CHAPTER XII.

PROVIDENCE.

BANKS—SAVINGS BANKS—BUILDING SOCIETIES —JOINT STOCK COMPANIES.

WEALTH THE RESULT OF THRIFT.—VARIOUS INVESTMENTS FOR SAVINGS.—LAND, SHOPS, FACTORIES, SHEEP AND CATTLE.

WE think it has been already shown that by the **natural economic laws** the growth of wealth in a country does not depend so much upon **labor** as upon **thrift.** No matter how hard everybody worked, if people did not on the whole spend less than they earned, neither they themselves nor the country would be any the richer for the labor. In all civilized countries, therefore, there are ways in which the **savings** of labor may be **invested,** or laid out for a profit. We have already explained one of the very best—the investment in land, which in South Australia is cheap, and easily bought and sold; and not only is it a good investment to buy the land, but to lay out money on making it more productive.

Some people invest their capital in goods, which they sell again at a profit in smaller quantities to suit their customers. Some people invest it in workshops and factories, and in paying wages to make some article that people want to buy. Some people invest it in flocks of sheep and herds of cattle, and grow richer as they increase in number.

But there are many other ways in which the small savings of even the poorest people can be made useful to others, and for which interest can be safely obtained.

I.—Banks.

INTEREST IS THE RENT FOR MONEY.—BANKS BUY AND SELL MONEY.—BANKS KEEP MONEY SAFE.—USE OF CHEQUES.—BANKS BOUND TO KEEP A RESERVE OF GOLD, AND TO PUBLISH A STATEMENT TWICE A YEAR.—MONEY SOMETIMES CHEAP AND SOMETIMES DEAR.

Interest, as we have already explained, is a sort of **rent** paid for the loan of money. We have seen that bank notes are very convenient for buying and selling with. But banks do other service besides making and guaranteeing these notes. They make it their business to **buy and sell money.** How can money be bought and sold? – In this way: by taking people's savings at a certain rate of interest and lending this money to people who want it, and who give a higher rate of interest for the loan of it. The difference between the two rates of interest is the bank's **profit** for the trouble and for the risk they run of the borrower not paying back what he owes. It is just like the grocer's profit on tea and the draper's on cloth.

People do not like to keep much money in their houses for fear of thieves or fire, so they put all that they do not want into the bank for three reasons:—1. The money is safe, for the banker provides strong rooms and fire-pooof safes, and it is locked up and guarded at night. 2. It is easy to pay the money away at any time by means of cheques. A cheque is a written order on the bank to pay any sum mentioned in it, signed by a person who has sufficient money in the bank. 3. The banker generally allows some interest for the money in his care.

You could not understand all about banking business, but the greater part of it is simple enough. The banks make use of all the money belonging to their proprietors or shareholders, and of all the money lodged by their customers, to lend to those who need it, and who pay for the use of it. They are obliged to keep a certain amount of gold in proportion to the notes they issue, and to publish twice a year a statement of what they owe to their customers, and of what their customers owe to them; of how many notes they have in circulation, and how much gold they have in their strong-box; and they must give gold for notes if any one wants it.

Sometimes money is plentiful, and interest is low; sometimes money is scarce, and interest is high. And when money is scarce people have to sell property for less than it would be worth if money was plentiful. I dare say you think it strange to speak about money being dear or cheap, for a pound is always worth twenty shillings. But money is like everything else—dear or cheap according to the **demand** and the **supply.** When so much gold came into Spain, and people were prevented from sending it out, gold was so cheap that it could buy very little. When money was very scarce in South Australia it was so dear that everything else was very cheap. People would give 30 per cent. for the use of it, or £30 a year for the loan of £100, as freely as they would give 8 per cent. now. They paid the interest as regularly and gave as good security over their land and houses for paying back the principal or the sum borrowed. This was because money was very scarce and very dear, and because there was a great deal of cheap land to lay it out on.

THREE MONTHS' BILLS.—DRAWER.—ACCEPTOR.—DISCOUNT.—OVERDRAFTS.—BILLS OF EXCHANGE USEFUL FOR FOREIGN TRADE.—EXAMPLE.—SENT IN DUPLICATE AND TRIPLICATE. USE OF THIS.—SILVER AND COPPER COIN.

The commonest way in which banks lend money is **on three months' bills,** signed by two people supposed to be good for the money. For instance, a shopkeeper buying goods from the wholesale merchant does not generally pay cash, but gives a bill or a promise to pay in three months, in order to give him time to sell the goods. The merchant signs it also, and the banks will advance him the money, taking off the interest beforehand, which in that case is called **discount.** When the bill becomes due, if the shopkeeper cannot pay it the merchant must; if neither of them can or will pay it, the bank can sue them both at law for the money, and sell any property they have to pay the bill.

Another way in which they lend money is by allowing their customers who have a good deal of property or a good business to **overdraw** their accounts, which means to borrow money. For these overdrafts the interest is always higher than on a three months' bill, for the risk is greater.

The banks do another kind of business which is a great convenience for foreign trade. Indeed, foreign trade could not be carried on at all profitably without it. This is by selling **bills of exchange** on foreign countries, which are payable there. You will understand this better by an example. Mr. Brown, of Adelaide, wants a thousand pounds worth of drapery from London, and Mr. White, of London, wants a thousand pounds worth of wheat from Adelaide. English bank-notes do not pass here, nor are South Australian notes taken in England. Gold, however, will be good anywhere, and if it were not for bills of exchange, all foreign trade would have to be done by means of gold. Instead of Mr. Brown sending a thousand sovereigns to London, he buys a bill of exchange for a thousand pounds payable at a London bank, and sends it by the post with his order; and instead of Mr. White sending a thousand sovereigns to Adelaide for his wheat, he buys a bill upon an Adelaide bank to be paid here. If these two thousand sovereigns were sent by sea in the two different directions, all the use of the money would be lost during the voyage, and if the ships were wrecked the gold would be completely lost; whereas the bill of exchange is merely a promise to pay, and has no real value of itself, and it is made out in duplicate and triplicate – two or three copies exactly the same—and if one is lost, the others are sure to be safe, and the first that is presented at the bank is paid. By this means all the business between South Australia and the other colonies is done, and all the business with England and foreign countries where there are banks. If we trade with countries where there are no banks, we must buy with gold and silver.

Silver coin is not worth so much as it passes for, and neither is the copper coin which we use. But silver is only a legal tender for 40s. and copper for 1s. That means, that you may refuse to be paid in silver or copper for more than these sums, and demand gold. It is because gold has a real value that it is good for the value put on it all over the world.

II.—Savings Banks.

SAVINGS BANKS TAKE SMALL SUMS.—MONEY MUST BE USED OR IT CANNOT PAY INTEREST.—INTEREST IN ENGLAND.—INTEREST IN SOUTH AUSTRALIA.

Ordinary banks, however, will not take small sums as **deposits,** and savings banks are needed to encourage thrift among the poor and the young. The savings bank will take as small a sum as one shilling, and allow interest at as high a rate as can be given after paying for the expenses of management. Savings banks do not discount bills, or allow people to overdraw their accounts, or sell bills of exchange on foreign parts. But they must do something with their money, otherwise they could not pay their depositors four or five per cent. for the use of it. They invest their money generally on mortgage — that is, they lend people money on the security of their land and houses, and if the interest is not paid they can sell the property and pay themselves all that is owed, and give the remainder, or the **balance** which is over, if there is any, to the borrower. To make sure that they should not lose, they never lend as much as the property is worth.

If the savings bank has any spare money besides that which is lent on mortgage, it is lent to the ordinary banks, who use it in their business and pay interest for it. In England the savings bank interest is only two and a-half per cent., 6d. for each pound; but in South Australia it is usually about five per cent., or 1s. for the loan of a pound for a year. That shows you plainly that money is cheaper in England than in South Australia. Not only are wages for working people higher in this colony, but interest is so much higher that if they save money they get more advantage for it. And there are a great many good investments which pay better interest than the savings bank, though, of course, the savings bank is the safest of all.

III.—Building Societies.

USEFULNESS OF BUILDING SOCIETIES.—FULL STATEMENT OF AFFAIRS PUBLISHED HALF-YEARLY.

We have seen how the government allows people to select land and pay for it by degrees, so that an industrious man in the course of a few years can get a fine property of his own. But there are some other ways of getting property. By joining a building society one can pay so much a week till he has as much money as will build a house or start on a farm. Some of the members of the building societies want their money at once, and pay interest for it; and those who can wait get it added to their payments till the time has run out, and they get the whole amount. Government very properly requires the building societies as well as the banks to publish a statement of their affairs every six months.

IV.—Joint Stock Companies.

VARIOUS PURPOSES FOR WHICH JOINT STOCK COMPANIES ARE FORMED.—ALL SHAREHOLDERS SHOULD TAKE AN INTEREST IN THEM.—DIRECTORS SHOULD BE BOTH THE MANAGERS AND THE SERVANTS OF THE SHAREHOLDERS.

Besides building societies there are a number of what are called joint stock companies, by which things that are too large or too dangerous for one man to do can be done by a number taking shares in the risks and the profits. Such are joint stock banks, gas companies, insurance companies, mining companies, railway companies, tramway companies. There are a great many shareholders—some who put much, some who put little, into the concern; but they get their share of the profits according to the number of shares they hold in the company; and, of course, if there are losses they share them in the same way.

In all joint stock companies all over the world there is generally too little interest taken in them by the smaller shareholders, and the whole management is left to the **directors**, which sometimes results very badly. Just as we said the government is both the ruler and the servant of the people, so the directors should be both the **managers and the servants** of the shareholders of any joint stock company, and their proceedings should be watched and checked. The small shareholders often do not examine the statements of accounts, and even if they do examine them they frequently do not understand them. This is one of the great advantages of being taught arithmetic thoroughly, that we can look better after our own interests in such matters. It is not always the cleverest talkers who are the best directors for banks and companies and building societies. Honesty and business ability are the two things that cannot be done without in those who have to manage the business and take care of the interests of a great many shareholders.