for withdrawal of funds (chiefly by the commercial banks for satisfaction of their customers' demands) that the restriction on the Bank's issuing notes without an equivalent addition to its gold reserve had to be broken. A similar emergency arose in 1857 and again in 1866. On each occasion appeal was made to the Treasury, which issued a letter to the Bank agreeing to the infringement of the Act and undertaking to get Parliament to legalize the irregularity.

In August 1914 the Bank's obligation not to issue additional notes except against a reserve of coin or bullion was suspended for the fourth time. The Currency and Bank Notes Act then passed provided for the issue, through the Bank as agent, of currency notes of £1 and 10s. for which the Treasury was responsible. The gold coins that had circulated until then were gradually withdrawn, as all gold that could be spared was required by the Government to pay for war material and food bought abroad. Later, it was made illegal for anyone to melt down gold coins, and prohibition was placed on the export of gold except by the Government.

The magnitude of war requirements necessitated payments by the Government on an unprecedented scale. Issues of Treasury notes and subscriptions by the banks to Government loans

BANK OF ENGLAND RETURN
WEEK ENDED 15 JULY, 1914

ISSUE DEPARTMENT

	£		£
Notes Issued	56,908,235	Government Debt	11,015,100
		Other Securities	7,434,900
		Amount of Fiduciary Issue	18,450,000
		Gold Coin and Bullion	38,458,235
		Silver Bullion	—
	£56,908,235		£56,908,235

BANKING DEPARTMENT

	£		£
Proprietors' Capital	14,553,000	Government Securities	11,005,126
Rest	3,431,484	Other Securities	33,623,288
Public Deposits	13,318,714	Notes	27,592,980
Other Deposits	42,485,605	Gold and Silver Coin	1,596,419
7-day and other Bills	29,010		
	£73,817,813		£73,817,813

NOTE. The word "Rest" in Bank of England weekly returns is used in the sense of remainder, or balance left over. It is an accumulated surplus of profit remaining in the possession of the Bank from operations or periods of operations completed. From it dividends are paid to the Bank's stockholders; but it is the practice of the Bank not to allow the Rest to fall at any time below £3,000,000.

BANK OF ENGLAND RETURN
WEEK ENDED 1 MARCH, 1939

ISSUE DEPARTMENT

	£		£
Notes Issued—		Government Debt	11,015,100
In Circulation	478,448,520	Other Government Securities	288,386,625
In Banking Department	47,965,955	Other Securities	12,083
		Silver Coin	586,192
		Amount of Fiduciary Issue	300,000,000
		Gold Coin and Bullion at 148s. 5d. per oz. fine	226,414,475
	£526,414,475		£526,414,475

BANKING DEPARTMENT

		£			£
Proprietors' Capita		14,553,000	Government Securities		99,046,164
Rest		3,654,252	Other Securities—		
Public Deposits		11,643,224	Discounts, etc.	£6,349,490	
Other Deposits—			Securities	£22,398,292	
Bankers	£110,361,073				28,747,782
Other	£36,549,537		Notes		47,965,955
		146,910,610	Gold and Silver Coin		1,001,185
		£176,761,086			£176,761,086

NOTE. Public Deposits include Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts.

continuously created new credit in Government accounts at the Bank of England, and placed further funds at the Government's disposal as previous supplies were spent. These funds found their way into the bank accounts of Government suppliers, and thence through expenditure on materials and labour into general circulation, increasing the purchasing power of the community. Increasing purchasing power and growing scarcity of materials and foodstuffs led to rising prices, and these to the raising of wages rates. Higher prices and more wages brought demands for further additions of currency and credit, which forced prices higher still. As neither Treasury nor Bank of England notes could be exchanged for gold, nor bank balances converted into gold, the continuous increase in these caused the gold value of the pound sterling to depreciate.

In the war of 1914–18 the American dollar remained on the gold standard, so that the dollar exchange, which by 1920 had fallen to 3·19 from its former parity of 4·866, indicated the extent of the depreciation of the pound. When peace had been restored the British Government pursued a policy of raising sterling to its former gold equivalence, and in 1925 the Gold Standard Act put the pound back on gold at the old rate. By the Currency and Bank Notes Act of 1928 a recommendation made successively by two Currency Committees was carried into effect, namely, that the Treasury issue of notes should be incorporated with the Bank of England issue. The transfer raised at one stroke the Bank's fiduciary issue from £19,750,000 to £260,000,000. There was no intention of returning to the gold circulation of pre-war days; and, to prevent any demand arising for gold for home use or hoarding, the Act of 1925 made compulsory the conversion of notes into gold in one way only, namely, into bars of 400 fine ounces, worth then nearly £1700 each and suitable only for export. That has been called the "gold bullion standard." The 1928 Act also gave the Bank power, on obtaining permission from the Treasury, to expand its fiduciary issue temporarily when conditions make that course desirable. Parliament has to be notified, and the Treasury sanction has to be renewed every six months whilst the excess issue lasts. If it continues for more than two years the authority of Parliament must be obtained. Silver coin held in the Issue Department was not to exceed £5,500,000.

Our return to gold may have been achieved too forcibly; but, whether or not, conditions in the United States and on the Continent militated against its successful working. Collection of claims they had against this country, and recall of funds they had been holding here, caused a continuous run on the reserve of the Bank of England, compelling us in September, 1931, to abandon the gold standard again, and to let the exchange rates find their own level. The Gold Standard Amendment Act, 1931, relieved the Bank of England of its obligation to redeem its notes in gold, and the same Act gave the Treasury power to take measures for the regulation or maintenance of foreign exchange rates. As explained in Chapter 34, the formation of the Exchange Equalization Account followed. In 1936, £60,000,000 in gold that had been acquired by that Account was transferred to the Issue Department of the Bank of England, and was used to reduce the Fiduciary Issue to £200,000,000.

The Bank of England Return of 1 March, 1939, shown on page 604, was the first to be issued after the passing of the Currency and Bank Notes Act of that year, which authorized a permanent increase of the fiduciary issue to £300,000,000. An increase had been made a few weeks previously on the sale to the Exchange Equalization Account of some £200,000,000 of gold in return for the same amount in Treasury Bills. The same Act also authorized the re-valuation of the Bank of England gold reserve at the current price, instead of 84s. 11½d. the fine ounce, or 77s. 10½d. the standard ounce, at which the Bank had until then kept its gold holding valued. In the Return shown, and in all later Returns, the price at which each weekly valuation was made has been given. The transfer of so large a quantity of gold to the control of the Exchange Equalization Account recognizes the fact that, since 1931, our chief use for a gold reserve has been the regulating of foreign exchange rates, either by shipping gold to keep the sterling value of another currency from rising, or by purchasing another currency to keep its sterling value from falling. As it is the funds of the Exchange Equalization Account that are used for that purpose, it seems reasonable that the necessary supply of gold, though still at the Bank, should be held there for that control rather than by the Bank on its own account.

BANKER OF THE GOVERNMENT

We have seen how the Bank of England started its career in 1694 by lending its newly acquired capital to the Government of the day, and how the sum of £1,200,000 originally advanced was increased from time to time until, after having reached to nearly £15,000,000, it settled down in 1833 to a permanent loan of £11,015,000. As successive Governments came to need more and more money, and as loans came to be raised from the public direct, the work of issue, record, and interest payment naturally fell to the Bank. So it became the banker of the Government, crediting to Government accounts the sums so raised, and debiting the interest payments. The Bank now makes temporary loans to the State until the revenue with which to repay them can be collected. In the Money Market it offers or renews continuously short-term Treasury bills, representing a considerable volume of "floating debt" that has not been "funded" in the more permanent form of fixed-interest securities issued to the general public.

The Bank of England keeps the banking accounts of Government departments, into which are paid the receipts from Crown lands and properties, from death, customs, and excise duties, from income and other taxes, from court fees, stamp duties, and company registration charges, from Post Office ordinary and savings bank business, from the more recent National Health and Unemployment Insurance funds, and from other miscellaneous sources. From these accounts the Bank pays out, on appropriate warrants, outgoings in respect of the Royal Household, Parliament, administration of law, defence forces, civil service, education grants, Post Office, Insurance funds, other national institutions, and loan interest.

The Bank of England is the intermediary between the Government Mint and the commercial banks through which the community's needs for coinage are supplied. It is also the issuer of the only legal-tender notes current in the kingdom. The duties that devolve on the Bank during war, and the administration of the huge national debts which war occasions, have caused the work of the Bank to be greatly increased. Because of the need for additional accommodation, and the convenience of bringing its extended activities all within one building, a

fine imposing and spacious structure has now been erected on the old site and within the old walls. Since the riots of 1780, when there was danger to the safety of the Bank's treasure, the practice has been maintained of placing a small military guard within the building each night. Until 1946 the Bank was not a state bank, the Government having had no vote in the election of its Court of Directors; and it was only in regard to note issue that it was under any special statutory control. Its other business the directors were free to conduct according to their own judgment, except in so far as they might recognize that, in the management of an institution of such public importance, expressions of expert opinion, as well as the views of the Government and its wishes in regard to the funds it controls, should influence them in their decisions.

THE BANKERS' BANK

At the Bank of England in London, and at the Bank's branches in the provinces, the commercial banks of the Metropolis or the local centres keep accounts with credit balances always available. There are several reasons for this practice. One is that the ordinary banks procure new supplies of notes and coin from the Bank of England, and that any bank does so by drawing on its credit balance, taking payment in notes or coin or both, according to its requirements. Its account is debited with the amount taken, and its credit balance is thereby reduced. Should it return notes or coin to the Bank its account is credited and its available balance increased. A second reason arises out of the fact that a balance lying available at the Bank of England can always be converted, to a greater or less extent as need dictates, into notes or coin. Such a balance is as good as legal-tender money in a commercial bank's own vaults or tills. Using the Bank of England as its source of supply of legal-tender money, the commercial bank relieves itself of the trouble of holding a full reserve of that money in its own keeping, and of maintaining watch upon the proportions and various values in notes and coins of which the reserve would be composed.

A third reason is that every clearing bank needs to keep an account at the Bank of England as an essential part of the cheque-clearing system, its account at the Bank being debited

or credited day by day with whatever sum it has to pay or to receive on balance, to or from the other clearing-house members. Where there is a Bank of England branch in a provincial clearing centre, the clearing settlements are made through accounts kept at that branch. As a later chapter will show, there is now a recognized further relation between the Bank of England and the commercial banks. It exists in regard to control, by expansion or contraction, of the currency and the credit that the commercial banks hold at the disposal of customers—a control attempted in the interests of industrial, financial, or governmental borrowing; or in the interests of the public at large for the regulation of the prices of commodities, whether producers' raw materials or consumers' finished goods.

QUESTIONS

1. State briefly what you know about the constitution, services, and efficiency of banks in England before commercial banks of the joint stock type were formed.

2. Explain to what early practices the beginnings of (*a*) the banknote, and (*b*) the bank cheque, can be traced.

3. What position in the monetary equipment of the country did banknotes occupy before the use of cheques became general? What conditions in the banking world led to bank cheques being offered for general use? What advantages possessed by the cheque have caused its use to become so general?

4. When did commercial banks of the joint stock type begin to be formed in the English provinces and in London? What prevented their establishment earlier, and what caused their formation to be started?

5. Write a short outline of the rise and spread of joint stock banking in England.

6. What causes led to, and what benefits were to be gained by, the absorption of smaller banks by larger ones, and the amalgamation of large joint stock banks amongst themselves?

7. In a projected absorption of one bank by another, how might the shareholders of the former be induced to consent to the scheme of absorption? How would their holdings in the absorbed bank be paid off?

8. When and to what extent did the principle of limited liability become applicable to banking companies? To what difference in the manner of raising and holding bank capital did the adoption of limited liability finally lead?

9. Explain any points you know of in which the history and practice of banks in Scotland and Ireland have differed from the history and practice of banks in England.

10. When and for what purpose was the Bank of England founded? When and of what nature was the privilege granted to the Bank in

respect of note issue? When and how was the privilege modified, and what means were ultimately used to counter its bad effects?

11. What were the main provisions of the Bank Act of 1844, and why were these provisions found necessary?

12. What was the original capital of the Bank of England, and how was it raised? What terms as between the Bank and the Government did its original charter specify? What is the Bank's present capital, and at what sum does its permanent loan to the Government now stand?

13. What was the Bank's experience in regard to its ability to cash its notes in gold before the Act of 1844, between 1844 and 1914, and on the outbreak of war in 1914?

14. How did the War of 1914–18 affect the currency circulating in this country, and the credit obtainable at the banks by their customers?

15. When after the war of 1914–18 did we return to the gold standard, and what were the provisions of the Gold Standard Act of that year?

16. Name the principal changes that have occurred in the Bank of England fiduciary issue since the Act of 1844 to the present day, and explain the causes of the changes.

17. Why was the Gold Standard Amendment Act of 1931 passed, and why was the Exchange Equalization Account established?

18. Detail the present relations between the Bank of England and the Government.

19. What services does the Bank of England render to the commercial banks serving the public?

20. What changes in regard to the Bank of England did the Currency and Bank Notes Act of 1939 authorize?

CHAPTER 36

LONDON A BANKING AND FINANCIAL CENTRE

LONDON holds a position of its own in the banking and monetary organization of the country. It is a centre to which surplus funds converge, in which money that finds no profitable outlet elsewhere can ordinarily be used to some advantage. With that feature of banking business and with practices arising from it this chapter is concerned.

WHY FUNDS CONVERGE ON LONDON

In the reign of Queen Elizabeth British ships began to take a leading part in maritime affairs, and during the next three hundred years our trade with foreign countries continued to grow. Colonial expansion carried our people and our influence to many parts of the world; and in the eighteenth and nineteenth centuries, with Britain foremost in the improvement of mechanical industry and steam navigation, our trade abroad greatly extended. British manufactures were sent out to be used in the opening up of undeveloped lands, and were paid for largely at first out of sums raised by loans in London for the purpose of that development, and drawn from the surplus of this country's accumulating wealth. In part satisfaction for our exports of manufactured goods and for shipping, insurance, and other services rendered by us we took the produce of these lands. And, as many of our people preceded and followed our goods to settle abroad, our trade connexions and money transactions with distant parts of the world multiplied.

The greater number of transactions with this country caused foreign bills drawn by or on London to be more numerous than those drawn by or on any other capital. The bigger the market for London bills in any foreign centre, the more readily could a bill on London be bought or sold there at a satisfactory rate of exchange. For that and other reasons the bill on London came to be preferred by merchants abroad. Amongst the other reasons was the knowledge of the facility for discounting bills in London, acceptances payable here, particularly those bearing

the names of banks or merchant houses of repute, being convertible into immediately available funds. Moreover, funds held here came to be considered safe, because of the recognized soundness to which in time British banking attained, of our comparative freedom from political turmoil at home, and of the immunity our island position gave from international complications. Funds held in London could as a rule be used to some profit; or, if holding them here became unprofitable and the rate of exchange unfavourable for withdrawal by bill, they could at any time be turned into Bank of England notes, and the notes into gold, to be taken away by the foreign owner, without any loss beyond the expense of shipment. Exporters abroad even when sending produce to some country other than this, often still prefer a bill payable in London to one payable in the country to which the produce is sent.

London must not, however, be viewed as chiefly an international money centre. Primarily it is the money headquarters of our own country. All our largest banks have their head offices in the Metropolis, and others with their head offices in the provinces conduct in the Metropolis some head-office functions, keeping funds available for use there. We have seen how the commercial banks use balances held by them at the Bank of England for making clearing payments amongst themselves, and how new supplies of coin and notes are distributed by the Bank of England to the other banks. We have also had some indications of how money not required by provincial offices for lending or for marginal cover is transferred to London, and is invested temporarily in commercial bills, in Treasury bills, in advances to facilitate Stock Exchange transactions, or is held at the Bank of England as reserve against emergency.

Besides the very considerable discount business carried on in London, in which the banks engage either as dealers themselves or as lenders to dealers, a large part of London Stock Exchange transactions is financed with money borrowed from the banks. Moreover, all new issues of stocks and shares, except those of chiefly local interest, are organized in London. The Bank of England deals with the issue or conversion of British and Dominion Government loans, and with some municipal loans. Issues of commercial or public utility companies

are usually managed by "issuing houses" in London that specialize in that class of business. The banks keep to a policy of not themselves putting funds they hold directly into any but first-class securities of the most realizable kind, or into loans covered by approved securities. Nevertheless, much of the money by which new issues are underwritten, or taken up in the first instance, is money borrowed on other security from funds at the disposal of London banks.

THE LONDON DISCOUNT MARKET

1. **Origin of the Discount Houses.** We have seen that one reason why a supplier of goods draws a bill of exchange on his debtor is that he may use the bill for raising funds by discounting it before payment is due. As bills drawn on London increased in number with increasing trade, the practice grew of discounting them in London where in time they would be paid, and that led to the gradual establishment of an organized discount market. Bills drawn for goods sent here by exporters abroad have to be presented to the drawees here for acceptance. Some of the bills remain in the hands of the first London holders until they become due, and are then presented for payment; but others are discounted by the holders soon after acceptance has been obtained. Many of the holders in London are banks, amongst them offices of dominion and foreign banks, and the bills have been handed to the agents or branches of the banks in the foreign drawers' towns. They have been remitted to London for acceptance to be obtained on arrival, and for their value to be realized here by collection at maturity or by previous sale. In the early days of industrial expansion, and of the foreign trade that developed with it, our banks were small undertakings offering more restricted and less specialized services than their successors now render. These conditions caused the discounting of bills to fall into the hands of brokers or dealers, who laid themselves out to specialize in that kind of business.

2. **Method of Operation.** The Discount Market now comprises, with the banks, a number of private firms and a few companies with capital raised from the public. These discount houses deal as principals, either holding the bills they discount until payment falls due, or re-discounting them with the joint

stock banks at a lower rate, the full discount obtained or the difference in the rate, as the case may be, being their profit on the handling of the bills. But they may also deal at times on commission only as brokers or agents, offering to the banks bills they are not prepared to discount themselves. When re-discounting bills as principals they will either place their own indorsements upon them, or pass them on without indorsement under a guarantee acknowledging liability in case of defect or dishonour. Besides the discount houses proper, the market includes a few "running brokers," as they are called, who use no capital of their own. They live entirely on commission earned by bringing banks and other houses, with suitable bills on offer, into touch with banks seeking such bills for investment. The joint stock banks, of course, do discounting business direct with their own customers, the bills they take from the brokers being only what they need in addition, in order to make up the total of bill holdings they desire. Our joint stock banks never re-discount any of the bills they take. When they find it necessary to increase their holdings of cash they call in their loans to the discount market, or they refrain from renewing those falling due for repayment.

The discount houses use capital of their own in their business. But they place it largely in investments that they can offer from time to time as security on which to borrow, from the banks, money for carrying through their discounting transactions; and the income earned by the securities, or part of it, goes to pay the interest charged by the banks. They also take money on deposit from the public, giving for it a slightly better rate of interest than the banks allow to their depositors. Bill brokers and re-discounters arrange their bills in batches bearing dates suitable, and containing names acceptable, to the banks to which they offer them. Latterly, scarcity of commercial bills in the market has led the discount houses to tender largely for holdings of the Treasury bills offered weekly by the Bank of England for the Government; it has led them also to seek other suitable means of earning interest on their funds.

3. Discount Rates and Borrowing Terms. Discount rates are based on "bank rate," which is the official rate of the Bank of England for the discounting by itself of approved bills of

exchange. The market rate, which is the rate charged by the discount houses, is usually kept by competition at a somewhat lower figure than bank rate. Current rates are published in the financial Press day by day. They are quoted at so much per cent per annum, and they vary with the nature of the bill and with the period it has to run before maturity, different prices being quoted for "bank bills" and "trade bills," and for bills due in 2, 3, 4, or more months' time. Trade bills are those drawn in the names of traders for the value of goods actually sold, or for goods shipped to be sold in the country to which they are consigned. Bills not drawn in respect of goods, but for the purpose of meeting demands for exchange with which to make payments abroad, are known as "finance bills." A bank bill is one that bears the name of a bank as a party to the bill, whether the bill arises out of a transaction in goods or not. It commands a lower or more favourable rate, because of the superior standing of a bank as compared with a commercial or trading house. Normally the rate for a long-dated bill is slightly higher than the rate for a short-term one, presumably because the longer period it has to run gives a greater chance of something happening to prevent the bill being paid. "House bills," that is, bills drawn between two branches of the same merchant house, or between a merchant house and its agents, are looked upon with suspicion in the bill market. They carry a suggestion of their being accommodation bills, created merely with the object of raising funds by discounting, and not for the making or collecting of payment in genuine trade transactions.

Money lent to the discount market by the joint stock banks is described variously as "call money," "weekly money," or "day-to-day money." Call money is repayable on demand; whilst weekly and day-to-day loans are renewable respectively from week to week and from day to day, unless the lending bank needs the money itself and refuses to renew. The day, however, on which the lending bank requires renewal or repayment is not the same day of the week for all the joint stock banks. A borrower who is required to repay one bank may be able to borrow the necessary sum from another bank; but, if he cannot, he will be forced to raise the money by taking his bills to the Bank of England and discounting them there.

An account with the Bank of England is, therefore, a necessity to each discounting house; and the fact of the Bank of England keeping an account in a bill broker's name is sufficient to secure his recognition by any of the joint stock banks. It is a rule of the Bank of England that bills offered to it for discount must bear two approved British names, and that one of the two names must be that of the acceptor.

MERCHANT BANKS AND ACCEPTING HOUSES

Some of these establishments have originated as merchants engaged in importing and exporting goods. When in the course of time they had acquired a reputation for straightforward dealing and financial soundness, bills accepted by them would be discounted as bank bills at the most favourable rates. These merchant houses would then be asked by importers here or in other countries to accept bills on the importers' behalf, and they would take an agreed small commission for lending the security of their names. Because of the greater certainty of payment, and of the better discount terms obtainable, transactions with less known importers would be entered into more readily by exporters abroad, if the bills to secure payment were drawn upon London houses of international repute. To expand the banking side of their business, and to refrain from competing in the handling of goods with merchants who were or might become banking clients, these houses would gradually abandon their purely merchanting activities.

Old-established merchant bankers raise loans in this country for Governments and for city authorities abroad, and attend to the payment of interest on the loans. They arrange for the issue here of capital stocks of public undertakings abroad such as railways and docks. They place orders for materials needed for the development of these undertakings; and, out of the proceeds of loans raised here or out of money remitted to them, they pay for the materials as deliveries are shipped. They also make and collect payments in all ordinary foreign-trade transactions. But the home-trade banks of Great Britain now enter largely into nearly all kinds of foreign banking business as well, paying periodical interest on loans raised here for foreign clients, accepting bills drawn on themselves for goods purchased

abroad by their customers, buying or discounting drafts of exporters here on their foreign debtors, making and collecting payments for goods coming into or going out of the country.

DOMINION AND FOREIGN BANKS

The London offices of dominion and foreign banks are each engaged chiefly with money payments arising out of transactions between this country and the one in which the particular bank is mostly interested. Like the merchant banks and the foreign departments of our home banks, they make and collect payment of bills drawn between their countries and ours. They buy from exporters here bills payable abroad, or they make advances against such bills until they can repay themselves out of the proceeds of the bills when, in due time, payment is collected. The London offices of these banks, either themselves or through agents, present for acceptance bills drawn abroad on this country, and they either hold the bills until payment is obtainable at maturity, or they discount them in the London market. To merchants and traders here who have payments to make in the dominions or in foreign lands they sell drafts issued by themselves on their offices in these countries. Or they arrange the opening of credits, either here or abroad, from which goods on order are to be paid for against shipping documents.

These banks may hold funds in London to be drawn upon by their offices abroad in settlement of trading or financial transactions, or to be put into use here to the profit either of the banks themselves or of customers of their offices abroad who have required funds to be remitted and held here for them. Such funds are usually withdrawable on short notice. If demand for withdrawal becomes abnormal it affects unfavourably our exchange rates with the countries making demand, when gold for export cannot be procured to meet it. When gold can be procured and is taken away for shipment, it may cause a drain on the gold reserve of this country. For inducing confidence to use these foreign funds in London a free market here in gold is desirable, so that the funds can be withdrawn without serious loss when withdrawal is required. As a substitute for the former free withdrawability of gold from the Bank of England, the funds of the Exchange Equalization Account are

now used to control exchange fluctuations, by the buying or selling of foreign currencies, gold, or sterling as circumstances seem to require.

THE LONDON MONEY MARKET

1. Business of the Market. What is known as the "Money Market" is not a market of the kind that is housed in a particular building, or that carries on its business in any one place. Nor is it a market whose operators are members admitted to association under a formal constitution of fixed rules. Operators on the Money Market each occupy separate premises within the region of the City that surrounds the Bank of England; but that area contains, also, many commercial offices and business establishments that have no direct connexion with the Money Market.

In other markets such as Smithfield Meat Market or Covent Garden Fruit Market, the Wool Exchange or the Stock Exchange, the commodity dealt in passes permanently from each seller to each buyer. In the Money Market, on the other hand, the money that is the subject of the transactions entered into does not change hands permanently. It would, indeed, be more correct to describe this market as a loan market or one for making loans of money, because its transactions consist not of buying and selling money itself, but of buying and selling only the *use* of money for limited periods of time. And the price at which each transaction is undertaken is the interest or discount paid or to be paid by the user of the money to the owner or lender, to whom it will eventually be returned. The loans entered into are all short-term loans, because the money lent being almost entirely the property of others, and not of the immediate lenders, and being subject to recall by the actual owners on demand or at short notice, it cannot be put to use in the Money Market except on terms that permit of quick repayment when required.

2. Members of the Market. The activities in the Money Market of several classes of its members have already been described in this chapter. The chief class is, perhaps, the banks that have funds free to be invested in the discounting of bills of exchange supplied to them as required by the bill brokers, or free to be lent for short terms to discount houses to be used

by them in discounting bills for the commercial community. These lending banks are mostly the head offices of our home-trade banks, which have at their disposal funds that it suits them to lend out subject to repayment being required at short notice. But the lenders include as well such of the dominion and foreign banks as have for disposal, from time to time, funds entrusted to their keeping by their offices abroad.

The lenders include, also, the Bank of England, which publishes an official rate at which it will always discount approved bills of exchange, whilst to regular customers it charges only market rates. The Bank of England is in a position to exercise considerable control over the Market in regard to discount rates, as well as over the other banks in regard to the total funds available as currency or as bank balances for use by the community at large. By raising or lowering its official discount rate the Bank can usually cause the Market to follow. By offering quantities of securities for sale on the Stock Exchange, at prices which induce the banks and others to buy, it can absorb some of the other banks' liquid funds and draw money off the Market, causing borrowers to come to the Bank, thus keeping up discount and interest rates when it deems that course advisable.

The lending banks find, at times, that their customary practice in using the money in their hands permits of a larger proportion being placed in one or more of the several forms of investment they maintain. When such other outlets are permissible and available, or when their till money for daily use is running low, or when they desire to make a good showing of cash in hand in monthly or half-yearly balance sheets, the banks call in some of their loans to the Money Market. It is then, as we have seen, that bill brokers and discount houses, who cannot renew their borrowings elsewhere, are forced to seek accommodation from the Bank of England.

Moreover, in recent times the quantity of commercial bills coming into the hands of bill discounters has very appreciably diminished, whilst since 1918 the floating debt of the Government in the form of Treasury bills has enormously increased. These bills issued by the Treasury are usually of three months' duration, and are renewable at the Bank of England in batches of many million pounds, offered week by

week for tender by the Money Market. That gives to the Bank of England a means of exercising considerable domination in the discount section of the Market. As a single seller of huge quantities of these bills it can use the competition of numerous would-be buyers, who find the supply of other bills not too plentiful, to keep the prevailing rates of discount low.

Besides the institutions we have mentioned, some or all of whose activities go to the making of the Money Market, we have now to notice the Stock Exchange. A large part of the money that the banks lay out in the Market is taken by dealers or other operators on the Stock Exchange. That money is required by them to pay for stocks and shares they have purchased, but have not been able to sell profitably before the next settlement date. Each loan is covered by the deposit of securities with the lending bank, and it is repayable or, with the consent of the bank, renewable at the next Stock Exchange settlement. Ordinarily that will take place in a fortnight's time, and the borrowers hope by then to have disposed of their purchases and to have received the value in money, which they will use to pay off their scores at the banks.

LONDON BULLION MARKET

The Bullion Market is that in which gold and silver metal is dealt in as a commodity and not as money. London has long been the leading market for *gold bullion*, and it is in London that shipments of South African gold are disposed of. Gold bullion is usually bought and sold in bars of some 400 troy ounces each not less than 995/1000ths fine, the price being quoted in shillings and pence per fine ounce. The dealers in the commodity are four bullion brokers who, with two banking and refining firms, meet daily at the offices of Messrs. Rothschild in St. Swithin's Lane. Messrs. Rothschild themselves handle the order of the Bank of England and the Exchange Equalization Account. After consideration of the balances between buying and selling orders received by its members that morning, the meeting fixes a price for the day, which is published in the Press. Prices may be fixed for future delivery as well as for delivery and payment on the day of purchase. Demand for the metal now arises chiefly for industrial uses, for foreign shipment, and for bank reserves. All purchases must be made

through the brokers, whose commission, charged to the buyer and to the seller, may vary between 5s. per £1000 for large orders, and 20s. per £1000 for small ones.

When sterling was a gold-standard currency, variations in the price of gold bullion were confined within the narrow limits of 77s. 9d. at which the Bank of England was obliged to buy gold offered to it, and 77s. 10½d. at which it was required to sell, allowance being made, when necessary, for the cost of converting standard alloy into pure metal. Now that sterling is not a gold-standard currency, the price of gold bullion in London is based on the sterling equivalent of the price at which the metal is officially bought and sold in a gold-standard country (particularly the United States of America), with the cost of transport and insurance taken into account. Want of confidence in currencies that have left the gold standard, and instability of foreign exchange rates, have in recent years brought about greater movements of gold, and have quickened activity in the bullion market.

Silver bullion has a price fixed for it in a similar manner at a daily meeting in one of the bullion brokers offices. Silver metal is offered in bars of not less than 1000 troy ounces of fine metal. Two prices are fixed, the "spot" price for delivery within a week, and the "future" price for delivery in two months' time. Though the bars offered are pure silver, the prices are quoted for metal 925/1000ths fine. Silver changes considerably in price from time to time, and the brokers' commission is ½ per cent or more, according to whether at the particular time the price is above or below a given point. In 1935 dealings in silver bullion were commenced on the Metal Exchange, but the business transacted there has not reached great proportions.

THE CAPITAL MARKET

As we have just explained the Money Market in London is concerned with *short-term* advances made chiefly to bill brokers and members of the Stock Exchange. The Capital Market, on the other hand, is the organization that deals in London with *long-term* lending, mostly by subscription to new issues of public funds and of industrial stocks and shares. This organization has arisen out of the development of the joint stock form of business proprietorship, and out of government activities and

municipal enterprise. By dividing its capital into numerous fixed share units, the joint stock company has provided for itself a method of raising funds from persons outside its business, and of offering to members of the public greater facilities than they previously had of investing sums they could not themselves use. The adoption by Governments of big schemes of territorial protection and national or imperial amenities, the increasing interest of municipal authorities in local improvements, and the expansion of supply services by public utility bodies have caused large demands for public contribution of the money they need to establish and maintain their varied undertakings.

Loans raised by the Imperial and Dominion Governments and by our larger city corporations are usually offered by the Bank of England, to be subscribed direct to itself or through other banks. Some issues are made by the joint stock banks for companies or other bodies that are their customers. Foreign Government loans, in so far as they are issued in this country, are usually offered by banks interested in the commerce of the particular borrowing countries—banks such as Hambros, Lazards, Morgan Grenfell, Rothschilds, and Schroeders. A bank that has made an issue for a public body may keep the registers necessary to the loan, and it will then pay the periodical interest as that falls due. The Bank of England keeps the registers of British Government stocks, and it deals with all transfers and payments of interest in connexion with them. Offers of shares or debentures, however, in manufacturing or distributive companies are commonly made by "issuing houses." But an established and prosperous company in need of additional capital may offer it for subscription without the help of an issuing house. Occasionally shares offered to the public are "placed" on the Stock Exchange, where on an appointed day a dealer puts them up for sale, price offers being made to him by brokers for clients who want to buy. Sometimes, when a company is a small one not engaged in active trade, its capital registers are kept at the office of its solicitors or accountants. But, usually, a joint stock company keeps the records of its capital itself, and itself sees to payment of dividends declared and interest accrued.

An issuing house arranges for the printing, advertising, and

distributing of the prospectus by which the public is invited to subscribe to an issue. It probably arranges, also, for the underwriting of the issue, and it may sort out and list the applications when these are received through the company's bankers. Underwriting is a practice resorted to for making sure that the whole of a proposed issue will be taken up, or a sufficiently large part of it to permit of the company proceeding to make allotments to the applicants. Each underwriter agrees to take a stated number of shares or quantity of stock, or such fraction of that number or quantity as corresponds to the proportion of offered capital not subscribed for by the public. He gets a commission for undertaking the risk of having to acquire the shares or stock himself, the rate of commission varying with the degree of risk involved. Underwriters may be members of the Stock Exchange, or they may be other persons interested in dealing in marketable securities for gain. As a rule they do not intend to keep the shares or stocks they are obliged to take; but hope to dispose of them for a turn of profit as opportunities to do so occur. If an issue is of such a kind that insurance offices or even some banks consider safe for a time, they may underwrite portions of the issue. Insurance offices and investment trusts have funds constantly accumulating on their hands, which they invest for the income they obtain in dividend and interest. Post Office Savings Bank and National Insurance funds, also, are largely used for subscription to Government issues when these take place.

It is realized, however, that the Capital Market is not organized satisfactorily, in particular for the protection of investors. Though, on a company prospectus, the name of the company's bank invariably appears for receipt of applications from the public, the bank does not assume any responsibility for the financial soundness of the company, or for the genuineness of prospectus statements. Neither does the issuing house, only the company's directors and some other officers being liable at law for inaccurate or misleading representations made in a prospectus by their authority. From time to time companies are floated by persons whose actions appear afterwards to have been fraudulent, and many have been floated by persons whose expressed expectations were far from being justified. Issuing bodies are sometimes temporary syndicates with

high-sounding names, formed by interested persons for making a particular issue and for that purpose only. Quite apart from cases of overdone allurement, there is a want of close and continuous contact between the Capital Market and organizers of industry and trade. As a result of such conditions large sums are lost year by year by the investing public without any chance of recovery. For that reason the report, published in 1931, of the Macmillan Committee on Finance and Industry recommended that the issue of capital should be better organized, and that issues should be sponsored by reliable institutions authorized by the Government. Such institutions, it suggested, should possess intimate knowledge and understanding of the conditions and problems of the industries whose proposed issues of capital they put forward for the public to take up.

QUESTIONS

1. Explain briefly what past circumstances led to London becoming an important centre of world commerce and finance.

2. Give reasons why exporters in foreign countries frequently prefer to take, for their produce, bills of exchange drawn on and payable in London, rather than bills payable in other capitals.

3. Name advantages offered by London for the use of surplus funds. Show how these advantages have caused London to become the money centre of the British Isles, and to develop a considerable banking business with the rest of the world.

4. What purposes does a discount market serve, and what caused the establishment and maintenance of a large discount market in London?

5. State what different classes of persons constitute the Discount Market, and explain in some detail how the business of that market is conducted by them.

6. Name some different types of bills handled in the Discount Market, and explain why different rates are charged for discounting them.

7. Where and on what terms do bill discounting houses obtain the funds they use for carrying on their business? How do they manage to carry on when the usual sources of supply are stopped?

8. What kinds of business do the "merchant banks" engage in? What is an "accepting house," and what is the nature of the service it renders as such?

9. What services do the London Offices of dominion and foreign banks perform (*a*) for merchants in this country, (*b*) for their own banks' offices abroad?

10. Describe where the London Money Market is to be found, and explain carefully what it is that this market deals in.

11. Describe the different classes of operators that take part in the business of the Money Market, and explain in what capacity each of these classes performs its part.

12. Explain in what form and by whom gold bullion is sold in London; also how the price at which it changes hands is calculated and fixed.

13. By whom is silver bullion sold in London? In what form is it sold, and on what terms of delivery and payment?

14 How does the London Capital Market differ from the Money Market? What exactly is it that the operators in the Capital Market deal in?

15. For what different classes of parties do operators in the London Capital Market act in making issues of stocks or of shares? By what means is the making of such an issue accomplished?

16 Explain what is meant by (*a*) "issuing house," and (*b*) "underwriting an issue" Explain also what services issuing houses, underwriters, and banks render in the Capital Market.

17 Describe any defects recognized in the organization of the Capital Market in London, and any remedies proposed for them.

18 What are Treasury bills and for what purpose are they issued? How and by whom are they offered, and how and by whom are they taken up?

CHAPTER 37

MONETARY POLICY AND CONTROL

DIFFERENCES of opinion are expressed about whether we ought or ought not to have what is termed a "managed currency." A greater or less degree of management or control has, however, usually been exercised in regard to the supply of money. When the money used consisted solely of metal coins, Governments found it necessary from time to time to take steps for putting and keeping the coins in serviceable condition. Later, when coins came to be supplemented with banknotes, Governments were again obliged to interfere with the free issue of notes—to make regulations for preventing over-issue, and for the holding of adequate reserves of gold for cashing the notes on demand. In our time running accounts that customers of banks can draw upon by cheque form much the larger part of the money medium of commerce, and to a great extent the balances standing on these accounts have been made available for use by the banks granting advances to their customers. But the banks must exercise care about the amount of the advances they allow for customers' use. Some management, then, has been the rule in regard to the quantity and the quality of the money made available for use. And the question on which opinion now differs is not so much whether there should be *any* management or control, as whether control should or should not be exercised more actively, and for other ends besides those hitherto or until recently kept in view.

GRESHAM'S LAW AND THE COINAGE

What is known as Gresham's Law took its name from Sir Thomas Gresham, who was financial adviser to Queen Elizabeth and founder of the Royal Exchange in London, and whose sign of the grasshopper hangs to-day over Martin's Bank in Lombard Street. This law is the formal statement of a principle found to operate in the attitude a community applies to its use of the money provided for it. The law was first enunciated in regard to a currency consisting of coins only; and, stated

shortly, it says that *bad money drives good money out of circulation.*

Most countries, even modern ones, have had repeated trouble with the money they have used, and have had to learn from the experiences of themselves and others how to regulate their currencies. In England our early silver coins were given a money value intended to be as near as possible the value of the precious metal they contained, but they were usually or frequently allowed to circulate in very poor condition. Many were kept in use that were light through continuous wear, or had been clipped or sweated for illicit gain. Sometimes, too, the standard was debased, for the benefit of the Royal Exchequer, by new issues in which the content of pure metal was deliberately kept below the face value marked on the coins. Quite commonly, therefore, coins passing at the same face value were of very unequal worth as metal. In these conditions the more valuable specimens were picked out to be melted down by silversmiths, or to be used for paying off debts to other countries where the coins were necessarily taken by weight and fineness, and not by "tale." For currency purposes here the value of any coin was the average value of all coins of its kind, bad and good taken together. Even when a well-meant attempt was made to improve the currency and good new coins were added to the circulation, these tended to disappear also, their superior content making them worth more than their face value for purposes other than currency.

A like tendency shows itself when coins of gold and silver are made to circulate together at a fixed ratio of value. Gold and silver, as well as other commodities, change in value with variations of supply and demand. But it must be seldom, if ever, that variations of supply or demand cause changes in the value of the two metals to occur simultaneously in the same direction and to the same extent, and to last for the same length of time. Even if the adopted ratio of value was correct at the date of its being fixed, it would change sooner or later, and one or other of the metals would become undervalued when passing as coin at the fixed rate. The coins of the metal that was undervalued in terms of the other would then tend to pass out of circulation. Throughout the eighteenth century Parliament caused a gold coin, the guinea, to be maintained as the money

equivalent of twenty-one silver shillings. At that rate the silver coins were and continued to be worth more as metal than as units of the currency, and quantities of them continued to disappear.

It was this continued disappearance and the resulting scarcity of our silver coins that led to the adoption of the gold sovereign alone as the standard of our currency in the great recoinage of 1816. Silver coins were then relegated to the level of tokens only, by being minted for face values distinctly in excess of their value as silver metal. If, however, they had been issued and kept in circulation in unlimited quantity, they would have tended to reduce the effective or purchasing value of the currency (gold and silver) as a whole. Circulating at a higher money value than they were worth as metal, and bearing at the same time a fixed ratio to the sovereign, the new silver coins, if issued freely, would have tended to make the sovereign worth less as coin than as metal. So, to prevent the new gold coins in their turn from being melted or exported, the issue of silver coins was, rather incidentally at first, though deliberately afterwards, restricted to such quantities only as were necessary to meet demands for small change.

CONVERTIBLE AND INCONVERTIBLE NOTES

If, under the operation of Gresham's Law, unlimited issue of token silver could cause standard coins of gold to go out of circulation, so might unlimited issue of banknotes; for the material value of the notes would be much less still than that of token coins. But, if all notes issued were kept freely convertible, pound for pound into gold, a payment in notes need never be less acceptable than payment of the same amount in sovereigns. There would then be no inducement for dealers to melt down sovereigns to sell as bullion, or for artificers in precious metal to melt them down instead of buying in the form of bullion the gold they required. And though gold and not notes would still be needed at times for foreign payments, no benefit would be obtainable by abstracting for that purpose the heaviest and finest coins from the currency. The gold required could be secured by returning notes to the bank of issue and taking either coin or bullion in exchange. Should, however, the demand for gold threaten to deplete the reserves of metal

held by the issuing bank, it would be necessary to devise and put into action some means of protecting the reserve. The Bank of England has in the past regularly made use of certain recognized processes to replenish or increase its gold reserve.

The effect is different when notes that are not convertible into gold are put into circulation, or when economic pressure within or without a country forces its government to impose inconvertibility on a note currency previously convertible. In such conditions the activities of goldsmiths and hoarders, and the claims of foreign creditors, will be likely to cause the disappearance of any gold coins still in circulation until only the inconvertible paper and token coins are left. Whether the purchasing power of the notes will then fall, because they can no longer be changed into gold, will depend largely on the quantity issued. If no more are issued than are needed either to replace the gold coins that have disappeared, or to satisfy the community's actual requirements for currency, the notes should retain their former value. But, if the ease with which inconvertible notes can be put into circulation should tempt the authorities to issue, or to keep issued, more than are needed for making the payments necessary at any given time, the value of the notes will decline. In other words, prices of goods will rise. The equilibrium between the existing quantity of commodities, on the one hand, and of money on the other, will be disturbed by a surplus emerging on the side of money. Commodities will have become less plentiful as compared with money, and more notes than formerly will be needed when any are exchanged for goods. During the war that started in 1914 increasing issues of inconvertible notes caused this country's currency to depreciate considerably, whilst the same process carried to extreme length rendered Germany's former currency all but valueless. These, however, are only two examples of what has occurred in many countries at one time or another.

BANK BALANCES AS CURRENCY

In Chapter 33 we saw that customers' balances at their banks have now largely superseded notes and coins as the money used by the members of a community, particularly by those engaged in business. For that reason it is not only the quantity of notes in circulation, but also the quantity of bank credit in existence,

that may disturb the equilibrium between available goods and available money, causing prices to rise or to fall. Any single portion of bank credit put into circulation by the issue of a cheque is usually withdrawn quickly, by the paying in of the cheque to credit of the payee's bank account. The same or a similar portion is, nevertheless, likely very soon to be launched into circulation again, and still again, by each new owner in turn drawing a cheque ordering payment to someone else. Nearly the whole of the bank credit in existence is, in fact, in a continual state of transfer amongst the customers of the banks; and any expansion or contraction occurring in the volume of that credit is an increase or decrease of the quantity of money the community can use, just as much as a like increase or decrease of the note issue would be.

Reference to the Midland Bank balance sheet on page 391 shows cash in hand and at the Bank of England, amounting to £53·6 million, as only 11·5 per cent of the £464 million owing by the bank to its depositors. Cash at the Bank of England, being withdrawable immediately in notes when required, is as serviceable to a bank for meeting demands from customers as cash in its own tills. A ratio of a little over 10 per cent, between these two cash assets together and a bank's liability on current and deposit accounts, may be taken as the average one maintained throughout the year by the commercial banks. That means the banks as a whole lend out in one form or another about nine-tenths of what they owe to their customers on current and deposit accounts, keeping only about one-tenth in hand to meet customers' immediate demands for withdrawal. It will be noticed, however, that this balance sheet shows very large sums in semi-liquid assets, much of which could be realized soon to augment this bank's balances at the Bank of England. Advances to customers, which are the least realizable of its loans, are only some 45 per cent of its liabilities on current and deposit accounts.

The practice of lending out all but one-tenth or so of their deposits means that the banks try to use for earning profits, by increasing their advances or investments, any persisting increase in their ratio of cash to deposits; also that any persisting decrease in the ratio leads them to replenish their cash or reduce their deposits by curtailing their advances or

investments. Where, however, an increase of deposits on the one hand and of cash on the other, is occasioned at any bank by the receipt of a cheque or of notes, it is necessarily counterbalanced either by a temporary withdrawal of notes from circulation outside the banks, or by a decrease in the deposits of another bank accompanied by a reduction in that bank's cash in hand or in its balance at the Bank of England. Such transfers between banks, no matter how numerous, cannot in themselves materially alter the total of deposits on the one hand and of cash on the other in all the banks taken together. These movements do not by themselves affect the total of bank credit and other currency available for use at any time.

HOW FAR BANK ADVANCES MAKE DEPOSITS

For simplicity of illustration let us leave out of view any other items that would appear in their balance sheets, and let us assume that three small imaginary banks, A, B, and C, start business on a given day with liabilities and assets as follow—

Banks	Liabilities on Current and Deposit A/cs.	Assets	
		Cash in Hand and at Bank of England	Investments, Discounts, and Advances
	£	£	£
A	10,000	1,000	9,000
B	11,000	1,100	9,900
C	12,000	1,500	10,500
Total	£33,000	£3,600	£29,400

Let us assume further that a customer of Bank B now pays into his credit a cheque for £200 drawn on Bank A. The positions of the three banks will then be as shown at top of page 632.

No change will have occurred in the totals of the deposits, cash, or advances of the banks taken together; but B's cash assets will be more, and A's correspondingly less, than one-tenth of their respective deposits. If a rule is observed of keeping, say, a one-tenth ratio of cash to deposits, it will permit Bank B to increase advances by nine times the £200 increase in its cash; for, following a usual method of making

Banks	Liabilities on Current and Deposit A/cs.	Assets	
		Cash in Hand and at Bank of England	Investments, Discounts, and Advances
	£	£	£
A	9,800	800	9,000
B	11,200	1,300	9,900
C	12,000	1,500	10,500
Total	£33,000	£3,600	£29,400

advances, the bank may debit customers' loan accounts and credit customers' current accounts (the latter included in the bank's deposits total) with the £1800 increase. But the same rule will require Bank A to raise its now diminished ratio of cash to deposits, and it may be obliged to do so at the expense of its other assets. Repayment of some of these assets, however, can only be accomplished by the payers' drawing on deposit facilities they hold somewhere; so the calling in of some of A bank's outstanding assets will lead to a reduction of deposits either with itself or with other banks. If for simplicity we suppose all the reduction to take place in the deposits of A bank, the result as a whole should work out to something like this—

Banks	Liabilities on Current and Deposit A/cs.	Assets	
		Cash in Hand and at Bank of England	Investments, Discounts, and Advances
	£	£	£
A	8,000	800	7,200
B	13,000	1,300	11,700
C	12,000	1,500	10,500
Total	£33,000	£3,600	£29,400

Though there has now been a change in the distribution of deposits and of the two classes of assets as between A and B, there has as yet been no change in the volume of deposits that the customers of the three banks together can draw upon, no

more than there would have been had the transfer of £200 been made between two accounts at one of the banks only. No increase could occur as the result of the transfer between A and B, because these banks had already made advances (credited to deposits) up to the limit their cash assets allowed. But let us suppose now that, by collecting a cheque drawn on Bank C, Bank A has gained an increase of £300 in cash, so giving it a net gain of £100 over its original holding of cash. In that event A need not call in any of its advances or other assets, and the positions of the three banks would then be altered to—

Banks	Liabilities on Current and Deposit A/cs.	Assets	
		Cash in Hand and at Bank of England	Investments, Discounts, and Advances
	£	£	£
A	10,100	1,100	9,000
B	13,000	1,300	11,700
C	11,700	1,200	10,500
Total	£34,800	£3,600	£31,200

The aggregate of cash in hand and at the Bank of England will remain as before; but an increase of £1800 will have occurred in the aggregate of deposits, also in advances, for the reason that at the start of our illustration C bank had not made advances up to its limit. For the same reason A and C between them will still be able to increase their advances, and therefore their deposits, by a further £1200. Were A and C to make new advances up to that amount the three banks (if they observed the 10 per cent rule) could not then expand the supply of bank money any further, unless they could bring in some addition to their cash basis from an exterior source. For each bank, with the view of being able to meet its day-to-day liabilities, must retain in cash an adequate margin out of which to pay claims by other banks and withdrawals by its customers. For that purpose cash amounting to one-ninth or one-tenth of deposit liabilities does not seem an extravagant provision.

BANK MONEY VARIED IN OTHER WAYS

The foregoing serves to illustrate movements of cash and deposits amongst the banks; but it will be understood that the illustration is much too simple to stand as a statement of what actually happens. Each of our joint stock banks handles enormously larger sums than the examples given, and each makes daily a vast number of collections and payments from and to other banks. Besides, adjustments to its ratio cannot be made on each transaction, or even on each day's operations, but only on prevailing tendencies. At times, also, the prevailing movement may be one of contraction of credit instead of expansion, the banks as a whole calling in some of their loans or investments, or refraining from making new ones as old ones are repaid. The aggregate of their deposits will then decrease, and the ratio between their cash assets and their deposit liabilities will rise.

It should be noticed that, when a bank discounts commercial bills of exchange or buys Stock Exchange securities, it causes increases of deposits just as it does by granting loans. The customer for whom a bill of exchange is discounted gets the money value of the bill credited to his account at the discounting bank; and the seller of stocks or bonds likewise acquires a claim against the purchasing bank, the amount of which is either credited to his account at that bank or transferred to credit of his account at another bank. Again, the granting to a customer of the right to overdraw his account does not at first increase deposits at his own bank, because it is not, like a loan for a fixed sum, immediately debited to a loan account in the customer's name and credited to his current account. Nevertheless, the object of granting an overdraft is always to enable the customer so accommodated to draw cheques against it; and these cheques, when paid away and collected, do increase the total deposits in existence by being credited to the current accounts of the payees, some maybe at the drawer's own bank, the rest elsewhere. Lastly, when banks make advances by loan or overdraft, by discounting bills or buying securities, some part of these advances may be drawn out in notes, either from the bank that has made a particular advance or from others to which portions of the advance have

been transferred. Such withdrawals will then go to swell for the time being the money in circulation outside the banks, instead of the deposits left in the banks and available for transfer from one bank to another by cheque. The paying-in of notes taken out of circulation has, of course, the reverse effect.

BANK OF ENGLAND AND OTHER BANKS' DEPOSITS

It has been explained that when a customer, who had obtained an advance from one or other of the joint stock banks, makes repayment, resulting in an increase of that bank's cash, the repayment must (short of help from a source outside themselves) be made possible by a corresponding reduction somewhere amongst the aggregate deposits of these banks. A compensating reduction somewhere in their aggregate deposits must also occur when one of these banks receives payment (except from a source outside themselves) for any investments it has sold on the Stock Exchange, or when it receives at maturity payment of any commercial bills of exchange it had discounted.

On the other hand, when a joint stock bank is repaid a batch of maturing Treasury bills it has bought, the money it receives will not come out of funds held by any of the ordinary banks. It will be paid on Government account by the Bank of England, that is, from a source outside the ordinary banks whose operations we have been studying. Payment for the maturing Treasury bills will be made by a credit to the account at the Bank of England of the bank surrendering the bills. The result will be an increase in the latter bank's cash assets without any decrease of cash or deposits at any other of the joint stock banks, and without any corresponding increase in its own deposit liabilities. That will raise its ratio of cash to deposits, and will enable it to make further advances or new investments. This would seem to be one example of an event that enables the ordinary banks as a whole to increase their advances, even though the limit allowed by their cash assets had previously been reached. It must not be overlooked, however, that the purchase of these Treasury bills caused at the time a reduction in the purchasing bank's cash, and that payment at maturity only makes good that earlier reduction.

At the Bank of England repayment will be debited to the

appropriate Treasury Bill Account of the Government, and credited to the account of the bank repaid. By itself the repayment will increase the Bank of England's liability to depositors without giving any increase in its cash, and so will reduce the Bank's ratio of cash to liabilities. But the Bank of England, being the *central banking institution* of this country, has functions to perform different from those of the other banks. Its banking department maintains, as a rule, a higher proportion of cash to liabilities than the ordinary banks do, and it allows itself much more latitude than they in the proportion. Cash or other assets in its possession it may use to regulate money conditions in the country as a whole, sometimes inducing by its operations an expansion in the cash assets and lending power of the other banks, sometimes inducing a contraction, and sometimes using its resources to prevent either expansion or contraction.

DANGERS TO CENTRAL BANK'S RESERVE

If the reader will turn back to the later of the two weekly returns of the Bank of England in Chapter 35, he will see there that a sum of £47,965,955 in notes not put into circulation has been given out by the Issue Department for gold received, and is held by the Banking Department as cash. That sum, together with £1,001,185 held in coin, is the cash reserve that the Banking Department keeps for meeting demands for withdrawals of notes and coin by the banks and other depositors, to whom it owes £158,553,834 in all. The percentage that this reserve of cash bears to the Bank's total deposits shown in the return in question is 30·8; but at times the rate may be higher and at other times lower, the Bank allowing it to vary as the public, through the other banks, makes a greater or a less demand for currency. In the financial Press this rate was referred to as the "proportion," by which name it was distinguished from the "reserve ratio" (in this return 35·5 per cent), which was the name (not now in use) for the percentage that the Bank's total holding of gold bore to its liability for deposits and note circulation combined.

If a bank withdraws from the Bank of England a sum in notes or coin it thereby reduces, by the amount of the withdrawal, both the cash reserve on the one side and the bankers'

balances on the other side of the weekly return As the withdrawal causes the reserve (the smaller sum) and the liabilities (the larger sum) to be reduced by the same amount, the proportion of the former to the latter is decreased. When the Bank is being assailed with abnormal demands for notes it has, if possible, to prevent its cash reserve being all paid away. Should a diminishing reserve be nearing exhaustion the Bank may, since 1928 with the sanction of the Treasury, replenish its reserve by increasing the amount of its fiduciary issue. Before that date the Bank could not increase the fiduciary issue without infringing the regulations imposed by the Act of 1844. In the weekly return the notes held by the Banking Department formerly showed how many more notes the Bank could put into circulation without acquiring more gold. It now shows how many more the Bank can put into circulation without an addition to its gold stock, or without Treasury sanction of an increase in the fiduciary issue. The old regulation having proved too rigid in its application, this conditional liberty to increase the fiduciary issue was given to the Bank so as to make the issue more elastic, for providing any unusual but justifiable expansion called for in the circulation. Even as now amended the note regulations are criticized as being unsuitable to present conditions in which notes are overshadowed in importance by bank credit, and as hampering the Bank at times in its efforts to bring about a desirable expansion of currency and credit.

To protect its cash reserve, therefore, is a main object of Bank of England policy. Its banking reserve may be menaced by an increased demand for notes for the home circulation, or previously it might have been for notes to be changed into gold for shipment abroad. The home demand, known as an "internal drain," may arise out of seasonal conditions, such as Christmas shopping or holiday expenditure. These are regular occurrences, and the currency they call for returns to the Bank as the season's activities subside. A similar though not necessarily a seasonal cause, requiring an increase in the circulation, may be growing industrial activity. More employment means bigger wages payments, and more notes and coin are needed to make these payments. The notes and coin are then spent with shopkeepers, from whom they return to the banks to be

re-issued as wages and spent again in the shops. But an internal drain might be brought about by a third cause that is less likely to operate nowadays, though it has frequently led to crisis and even panic in the past. Such a cause would be failure of public confidence in one or more of the big banks. To meet the resulting urgent demands of the public for repayment of their deposits, these institutions would draw, in the first place, upon their balances at the Bank of England. The Bank being liable for payment at once of whatever sums they demanded out of the balances it owed them, would find its cash reserve (that is, the notes and coin in the Banking Department) rapidly vanishing.

Demands for gold to be shipped abroad are known as an "external drain." The Bank of England's reserve of gold having been transferred to the Exchange Equalization Account, demands for gold for abroad have now to be met by that fund. They usually arise from an adverse balance of trade indebtedness between ourselves and some other country. As payment begins of the excess we owe, it causes our exchange rate with that country to move against us, so that shipment of gold becomes less costly than the purchase of money of that country in our foreign-exchange market. On the other hand, an external drain may arise out of conditions not directly connected with trade. Some time previously a movement of funds may have taken place in the opposite direction. These funds may have come to London because they could earn better interest here than elsewhere. As sometimes happens, however, in the unsettled conditions of the time, the funds may have come because people in the other country had lost faith in their own currency, and preferred to keep some of their money in sterling deposits here. The outward drain would then be caused by a return of these funds in gold, because of a change in their owners' attitude, either in favour of their own country's currency or against ours. Even Bank of England notes that are not convertible into gold may be sent abroad, and held for a time in the foreign country in preference to that country's own paper.

When Britain was on the gold standard, a foreign drain on the Bank's reserve was viewed with greater apprehension than an internal drain. It was viewed with apprehension because of its resulting in a drain of gold (for English banknotes do not

circulate abroad and are, therefore, not an acceptable form of payment there), and the loss of gold by the Bank depleted the cover necessary for maintaining its note issue. Besides, when the metal had left our shores, its return to the Bank after a time was much less likely than the return of notes or coin remaining in this country.

LIMITED CASH RESERVE OF THE BANKING SYSTEM

We have seen that the apparent cash reserve held by the ordinary banks may be only some 10 or 11 per cent of their liability on deposit and current accounts. But we have also seen that part of this reserve consists of balances at the Bank of England, that is, of a deposit liability of the Bank of England to the other banks. We may take that part of these banks' cash assets as about 5 per cent of their deposit liability. We have seen, next, that the Bank of England itself holds only a part of its deposit liability in notes and coin. Its published returns show the proportion is sometimes below, sometimes above, 25 per cent, which is a near enough approximate average for our present purpose. The portion of the cash reserve of the other banks that consists of balances at the Bank of England is, therefore, so far as it consists of cash held by the Bank, only a fraction of 5 per cent.

The actual cash that the banks have immediately available in hand and at the Bank of England, is thus only about 8 per cent of their liabilities. They have immediately available only £8 in notes and coin for repayment of every £100 of customers' deposits. A bank that found itself pressed by its depositors for cash would try to realize some of the more liquid of its other assets. Until it could do that its own small cash reserve could only be increased by its drawing out more than its share of the Bank of England's reserve of notes and coin, or by its being helped with cash from others of the banks that were not being pressed so hard. The Bank of England, as a method of increasing the notes and coin of its Banking Department, used to acquire gold to be held in its Issue Department against new notes issued and added to its cash reserve in the Banking Department. Instead of acquiring gold it may now, as already explained, apply to the Treasury for sanction for a temporary increase of note issue without gold backing.

If the Bank of England purchases gold, as when newly-mined gold comes from South Africa or, perhaps, from Russia, and if the seller of the gold takes notes in payment, some or all of these new notes will in time be paid into other banks to swell their cash in hand. If the Bank of England pays by a cheque on itself, the cheque will be presented by one of the other banks, be credited to that bank's account at the Bank of England, and be considered by that bank as the equivalent of cash in hand. Similarly, an addition to bankers' cash in hand or to their deposits at the Bank of England will occur when gold from abroad comes here in payment of debts due to us. Because the cash assets of the other banks will be increased in any of these circumstances, the acquisition of gold is a second example of an event that enables the ordinary banks as a whole to increase their advances, although the limit allowed by their cash assets had already been reached. As regards the original source of the notes in circulation and of the credit balances available at the banks, it appears that in part they were created against deposit of gold; and that the excess of notes and bank credit together over the total gold holding of the banking system must have been created, at some time or other, by bank advances to customers.

AIMS AND METHODS OF MONEY CONTROL

To check an external drain on its gold and to protect its banking reserve from the effects of such a drain, the Bank of England's chief weapon used to be *the raising of bank rate.* It is the practice of the commercial banks to raise their rates when bank rate is raised. If the rise is such that money can then earn more in London than in other capitals, the rise will tend to bring and to keep funds here. The demand abroad for sterling to remit here will increase, so raising its exchange price in foreign money and lowering the price of foreign money in sterling. Any advantage that had been obtainable by shipping gold instead of buying foreign currency here will then disappear, and the metal will cease to go out. If it began to come in, the Bank could formerly add to its stock of gold, and issue notes against the new gold to replenish its cash reserve. At home high rates have a preventive effect on borrowing, making it either unprofitable or less profitable for

borrowed money to be put to use in industrial or speculative activities. The disappearance of profit from the prospect causes the demand for loans and advances from the banks to decline, decreases the quantity of money being put into use, and so eases pressure on the central bank's reserve of notes and coin.

When the supply of money was found to be so plentiful that the raising of bank rate was, or was expected to be, ineffective in raising rates on the Money Market, the Bank of England would resort to a different weapon—*the selling of securities*. Selling on the Stock Exchange a sufficiently large block, from the large holdings of securities the Bank always keeps, would draw away in payment the surplus of money at the disposal of the Market. As the supply at low rates dried up, operators would be forced to pay more for their own borrowing and discounting, and would have to charge more to their clients. The higher rate desired by the central bank would then become general.

The selling or buying of marketable securities, known as its "open market policy," is a practice resorted to by the Bank of England more frequently now than formerly. With the statutory requirements of the gold standard revoked and the Bank relieved of the obligation to cash its notes in gold, it need not be constantly on guard against a weakening of the Banking Department reserve by a withdrawal of notes, to be changed at the Issue Department into gold for shipment abroad. But, as banker of the Government working in collaboration with the Treasury for public economy, it has an interest in *keeping down the rate of discount* at which, week by week, Treasury bills for many millions of pounds can be renewed. Instead of selling securities to restrict the supply of money on the market and to keep interest rates up, the Bank can buy securities, and so expand the supply of available money with the aim of keeping interest rates from rising. It has ready at hand, in the variations of the total of bankers' and others' deposits with itself, a guide as to whether action with that end in view is desirable. And, as previously explained, payment for any purchase of securities, being made by a credit to depositors' balances on one side of its accounts against a debit to securities on the other side, does not necessitate any immediate call upon its cash reserve.

So far we have treated the reaction of the Bank of England to foreign exchange movements as being directed solely to the protection of its own reserve. The Bank, however, has had to exercise its power of modifying or arresting exchange tendencies with a further object in view—the *steadying of exchange rates*. Frequent appreciable changes in our rates of exchange with other countries introduce into foreign trade an element of irregularity and uncertainty that has a hindering or obstructive effect. Imports are an indispensable source of raw materials for manufacture and of food supplies for the people, whilst exports are an important outlet for the products of our works and factories. It is, therefore, a benefit to the whole community that exchange rates be kept, if possible, from varying greatly. As explained in Chapter 34, funds provided by the Government to be used for that special purpose have, since 1932, been under separate control in the Exchange Equalization Account.

But the maintenance of *stable prices for goods produced at home* cannot be less desirable than the steadying of prices for imports and exports. As we have seen, one cause of a serious rise or fall in prices is a change in the balance between supply of goods and supply of money. The central banking institution of the country has the power to vary the supply of money with the object of maintaining an equilibrium between the available quantities of money and goods. By acquiring gold it may make a limited addition to its cash reserve or to the notes in circulation. By selling securities it can increase the other banks' balances with itself; and on the basis of that increase the other banks can make a several times greater increase in their advances to customers. An increase of, say, £4,000,000 in the central bank's cash reserve may permit it to expand the other banks' deposits with it by three times that sum, without decreasing its proportion of reserve to liabilities. The consequent £12,000,000 increase in their deposits at the central bank will enable the other banks to expand their advances to customers by, say, £100,000,000. Reverse operations will, of course, cause decreases in the quantity of money available for use by the community, should that course be considered advisable. A sale of securities may be resorted to by the central bank in order to "sterilize" an increase in its holding of gold, or to check a general rise in prices.

Again, the ability to *borrow capital at a low rate of interest* will, usually, be an encouragement to industry to extend its activities. Unless other considerations call for a different policy the central bank, by increasing or decreasing the supply of money seeking employment, may be able to exercise a control over interest rates with the view of encouraging production and trade, or checking too great expansion. The Bank of England does, indeed, now take upon itself some responsibility for judging whether or not it should act so as to expand or contract the supply of money in the national interest. But, though the central bank has the power to make more money available, it has not had power to determine to what use the extra money may be put. That is a control the ordinary banks are better able to exercise. To some extent they can discriminate between customers who want to borrow for mere financial speculation, which puts no more money into productive use, and those who desire advances to use them in the genuine development of industry.

INDEX NUMBERS OF PRICES

For active control of the supply of money, in relation to price tendencies, to be operated with confidence about its results, there would appear to be necessary more certain knowledge and fuller experience of cause and effect in monetary matters than has as yet been formulated or acquired. A desirable aim of such action would seem to be the keeping of prices as a whole as free as possible from wide fluctuation. They should not rise so high as to choke off demand by possible consumers, nor fall so low as to exclude the prospect of profit as an incentive to enterprise by possible suppliers. To indicate the policy that is likely to be beneficial in the conditions prevailing at any time some means is needed of measuring the movements of prices in general. A means of measuring approximately changes in the price level is supplied by price "index numbers," several versions of which are now regularly compiled under Government and other auspices. Indexes of wholesale and of retail prices are in use, more perhaps for observation and information than as a guide to monetary policy, though the retail cost-of-living index of the Ministry of Labour has been adopted in some wages agreements as the basis of a sliding

scale of rates. Comparison of price index numbers published in different countries reveal what different tendencies are at work in different regions.

For the compilation of a continuing price index, a standard is first set up by taking the average total price of a group of commodities (or commodities and services) for a selected year or longer period. An old series takes as its standard the average of the period between 1867 and 1877. Newer ones date from before the war of 1914–18. Constituents of the commodity group that enter more than others into general consumption may be "weighted," to correspond to their estimated greater contribution to the costs of production or cost of living. Month by month during the following years a new computation is made for the same group, and the new price total is expressed as a percentage of the selected standard. The standard being taken as 100, each new total is expressed as a higher or lower figure bearing the same ratio to 100 as each new total of prices bears to that of the standard period. In appraising the value of such an index number we must not overlook the fact that the selection and weighting of the group constituents is more or less arbitrary. Nevertheless, a series of these numbers shows in a general way whether prices as a whole are on the rise or the decline, and how far a movement in either direction has gone during the period between any two points of comparison. In this country price and cost-of-living indexes are compiled by the *Economist*, the *Statist*, the Board of Trade, and the Ministry of Labour.

WHY PRICES RISE AND FALL

The value of money is what it can be exchanged for in goods or services. When money rises in value more goods or services than before can be bought with the same sum, so the money value or price of goods and services then falls. When money falls in value fewer goods or less service can be bought with it, and then prices rise. There is a theory that the value of money varies with the quantity of it in existence. But that theory must not be carried too far, as quantity of money is only one of a number of causes of rise or fall in prices. It is only when the other conditions remain stable that an increase or decrease in the supply of money will by itself cause a rise or fall in the

price level. Still, as change in the quantity of money available is one cause that can affect price, it may be used to modify effects that occur from other causes.

An obvious cause of change in price is change in the quantity of goods on offer. Bad weather or other unfavourable natural conditions result in scarcity of produce, as cereals and fruit for food, cotton and wool for manufacture. So much of the commodities we constantly use consist of seasonal produce that, when a general scarcity occurs, it leads to considerable rise in prices taken as a whole. If the supply of goods in general demand is less than usual, buyers with the same supply of money as before are willing to give more of it to get what they need. Also, when a short supply of goods has cost as much to produce as a previous plentiful supply, the producers will want to get a higher price per unit, so that their total return will cover cost, and will yield in addition some margin to recompense them for their labour. These forces active in the same direction on both sides necessarily push prices up, unless a change in some other of the conditions of trading tends to keep prices down. Should the position be the opposite, sellers will have abundance of produce to dispose of that has cost them no more in all than a previous meagre supply. They can then afford to ask less per unit than before, so as to induce buyers, with no more money to spend than previously, to increase purchases and relieve the sellers of their surplus stocks.

But many commodities other than season's produce may be in short supply at times and plentiful at others. What have been the usual sources of supply may run out before new ones to replace them are discovered; or new sources may be opened up whilst the usual ones are still producing. In both cases prices are likely to be affected. Again, restrictions on exports in other countries or on imports in our own country may make certain goods scarcer for us, and so raise the prices we have to pay. Further, merchants dealing in a particular raw material sometimes pool supplies, and regulate the quantities offered on the market, with the object of maintaining prices in their favour. And combines of manufacturers sometimes place restrictions on the output of their members with a similar intention. Trade union rules, too, which in the interest of the unions' members restrict the output of certain classes of

workers and maintain their wages, have an effect on the prices at which the products of their labour can be sold. Lastly, war depletes agriculture and manufacture of men, and absorbs large quantities of materials and produce for its service, decreasing ordinary production, reducing supplies for ordinary use, and raising prices in consequence.

HOW QUANTITY OF MONEY AFFECTS TRADE

It is easy to see that any of the various conditions just enumerated is likely to affect the price of goods. It may not be so easy to understand how an increase or decrease in the supply of money should cause prices to rise or fall. When there is a plentiful supply of money not in active use, much of it will be seeking investment. It can then be borrowed more easily, and on terms more favourable to the borrower, than when the available supply is small. If capital can be obtained on easy terms industrialists who have sufficient confidence to make use of it will take the opportunity to raise funds for new undertakings, for extension of plants, and for expansion of output. They will place orders for new construction, additional machinery, and extra supplies of materials for manufacture. Employment will be increased all round, and larger sums will be drawn by the workers in wages. More money to be spent by them in the shops will create additional demand for goods; and people with extra money to spend will not look so narrowly at the prices they are asked to pay. Thus prices will tend to rise, and bigger profits will encourage suppliers to still greater production. Soon they will be turning out goods in larger quantities than the public can absorb. To stop the surplus from growing, production will be cut; and by their efforts to dispose of the surplus on their hands prices will be reduced. As a result employment and wages will decline, and demand will contract.

Something like the course thus roughly outlined is a usual one for trade to follow. Confidence to venture and funds to borrow lead to employment and more money to spend, to rising prices and a boom in trade. Then over-production, falling prices, and less money to spend bring depression, which lasts until confidence again begins to emerge, and the cycle starts anew. Provided the political-social position is not so

unsettled as to make owners or borrowers of capital timid about using it, a plentiful supply of money at their disposal helps to start the upward movement and leads to expanding demand. Scarcity of available funds, or conditions that do not make for confidence, will prevent the start of better trade, even when a start is much to be desired. And, when productive activity appears to be proceeding too far, a tightening of loan facilities will usually serve to check it. To keep industry going at a steady pace is the ideal to be aimed at; and the banking system can help towards its realization by lending more freely and on easier terms when increase of output and rise in prices are desirable, by restricting credit when ever-quickening industry and soaring prices seem to be heading for a crisis that may bring a slump in its train.

QUESTIONS

1. State in short form the principle that is known as "Gresham's Law." How did it get that name, and when was it first formally enunciated?

2. Describe two conditions each of which was present at a different time in the coinage of this country, and explain according to Gresham's Law what happened in each case as a result of the condition of the coinage.

3. What exactly do we mean when we speak of notes being "inconvertible"? Where and how would money notes be convertible, and what provision should be made to ensure their convertibility?

4. Would Gresham's Law apply to a currency in which the standard coins already in circulation were supplemented by an issue of inconvertible notes? How might notes be maintained at their face value in standard coin when they could not be exchanged for standard coin at the bank of issue?

5. Show how the balances standing to credit of its customers in the books of a bank are made to serve the purpose of currency.

6. In what forms does an ordinary bank keep the resources it holds immediately available for meeting customers' withdrawals from their accounts? Why does a bank not keep resources immediately available for repayment of the full amount of its liabilities to customers?

7. Explain clearly how, in banking practice, a relatively small increase or decrease of cash assets may lead to changes of much larger amount in advances to customers.

8. How is it that increases or decreases in cash, in deposits, or in advances at one or more of the banks do not necessarily result in increases or decreases of the cash, the deposits, or the advances of all the banks taken together?

9. Show (*a*) how it is that the granting of loans, the discounting of bills, or the buying of investments by the banks causes increase in their liabilities to customers; (*b*) how it is that the banks' liabilities to customers are decreased when loans are repaid, bills collected, or investments sold.

10. What are "Treasury bills"? When a joint stock bank makes a purchase of Treasury bills, how does the purchase affect the position of the joint stock bank and the position of the Bank of England? How are the joint stock bank and the Bank of England affected when the Treasury bills are paid off at maturity?

11. Of what does the cash reserve in the Banking Department of the Bank of England consist? What do the terms "proportion" and "reserve ratio" signify when they appear in comments on the weekly return of the Bank of England?

12. Show why a withdrawal of notes from the Banking Department of the Bank of England unfavourably affects its "proportion." Explain what special action the Bank is now legally permitted to take, in order to increase its cash reserve, when the procedure it usually resorts to for that purpose fails or cannot be set going.

13. What is meant by an "internal drain" on the Bank of England, and to what causes may it be due? What is an "external drain," and what may bring that about?

14. Explain clearly (*a*) of what the total reserve of actual cash in the whole banking system of the country is made up; (*b*) on what institution the responsibility necessarily falls for replenishing that reserve when abnormal demands are being made upon it.

15. Show (*a*) in what way a purchase of gold by the Bank of England affects the other banks; (*b*) from what sources the money must originally have come that is now represented by the notes in circulation and by the funds held available for customers' use by the banks.

16. Explain how, with sterling on the gold standard, the raising of bank rate used to help the Bank of England to maintain its cash reserve.

17. What do you understand the "open market policy" of the Bank of England to be? What effects would you expect the practice of that policy by the Bank of England to have on the other banks?

18. Name three objects, other than the protection of its own reserve, any one of which the Bank of England may have in view in raising bank rate, or in buying or selling quantities of Stock Exchange securities. Explain how Bank of England action may attain these objects, and why the attainment of them may be desirable.

19. What are "index numbers of prices" and what purpose do they serve? How is a table of price index numbers compiled?

20. Indicate some of the more obvious causes of rise and fall in the prices of commodities, and explain how rises and falls in price follow from these causes.

21. Describe the processes by which changes in the quantity of money made available in a country can affect production, trade, and prices in that country.

22. Explain why it is considered desirable that some control should be exercised over the quantity of funds made available from time to time through the banking system; also how such control may be exercised.

23. What is meant by the Gold Standard? What conditions must be fulfilled before it can be said that a gold standard has been established as the basis of a currency system? (*L.C.C.*)

24. Discuss the steps which are taken to keep a local currency at par with gold in cases where a country is on the gold standard. (*R.S.A.*)

25. If the currency of a country is depreciated, what effect will that have on the price which importers in that country have to pay for goods? Give illustrations.

26. Mention some of the principal effects of a variation in the purchasing power of money. (*U L.C I.*)

APPENDIX

WAR AND POST-WAR CONDITIONS

SINCE the foregoing chapters were typeset a second war against the aggression of Germany and her European satellites has intervened. So, too, has war against Japanese incursions into islands of the Pacific and the south-eastern mainland of Asia. The exigencies of these campaigns have occasioned no slight modifications in our accustomed ways of home life, and in the methods and channels of trade, manufacture, transport, and finance. Though hostilities have ceased, it is doubtful how far and how soon commercial activities will return to their former courses. An addition to the preceding pages of some record of the changes is, therefore, desirable.

IMPORTS AND EXPORTS

In Chapters, 2, 3, and 4 we retain the 1938 tables of imports and exports because they are more representative of Britain's peace-time foreign trade than later figures can yet be. Further description of the pre-war handling of imports and exports is given in Section VI. But we have to notice that, immediately on the outbreak of war, buying from or selling to any enemy individual, firm, or company became a criminal offence under the Trading with the Enemy Act, 1939. Also, from then onwards, by the Imports, Exports and Customs Powers (Defence) Act, imports (except by the Government) could be made only under official licence. Exports, too, were mostly subject to licence, and to assurance by declaration that payment would be duly forthcoming. Now that war is over we have not only to set off exports against necessary current imports, but also to use any surplus of their proceeds in repayment of a war indebtedness to other countries of some £4,000,000,000. So we urgently need to export much more than before.

THE SUPPLY OF FOOD

1. **Means of Supply.** By what means our supplies of food used to be obtained is described in Chapter 2, and under

Produce Exchanges in Chapter 30. But in 1939 a *Ministry of Food*, still in control, was set up to organize the buying and distribution of supplies, as regards both quantities and kinds. With the co-operation of the Ministry of Agriculture, grasslands were ploughed up and the acreage of wheat and other crops greatly extended. As imports of bacon and butter from Denmark were cut off, supplies from other sources and increased home production had to be sought. Scarcity of available ships, with the depredations of the U-boats, seriously hampered imports of beef, mutton, and others of our usual foods.

2. **Prices and Distribution.** Prices to be charged for many everyday commodities were and are still regulated. They are fixed, with penalties for contravention, not just by what it costs the Ministry of Food to procure supplies, but also with the view of preventing the cost of living from shooting upwards. Exchequer subsidies keep staple foods within the reach of people to whom higher prices would mean hardship. But the subsidies are intended, also, to check wage rises, which follow rises in living costs, and lead in time to increased cost of manufactured goods, to need for more money in circulation, and to prices soaring higher still. In order to save in cost, distribution generally is confined to selected channels. Quantities required and equality of sharing are regulated by each person having to register for many kinds of food with the retailer he chooses, and by the issue to him of a ration book allowing him so much per week or month of various kinds.

MATERIALS, FUEL, AND POWER

1. **Demands of the Forces.** As explained in Chapter 3, many materials and products we want have always to be imported, requiring payment in foreign currency, our resources of which are now much reduced. As for food, so for other goods, a *Ministry of Supply* was set up early in the war to buy and store supplies, which were placed by it under subsidiary controls for metals, timber, cotton, wool, and so on. Vast quantities in great variety were required for equipment and renewals for the numerous formations of land, sea, and air forces that had to be trained and built up. To war-work contractors needing building extensions and equipment the Government had to

provide assistance in materials and money. From the Dominions and, in time, from America, came ungrudging contribution to the war's demands.

2. Civil Needs Go Short. Besides the requirements of the forces for equipment, extensive repairs made to bomb-damaged property restricted the supply of building materials for ordinary uses. New houses could not be erected for want of labour and material, and only by licence could limited quantities of materials be obtained for repairs. Arrears of bomb-damage repairs and insistent demand for new building cause scarcity and licensing to continue.

In the textile industries there were opened under the Ministry of Supply a Cotton Control Office in Manchester and a Wool Control Office in Bradford. Before manufacturers can put work in hand they must obtain licences from these offices for the material they require. Hitherto only a fraction of civilian needs have been met; but supplies are now very slowly increasing. Production for export calls for some priority, as payment for exports puts much-needed foreign money at our disposal.

Coal, gas, and electricity, all of them important for war production, were put under the control of a *Minister of Fuel and Power*. The output of coal (described in Chapter 3) has been unsatisfactory, declining instead of rising, notwithstanding efforts made and inducements offered to encourage increase. That, aggravated by shortage of transport, has left householders at times without winter fires; and in some districts the supply of electricity has been insufficient for peak-hour consumption. Pre-war consumption is not yet permitted, window lighting of shops, for example, being still prohibited.

Before America came into the war iron railings were being removed for melting, and aluminium and other scrap, even waste paper, was being recovered by organized collection. Paper has continued so scarce that our daily news-sheets, magazines, commercial stationery, and bank cheques are still cut down in size. Even companies' annual returns of shareholders (mentioned at page 245) are temporarily dispensed with. More is now becoming available for books, and the prohibition on wrappings for dry-goods has been lifted. Hardware is also obtainable in gradually increasing quantity.

CLOTHING AND HOUSEHOLD GOODS

1. **Scarcity and Utility Grades.** The supply of articles for the home and of personal clothing, also the wholesale and retail trades that handle them, are dealt with in Chapters 4, 6, and 7. Scarcity of these goods was caused by drain of workers into the forces and into munition factories as much as by shortage of materials. Restriction of supply was imposed, in addition, with the intention of inducing us to place unspendable money in National Savings Certificates and in Defence Bonds, so to help in financing a war expenditure that reached some twelve million pounds a day.

For furniture and some drapery furnishings priority dockets had to be issued to bombed-out and newly-married people. There were no new goods of that kind for others. These articles, also clothing, came to be supplied in "utility" designs and styles, and were manufactured to Board of Trade specifications intended to economize in the material used. In the quality supplied some improvement has been made, and austerity regulations on style have been withdrawn.

2. **Rationing by Coupons.** Since 1941, as we all know, personal wear and some household textiles, can be obtained only against coupons; and to restrain spending there is allowed to each person only a limited number of coupons for each period of six months or so. It is illegal, under penalty, for such articles to be sold, either wholesale or retail, without surrender by the purchaser of the number of coupons prescribed. Latterly, to save repeated countings, shopkeepers have been required to bank, in sealed envelopes containing round hundreds, the coupons they take for their sales. To their suppliers they send vouchers, drawn upon and certified by the banks, for the numbers the suppliers require before dispatch of the merchandise.

3. **Price Control and Purchase Tax.** Under the Prices of Goods Act of 1939, limit had been set to the prices that could be charged for many goods. That Act was followed by the Goods and Services (Price Control) Act of 1941, and by utility grades with fixed maximum profit margins. To exceed these margins renders the manufacturer, wholesaler, or retailer liable to prosecution and heavy fine. On most articles, other than food and materials for mending and repairs, purchase tax had

also been imposed, with the double object of (*a*) raising prices so as to keep down demand, and (*b*) enforcing by means of the tax some contribution to the cost of the war.

Utility articles, when they appeared, were nearly all exempt from this tax, and still are; but for many non-utility kinds tax of usually one-sixth or one-third has to be added to the wholesale price—for luxury articles it may be as much as 100 per cent. The tax is shown separately on their invoices by the suppliers. They collect it from the retailers along with payment for the goods, and they pay it over periodically to the local Custom offices. Custom officers inspect the suppliers' records to check the tax charges made on sales, and to verify correctness of the totals paid over.

CONTROL OF TRANSPORT

1. **Railways and Shipping.** On the outbreak of the war the railways (described with other means of transport in Chapter 8) were taken over, along with their staffs, by the Ministry of Transport. Railways are too vital to war organization not to be taken under Government control; besides, Britain was the main base for allied operations in Western Europe. Until the arrangement ends the Ministry takes the receipts from the public services provided, and by arrangement it makes to each company a fixed yearly payment for the use of tracks, rolling stock, plant, and station buildings.

Merchant ships were commandeered and fitted out for duties with the Navy, such as patrolling and mine-sweeping, and for transport of troops and material for the allied armies and air forces overseas. Danger from air, surface, and under-water attack was so great to the merchant fleet that voyages had to be organized in convoys under naval escort for long distances from and to our shores; and new construction had to be hurried through to make good the losses. In the States ships were built in standard sections at inland points from which the parts were conveyed to the coast for assembling and launching.

2. **Road Vehicles and Petrol.** Importation of petrol, claiming much tank shipping, was essential in enormous quantities to navy, army, and air force operations. In consequence its use for other purposes was severely curtailed. Long before the war ended motor cars for private use had mostly disappeared

from the roads, whilst road-coach services were abandoned, and 'bus services reduced. When war broke out numerous road vehicles were commandeered; then road transport of goods was pooled, groups of competing businesses being obliged to use lorries and delivery vans in common. Distribution of things like biscuits, confined over each of delineated areas to a single supply organization, is now free; but milk delivery in each of prescribed localities is still concentrated.

WAR CONDITIONS MERGE INTO PEACE

Until adequate numbers of men and women were released from the forces and war work, until factories were re-adapted to civilian output, until supplies of raw materials were acquired, and trade goods appeared in the quantities and kinds demanded, controls could be lifted only gradually. Twelve months after the defeat of Germany only tardy improvement is apparent. Transport on land gets a little easier, civilian air services are beginning to operate, and requisitioned ships re-conditioned are coming back into peace-time use. The London Bankers' "Central" clearing, corresponding roughly to the Country and Metropolitan clearings of Chapter 27, has returned to the City from its war-time location at Stoke-on-Trent. Business offices that had sought refuge in the country from the blitz on London have also been returning. The wholesale drapery trade has, however, lost by bomb destruction nearly all the premises of its pre-war City home mentioned at page 80.

As 1946 progresses rationing of food is almost as strict as ever. Clothing coupons are still with us, and supplies restricted. Goods in the shops are largely utility grade, and purchase tax remains in force. The produce exchanges and futures markets, described in Chapters 3 and 30, remain dormant, as the Ministries of Food and Supply are still in control. So is the Ministry of Fuel and Power. Of the coal they need, factories and homes are getting only hand-to-mouth supplies.

STATE INSURANCE SCHEMES

The several kinds of insurance detailed at pages 123 to 126, and the marine insurance facilities of Chapter 31, had to be supplemented by Government war-risk schemes. These included: (1) insurance against loss and damage, through

enemy action, of goods and ships at sea; (2) insurance against loss of traders' stocks, fixtures, and equipment due to aerial bombing; and (3) war damage contribution, compulsory in all cases, to be borne by owners, lessees, and mortgagees of buildings in proportion to their interests. For the future the Government is promoting a scheme, managed by the State, to supersede the Workmen's Compensation insurance mentioned at page 124; and a social security plan to make better provision against unemployment, ill-health, and old age.

BANK MONEY IN USE

Regarding the remarks at page 121 about the funds held by the banks and how they use them, it is interesting to note the differences between the Midland Bank Balance Sheet on page 391 and that of the same institution seven years later as shown below. Whereas Current, Deposit, and Other Accounts stood at £464 millions when 1938 ended, they had increased

BALANCE SHEET OF THE MIDLAND BANK, LIMITED
31ST DECEMBER, 1945

Liabilities	£	*Assets*	£
Capital Paid Up. .	15,158,621	Coin, Notes, and Balances with Bank of England. . .	117,161,666
Reserve Fund . .	15,158,621	Balances with and Cheques on Other Banks . . .	37,301,864
Current Deposit and Other Accounts .	1,060,919,824	Money at Call and Short Notice . . .	44,959,852
Acceptances and Confirmed Credits. .	11,607,418	Bills Discounted—	
Engagements . .	12,352,232	Treasury Bills. .	98,989,450
		Other Bills . .	507,533
		Treasury Deposit Receipts . . .	339,000,000
		Investments . .	259,408,453
		Advances and Other Accounts . .	175,512,951
		Liabilities of Customers for Acceptances, etc	23,959,650
		Bank Premises . .	8,389,491
		Shares in Yorkshire Penny Bank, Ltd. .	937,500
		Shares in Industrial and Commercial Finance Corporation, Ltd. .	276,100
		Shares in Affiliated Companies . .	8,792,206
	£1,115,196,716		£1,115,196,716

by the end of 1945 to £1061 millions. The list below shows, also, that loans and investments had increased during the seven years from just under £402 millions to a little over £918 millions. Moreover, the advances shown as made directly to the Government had risen from £27 millions in Treasury Bills to £438

	£
Money at Call and Short Notice	44,959,852
Bills Discounted. Treasury Bills	98,989,450
Other Bills	507,533
Treasury Deposit Receipts	339,000,000
Investments	259,408,453
Advances and Other Accounts	175,512,951
	£918,378,239

millions in Treasury Bills and Treasury Deposit Receipts, the latter being advances of a type introduced during the war, each made for a fixed period of six months. More money placed in public issues of Government stocks is probably included under the general head of Investments. In commercial bills discounted a very considerable decrease is noticeable. We may note here, in remarking on changes in banking figures, that the London Bankers' clearings rose from £39,610,229,000 for 1938 to £66,944,095,000 for 1945.

Following an intimation by the Treasury reducing the interest on Treasury Deposit Receipts from 1⅛ per cent per annum to ⅝ths, the English clearing banks gave notice that after 30th November, 1945, allowance of any interest on current accounts would cease, and that interest on deposit accounts would be ½ per cent per annum subject to 14 days' notice of withdrawal. Previous practice is stated at pages 386 and 389.

BANK OF ENGLAND

1. **Acquisition by the State.** As mentioned on page 608 the Bank of England had not been a State-owned institution. But, on 1st March, 1946, some 250 years after its foundation, it became the property of the nation. In exchange for their holdings of the Bank's stock the old proprietors have been given sufficient 3 per cent Government stock to yield them the equivalent of the 12 per cent dividend the Bank has paid for many years. Thus a binding conformity to the policy of the

Exchequer is now substituted for the voluntary one the Bank had long observed. With the approval of the Treasury directions having statutory force may now be given to the commercial banks on the use of the sums at their disposal.

2. The Bank's Weekly Return. We give at the foot of this page a copy of the Bank of England Return for the week ended 6th March, 1946, the first return after acquisition of the Bank by the State. This return is later by seven years than the second one on page 604. Due to a repetition from 1939 onwards of war demands for money, as described at pages 603 and 605, notes in circulation, like deposits in the commercial banks, had risen since 1st March, 1939, from 478 to 1,324 million pounds. At the outbreak of war in September, 1939, the gold reserve valued at £280,000,000 was transferred from the Issue Department to the Exchange Equalization Account. It followed that the note issue became almost entirely fiduciary, and the gold reserve ratio explained at page 636 ceased to have any significance. Since 1939 the fiduciary issue has risen by

BANK OF ENGLAND RETURN

Week Ended 6th March, 1946

ISSUE DEPARTMENT

	£		£
Notes Issued—		Government Debt	11,015,100
In Circulation	1,324,001,140	Other Government Securities	1,388,265,375
In Banking Department	76,246,693	Other Securities	710,236
		Silver Coin	9,289
		Fiduciary Issue	1,400,000,000
		Gold Coin and Bullion at 172s. 3d. the fine ounce	247,833
	£1,400,247,833		£1,400,247,833

BANKING DEPARTMENT

	£		£
Capital	14,553,000	Government Securities	201,905,211
Rest	3,903,325	Other Securities—	
Public Deposits	19,275,161	Discounts and Advances	14,223,190
Other Deposits—		Securities	15,475,954
Bankers	217,615,822	Notes	76,246,693
Other Accounts	53,469,867	Gold and Silver Coin	966,127
	£308,817,175		£308,817,175

(Proportion of cash reserve to deposits 26·59 per cent.)

seventeen separate increases from 300 to 1,400 million pounds. Government securities held in both departments have gone up from 387 to 1,590 million pounds. The official price of gold, now fixed at 172s. 3d. the fine ounce, gives the sovereign a note value of just over £2.

INTERNATIONAL PAYMENTS

1. **Rupture of Trade Relations.** Reference to the subject of foreign payments is made at pages 122 and 123; and in Chapter 34 the facilities that existed in this country up to 1939 for collecting and making payments are dealt with in some detail. But the war that began in that year removed this country's currency and those of others further than before from a gold basis and from the mint pars of exchange explained at pages 576–7, so that the rates shown on page 578 ceased to be operative. Trade relations with enemy countries were broken off, and with other European countries they were either interrupted entirely or greatly diminished. Until conditions become more settled there is not much purpose in substituting a new list of exchange rates. In the financial Press current quotations can be found daily.

2. **Exchange Control by Bank of England.** On the outbreak of war control of foreign payments passed to the Bank of England as agent of the Treasury, and was exercised through other authorized banks, a long list of which was published. From then the foreign Exchange Market, as described at pages 581–3, ceased to function. The Bank of England fixes official rates of exchange with countries with which the making or receiving of payments has continued or been resumed; and drafts can be obtained from the authorized banks by their customers, subject to restrictions still in force. Since fighting stopped new exchange rates have been agreed with all Western European countries except Spain. Exchange transactions pass through the central bank of each country, the creditor country holding a balance at the debtor country's bank in the debtor country's currency.

The short outline of regulations that follows will serve as further indication of conditions under which trade and finance were, and are still to a great extent, carried on.

TRADING WITH THE ENEMY ACT, 1939

1. Dealings in Goods, Money, and Securities. From 3rd, September, 1939, under the Trading with the Enemy Act, any person trading with an enemy (compare page 217) was liable to fine, imprisonment, or penal servitude, with or without forfeiture of the goods, securities, or money traded in. The Board of Trade had power to inspect the books and documents of any suspected business, and to demand information about it. The Board could also restrict or wind up any business in the United Kingdom that was being carried on by or in association with enemies.

2. Custody of Enemy Property. The Board of Trade was given power to appoint Custodians of Enemy Property, one each for England, Scotland, and Northern Ireland. The Act giving that power, and a later Custodian Order issued by the Board, required—

(1) That subject to exceptions there be paid to the Custodian any money due to an enemy—in particular dividends on shares or stock, interest on loans or deposits or debentures, securities matured or drawn for repayment, rents, profits from business, debts, including bank balances and money due on insurance policies.

(2) That, where it appeared to the Board expedient to do so, it might make an order vesting in the Custodian any enemy property, or the right to transfer the property.

(3) That persons holding money payable to, or holding property for, an enemy should notify the Custodian; that companies should notify all shares and others of their securities held by or for an enemy, and that firms should notify the interests of enemy partners.

EMERGENCY POWERS (DEFENCE) ACT, 1939

This Act was passed on the 24th August, 1939. It gave power to the King in Council to make regulations having the force of law "for securing the public safety, the defence of the realm, the maintenance of public order, and the efficient prosecution of any war in which His Majesty may be engaged, or for maintaining supplies and services essential to the life of the community." The Act was to remain in force for one year; but by Order in Council it could be continued from year

to year, until the emergency that gave rise to it had passed. Such of the regulations made under it as are still considered necessary are being prolonged for not more than five years under the Supplies and Services (Transitional Powers) Act of 1945.

Two sets of regulations came into force under the Act, namely, the Defence (General) Regulations and the Defence (Finance) Regulations, both of which were amended and added to from time to time. It was under the former that orders rationing food, clothing and the use of paper were made, with many more "statutory rules and orders" by Government departments. Some of the main provisions of the Defence (Finance) Regulations, and orders made under them, are given below. Failure to comply with any rendered the offender liable to fine or punishment.

CLAIMS OF THE TREASURY

1. **On Securities Marketable Abroad.** The Treasury was given power to order: (*a*) that no person should sell, transfer, create a charge upon, or affect rights to, specified classes of securities marketable outside the United Kingdom; and (*b*) that the owners of any such securities should register particulars with the Bank of England. The Treasury was also empowered, (*c*) to transfer any of the securities to itself at not less than market price. The object of the regulation was that, by acquiring such securities held here as the Government needed, and by selling them abroad, it could provide itself with foreign currency to use for payment of purchases it made abroad. "Securities" included, amongst other forms, shares, stock, bonds, notes, and debentures. Canadian and United States securities being held here were sent, for convenience of sale as well as for safety, to the United Kingdom Security Deposit at Montreal. Those unsold have now returned to this country.

2. **On Gold and Foreign Currency.** With the same object, that of increasing the Government's ability to make payments abroad, persons and corporations entitled to sell gold were required to offer it to the agents of the Treasury. Also, persons and corporations entitled to payments out of credits or bank balances of any foreign currency designated by the Treasury were required to assign their rights to the Treasury.

CONTROL OF PAYMENTS TO AND FROM ABROAD

No person is yet allowed to take or send out of the United Kingdom bank notes, gold, securities, or foreign currency, with the exception of currency of sterling-area countries, and drafts payable in non-sterling areas if issued by authorized banks, and of postal and money orders. Travellers are permitted to take out only small sums in bank notes and coin; and travellers and goods may be searched for infringement of the regulation. Also, no person other than an authorized dealer is allowed to buy gold or foreign currency (that of the sterling area excepted) from, or to sell gold or currency to, any person other than an authorized dealer. This is to give to the Treasury, through the Bank of England and authorized banks under its instructions, control of payments between this and other countries.

The *sterling area* was defined as "the United Kingdom, the Isle of Man, and such other territories as may be declared to be included in the sterling area." This is not the same as the "sterling group" mentioned on page 586. It now consists of the British Empire (except Canada and Newfoundland), British mandated and protected territories, Egypt and the Sudan, Iceland and the Faroe Islands. Countries within the sterling area have agreed to the transfer of funds amongst themselves without restriction. They keep reserves here in sterling, against which they are supplied by this country with other currencies as they need them.

NON-RESIDENTS OF STERLING AREA

1. **Securities.** No person is allowed: (*a*) to transfer or acquire except by operation of law (for example, bequest by will), or by inheritance, any security or interest in any security, unless the Treasury's agents are satisfied that no one outside the sterling area has an interest in it; (*b*) to enter any transfer in a register of securities without evidence that it does not contravene the regulation, the evidence required by company and other registrars being declarations in the prescribed form completed by the selling and buying brokers, a bank on the approved list, or a solicitor. For transactions with persons outside the sterling area, licence has first to be obtained from the Bank of England. Nor (*c*) is issue allowed of any bearer bond, share warrant to bearer, interest, or dividend coupon,

or any document the title to which passes to a new holder by delivery of the document without registration.

2. Payments. Subject to many exceptions no person is, except with permission: (*a*) to make any payment, issue or negotiate any bill of exchange or promissory note, or acknowledge any debt, or place any sum to credit of an account in favour of a person outside the sterling area; (*b*) to make any payment or issue any bill of exchange in repayment of any security unless immediately before repayment no one outside the sterling area had an interest in the security.

These regulations have left payments from one part to another of the sterling area to be made without obtaining permission. For payments between residents and non-residents of the area, general exemptions were made providing for accounts bearing particular designations to be kept in sterling here by banks of the U.S.A., Canada, neutral European, and South and Central American countries. For the present and with permission payment in sterling can be made into one of these accounts kept at a bank here, and the branch or other bank abroad for which this bank acts can then pay the amount out in local currency. Sums to be received here can be dealt with by a reverse procedure. In all cases permission for a payment from here must be applied for through the intending payer's own bank.

CONTROL OF CAPITAL ISSUES

Subject to exemptions granted it was made unlawful without Treasury consent to issue any capital or make any public offer of securities for sale, or to postpone maturity of any security repayable in the United Kingdom. Treasury consent has to be applied for through the Capital Issues Committee. Amongst exemptions granted are the issue of securities to a bank in respect of advances made for essential purposes, and issues to the public not exceeding £50,000 for any single undertaking in any year.

The Government proposes to establish, under a Borrowing (Control and Guarantee) Act, a permanent council to deal with applications for permission, so that capital available for subscription shall be used for purposes likely to be of benefit to the community as a whole. A proposal similar to this, made

in the Macmillan Report of 1931, has been referred to at page 624 of Chapter 36.

CHANGES NOW IMPENDING

1. Bretton Woods Agreement. This agreement was arrived at in July, 1944, by forty-four members of the United Nations in conference at Bretton Woods, New Hampshire, U.S.A. It has received ratification by the British Parliament, and by governments whose contributory quotas total the 65 per cent necessary to bring the scheme into operation. It provides for the establishment of an International Monetary Fund, of the equivalent of 8,800 million U.S. dollars, contributed by the member countries; and it is an experiment for promoting international trade by stabilizing, subject to agreed variations, their mutual rates of exchange.

Britain's subscription to the common pool is £325,000,000 payable partly in gold or in gold and dollars, and the rest in sterling. Like other members this country, in exchange for its own money, will obtain foreign currency from the Fund, our transactions going through the Exchange Equalization Account. Foreign currency we receive will be paid into the Fund to our credit. If necessary a member country may be supplied on credit with currency other than its own to a regulated extent. The agreement provides, in addition, for the establishment of an International Bank of Reconstruction and Development, to help by loan and investment in the recovery of war-ravished countries. Britain's subscription to the bank is £65,000,000 for a start, with a limit (apart from the Monetary Fund) of £325,000,000 in all. But our ability to provide these funds will depend on our obtaining from U.S.A. the loan described below.

2. Loan from the United States. Two conditions attaching to this proposed loan are: (*a*) the provision of greater freedom of trade with sterling-area countries by our releasing within a year the sterling balances held to their credit here; and (*b*) mutual abandonment of discriminatory restrictions and quotas on imports. At the time of writing the loan is subject to the consent of Congress. If granted, it will help us out of our war impoverishment, and in particular it will provide us with a reserve of dollars for meeting current deficits on trade with the United States and other countries. The amount

agreed upon is $4,400,000,000, say £1,100,000,000. Repayment is to be made in fifty annual instalments starting in 1951, to include interest at 2 per cent on the annual unpaid balances. Canada has agreed to lend us $1,250,000,000 on similar terms.

3. **Coal, Gas, and Electricity.** A Coal Industry Nationalization Bill is being passed through Parliament for the taking over of the coal industry by a *National Coal Board* appointed by the Minister of Fuel and Power. The importance of this industry and of its scientific development is dealt with in Chapter 3. The Bill proposes payment in Government stock for the 850 undertakings to be transferred. There is also foreshadowed the nationalization of all *gas and electricity undertakings*. Objects in view are the lowering and evening out of prices by the elimination of small and uneconomical plants, with the extension of large-scale production and of the manufacture of by-products.

4. **Transport and Communications.** Another change envisaged is the purchase of *the railways* by the Government when the agreement under which they are now being worked is brought to an end. When that happens long-distance road traffic will probably be involved as well. The proposal includes the docks, but not the transfer of shipping. It is planned, however, that *air transport*, inland and overseas, shall come under State ownership, with three corporations operating—one for the Empire and the U.S.A., a second for British inland and Continental routes, and a third for South America.

Cable and Wireless, Ltd., noticed at pages 258 and 533, as serving the Empire and other areas with telegraphic and radio communication, is also marked out for State acquisition. The Dominions may take control of such parts of the system as cover their territories, the rest presumably passing to a Government-appointed body at home.

5. Another move is in *the distribution of and in financial aid to industry*. Through a Development Areas Treasury Advisory Committee, now formed under the Distribution of Industry Act, financial aid may be given towards development in what were, before the war, areas of trade depression, namely, South Wales, the North-east Coast, West Cumberland, and Scotland. Also, for financial aid to industry and trade generally, applications may be made, in sums of £500 to £200,000, to

the Industrial and Commercial Finance Corporation, Ltd. That company has a capital of £15,000,000 subscribed by the English clearing banks and the Scottish banks (see Midland Bank Balance Sheet, page 656), and has power to raise borrowed capital to a further £30,000,000. For financial aid to industry on a greater scale, there has been formed the Finance Corporation of Industry, Ltd., with a capital of £135,000.000.

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