CONTRIBUTIONS TO THE STUDY
OF
INSURANCE FIRE & LIFE
AS
A SCIENCE AND AN ART

John M. M'Candlish, F.R.S.E.

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TO THE

STUDY OF INSURANCE

Fire and Life

AS A SCIENCE AND AN ART

BY

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I. The FUTURE INTEREST of MONEY considered chiefly in its bearings on LIFE ASSURANCE INSTITUTIONS.
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III. The DUTIES of an ACTUARY in his PROFESSIONAL RELATIONSHIPS.
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IV. ACCOUNTANTS and ACTUARIES: the WORK of the ACTUARY.
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V. The ECONOMIES of INSURANCE.
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VI. INSURANCE COMPANIES and the INCOME TAX.
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VII. POST-OBITS and EQUITY.
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THE

FUTURE INTEREST OF MONEY

CONSIDERED CHIEFLY IN ITS BEARINGS ON

LIFE ASSURANCE INSTITUTIONS.

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AN ADDRESS

DELIVERED TO THE ACTUARIAL SOCIETY OF EDINBURGH

BY

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THE FUTURE INTEREST OF MONEY.

THE improvement of money at interest is the element which enters most universally into the calculations of an actuary. These do not always involve the contingencies of human life, but I cannot think of any that can be solved without taking the interest of money into account. Much learning and industry have been devoted to perfecting the methods by which this is to be done; and we possess innumerable helps in the shape of formulæ and tables for solving almost any question with respect to the value of future and contingent rights at almost any given rate of interest.

But what rate of interest are we to assume in our calculations? This question must be answered in some way before a problem in life assurance can be even entered on. Of the considerations which bear upon it many address themselves to financiers and political economists generally; but the subject as a whole falls peculiarly within the province of the actuary. It lies at the root of the transactions he is engaged in conducting: his studies best fit him for perceiving and weighing the effects to be looked for from the different methods in which it may be dealt with; he possesses the technical machinery for dealing with it; and although others may speculate more or less earnestly on the question of what returns money will yield in the distant future, to the actuary it is a practical question of present import, and the public accordingly look to him for special information and advice respecting it.

Every member of our profession has necessarily made up his mind in some degree as to what rate of interest it is safe or proper to assume in the different sorts of problems he is in the habit of investigating; and it would be easy to quote the opinions of leading actuaries in favour of this or the other rate. The general question, too, of the future of interest is discussed in the standard works on political economy. I do not know, however, of any treatise to which an inquirer might be directed who wished to look at the subject in all its bearings from an actuary's point of view; and though I cannot attempt to supply such a treatise, I will endeavour to bring together, as succinctly as possible, some of the considerations which affect the question. A principal object I have in view is to indicate to the younger members of the profession one of the many points at which their more technical studies touch subjects of a larger sort; and to suggest that in order to be skilful actuaries, even in the most restricted sense of the term, they will do well to cultivate a wide range of thought and observation.

The subject may not be wholly uninteresting to non-professional persons. The ultimate stability of life-assurance institutions is matter of great importance to the country at large, and especially to the hundreds of thousands who are directly concerned in their prosperity as partners or holders of policies; and that stability depends in a large measure on their estimating correctly the future returns from money. To the political economist the question opens a wide field of inquiry and speculation. To determine it he requires to start from the most elementary doctrines about "capital" and "currency," and, passing through a large range of subjects connected with "money," to investigate the effects of social changes and modern legislation, and to anticipate the unknown phenomena of the distant future. It is plain that this cannot be done in a single lecture. All I can hope to accomplish is to suggest the outlines for a more complete inquiry.

I propose to begin by looking at the subject from a point of view more exclusively actuarial, and afterwards to consider it in its general aspects.

THE ACTUARY'S VIEW OF THE QUESTION.

USUAL OBJECTS OF HIS CALCULATIONS.—In the calculations of an actuary he is accustomed to fix on a rate of interest with a view to one or other of three different objects. First, he may have to advise on what terms a transactiom may be entered into, so that it shall yield, at the least, a rate of interest resolved upon beforehand. His client is to purchase an annuity or a reversion, a life estate, a lease, or an advowson. The rate of interest is here an arbitrary one, depending on the desires of the purchaser and the necessities of the vendor, so that the considerations which determine it will vary with every case. Secondly, he may be consulted as to what it will be fair to assume as a rate likely to be realised where the arrangement is between persons who desire that there shall be no advantage on either side. And, lastly, he may have to decide what rate it will be safe to assume as a minimum rate certain to be realised, where the object is to guard against any possible disappointment.

It is to this last class of cases that the calculations made on behalf of life assurance offices almost exclusively belong, and it will be to them that the following observations will chiefly have reference. These calculations are almost entirely of two descriptions ; one having for their object to fix the rates or terms on which transactions are to be entered upon, and the other to ascertain afterwards from time to time how far these transactions have been profitable or otherwise. In these calculations one of the most vital questions is—What rate of interest can be reckoned on with certainty for the future? It is this question we are to consider.

Effects of Assuming Different Rates of Interest.—The practical importance of the question need scarcely be dwelt upon; but it may be well to present in figures one or two simple illustrations, using for convenience sake the *Carlisle* tables of mortality, and throwing out of view the elements of expenses and "loadings."

At the age of 20 a man might have his life assured to the extent of £1000, for a present payment of £200, if the office could reckon on making *five per cent* of its money. If *three per cent* only could be reckoned on, the payment required would be £339. In the one case the company would look to no less than £800 of the £1000 being made up of interest alone, in the other case to £661. The difference between the effects of the two rates will be further seen from this, that if £339 were charged for the assurance, it would be enough if in the course of the man's life the interest on that sum were to amount to twice the principal; but if £200 were the charge made, it would need to yield interest equal to four times its own amount.

Taking the age of 36 as about the average age at which assurances are effected, the net yearly premium required for assuring £1000, if interest be reckoned at *three* per cent, is £23. If these premiums should in reality be accumulated at *four* per cent, the difference of interest will provide for a yearly bonus addition to the sum assured at the rate of 9s. per cent; if accumulated at *five* per cent, the yearly bonus provided for by interest alone will be at the rate of 20s. per cent. In other words, a difference of *two* per cent in the rate of interest would add, in the course of thirty years, £300 to the original sum assured.

If, on the other hand, an assurance office were to reckon on making *five* per cent, and were to assure £1000 on a life of 36 for a present payment of £286, and if in reality only *three* per cent were to be realised, the transaction would involve a loss equivalent at the outset to £155 per £1000 ; or if the final result be looked at, there would in the end be a shortcoming in the funds of the office of more than a third ; so that for every £1000 it had undertaken to pay, it would be able to pay only £650, or at the rate of 13s. in the pound.

So much for the calculations made at the beginning of a transaction. In those made afterwards to ascertain the position of an office interest holds an equally vital place. Here, as at the outset, an office will make a larger or smaller provision to meet its liabilities according as it looks to increase that provision by lower or higher returns from the investment of its funds. The financial effects of a difference of even one-half per cent are very considerable. In the case of an office of about twenty years' standing, where the calculations were made in detail both at 3 and $3\frac{1}{2}$ per cent, it was found, that if, instead of reckoning as it did on only 3 per cent, it were to promise itself $3\frac{1}{2}$ per cent from its investments, it might encroach to the extent of $6\frac{1}{2}$ per cent on the funds deemed necessary to meet its engagements. Thus, if two offices, similarly situated, were to provide for their liabilities on a basis, the one of 3 and the other of $3\frac{1}{2}$ per cent, for every £100,000 which the first would set aside as the equivalent of its present obligations, the other would set aside only £93,500, and would appropriate to present use £6500, and have so much the less therefore to accumulate for the ultimate fulfilment of its liabilities. In the case of another office of much older standing, the difference was at the rate of 5 per cent, or £50,000 for every million sterling set aside to meet its liabilities. A difference of *one* per cent, or the assumption of 4 instead of 3 per cent, would have been in these instances of still more vital importance.

Having given these few examples of the arithmetical results of adopting one rate or another in our calculations, I proceed to notice the peculiar aspects under which the question before us presents itself to the actuary, before entering on the considerations which bear directly on the question itself.

Special Considerations Applicable.—The first thing to be observed is, that the actuary has here to deal, not with the past, but with the future. He has to anticipate the future results of investments, and past experience is only one among many elements that must guide him. In some problems this must be sufficiently obvious. Where we undertake to pay £1000 twenty years hence in respect of a smaller payment made to us now, or to pay so much a-year during twenty years in return for £1000 paid to us now, it is plain that the amount we are to charge or the annuity we are to pay will depend on what rate of interest we look to realising by the investment of the money during the time it is in our hands. Up to the present period money may have been improvable at three or at six per cent; but the question is not what has been, but what is likely to be the rate. This is equally obvious when the transaction is one, not for a term of years certain, but for the uncertain duration of a human life. But there are other cases where the principle does not seem so incontrovertible. An insurance company, we shall suppose, has existed for a number of years, and its affairs have to be investigated. It is found that on an average its funds have been improved at a certain rate—4 or 4½ per cent. It has sometimes been said in such a case, "You have nothing to do with speculations as to the future; it is the past we wish to deal with. We want to know what profits we have made during the past five, seven, twenty years, and surely the rate of interest actually realised during that time ought to be the basis of your calculations." Well, there are methods of inquiry, no doubt, which might justify this mode of reasoning; but they are not the best or most accurate methods; and, what is of more importance, they are not the methods actually adopted. As a merchant usually ascertains the state of his affairs, not by reckoning the percentage of profit on his past sales (although he may make that calculation too by way of check), but by a balance of his existing obligations on the one hand, and his stock-in-hand and the debts due to him on the other, so do insurance offices. They reckon what sum is the present equivalent of their *future* liabilities, and what is the present value of their *future* receipts, and as the balance of these is more or less than their funds on hand, so are their losses or gains. In making these reckonings as to the future, it is the future rate of interest, not the past, that has to be taken into account.

But it may be asked, Is the past interest of no account in estimating the prosperity of an assurance company—is there to be no difference in the results from having made a higher or a lower rate? Yes, a material difference; and so far as past earnings are concerned, it is to be discovered in the coffers of the society. If a high rate has been earned, there will be so much the more of funds in hand, and the benefit derived will be matter, not of estimate, but of tangible fact. And so with respect to the future. It does not detract from the advantage of profitable investments that we do not deal with the gain from them by anticipation, but reserve the enjoyment of it until it has become matter of fact. If *four* per cent can be earned instead of *three*, or *five* instead of *four*, the difference will certainly be enjoyed some time or other, but can only be enjoyed once. If we have not reckoned on it beforehand, then it will be a source of profit year by year as it is realised; but if we have taken it into account in our preliminary calculations, we cannot enjoy it a second time.

The next point to be had in view is the tract of time over which our anticipations as to interest are to be carried. In an isolated transaction which must come to an end within a limited number of years, it may be sufficient to see one's way as to the investment of funds up to the end of that period. But in most assurance calculations we have to look forward through the lifetime of at least one generation. When we insure the life of a man of twenty years of age, and fix at the outset the premium he is to pay during the whole period of his life, we have to consider what return may be obtained from the investment of his premiums, not during the next ten, but during the next fifty years; and although with older lives the look-out is of course not so long, yet, on the whole, we must try to see our way as to interest for a very long course of years to come. Of the new obligations undertaken by an insurance office during any single year, a considerable number will probably be still in force, and working their way to maturity, thirty or forty years afterwards, and will be bearing witness from year to year of the prudence or the rashness of the actuary who recommended the terms on which they were originally gone into. A casual glance at the state of the money-market, or a consideration of the rates of interest current at the moment, are surely insufficient grounds on which to base transactions likely to be so prolonged.

Under these circumstances it needs no argument to show that any error that may be made should be an error on the safe side, and that the rate of interest to be assumed should be under rather than above what is likely to be realised. Any disadvantages which may arise from the one error are not for a moment to be compared with the disastrous consequences of the other. To over-estimate the rate is to go into a losing transaction, and the more business that is done on that basis the greater will be the eventual mischief. No doubt an over-estimate of interest may be so far corrected by an over-estimate of the expected mortality, or by adding, as we are accustomed to do, so much loading or percentage to the premium, to provide for this and other contingencies. I am strongly of opinion, however, that each element of our calculations should be dealt with prudently by itself, and that to trust to an error in one direction being counterbalanced by another error in an opposite direction, is neither a scientific nor a safe plan. On the other hand, the effect of under-estimating the future rate of interest, whether in entering on the transaction at first or in periodic investigations of a company's position afterwards, is attended with little evil and much good. It makes a man pay more indeed for his original assurance than may ultimately turn out to have been necessary, but the excess of payment can never be very great, and it is made up for, according to the plan now in universal use, by a more or less speedy appropriation to him in some way or other of the surplus interest found to be realised. Even if a certain high rate of interest could be absolutely reckoned on, it might be wise to adopt a lower rate in our calculations, and to leave the difference when realised to go in this way to "Bonus." The majority of men appear to like to combine with the certainty of a fixed assurance the uncertain and somewhat speculative element of bonus, and to cheat themselves into making a greater provision for their families than the nominal amount of their policies. In all cases the assumption of a low rate of interest undoubtedly gives greater security, and I may add that the assumption of a very high rate on the part of an assurance office might possibly tempt its conductors into too speculative investments in their endeavours to realise it.

It has sometimes been assigned as an excuse for assuming a high rate of interest in investigating the affairs of a life office, that if the assumption should not be justified by experience, the error can be corrected at a subsequent investigation. But if the anticipated profits from interest, which, according to the supposition, are now found to be mythical, have been already some time ago appropriated and divided, as is usually the case, they cannot be recalled and gathered in again. If the office have other sources of profit it may replace them out of these, but this will be largely at the expense of new entrants who did not share in the erroneous distribution. Moreover, it must not be overlooked that it requires some courage on the part of an actuary and a board of directors to retrace a step of this kind, and that there is a natural tendency to persist in sanguine hopes as to the future, and to ascribe their failure hitherto to temporary and transient causes.

I may observe that the evil of too high a rate of interest being anticipated, or too low a rate realised (which are of course, so far as results are concerned, merely different views of the same misfortune), is likely to be greatest in the case of those offices that are most successful in attracting new assurers. The element of interest enters more largely into calculations with reference to young than to old lives. A greater proportion of the funds that will ultimately be required is made up of interest, and therefore a difference in the rate tells more decidedly on the final results. In proportion, therefore, as any office is adding comparatively young lives to the number of its policyholders, or has such lives on its books at the period of an investigation, will any error or disappointment as to interest prove disadvantageous, while of course the earning of high interest which has not been anticipated will bring proportionate profits.

It is scarcely worth while, perhaps, to notice two causes of a slight discrepancy between our calculations as to interest and the actual results, one tending to disappoint and the other to exceed our expectations. An assurance office, in its ordinary calculations, supposes that the monies it is to receive will be paid to it on the very days they fall due, and will be instantly invested at the assumed rate of interest, whereas in practice this scarcely ever happens. I reckon that this cause diminishes the interest earned, as compared with that calculated on, to the extent of perhaps 1s. or 1s. 6d. per cent. On the other hand, the calculations assume that interest will be converted into principal only once a-year, while in reality this is done half-yearly, and the effect is nearly to counterbalance the difference just adverted to.

But a far more serious source of disappointment requires to be noticed. In reckoning on future interest it is necessary to take into view the risk of loss by investments. One of the main elements which raise the return from certain kinds of securities is the greater risk of losing part of the capital. Those who anticipate a high rate of interest over a long course of years are bound to anticipate also that some of the investments on which this is to be obtained may result in at least a partial loss of the principal, and the one being set against the other, will tend to equalise and lower their expectations.

GENERAL QUESTION AS TO THE FUTURE RETURNS FROM MONEY.

Such are some of the considerations with which an actuary will approach the question of what rate of interest he may anticipate for the future. And now he finds himself on a wider field of inquiry, embracing many most interesting and difficult problems of political economy. I can only touch on them very lightly.

NATURE AND SOURCE OF "INTEREST."—It is desirable, however, to commence at the very root and foundation of the whole matter. What is interest? We need a clear conception on this point before we can understand the laws that regulate it.

You deposit a thousand sovereigns with a banker, and at the end of a year he returns them to you with thirty, forty, or fifty more as "interest." But a thousand sovereigns placed in the cellars of a bank have no tendency to increase in any way. An acorn or a grain of wheat thrust into the earth will have a product by and by of far greater value than itself, and cattle and sheep will increase and multiply. But it is not so with gold and silver, and it is only a figure of speech when Shylock says he makes his ducats breed. No doubt the sovereigns deposited with a banker don't remain in his cellars, but are lent by him to some one who pays him interest, but we have still to trace the increase of the money to its source, and to see why it is that the ultimate employer of it is willing to pay for the use of it, and from what source he is able to do so.

A bushel of seed corn in a western farm in America, which is worth at the most about three or four shillings, is sown there, and the produce, when reaped and thrashed, and transported by rail, and canal, and sea-going ships, to London or Liverpool, will sell for £3 or £4, and afterwards, when converted into bread, for a much larger sum. Here is a commodity which undergoes a vast increase of value. The increase is divisible among a number of persons, and goes to compensate the farmer, the carrier, the railway and ship owner, the broker, merchant, insurer, miller, and baker, for their skill and trouble and risk in contributing to the result. But in all these operations money has been necessary. The person for whom all this work has been done, the ultimate consumer, does not pay for the wheat till he buys it in the shape of bread; but in the meantime each of the persons concerned has had to be paid in succession. One man's money may have been advanced to do all this, and in some ountries this would be the case. It is plain that for making is advance of his money, and for the risk he ran, the apitalist would expect a portion of the increased value to go into his pocket. This portion would be "interest," and it would be so whether the whole work was done by one man's capital, or by the separate capitals of each of the different persons engaged in the operation, or by the capitals of other persons lent to them for the purpose, and whether the persons concerned chose to call it interest, or dividends, or rent, or profit. All interest ultimately resolves itself into something like this. When a proprietor of land has spent more than his income, and mortgages his estates to pay debts contracted possibly through extravagance and folly, the loan may not look like an advance of money by means of which anything whatever can be increased in value; but a little consideration will show that the lender becomes in fact copartner with the landowner and his tenants in the work of manufacturing food, each contributing his share to the undertaking, and receiving his portion of the increased value of the bread and meat that are manufactured. Almost all who are engaged in adding to the value of commodities by the operations of manufacture or commerce, make use in these operations of money capital either their own or borrowed from others. It is the position of those who lend their capital that we are now considering.

Nature and Source of Loanable Capital.—This brings us to the next great question of an elementary character—namely, What is loanable capital? The distinction between loanable capital and currency is not always well understood; and there are few questions which at the present hour are giving rise to more various and conflicting opinions. I cannot of course in a sentence discuss a subject so large, but it is necessary to notice it.

Gold and silver and bank-notes form the currency of this country; but that its loanable capital is something quite different in character and in measure will be apparent from one or two considerations. Look at the amount of existing loans to landowners, to railways, to merchants and manufacturers, to foreigners, not to mention our own national debt. It is plain that the total is immeasurably beyond the amount of our currency; it is plain, moreover, that the whole of these loans might have been made, and that the greater part have been made, without absorbing any portion of the currency, leaving in fact the quantities of gold and silver and bank-notes just what they were before. When lenders of money have to weigh the demands that are likely to be made for their money, it is these very sources of demand they look to; and yet they might satisfy them all without any encroachment on the currency. Loanable capital, therefore, must be something different.

Look again at this view of it. If a man with £1000 a-year of income spends only half of it, and has the other half to invest, and chooses, instead of employing it himself in trade or manufactures, to deposit it in a bank or otherwise to lend it, the £500 become an addition to the loanable capital of the country. So with the savings of all other men. Now the incomes of people in this country having £100 a-year and upwards amount, according to the income-tax returns, to about three hundred and twenty-five millions per annum. Out of this a certain portion, variously estimated at from sixty to one hundred and thirty millions, is saved annually. We need not inquire whether any of these estimates are correct or not, as they do not affect the present question, if it be plain, as it is, that a large amount *is* saved yearly. As the amount saved by one man has to be invested by him in some way, and *may* be lent, so with the savings of the whole; and thus there may be a yearly addition to the loanable capital of the country of one hundred millions, more or less, quite irrespective of any increase in the amount of gold and silver and bank-notes. We have seen that loanable capital may be absorbed and taken out of the market without any diminution of currency ; so we see it may be largely created and brought into the market without any increase of currency.

From these observations, and from what has already been said as to the source of interest, it will be seen what are the origin and nature of loanable capital. Both capital and interest are created out of that increased value which is given to commodities by the industry of man and the bounty of Heaven. This is the one only source of income. You will see this if you take the most unlikely cases. Out of the gross produce of a farm, for example, or the gross profits arising from the importation or the manufacture of cotton, or wool, or silk, a certain portion goes to the Government in the shape of taxes, and finds its way into the hands of the public fundholder in the form of dividend, or into the hands of the public servants in the form of pay and salary. All incomes, therefore, arise directly or indirectly from the same source ; and capital, being simply the savings of income, has the same origin. Its increase, therefore, depends first on the amount of profit that results from the improvement in the value of commodities arising from natural growth, from trade, and manufacture ; and secondly, on the proportion that is saved and left over for new investments.

Effect of Increase of Gold and Bank-Notes.—These views, you will observe, negative the very generally-received opinion that the quantity of loanable capital depends on the quantity of money—of gold and silver and bank-notes, which happen to be available at any time ; that consequently an influx of gold such as has taken place during the last twenty years must have largely increased the quantity of capital, and must have tended to lower the rate of interest ; and that an increased supply even of bank-notes would have a similar effect. There is perhaps no opinion on these subjects more popular than this, and none which at the present day is maintained more often or more earnestly with a view to practical consequences. Yet that it is an erroneous opinion follows from the considerations already adduced, and may perhaps be made more clear even in a few sentences.

That a great and especially a rapid increase in the quantity of gold must tend to lessen the value of that metal as an article of exchange is more than probable. Certainly in the period that has elapsed since the discovery of gold in California and Australia there has been a marked increase in the value of labour and of commodities. It has been estimated that within these twenty years the chief necessaries of life have risen in price about twenty per cent, and I should think that the value of service has increased in even a greater ratio; so that £1000 is probably not of so much relative value now as £800 was twenty years ago. It is natural to infer that it is the increase in the quantity of money which has had the effect of lessening its value as a means of exchange, especially as similar consequences, and to a yet greater degree, followed the influx of gold and silver into Europe after the original discovery of America. But it does not follow that the influx of gold has increased the quantity or lessened the value of loanable capital.

If a manufacturer in Manchester were to have £1000 in gold transmitted to him from Australia, it would no doubt be in exchange for the like value of cotton cloth to be sent out. The £1000 would obviously not increase his capital, except to the extent of his profits on the transaction; and if at the same time he were to receive from India, or Egypt, or America, £1000 worth of raw cotton in exchange for the like value of goods, the one transaction would have precisely the same effect on his fortune as the other, and the gold would no more add to his capital than the cotton. What happens in one case is the rule in all. Every ounce of gold that is transmitted to this country has to be paid for in some shape or other;

and though no doubt it increases our trade, and consequently adds to our profits, and hence in the end may enlarge our loanable capital, it is only to the extent of the percentage of profit arising out of the whole transactions. Nor does the gold remain in this country, but is dispersed throughout the world in exchange for other commodities. If the cotton-spinner who receives £1000 in gold for his goods pays it away again to the Egyptian merchant for so much raw cotton, the effect on his capital is much the same as if he had got £1000 worth of raw cotton direct in exchange for the like value of manufactured goods, and there had been no dealing in gold at all. His profits may be greater—or less indeed; but his capital is certainly not increased by £1000, as the theory we are considering seems to suppose. The gold discoveries have undoubtedly stimulated our trade; given us additional and wealthy customers on the other side of the globe; added to our profits; enabled us therefore to save more, and in this way have increased our loanable capital; but similar discoveries of any other marketable article would have had precisely the same effects. Beyond this the increase of gold has had no permanent influence on the amount or the price of capital.

An increase in the quantity of bank-notes circulated through the country—so ardently desired by many financiers—is still less fitted to increase the quantity of loanable capital. If a bank-note be the representative of so much gold in the bank's cellars, it is merely a convenient form of handling the gold, and can have no effect whatever on either capital or currency. If it be the representative of any other sort of property than gold, then it may constitute a means, not of lending, but of borrowing. A bank-note being merely a promise to pay, the bank that issues it either receives in exchange for it gold or some other valuable commodity, in which case the bank is a borrower, not a lender; or if it lend its notes, by discounting a bill, for example, it simply exchanges its promise to pay for the promise to pay of some other person, an exchange which may be advantageous to both parties, but which certainly does not increase the quantity of capital lent, any more than the house accommodation in a town would be increased by two persons exchanging houses with one another.

If a banker and a merchant who thus exchange their promises to pay have no property out of which to fulfil their promises, their notes and bills are not capital but "wind," however long or successfully other persons may be deceived unto the belief that they are capital: if they have property, then it is the property which is their capital, and not the bills or notes, which merely represent it. Thus, if a banker has a landed estate, which would make it safe for any one to lend him £10,000, it may be equally safe for 1000 persons to lend him £10 each, receiving his promises to pay £10 in return, or to accept these promises from the holders of them (to whom the banker may have lent them) in exchange for their commodities. But clearly this would no more increase the banker's capital, nor the capital of the country, than if he were borrowing the whole £10,000 by an ordinary mortgage, or not borrowing at all; just as an ingot of gold, when converted into sovereigns, may be in a far more convenient form than it was before, but is not of any greater intrinsic value. Nothing can be more certain than that the quantity of loanable capital, and consequently the value of it, will not be materially influenced by any extension of bank issues that is legitimate and trustworthy, whatever temporary effect may be produced by a deluge of promises to pay which do not represent actual property, and possess no security for their being fulfilled.*

* See Appendix, Note A—Currency Theories and the Value of Money.

FLUCTUATIONS IN THE VALUE OF LOANABLE CAPITAL.

Having endeavoured to dismiss these common but erroneous views of what affects the quantity and value of loanable capital, we may now glance at some of the causes that really influence them, and that do tend to raise or to lower the rate of interest on borrowed money.

It is very easy of course to say that the value of capital, as of other things, will depend on the relations between supply and demand. The question is, What causes will affect supply and demand? I shall allude very briefly to some of them.

TEMPORARY FLUCTUATIONS.—I may pass by in a sentence or two those temporary fluctuations in the value of money which, though they attract the most notice and are in truth of high importance, have no very great influence on the returns from capital in the long run. The supply of loanable capital and the demand for it being usually pretty nearly balanced in this country, a very small cause—small compared with the total amounts involved—will often have a large effect; just as in great machines, where opposite weights are nicely adjusted, the hand of a child may move many tons.

But whether the causes in question be great or small, it is important to observe that they are temporary, of which it is proof sufficient, perhaps, that the effects they produce are temporary. I shall afterwards have occasion to show that extreme fluctuations in the value of money* within compara-

* It must be kept in view that in speaking of "the value of money," the price paid for the use of it is here meant, not the quantity of labour or materials for which it can be exchanged. Unfortunately either meaning may attach to the phrase, and the ambiguity often gives rise to misapprehensions and errors of reasoning. The phrase "the value of money" is a misnomer in another way also, since what is intended to be expressed is the value of loanable capital, which may or may not consist of money. With these explanations we must continue to use the phrase.

tively short periods are consistent with great steadiness in the rates of interest obtainable in the long run ; but it may be proper to notice, in passing, one or two of the causes that produce the great and rapid changes which we have so often and so recently experienced. I do this the rather because there exists a common and not unnatural feeling among persons who do not look closely into these subjects, which leads to the apprehension when money is dear that it will never be cheap again, and when it is cheap that it will never again be dear. All experience contradicts this assumption ; yet at the present time there is a very general impression that we shall never again—for a long while to come, at any rate—have interest so low as it often used to be—an impression which may be well or ill founded, but which, in so far as it is based, as it is with many persons, merely on the high rates now current, has no substantial groundwork.

Although loanable capital is not identical with money or currency, it is to be remembered that the gold and silver which, along with bank-notes, form the money or currency of this country, form also, of course, part of its capital. Now the quantity of money required for currency is constantly varying. It varies with particular seasons of the year, and still more with the expansion or contraction of trade and other causes. When the wants of the country, for purposes of currency, happen to become small for the time, a certain quantity of gold goes, as it were, out of employment, and finds its way to other countries where it can be used to more advantage. But before this occurs the redundancy of gold tends to reduce the current rates of interest, because the bankers who hold it will rather lend it at home on lower terms than have the risk and trouble of exporting it. In like manner, when the requirements of currency increase again, the necessary supply of gold not being immediately available, a competition arises for what there is, and a consequent increase in the rate of interest, until there is a sufficient inducement, in that respect, for British and also for foreign bankers and capitalists to reimport gold.

Whatever quantity of gold may flow into this country from Australia or elsewhere, no more of it remains here than is wanted for purposes of currency, including under that term not only what is in the hands of the people, passing current from day to day, but what bankers—and especially the Bank of England—require to retain in their coffers to provide for any probable demand on the part of depositors or holders of bank-notes. Gold, therefore, is a part of the loanable capital of the country which is peculiarly liable to variations in quantity and in the demand for it, and hence we have one cause of the rise and fall of interest. But the supply of gold and the demand for it have a peculiar tendency to right themselves if they are allowed fair play,—allowed freely to tell on the money market by raising or lowering the current rates of interest. Consequently the fluctuations of interest produced by this cause are comparatively rapid and temporary.

Other causes of course produce a variation in the supply and demand as regards gold. Thus, a defective harvest will necessitate the importation of an unusual quantity of grain, and probably at an enhanced price. Part of this may be paid for by an increased exportation of goods, but part will have to be paid for in gold. I need not follow out the consequences ; but you will observe why it is that the interest of money has a tendency to rise during a cold and ungenial summer, which, by threatening a bad harvest, gives a forecast of "tight money" in the coming winter, and leads to the results being anticipated, or discounted as it is called, every turn of the barometer telling on the sensitiveness of the money market.

The natural and legitimate effects of such causes are apt to be greatly exaggerated by panic, and there is, besides, a tendency in the minds of investors to oscillate periodically between good security and small returns on the one hand, and high returns, with doubtful security, on the other; but on these subjects it would be out of place to dwell at present.

Another source of temporary fluctuation in rates of interest is one which has reference to loanable capital in general, rather than to that portion of it which consists of money. I refer to the periodic tendency to over-investment, when the public anticipate their savings, and lay them out, or make engagements for laying them out, before they exist. If a man who expects to have saved £1000 by the end of the year, invests it at the beginning of the year in land, or buildings, or machinery, or shares,* he will find himself all through the year straitened for money to meet his ordinary expenditure, and very possibly he may require to borrow. If many men are doing the same thing, and all wanting to borrow at the same time, capital will become dear; but by and by this cause of disturbance rights itself, and the effects, therefore, are only temporary. Where the money market is allowed to follow its natural tendencies, a strain upon it immediately raises the rate of interest; the increased rate then checks the demand for capital, and with the lessening of the demand the rate descends again. Many causes of course influence the money market from day to day which it would be out of place to discuss here. The great and rapid fluctuations often produced chiefly affect transactions made for very short periods—such as the discounting of mercantile bills—and have comparatively little influence on more permanent forms of investment.

It sometimes happens, indeed, that the very same causes which raise the rate of interest for permanent investments, lower the minimum rate of discount for short-dated bills. In

* What has happened in many cases lately, and has largely tended to affect the money market, is, that persons have entered into engagements—share subscriptions, for instance—which they did not expect to be called upon to meet speedily or at all, but which have had to be met, and have severely taxed their resources and their credit.

times of political or financial distrust and apprehension, capitalists shrink from tying up their funds for any length of time, unless tempted by high returns ; and so there comes to be an accumulation of money in the hands of bankers, and an increased demand for short loans in which to invest it, and a consequent lowering of the rate of discount.

PERMANENT CAUSES INFLUENCING THE VALUE OF MONEY. —Of those causes which affect the value of money in the long run, that which transcends all others in importance is the rate of profit obtainable from trade and manufactures. On this the rate of interest for borrowed capital must ultimately depend. If capital can be employed so as to create large profits, large interest can and will be paid for the use of it; where profits are small, interest must be proportionally low. This cause operates on the *demand* for capital, and its force depends in great measure on the energy and skill which are applied to mercantile pursuits, and the more or less favourable circumstances under which these are engaged in. On the other hand, the *supply* of loanable capital must depend, first, on the wealth of a people ; secondly, on the proportion in which they save and accumulate their wealth ; and thirdly, on the extent to which they are disposed to use their savings directly, or to lend them to others. Where there are many capitalists who do not care to use their money themselves, but are satisfied with the smaller and more easily obtained profits of lending it, the rate of interest will be comparatively low. It is not the absolute amount of capital, but the supply of loanable capital which affects the value of it.

INTEREST DURING LAST FORTY YEARS.—We may here stop to inquire what, under such influences, has been the value of money in this country up to the present time ; for although the past is not an absolute criterion for the future, it affords at least a basis on which to found an estimate. It will be useless for our present purpose to go back beyond a period of forty years. Starting from the year 1825 we escape the influences of the great war, and of the suspension and the resumption of cash payments, the effects of which must up to that period have operated on the money market to disturb its natural tendencies.

In this country the borrowers of money who are able to give the best and most approved security are the Government, the landowners, and the highest rank of bankers and merchants. The price paid by them for the loan of money—or, in other words, the return that can be had for money lent to them—is best represented by the price of consols, by the current rates of interest on first-class mortgages of land, and by the minimum rates of discount at the Bank of England. I find that during the forty years 1825-1864 the average return yielded by an investment in consols has been at the rate of £3 : 5 : 8 per cent ; by first-class mortgages on land, £3 : 19 : 6 ; and by discounting first-class mercantile bills, £4 : 3 : 4. It will be observed how closely the latter two rates agree. It would not be difficult to explain why government securities have yielded so much lower a rate of return, but it is unnecessary to enter on that subject.

It may be interesting to trace the fluctuations from year to year in the rates of interest yielded by these different forms of investment,* but it is sufficient at present to observe, with reference to consols and mortgages on land, that the limits of fluctuation have been comparatively narrow. The highest return that could have been secured by an investment in consols during the period in question was £3 : 17 : 11 per cent (in March 1831) ; and the lowest £2 : 19 : 1 (in December 1844 and November 1853) ; while mortgages in Scotland have never yielded less than 3½ nor more than 5 per cent. The rate of

* See Appendix, Note C, page 47.

discount has oscillated so much as between two and ten per cent, but if the average rates for periods of years be taken, it will appear that discount, as well as interest on mortgages and the return from consols, has exhibited some considerable degree of steadiness. Thus, taking four periods of ten years each, the average results are as follow :—

Years.	Return from Consols.			Interest on Mortgages.			Minimum rate of Discount.		
1825-34	£3	9	8	£4	3	3	£4	3	1
1835-44	3	5	0	3	16	0	4	8	9
1845-54	3	3	8	3	19	0	3	8	6
1855-64	3	4	5	3	19	8	4	13	1

The figures for the last of the periods differ but slightly from the average results of the whole forty years. The return from consols appears to have diminished a little, while the rate of discount would seem to have increased.

There is no trace in these figures of any great effect having been produced by the abolition of the usury laws. These were first attacked by Parliament in 1839, and were completely done away with in 1854; but their influence, while it may possibly have kept down the rate of discount during the earlier years of the period, had no effect of course on the price of consols, and little if any on first-class mortgages. It was securities of an inferior sort which they affected injuriously.

It only remains to add, with reference to the past, that the rates here given were those yielded by the first and choicest investments of their respective classes. It may be assumed that securities of a second order, almost equally safe, though for various reasons not so coveted, yielded from one-half to one per cent more.

Influences of Recent Origin.—In turning from the past to the future, I will refer to some causes of comparatively recent origin which are fitted powerfully to influence the value of money :—

1st. There has been a rapid and vast development of the trade of this country, and in some degree also of other countries, following the gold discoveries in America and Australia, and still more perhaps the abandonment of fiscal restrictions and increased facilities for communication and transport. This growth of trade has created an increased demand for capital, and the profits have afforded the means of paying for it.

2d. A like effect has been produced by increased intercourse with foreign nations, and other social and political causes, which have led to the employment of British capital in public works and in promoting commercial enterprise in other countries.

3d. The facilities given by recent legislation for the direct employment of capital by means of joint-stock companies, with limited or unlimited liability, have a tendency to diminish the relative quantity of loanable capital, and to increase its value.* A further step in the same direction was taken very recently in the new law of limited liability in private partnerships, but its effects have not yet had time to exhibit themselves.

Against these causes tending to increase the value of money only two occur to me as having an opposite influence.

1st. The increased machinery for collecting loanable capital by means of banks, financial and insurance companies, etc.

2d. The growth of wealth, which has increased the absolute quantity of capital, and the growth of luxury, which is always adding to the number of persons who lend rather than trade with their money.

Effects of Extended Intercourse.—What will be the precise effects of these various causes—how far each of them will increase or diminish the value of loanable capital, and how far they will tend to balance each other—

* See Appendix, Note B—"Limited Liability" and the Value of Money.

are questions on which it would be rash to dogmatise. It may reasonably be presumed, I think, that as there is at present a great difference in the returns from similar sorts of investments in different parts of the world, and as there is a marked tendency towards wider and more extended views and dealings, there will be a gradual approximation in rates of interest, and that consequently the lower rates prevalent in this country—as compared, for example, with our own colonies—will not be seriously reduced, but will rather tend upwards until they become the rates of all other peaceful, industrious, and faith-observing countries throughout the world.

Effects of Expanding Trade.—And as on the whole it is the profits of trade that determine the rate of interest, we may inquire for a moment into the likelihood of our trade continuing to develope itself profitably. We have always been proud of the extent of our trade, but it turns out now that it would have been rash to have pronounced, twenty years ago, that, large as it then was thought to be, it had reached its limits. It would be equally rash to say so now. On the contrary, there are many reasons for supposing that our trade will yet undergo a vast development. Every day is adding to the means and cheapening the cost of transport, while foreign nations and our own colonies are becoming more able and willing to deal with us; and there is ample room for more extended dealings. The value of the produce and manufactures of the United Kingdom exported last year (1864) was £160,000,000. This extensive trade had already increased with great rapidity, being double what it was twelve years ago, and more than four times what it was forty years ago. Now, assuming the population of the world to be about thirteen hundred millions—a high estimate perhaps—we sell yearly on an average half-a-crown's worth of our own productions to every man, woman, and child on the face of the globe. But if the whole world were to become as good customers to us as some parts of it are, see what effect would be produced. If the scale of dealing were what that of France is at present, our exports would at once be doubled in value; if that of the United States, they would be increased four-fold; if that of our North American provinces, twelve-fold; and if that of Australia and New Zealand, about seventy-fold. Some approach in some parts of the world to these scales of trading it is surely not too sanguine to anticipate. With a growing foreign trade, our home trade would have a corresponding growth, for the profits of the one stimulate the other, and create especially an increasing demand for the products of that great manufacture which is carried on by the owners and occupiers of land. The development of trade necessarily presupposes its profitableness; and if trade be profitable and increasing, it requires increasing capital, and will afford good rates of return for borrowed capital. The probabilities therefore seem to be that for a long time to come the rate of interest in this country will tend rather to rise than to fall. At the same time it must be kept in view, that many of the causes which at the present time are influencing largely, one way or other, the value of capital, could not have been anticipated a few years ago, and they who wish to walk surely will try to leave room for contingencies now unlooked for. But there seems fair reason for hoping, though not perhaps for reckoning as a certainty, that those who are interested in the success of assurance offices, whether as shareholders looking for dividends, or policyholders looking for "bonus," if they have based their calculations on a moderate rate of interest, will find in the coming years a fruitful source of profit in the realisation of higher rates.

Mortgages on Land.—A very large amount—possibly a large proportion—of the funds belonging to assurance offices is lent out on the security of land, and it will be proper to notice one or two considerations which apply to this particular form of investment. The rule that interest is a portion of the profits realised by the use of the capital, and necessarily at a lower rate in the long run than these profits, appears scarcely applicable to loans upon land; for the interest on mortgages is often—indeed generally—higher in this country than the returns that can be procured from the purchase of the land. This arises from two circumstances—first, that part of the price paid for land is paid for the enjoyment and consideration which attach to its ownership independent of pecuniary gain, and which are not shared, of course, by the mortgagee; and secondly, that the price is often increased by the anticipation of higher returns being obtainable at some future time.

It is extremely difficult to form an opinion as to whether the rate of interest on land-securities will be higher or lower in future than it has been. Apart from those considerations which affect the value of money generally, it is to be kept in view, on the one hand, that land will always be attractive to a large class of persons, whether as a purchase or a security, owing to the air of reality and tangibleness there is about it, which enables even the most simple and the most suspicious to appreciate its value; that the growth of wealth will add to the number of persons who prefer such securities, at whatever reduction of interest, to anything that has the slightest appearance of risk or uncertainty; and that increasing facilities for the transfer and mortgaging of land will probably increase the number of transactions relating to it. On the other hand, the diffusion of information, and consequent removal of prejudices, are inducing many who have hitherto clung to this sort of investment to prefer others equally safe and more profitable, and the powers of trustees are being enlarged to enable them to employ, in various other ways, the funds under their care, hitherto almost exclusively devoted to mortgages. Insurance companies in particular are undoubtedly directing their attention, far more than they did at one time, to other descriptions of securities, and it is possible that the withdrawal on their part of even a few hundred thousand pounds from this particular market may sensibly affect the rate of interest.

With regard to the value of land itself, which enters somewhat into the question, there can be little doubt of its tendency to increase. The quantity of land in these islands is necessarily limited, while there is no limitation to the growth of wealth and population. The possession of land will always be coveted for a variety of reasons, and as the number of persons increases who have the wish and the power to buy it, while the land itself admits of no extension, its price will naturally rise, independent of whether it yields a larger produce. But we may expect that its produce also will increase both in quantity and value. We have certainly not yet reached the limits of improvement in cultivation, and notwithstanding the great progress made of late years, we may still be only at the beginning of what is possible from the application of mechanics and chemistry. Then it is probable that the increase in the quantity of produce will never keep pace with the growing demand for it; so that the money value of it will become continually greater. The development of an industrious population is yearly adding fresh myriads to the consumers of bread and meat and dairy produce, while increasing wages are rendering them better customers for these last-mentioned luxuries. The landowners of this country may have to compete with the foreign corn-grower, but even in this they have the advantage of having the finest markets in the world just at their door; and as regards much of what the land is capable of producing they have the field almost entirely to themselves.

The interest to be paid on a mortgage in England and Ireland is usually fixed at the outset for a term of years, and is not often, I believe, altered afterwards. In Scotland the ordinary custom hitherto has been to leave the rate to be adjusted from half-year to half-year; but as that might lead to constant discussion and differences, if each couple of borrower and lender were every half-year to decide the matter for themselves, it has been long the common practice to follow, as regards rate, the example of two or three public bodies in Edinburgh, whose representatives are supposed to be well acquainted with the state of the mortgage market, and to be impartial arbiters between borrowers and lenders. The practice on the whole has worked well and smoothly, though the results have sometimes been thought rather too favourable towards the owners of land. It has received the testimony of very general acceptance for a long period of years, and has undoubtedly relieved persons conducting such transactions throughout the country of much perplexity and trouble. There are signs, however, that the custom of special agreements for terms of years is coming more into use in Scotland; and the directors of insurance companies, in particular, hold themselves free to arrange these matters with their debtors, without reference to any central authority.

Minimum Interest to be reckoned on.—Before leaving the question of rates of interest, I must observe that there is one rate of return for money, and only one, that appears as if in this country it had some fixity of tenure, and that is *three* per cent. This is the rate which may be obtained by purchasing consols at par; and so long as consols may be bought at or under par, there is no difficulty in earning a minimum rate of three per cent, and with the best possible security. As consols may be redeemed at par, there is little chance of the price ever going much above it; nor is it likely, looking to the amount of our national debt, that any attempt to redeem it and to substitute for it a stock bearing a lower rate of dividend will succeed. This was tried some years ago and failed,* and it is scarcely possible to imagine its ever being successful. To reckon, therefore, on earning three per cent may be held absolutely safe. The assumption of any higher rate must be defended on other grounds.

INSURANCE OFFICE INVESTMENTS.

One special and most important class of considerations remains to be briefly adverted to as bearing on the prospects of insurance offices respecting the probable return from their investments. I refer to the principles that guide them in the laying out of their funds. On this subject I cannot express with sufficient force the importance I attach to the principle that the first and master consideration ought to be SAFETY—absolute safety as far as human arrangements can secure it. It is for other institutions to trade or to speculate with their funds; it is for insurance offices to *invest* theirs: the very essence of some forms of business is to run risk in order to make gain; ours, so far as the funds are concerned, is to make the capital of them sure. Other considerations than safety are not unapt to intrude themselves. It is tempting to get a high rate of interest; it is still more tempting sometimes to make investments the means of extending life assurance business. If these can be combined with safety it is well; all I plead for is, that safety should be secured in the first instance.

There are circumstances, however, which make it possible for insurance offices to earn more than the minimum rates of interest current at any time without sacrificing security.† The chief of these is, that there is no need for the greater portion

* The failure arose partly from the approach of the war with Russia having brought down the price of consols. But this only suggests one reason why the chance of such an operation ever succeeding may be regarded as very improbable. When all the preparations are made for it, a slight cloud in the political horizon may render them useless.

† In the Office with which the writer is connected the average rates of

of their funds being instantly available. When we wish to have our money not only safe but readily at our command, we must sacrifice a measure of the return that might otherwise be obtained for it. A bank whose deposits may be withdrawn with little or no notice requires to have a very considerable proportion of its funds so invested that it can lay its hands on them at once. But the obligations of an insurance company do not become payable according to the will of the holders, and though the rate of mortality is an uncertain element, its uncertainty is within moderate limits. Except in the case of a very old institution whose new business is small, the income of a life office will usually more than meet all its outgoings; and although even in these circumstances it is desirable to have some funds so laid out that they can be speedily realised, the far greater part of a society's assets may be tied up even for long periods of years, if that will obtain for them, as it often will, a higher rate of interest. Further, as its other receipts—from premiums, interest, etc.—come in in small sums from day to day, it is no inconvenience, as it would be to most lenders, to take repayment of its loans in this fashion also. It is plain that money may be as perfectly secured under these conditions as under any other. The Long Annuities when they existed were as safe as consols, though not so convenient for most holders; and a loan over land, repayable during the owner's lifetime or during a fixed period of years, may be as secure as if it could be called up on three months' notice. A higher rate of interest usually attends such transactions, and they are particularly well adapted for insurance offices.

A large number of persons whose money goes to make up

interest earned overhead during twenty years (without any loss of capital) have been as follows :—

Five years, May 1845 to May 1850	. . .	£4	8	10
,, ,, 1850 ,, 1855	. . .	4	12	6
,, ,, 1855 ,, 1860	. . .	4	8	2
,, ,, 1860 ,, 1865	. . .	4	13	2

the loanable capital of the country are not in a position to avail themselves of those securities which combine thorough safety with a comparatively high return. They are trustees, perhaps, whose duties do not call on or even permit them to accept other than the simplest and most available forms of security; or they are ladies or other persons unfamiliar with business, who require not merely safety, but manifest and unmistakable safety. Such persons, if in England, do not like to lend in Scotland or Ireland, or even much beyond their own county; if in Scotland, they have an equal distrust of the very best securities to be had elsewhere. Very intelligent persons on this side the Border will scruple to accept of English mortgages, because the system of titles to land in England happens to be unfamiliar to them, although they would, of course, have the same security in that respect that every landowner there has for his estates, and every mortgagee for his loans. The conductors of insurance offices are more favourably situated. The knowledge and experience that are brought to bear on each investment by directors, officers, and solicitors, and the advantage of united counsels, enable them, while still feeling the responsibility of trustees, to enter into transactions of whose safety they are satisfied, but which would not suit other capitalists, and which on that account must pay, in spite of their safety, a higher rate of interest. These offices occupy, in fact, a middle place between those capitalists who will not only run no risk, but who will take no trouble and apply no skill in the investment of their funds, and those who do use skill and trouble, but are willing to run some risk also.

I believe, on the whole, that the investments of most insurance offices in this kingdom are made with a degree of prudence, skill, honesty, and success which cannot be exceeded. That mistakes have been made and losses incurred is more than probable; but I think it likely that in many instances the error, if any, has been to aim at too great a simplicity, and consequently to sacrifice profits which might otherwise have been legitimately earned. It must be kept in view that the sort of investments I have been referring to as peculiarly fitted for assurance offices, because they combine good security with a more than minimum return, are mostly of a kind not admitting of indefinite extension; while the offices are ever demanding fresh means of laying out their accumulating funds. Up to the present time, however, there has been no difficulty in finding advantageous investments to any extent requisite.

In reviewing the considerations which ought to guide us in determining the rate of interest to be assumed in our calculations, I hope I shall be pardoned for referring, in conclusion, to some that do not address themselves exclusively to our intelligence. Ethical laws operate largely in every department of business, and their operation would be more conspicuous if it were not happily the case in this country that in the great majority of instances they operate instinctively, and as matter of course, without calling for distinct recognition on the part of those who obey them. But it is well to recognise them sometimes in a definite form.

Every profession and occupation has its own snares and temptations, known to the members themselves, and often indeed to all the world. Those of the lawyer, the physician, and the minister of religion have been from time immemorial the subject of popular and not always friendly comment. Our temptations as actuaries are peculiar, are scarcely recognised by the public or even by ourselves, and are often of that subtle character which demands peculiar watchfulness on our own part. Our business relates to transactions of which the real end and issue may not be apparent for a great number of years to come. The soundness of our advice may not be fully proved or disproved till we ourselves are beyond the reach of human criticism. Those tests which may be applied in the meantime are scarcely intelligible to more than a few persons, and these are either our friends or our rivals, or both, and their dissent appears to ourselves and others merely a difference of opinion, and very far from being conclusive as to which of us is in the wrong. So situated as regards ordinary restraints, we enjoy, I must say, a very large degree of confidence, and on the whole I hope not undeservedly. What if in connection with our present subject we should find that by taking views of the future just a little more sanguine than our reason justifies, and by winking hard at risks which we yet cannot altogether avoid seeing, we may add largely to the transactions in which we are dealing, give an aspect of peculiar prosperity to the institutions we are connected with, and so earn for ourselves an increased measure of professional distinction and emolument? Or on the other hand may we not be tempted into the indulgence of timidity and want of enterprise, and of a stubborn adherence to narrow and ill-informed opinions? Let us watch and pray against all such errors. In this, as in every department of science or of practical life, knowledge and judgment are not more required than singleness of aim, whether for ultimate success or for present comfort.

APPENDIX.

NOTE A (Page 20).

CURRENCY THEORIES AND THE VALUE OF MONEY.

Some of the currency theories still much in vogue have a direct bearing on the question of the future interest of money, and it may be worth while to notice them very shortly, and yet more fully than in the text. According to these theories, the high rates of interest that have occasionally prevailed—during the last two years for example—are caused by the undue restrictions on the issue of bank-notes, and consequently, if these views are correct, the removal of restrictions would secure cheaper money in time to come.

The restrictions in question are imposed by law, but it does not follow that, in the absence of law, they might not be self-imposed by the prudence of bankers. There are three aspects of the question therefore—those, namely, which it presents to government, to bankers, and to the public at large.

A bank-note, whatever its form, is expressly or by implication a promise to pay. It might be simply a certificate of indebtedness, but it certainly involves the notion of payment, and of payment on demand. But payment of what? Not of another bank-note or another person's obligation.* One thing only can satisfy the require-

* "To leave this metropolis," said Mr. Micawber, "and my friend Mr. Thomas Traddles, without acquitting myself of the pecuniary part of this obligation, would weigh upon my mind to an insupportable extent. I have, therefore, prepared for my friend Mr. Thomas Traddles, and I now hold in my hand, a document, which accomplishes the desired object. I beg to hand to my friend Mr. Thomas Traddles my I.O.U. for forty-one, ten, eleven and a half, and I am happy to recover my moral dignity, and to know that I can once more walk erect before my fellow-man!" With this introduction (which greatly affected him), Mr. Micawber placed his I.O.U. in the hands of Traddles, and said he wished him well in every relation of life. I am persuaded not only that this was quite the same to Mr. Micawber as paying the money, but

ments of the case in this country—namely, gold. No doubt there are in use in the mercantile world promises to pay other things than gold; there are warrants or similar documents, which are virtually promises to pay iron, sugar, indigo, or other materials; but these, though they may pass from hand to hand among a limited number of persons, can never be generally *current*, and as the special use of a bank-note is to form "currency," to be capable of free circulation and universal acceptance all over the country, and among all classes, gold is the only material which it can engage for, so as to secure this end.

The law imposes no restraint on the issuing of promises to pay not intended to be *current*, if only they are issued in good faith. Any man may grant any number of promissory-notes at a few days' date, or any number of bonds that he can get other people to accept at his hands; and even bankers are altogether unrestricted as to the granting of receipts for money deposited "at call," although these are virtually engagements to make payment in gold whenever the money is demanded. The only difference between a bank-note for £5 and a deposit-receipt for the like amount is, that the former is intended to circulate freely to form a portion of the *currency*. This free circulation is a matter in which the banker who issues the note, and the public who take it from him, and the government as the representative of the public, are equally interested. No man will hold bank-notes rather than gold, unless he feels sure that when he offers them in payment for what he wishes to buy they will be freely taken, without being scanned—except to test their genuineness—and without some being refused while others perhaps are accepted. ', to be sure, there is no gold to be had, people must have recourse any circulating medium that can be generally agreed upon, and ay use brass carpet-rods, as they do on the west coast of Africa, or

that Traddles himself hardly knew the difference until he had had time to think about it.—*David Copperfield.*

Not a few writers even of the present day seem, like Mr. Micawber and Mr. Traddles, scarcely to appreciate the difference between issuing a "promise to pay," and the fulfilling of the promise. The effect of this confusion of ideas may be illustrated by a further quotation from the same chronicle.

"As to originating a banking-business," continued Mrs. Micawber, "I may know that there are members of my family who, if they chose to place their money in Mr. Micawber's hands, might found an establishment of that description. But if they did *not* choose to place their money in Mr. Micawber's hands—which they don't—what is the use of that?"

inconvertible notes, as they do in Austria, and once did in England, and have been doing lately in America. It is plain, however, that so long as gold is to be had, no one will take a bank-note rather than gold, unless he feels pretty sure that he can convert his note into gold when he pleases, and that other persons will take it from him as readily as they would take gold.

Every banker, therefore, who issues notes has a material interest to persuade the public that his notes will be exchanged for gold whenever they please. Moreover, if he values his own solvency, he is deeply interested in being able so to exchange them.

Bankers, then, and the public are equally concerned that there shall be a reserve of gold somewhere, to be exchanged for such bank-notes as the holders may wish to convert into gold; and they are alike interested in the question of how that may be secured. Government and the legislature are further interested in the question, owing to their having made Bank of England notes a legal tender. This has been done for the convenience of the public, not for the benefit of the bank; but it throws on the law an additional responsibility for the convertibility of those notes which it thus compels every person in England to accept as a substitute for gold. But that bank-notes should be freely convertible into gold is necessary to their currency alongside of gold, quite irrespective of their being a legal tender.

Neither the law nor the practice of bankers secures this absolutely; far from it. The law requires, and bankers would probably see to it, even if there were no law on the subject, that a bank issuing notes shall hold a certain proportion of gold in respect of the notes it issues. The form which this safeguard takes, in virtue of the existing law, is, that notes may be issued to a certain definite extent irrespective of the possession of gold by the bank, and that beyond that extent every note issued (so far as further issues are allowed) shall be represented by an equivalent in gold in the bank's coffers. The gold, therefore, which is held as a reserve to meet notes is not nearly equal to the amount of the notes, and what is of more importance, perhaps, it is not specially hypothecated to the holders of the notes; so that if a bank were to fail, the gold in its possession would be divisible among the depositors and other creditors as well as among the holders of its notes. Indeed, these last, if the gold were their only dependence, might, under the existing circumstances of most banks, whose deposits are so greatly in excess of their issues, receive a very small share of it.

But though the security which the law aims at is not an absolute one, it does operate to a certain extent, more perhaps indirectly than directly; and the question is, whether the legal restraints could be safely withdrawn or relaxed.

As regards relaxation, the question is obviously one of degree. No one can pretend to say that the existing limitations, which have been determined in a somewhat hap-hazard way, have hit the precise line which separates safety from hazard. But the adjustment of the line will appear a very secondary question the more the true principles involved are considered.

It is not my purpose here to follow out the arguments for or against the repeal of the Bank Acts, and I will only express the belief—indicated sufficiently, perhaps, by what has gone before—that the repeal would make little or no difference in the practice of prudent bankers, who would be still restrained by their own self-interest and honour from issuing promises to pay gold to a larger extent than they felt sure of being able to fulfil. A change in the law might no doubt allow a different class of persons to issue notes which had less chance of being convertible into gold, and to issue them to any extent they thought fit, and the public would be placed at the disadvantage of having to scrutinise every parcel of notes, and accept or reject as they thought them well or ill secured. An absence of all restrictions, if it should be freely taken advantage of, would probably lead ultimately to an inconvertible, and therefore a depreciated paper currency, to the disappearance of gold and silver from general circulation, to a disturbance of prices, and to an exaggeration of the alternate phenomena of inflation and collapse.

But the object of the present note is to indicate the effects of an extended issue of bank-notes on the value of loanable capital, or, in other words, on the interest of money. There are times, of course, when the present supply is admitted to be more than sufficient. It is when the demands of currency exceed the supply, and money is consequently growing dearer, that the question arises, whether the issuing of more notes is the way to keep it cheap. Now, the additional notes that are called for may be issued either with or without a backing of gold. That is, the banker who issues them either may or may not have enough of gold at his command to ensure his being able to pay them in gold if he is required to do so. Let us suppose, in the first place, that the banker will not issue, nor the public care to take, a note, unless there is at least a reasonably good chance of its being convertible into gold on demand; then it is plain that the extent of issue must depend on the quantity of gold that is available. In a rising money-market, that will depend on the current rate of interest. If interest is low, then gold will naturally find its way to foreign countries, where the loan of it will command a better rate of interest; if interest rises, then gold finds its way, on the contrary, into this country, in order to be lent at the higher rates. To increase, therefore, the supply of notes that shall be thoroughly convertible, it is necessary to retain in the country the gold that is already here, and to attract more gold into the country by paying higher interest for the use of it; consequently, that very increase in the rate of interest which is complained of is the direct means of increasing the quantity of available currency. On the other hand, the keeping down of the rate of interest, while there is an increasing demand for money, produces the opposite effect of lessening the supply. In short, if notes are to be convertible into gold, the quantity of notes must always depend on the quantity of gold (whatever may be held to be the safe and proper proportion between the two), and the quantity of gold will depend on the ordinary laws of supply and demand in the markets of the world. These consequences are inevitable, and are quite irrespective of bank-charter acts and all merely legal restrictions. They are governed by economic laws which admit of no repeal.

But if the required supply of notes is issued without reference to the prospects their holders may have of being able to convert them into gold, they become practically inconvertible. That is, if the holder has no hope or chance of getting gold in exchange for them, they are absolutely inconvertible, and they approach that condition in proportion as the hope or chance diminishes.

An inconvertible paper currency is no novelty in the world, and the laws that govern it have often been illustrated by experience. One general fact is all that need be referred to in the present connection, and that is, that it is accompanied by high rates of interest for borrowed capital. Two reasons may be given for this. The first is, that when inconvertible paper takes the place of gold, it necessarily becomes less valuable than gold (otherwise the two would exist side by side and be mutually interchangeable, which, by the supposition is not the case), and being less valuable—being, as it is termed, a depreciated currency—a larger quantity of it is needed to supply the same uses, and the more that is needed, the higher the interest that must be paid for it. The other reason is, that the issuing or paying away of an inconvertible note in exchange for commodities is, in fact, a borrowing by the banker, or by the customer to whom he may have lent the note, of so much capital; and consequently, the increase of notes issued is an increase in the *demand* for capital, instead of being, as generally supposed, an increase of the supply, and tends, therefore, to raise instead of to lower the price of capital.

It seems plain, therefore, that an increased issue of bank-notes, whether convertible or inconvertible into gold, will not diminish, in the long run, the value of loanable capital.

Looking at the question from this point of view, it is unnecessary to consider whether there would be any advantage in having notes (whether convertible or inconvertible) issued directly by Government, instead of by Banks under the sanction and control of the Law. The same economic laws would assert themselves in the one case as in the other. Under the present system, the operation of these inevitable laws is watched from day to day, by bodies who have the strongest pecuniary interest in obeying them, in lowering the price of money when it is becoming more plentiful, and raising the price as it grows scarce, and so adjusting the relations of supply and demand, not arbitrarily (for that no one can do for any length of time), but in accordance with economic law. In the hands of Government the issues would require to be regulated by some strict system, which might or might not be in conformity with sound principle; or they would be left to the discretion of some Department, exposed to all the dangers of political influence and popular clamour.

NOTE B (Page 28).

"LIMITED LIABILITY" AND THE VALUE OF MONEY.

There can be no doubt that among the causes which have produced "dear money" during the last two years, none has had greater influence than the creation of joint-stock companies with limited liability. It is worth while, therefore, to look at this particular phenomenon with a view to seeing what has been the working of it, and how far its effects on the money market are likely to be permanent.

The creation of joint-stock companies comes upon this country in periodic fits. One of these fits has recently been developed, partly by the cheapness of money in 1862, and partly by the operation of the act passed in that year introducing the principle of limited liability. It is very doubtful, however, whether this principle has done more than apply a stimulus to a phenomenon whose recurrence was just about due. This may be inferred from the circumstance, that although much has been said about limited liability, comparatively little use has been actually made of it. No doubt a large proportion of the companies formed have professed the principle, and added the word "limited" to their titles, but in very many of these cases the principle itself has been lost sight of. If the limitation of their liability had been the real motive with the persons who subscribed or bought shares in these undertakings, it is reasonable to suppose that it would either have been absolute, or that, if further liability had been incurred at all, it would have borne some proportion to the amount actually invested. It is notorious, however, that in a great many cases persons have paid £5 or £10 per share in such companies, and rendered themselves liable to pay £45 or £90 per share besides; and that too often without much regard to their ability to meet these liabilities. Some, of course, who have invested £1000 in a limited company, knowing that they may—but hoping that they may not—be called on to pay £9000 more, have felt that such a call, however unpleasant, would not ruin them, and that the limit, though a wide one, would therefore be better than no limitation at all; but wherever a liability may exceed a man's whole resources, it is, so far as he is concerned, practically unlimited, and that this has not unfrequently happened is very well known. It is probable that the limited principle may be more rigidly applied in future, but it is necessary to guard against the assumption that it is this which has led to the establishment of so many companies, else we may jump to the erroneous conclusion that we have not been passing through one of our usual fits, but have come to the beginning of a new and continuous phase of commercial enterprise.

There has been another principle at work lately, of which limited liability has been merely an engine, as to which one or two observations may be hazarded. It may be termed, for want of a better name, "the principle of magnitude." In all departments of business there has been a rage for largeness of operation. In those branches which are already mostly the domain of joint-stock companies—railways, banking, insurance, etc.—this has led to amalgamations of one undertaking with another, until, in not a few cases, one large concern has swallowed up a dozen different companies, some of them by no means of contemptible size. Businesses that have hitherto been conducted by individuals or private partnerships have shown a strong tendency to develope into joint-stock companies. The capital and the power of management at the command of individuals have proved too small for their ambition, or perhaps for the natural development of their particular trade or manufacture; and a joint-stock company has furnished the means of extension. It has been a common saying lately, that the day was gone by for businesses of moderate dimensions, and that nothing would now succeed but what was on a great scale. But this does not seem quite so certain.

The idea has, of course, a basis of truth. If a business, by being doubled in extent, can be made to yield double the profits it did before, or even any increase of profits on the same capital, there is a great inducement to double it if possible. Many concerns, both joint-stock and private, could be profitably extended; and there are other advantages sometimes to be had from amalgamations, such as the extinction of rivalry, and in the case of railways the management of continuous lines on a common system.

But it is questionable whether this desire for size may not be carried too far. Many persons are coming to be of opinion, enlightened, no doubt, by recent experience, that businesses which are capable of prospering in the hands of private partnerships are not fitted for the application of the joint-stock principle. It would be out of place to enlarge here on the reasons for this, but it may be said, in a word, that the very constitution of a company, with an executive controlled by a board of directors, and they again subject to the control of shareholders, necessitates a degree of deliberateness, of publicity, of costliness, of good faith on one side and confidence on the other, which are all requirements over and above what are needed for carrying on the same business successfully by private hands, and so diminish materially the chances of a like measure of success in those of a company.

When we consider, again, the case of enterprises that have long been in use to be conducted on the joint-stock plan, it is to be feared that any advantages to be derived from their vast expansion may often be more than counterbalanced by serious drawbacks. So long as a great company is under the management of one or two men thoroughly able and thoroughly honest, and especially if it have grown to greatness in their hands, these drawbacks may not be so apparent. But in general it will be found a matter of extreme difficulty to secure good management and effective control in concerns of great magnitude. Some of our largest railway companies have already furnished the public with examples of this difficulty, and it is well known that they are not the only instances of its being experienced.

There are causes always at work tending to the creation and enlargement of joint-stock companies, irrespective of the chances of profit to shareholders. But it is probable, notwithstanding, that after a little while the unfavourable results of these operations may check them considerably—for some years to come, at all events—and that consequently the average condition of the money market may not be much more influenced by the increase and growth of joint-stock companies than it has always been, even if we allow for the effects of Limited Liability.

It is more than likely, too, that such investments as consols, in spite of the low return they yield, will recover the place in public favour which many persons seem to think they have lost for ever, and that perfect security, and the advantage of being at all times convertible into cash, will again prove a match in attractiveness for higher dividends with less certainty of continuance.

Note C (Page 26).

Average Yearly Returns from Consols, Mortgages, and Discounts.

Forty years, from 1825 *to* 1864.

The following table exhibits the average return which might have been realised each year from the investment of £100 in three per cent consols, in first-class mortgages over land (in Scotland),

and in discounting first-class bankers' or merchants' bills at the mimimum rate of the Bank of England :—

Year.	Return from Consols.			Interest on Mortgages.			Minimum rate of Discount.		
1825	£3	6	6	£4	0	0	£4	0	9
1826	3	15	5	5	0	0	5	0	0
1827	3	11	0	5	0	0	4	10	0
1828	3	9	9	4	10	0	4	0	0
1829	3	7	8	4	0	0	4	0	0
1830	3	6	6	3	15	0	4	0	0
1831	3	13	10	3	17	6	4	0	0
1832	3	11	9	4	0	0	4	0	0
1833	3	8	1	4	0	0	4	0	0
1834	3	6	1	3	10	0	4	0	0
1835	3	5	9	3	10	0	4	0	0
1836	3	6	1	3	10	0	4	7	6
1837	3	5	10	4	0	0	5	0	0
1838	3	4	3	3	15	0	4	2	2
1839	3	5	2	3	15	0	5	1	8
1840	3	6	4	4	0	0	5	1	6
1841	3	7	0	4	0	0	5	0	0
1842	3	5	7	4	0	0	4	5	2
1843	3	3	0	3	15	0	4	0	0
1844	3	0	6	3	15	0	3	10	4
1845	3	0	8	3	15	0	2	13	6
1846	3	2	8	4	0	0	3	6	4
1847	3	8	0	4	10	0	5	2	9
1848	3	9	11	5	0	0	3	14	4
1849	3	4	10	4	5	0	2	18	9
1850	3	2	2	3	10	0	2	8	6
1851	3	1	10	3	10	0	3	0	0
1852	3	0	4	3	10	0	2	2	10
1853	3	1	2	3	10	0	3	15	11
1854	3	5	2	4	0	0	5	2	2
1855	3	6	4	4	0	0	4	13	4
1856	3	4	6	4	0	0	5	11	2
1857	3	5	0	4	0	0	6	13	4
1858	3	1	9	4	0	0	3	4	7
1859	3	3	2	3	17	6	2	14	8
1860	3	3	9	4	0	0	4	3	7
1861	3	5	2	4	0	0	5	4	11
1862	3	4	3	4	0	0	2	10	7
1863	3	4	5	4	0	0	4	8	4
1864	3	6	4	4	0	0	7	6	9

The averages have been struck as follows :—Under the head of consols is the average rate corresponding to the price of consols at the beginning of each month of each year ; the interest on mortgages is the rate which has been charged and paid on almost all mortgages in Scotland, under the arrangement referred to at page 32 ; the rate of discount is the average minimum of the Bank of England, taking into account the period during which the rate prevailed. In the case of mortgages the year is reckoned, according to the ordinary financial arrangements in Scotland, from 15th May of the year named to 15th May of the following year.

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THE DUTIES OF AN ACTUARY

IN HIS PROFESSIONAL RELATIONSHIPS

BEING

THE INAUGURAL ADDRESS FOR SESSION 1885-86

BY

JOHN M. M'CANDLISH, F.R.S.E.

GENERAL MANAGER AND ACTUARY OF THE SCOTTISH UNION AND NATIONAL INSURANCE COMPANY

HONORARY PRESIDENT OF THE SOCIETY

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The Duties of an Actuary.

The distinction which this Society has conferred on me by electing me its Honorary President for the year is one that is much enhanced by repetition; and I have to acknowledge with peculiar gratitude that this is the sixth occasion on which I have had the privilege of addressing you in that character. Twenty-one years ago, in the infancy of the Society, I selected for a topic "The Profession of an Actuary." On looking back, I find that since then I have brought under your notice the subjects of "Fire Insurance," of "The Future Interest of Money in connection with Life Assurance Institutions," and of "Some of the Principles to be observed in Life Office Valuations;" and I ventured on the last occasion, a few years ago, to select a wider and less technical theme, and to invite attention to a general view of the Philosophy and Ethics of Business. I propose now to recur to the topic of our Profession, and to try whether an acquaintance with it of now forty years may not offer a few suggestions, that may possibly be of service to some of you who are engaged in fitting yourselves for its highest duties.

On referring to one of the insurance publications of 1864, which reported my first Address to this Society, I find that I claimed for our calling the position of a distinct profession, and I ventured to suggest that it was for the members of this Society to secure for it the dignity of being recognised as one of "the learned professions;" but I do not appear to have raised the question, What is a "profession," and in what respect does the so-called professional man differ from men who are following other occupations? I will not attempt a definition now; but there is one characteristic of professional life to which special attention may profitably be directed. It may be a characteristic shared by one or two other occupations not usually designated as professions, but it is true, I think, of all *professions* that they call for a paramount devotion to the interests of persons other than the professional man himself. There is, indeed, no occupation or position in life which does not demand some consideration for the interests of others, and permit, at the same time, some attention to one's own: but while the manufacturer the merchant or the tradesman will neither be wise nor honest if he is altogether selfish, yet it is for his own profit and advantage that his work is primarily directed; the professional man, on the other hand, is bound to sink himself in his clients, and whether he be a divine, a medical man, a lawyer, an accountant, or an actuary, to have a paramount regard to the true interests of those who take him for their counsellor, whatever the effect may be upon his own. I do not at all sympathise with a view I have heard expressed, that a lawyer (for example) may do things for a client which he would not think it right or fair to do for himself, and it is at least questionable whether a man who will so act may not be deceiving himself as to his motives; but the more that a man can forget himself, and place himself in the position of those for whose benefit he is called on to act, the better will he fulfil the highest functions of professional life.

Now, if there is any occupation which gives peculiar scope for this characteristic, it is ours. For, while no doubt each of us desires for himself, with greater or less earnestness according to his character, to attain professional success and distinction, the affairs that occupy us are wholly, or almost wholly, those of other people. The lawyer or the doctor may be his own professional adviser, but an actuary has scarcely ever anything to do for himself in that character. It is true, indeed, that subtle elements of selfishness, and possibly of a short-sighted selfishness, will find their way even into abstract and scientific operations, and need, with all of us, to be carefully watched and guarded against. Personal ambition, jealousy, temper, and a combative spirit may affect our views, and still more our utterances, even about a table of mortality or an algebraic formula; but there is less excuse, perhaps, for us than for most other men, if we allow ourselves to be diverted from a single-minded devotion to those interests of others which are dependent on our action or advice.

Who, then, are our clients, and whose interests are we bound to regard? Let us look at what are the relations of the actuary to the different classes or bodies with whose interests his work is concerned.

First, a few words as to private practice. That chiefly takes in Scotland the form of calculations to be made for the widows' schemes of professional bodies, banks or other such establishments, for friendly societies, or for heirs of entail in possession or expectancy. These present to the actuary abundant opportunities not merely for mathematical and arithmetical skill and accuracy, but for interesting considerations of a wider kind. Confining ourselves at present to personal relationships, it will be seen that in most cases there may be, and in many there are, conflicting interests to be had in view, and that we may owe a duty to other persons besides those who immediately consult us. Thus it may be the desire of the committee or officers of a friendly society that we should, as far as possible, prophesy smooth things about it, while we cannot conceal from ourselves that the true interests of their constituents—and even of themselves, though they may be unwilling to see it—require a faithful exposure of unsound principles, or of a dangerous position. Such situations give room for the exercise of tact, integrity, and firmness. One thing seems unquestionable, that we are bound to communicate in unmistakable terms to those who consult us, our true convictions whatever they may be. We may generally leave it to them to deal with these as their sense of duty impels them, but in some cases it may be our express duty to see that there is no burking of facts or conclusions after they leave our hands, and that we do not allow ourselves to be made responsible by acquiescence for the continuance of unsound dealings. The neglect of this led to a catastrophe in the insurance world many years ago, and produced at the time a great impression on my mind. The circumstances, if I recollect them rightly, were that an English Life Office, having employed an outside actuary to make its periodical investigations, he reported on two or three successive valuations that such and such a sum was required to meet its engagements. I do not recall the exact terms of his reports; but the directors of the Office, and the secretary, who happened to be a relative of the actuary, chose to assume that the sums named by him were the full amounts they required to have in hand, and they forthwith divided as profit all they had over; whereas the opinion of the actuary, as he afterwards explained, was that the sums named by him were needed to meet the increase in the value of the company's obligations since the last inquiry, and that they ought to have in hand all they had before, and the sums named by him in addition. A correct view of the company's position was, after many years, forced on all concerned, and it was wound up with the loss of a large sum, and with deserved loss of reputation to the actuary. He tried to plead that, having presented a true report, it was not his business to see whether it was rightly understood or honestly given effect to; while the directors of course threw the blame on him of having misled them, or allowed them to deceive themselves. A first condition of all true utterance is the duty of seeing if possible that one's meaning is understood. It was obvious, in the case I refer to, that the actuary had either expressed himself so as not to be understood, or that, being understood, either he was altogether careless as to the action that might be taken on his advice, or he allowed himself to be a party by acquiescence in a disastrous perversion of his views.

A case exactly similar to the one I have described will not occur in every man's experience, but it may serve as an illustration of a principle not to be lost sight of.

The interests of an heir of entail are legitimately adverse to those of other persons having rights in the same estate, and here an actuarial adviser may, like a legal adviser, do the best he can with fairness and honesty for his own client, unless, indeed, he is made a referee, and has imposed on him judicial duties. But even in advising one's own client considerations may suggest themselves adverse to him and favourable to his competitors, of which, though we may not communicate them to others, we ought to apprise him, both that he may know the worst as well as the best of his own case, and that he may judge for himself as to any voluntary concessions to other persons interested, often his own nearest relations.

It is, however, in connection with Life Offices that, in this country actuaries find most scope for the exercise of their profession. And here I will assume, for the present, that the actuary is the principal officer of the institution he is connected with. His personal relationships in that capacity are many and varied. There are the directors, who are his immediate superiors, by whom he has probably been appointed to his post, on whose approval and confidence he possibly depends for its continuance, and in whose hands almost certainly lie the measure of his emolument, and much else on which his comfort and well-being depend. There are the other members of the office staff, with the clerks agents and other representatives, among whom he exercises more or less of authority and supervision, who will probably be largely influenced by his views and example, and whose comfort and well-being depend to some extent upon him. There are, in the case of proprietary offices, the shareholders; and in the case of all offices the policyholders. There is the public, whom practically he invites to enter into these relations with him; and lastly, there are other Offices, and their staffs, at once friends, coadjutors, and rivals. To whom, of all these, does he owe paramount allegiance? How is he to reconcile their possibly conflicting claims upon him? One thing is certain, that it is only after their claims have been considered that he is entitled to have regard to his own personal interests. His integrity he may not sacrifice to any of them.

The proper relationship between the directors and the administrative staff of any joint-stock enterprise, is one of those delicate and anomalous questions which are generally best left to be solved in practice rather than to be discussed in theory. In a business so highly technical as Life Assurance, the actuary enjoys the special advantage, or labours under the special disadvantage, that few outside of his own profession, even if they have the right to control him, will seriously dispute his conclusions. But a prudent man will not be ambitious of unrestricted authority, and will prefer to share as much as possible with those about him—his directors and his fellow-officials—the cares and responsibilities of his position. There may be no one in the directorate of an Office who would undertake to frame tables of rates for it, or to value its liabilities; but all the members will be capable of following, for the time at least, a lucid explanation of the principles and methods involved in these operations. The less of mystery there is in these things, the more they are looked at by the actuary himself in the light of common sense, and from the points of view of ordinary men of business, as well as being the subjects of scientific and accurate inquiry, the safer will be the results and the fuller will be the confidence which he will inspire. He will often have occasion to discover and acknowledge that he owes to lay criticism the correction of errors and the suggestion of new and valuable ideas.

Much more will the actuary be indebted in these respects to his coadjutors, his subordinates perhaps in the official hierarchy, his equals it may be, and possibly his superiors, in skill and knowledge. In them he will have his most competent and it may be hoped his most indulgent critics, and he will do well to share with them the burden of whatever influence his position may confer. He will hear Wisdom saying to him, "This thing is too heavy for thee; thou art not able to perform it thyself alone," and will do his best by action, by counsel, and by forbearance to secure that the Office staff, of which he is a part, shall be a corporate unit, to which each of the members will contribute his own special powers and characteristics, and in which each will find room for full development.

It may be permitted to one who has for so many years had the burden of managing an Office, to say that, of the responsibilities that weigh on the spirit of a man in such a position, there is none he feels more strongly than what he owes to his fellow-employés. It is possible to exaggerate the influence wielded in such circumstances, but that will be safer than to under-rate it. In so far as the general success of an Office depends on its chief official—and it cannot fail to depend on him in some large measure in that degree does he become answerable for the advancement in tion and emolument, and for the comfort and satisfaction of who work with him. On him depends ultimately to a large ent the discrimination of individual merit and fitness, which ught to regulate the distribution of work and the order of promotion. The general discipline of the Office, administered indirectly perhaps through various channels, must proceed from him as a centre. Each individual in an Office will affect by his speech and example the life and well-doing of the rest; but the justice or unfairness of the chief, his firmness or laxity, his care or his carelessness, his kindness or his severity, will probably have the largest influence on the general character of the establishment. Nor can his personal example and character fail to have their due effects. All this may not be very perceptible; and the inevitable pressure of other duties may obscure the personal relationships which exist between the actuary and his fellow-workers, but they are not the less real, nor the less profoundly felt, on one side at all events, all the more profoundly, perhaps, when they suggest a humbling sense of error and shortcoming.

In considering the connection between shareholders and policy-holders on the one side, and the staff of an Office on the other, there is a tendency on both sides to look at the Office as an abstraction, or as an entity distinct from the persons whom it represents. In many respects it is convenient and necessary to look at an association, as the law itself often does, as a separate person, having its individual rights and duties. But when its interests are supposed to be antagonistic to those of any of the persons of whom it is composed, further consideration makes it plain that these interests must be identical with those of the members as a whole, and that any apparent antagonism must be between one member and all the rest, or between one class or group of members and another. This, however, is often overlooked. From within, we are apt to guard the interests of the corporation as if they could be separated from those of the members; from without, the world is apt to take for granted that this will be done. It is for the actuary to aim at more just conclusions.

Let us look at some of the antagonisms which arise. The persons assured in any Office, whether mutual or proprietary, have large common interests; most of them share in its so-called profits, and all are concerned in its solvency. Each individual is entitled to see that he enters the copartnery on fair and equal terms, having regard to his age, and the other circumstances such as health residence and occupation, which affect his chances of longevity, and to the contingencies against which he assures. This individual right which is possessed by every member, carries with it the corresponding right to insist that no other person shall enter on more favourable terms, for this can only be done at his expense. The man who secures entrance on the pretence of being of sound health and temperate habits, when he is otherwise, commits a sin, not against the institution in the abstract, but against each of the other members individually. Each honest contributor has a right to resent the intrusion of such a co-partner, and by himself, or through the corporate body as his representative, to defeat if he can this unfair attempt. The loss which each person will sustain through such an attempt being successful may be so small, that it may be most for his interest to pass it by rather than incur the risk of further loss in resistance; but that will only happen when such attempts are few and for comparatively small amounts. It is obvious that ten healthy and sober men will not subscribe to a common fund along with ten unhealthy and intemperate men upon equal terms; and that men ought therefore to shun rather than to court those Offices, if there are any, which admit new assurers with laxity, and treat falsehood and fraud with indulgence and misplaced liberality.

These considerations assume that the conditions as to health on which each man enters must be known to himself though they may be concealed from others. But it would be possible to put the contract of assurance on a more restricted basis, and to make it a condition that each person is to be *de facto* in good health, whether at the time of entrance he knows it or not. Such a condition, which is in fact the strictly legal condition of almost all life policies so far as their terms go, has sometimes been scouted as monstrous and unreasonable. No one would say so if the contract were one between two individual men, and were clearly understood on both sides. It would not be unreasonable for me and another man of equal age to contribute equal sums to a common fund by way of assurance, on the condition that if either of us were found to have had at the time any defect in our health, known or unknown, the contract was not to hold good. In life assurance as a practical business, the difficulty and uncertainty of ascertaining what was a man's state of health one or more years ago, or even one or more months ago, when he effected an assurance, and of overcoming the probabilities in favour of his unimpaired health, which arise from his having passed successfully through a medical examination and other inquiries, make an insistence on this condition as rare as it is unpopular. But the courts of law have upheld the condition that, according to the ordinary contract, a man warrants himself to be in good health absolutely, and not merely to the best of his knowledge and belief.

The chief consideration, however, against an insistence on this condition is, that each individual member runs the same risk of being ignorant of some fact about his own health—such as a dangerous condition of the heart or some other organ—which, if known, would render his life uninsurable, and that he may wisely and reasonably forego the power of defeating the expectations of other men in such circumstances, in order to secure that his own shall not be defeated. The actuary, therefore, on whose advice such transactions will probably be adjusted, will take for his guide the principle that what is to be aimed at is substantial equality as between one entrant and another, and that inequalities which are unknown on both sides are practically equalities. This, however, does not quite settle the question, whether the condition of an absolute warranty of health ought to be abolished, and the contract be made assailable on no other ground than fraudulent misstatement or concealment. The extreme difficulty of proving fraud may render some further protection for the honest assurer necessary. The difference between a fraudulent and an innocent error, where they are both essential as regards their importance, lies in the mental intention, which can seldom be shown conclusively but must be inferred from circumstances, and as to which, therefore, there is room for endless difference of opinion. When the conditions of a company draw a distinction between fraud and error, fraud does not mean fraud in the abstract, but fraud that can be proved and exhibited so absolutely, that the most prejudiced jury cannot fail to be convinced of it. It is for this reason that most prudent Insurance Offices have refused to restrict altogether the protection of their honest policyholders, against the intrusion of the dishonest, to the case of fraud. At the same time it has generally, in these later days, been thought best for all parties that after a time this restriction should be made, and fraud alone be allowed to vitiate a policy.

Where an entrant is confessedly in such circumstances of personal condition, or inherited liability to disease, as to render him inadmissible on equal terms with other persons of the same age, the inequality may be redressed by his paying a correspondingly higher rate of premium. It has long been the practice of Insurance Offices to admit questionable lives on these terms; and in Scotland, for about thirty-five years, an organisation has existed among certain Offices, for consultation as to the rates to be charged in such cases, and for some distribution of the risk. An actuarial examination of the records of these transactions, and of others of a similar character, would be extremely useful, and I venture to commend it to the members of this Society. Indeed, it is worth considering whether the Society might not undertake, in its corporate capacity, an inquiry into the mortality among "under-average lives," for which a good deal of material might thus and otherwise be available to them.

In dealing with lives of this class, actuaries are bound to keep in view one or two considerations which are apt to be lost sight of. The ordinary tables of mortality afford a reasonably sound basis for dealing with ordinary or average lives; but whenever a life has to be recognised as being exceptional, we have no trustworthy data for measuring the degree of its variation from the normal standard. Such an inquiry as I have suggested might furnish approximate data, but the varieties of adverse circumstances are so many and complicated that each case will always demand separate consideration and treatment. This being so, it is only just that allowance should be made for the uncertainties, and that lives of this kind should be admitted among average lives, only on terms amply sufficient to cover any possible increase of risk.

How long ought an increase of premium to be payable?—during the man's whole life, or until he has lived out the years of his expectancy, according to his actual or his assumed age, or until his premiums with interest have amounted to the sum assured, or till he has ceased to be threatened with the malady, the fear of which led to the sur-charge? As the ordinary risk can be paid for by lifelong premiums, or by a single payment, or by payments limited a term of years, so it is possible to reckon the equivalent of the ease of risk in similarly varied ways. But a disposition has :times been shown to treat these matters after a fashion which .houghtful actuary can regard as other than fallacious and ound. The proposition takes some such shape as this: Here is . man whose parents have died of consumption, or who has himself been threatened with that or some other disease tending to shorten life; he may or he may not succumb to these adverse influences, but in the meantime he must be charged an extra rate; if it is found, however, in the course of a certain number of years, that the prognostications of his premature death are not in fact fulfilled, it will be fair not only to relieve him of further extra payments, but to restore to him what he has already paid under this false apprehension, either by repaying him in cash, or by giving him an equivalent addition to his assurance. In some cases the form of the arrangement is that, where, for example, the premium paid would insure £1000 on an average life, the equivalent assurance is reduced at the outset to, let us say £700, and afterwards, when the man is supposed to have got beyond the risk of premature death, it is at once raised to the full amount of £1000.

It must be manifest that, in every case where this happy result is attained, the Office receives no more premium as the consideration for its ultimate payment of £1000 than will have been paid by average lives of the same age, and with the same duration of policy. It will only be where the doubtful life dies prematurely that anything beyond a normal premium will have been received, and the effect is precisely the same as if, under ordinary policies, those who died prematurely had their policies paid in full, while those who lived out their expectancy were relieved from further payments. Among average lives, those who happen to live long pay for those who die prematurely; this is the whole principle of life assurance. Where exceptional conditions of life are recognised and charged for, the extra chances on the one side, and the extra risk on the other, are what the actuary deals with, and are not less real, and do not less require an equivalent payment, when the man survives than when he dies early. The risk has existed whatever the event, and it is the risk, and not the certainty, that has to be provided for. In another view, if we take any number of under-average lives, it must be assumed, if there is any foundation whatever for the distinction, that, on the whole, the rate of mortality among them will be greater than among average lives; either there will be a greater proportion of premature deaths, or the general force of mortality will be greater and the average age at death will be less, or both of these results will be experienced. An assurance fund which shall be composed exclusively of their contributions will have greater demands upon it than a corresponding fund contributed by average lives. If the long livers contribute no more to such a fund than they would to an ordinary fund, how are the extra losses occasioned by the short livers to be paid for? The claim to any return of extra premium, or to an increase of the sum assured, when the chances turn out to be in favour of the Office, is not more reasonable than if a man who insured his life for a short term, and survived it, should demand back his premium, or as if subscribers to sweepstakes should expect repayment of their contributions when the event was decided against them. Any Office that should adopt this unsound principle would simply throw on its ordinary and average lives the burden of loss occasioned by the premature deaths of under-average lives.

We may consider now the case of exceptional risk arising from occupation or foreign residence. Whether certain callings, such as the soldier's the sailor's or the miner's, or certain climates such as that of India, do involve an increased rate of mortality, or a shorter average duration of life, are eminently matters for actuarial inquiry, and for continually renewed inquiry. Assuming that an additional risk can be proved and measured, then it is only fair that those who expose the common fund to this greater risk should contribute to it proportionally. But it is one of the greatest improvements introduced of late years into the theory and practice of Life Assurance, for which we are indebted to the late Mr. W. T. Thomson, to give effect to the consideration that even persons who have very little chance of ever going to a dangerous climate, or of engaging in any very hazardous occupation, may be benefited by the removal of the usual limitations. Here, again, the principle operates that men may be placed on an equality, not merely where their circumstances are equal throughout, but where they are equally ignorant of any future inequalities in their circumstances.

Another great question to which such considerations apply has eference to what ought to be done when a policy is discontinued or surrendered. I am not sure that there is any question more worthy of being studied by the young actuary, for the light it throws on the whole principles of Life Assurance.

The holders of policies in any given Office may be regarded, as indeed we have been hitherto regarding them, as copartners contributing to a common fund, and each interested to the extent of his contributions in the outcome of that fund. It cannot be too often recalled that whatever is taken out of that fund by one policyholder, or one class of policyholders, is taken at the cost of all the others, not, as is commonly supposed, at the cost of any abstract body, company, society, or institution. Many circumstances have assisted to obscure this principle, especially the dealings and utterances of the Offices themselves. Now, keeping this principle in view, it may be suggested in the first place, that where, for example, a thousand men should agree to contribute periodically to a common fund, it might indicate some liberality in the arrangements if any one were allowed to discontinue his contributions at his own pleasure, and without reference to the interests of his copartners. A further stretch of liberality would be evinced if he were allowed, in leaving the concern, to carry away with him any portion of his past contributions. It would be an equally fair arrangement, provided only it were well understood at the outset, either that a seceding partner should or that he should not have a right to any share of the common fund. One has heard this matter spoken of as if it would be robbery to withhold from him his share; and in some of the States of America, the payment of a surrender value is made obligatory by law. In our country, though legislation in this direction has been advocated, the law up to the present time wisely restricts itself to securing some publicity of information as to what is the practice of each Office. Reverting to the principle that inequalities of condition, if they cannot be known at the outset, are practically equalities, it follows that if the assurers in an Office are all equally ignorant as to whether it may be for their convenience at some future time to surrender their policies, then there is no injustice in giving the whole of them the same privilege. It will be to the advantage of the man who chooses to exercise it; but, if the assumption is correct, no one can tell at the outset whether he is not to be in that position. It may be doubted, indeed, whether all assurers have at the outset an equal chance that at some future time they will desire to surrender, but the principle has been so long recognised that it must be assumed.

The next question is, What is the amount of each man's interest in the common fund at the moment of his retirement? At a period of Investigation a certain sum is set apart to meet the liabilities of the fund in respect of each policy, and it is easy of course to ascertain what that sum was at the last investigation, and to approximate to any increase or decrease in its amount which has occurred since. If the fund were to be divided at once among all the policyholders, this would be the measure of each man's share, making allowance for the costs of distribution; and this principle is recognised by law in dealing with insolvent Offices. But in the case in hand it is only a few of the whole number that are to withdraw, and the question is whether they are entitled to the full sums which have been set apart as the measure of the liability belonging to their policies.

Having regard to principle, it naturally suggests itself that, as the contributors to the common fund were admitted on the footing of an equality of health, so this should be considered also in their retirement. This is obvious enough in the case of annuitants. We may set aside £1000 to meet the future payments to an annuitant, but we should never think of buying up his annuity at that price, if we had reason to suppose that he would die to-morrow, and we should not allow him to surrender it on any terms without an inquiry into his state of health. Such an inquiry in the case of assurers is practically impossible, and where it is urged on us, as it sometimes is, with a view to enhancing the supposed value of a policy, the results are seldom trustworthy. This has led actuaries to inquire into the general probabilities, and two views have been taken. On the one hand, it is suggested that a man will not give up a policy for £1000 in return for £50 or £100, if he knows or suspects that, owing to his impaired health, the whole amount of the policy will soon become payable; and that, even where he might himself be willing to do this, his friends would try to keep it up, or some speculator would be found to buy it at more than the office-value. If this is so, then it will only be "good lives" that will surrender, and the whole assurers in an Office being at any moment composed of good and bad lives in certain proportions, and its calculations of values and reserves being made on that assumption, a disproportionate secession of good lives will disturb the averages, and leave the common fund insufficient to meet its obligations. On the other hand, it is suggested that practically the considerations which lead a man to surrender have little to do with the state f his health, or may even be connected with its impairment. he absence of further need for a policy; immediate and pressing equirements for the money it will fetch, often the consequence of ill-health or broken habits; and a natural unwillingness to make his circumstances known, or to wait for the results of an attempt to sell his policy rather than surrender it, are unquestionably among the motives which may induce a bad or doubtful life to surrender even at a great sacrifice. That there is force in both of these opposing considerations, and abundance of facts to warrant them, can scarcely be doubted; the difficulty is to know how far they balance each other, and whether, on the whole, good and bad lives surrender in the same proportion as they exist. In this uncertainty one principle seems to be clear—that the sufficiency of the common fund to meet all its future obligations is not to be endangered for the sake of those who choose to withdraw themselves; and that it is therefore not only reasonable but necessary that the value to be paid for a policy should not be the full sum which the Office has in hand to meet that policy. Each entrant, whatever may be his chances of desiring to withdraw at some future time, has a far greater interest in the security and sufficiency of the fund, than in the possible amount he is to obtain for his policy on withdrawing, and all therefore are placed on the same footing by such a regulation as has been indicated.

The same results might be arrived at in a different way. The value of each policy might be estimated on an easier basis than was consistent with entire safety, and then a large allowance might be made for contingencies, so as to bring the total valuation up to a safe standard. The estimated value, without the addition, might then be treated as the surrender value.

Another consideration may be kept in view,—that, as a rule, the values of policies at a period of investigation are calculated with little or no reference to the cost which each policy has involved. A policy of a year old will have a value assigned to it for investigation purposes, which, added to what the issuing of the policy may be taken to have cost, will exceed the whole premiums paid; and this may hold to some extent during several of the earlier years of subsistence. Allowance must be made therefore for the duration of a policy, in reckoning what proportion of its share of the general reserve is to be paid for the surrender of it. In all these matters there will be room for the exercise of prudence and fairness on the part of an actuary, and for variations in principle and practice arising out of the circumstances of individual Offices.

We have been considering the case of a policy duly surrendered while still in force; but a great deal has been heard lately of what ought to happen when a policy is allowed to drop, intentionally or unintentionally, without any value being asked for. In the practice of Life Assurance Offices up to a very recent period, it was thought time enough to allow a value for a policy when it was demanded, and that a policy could be surrendered only so long as it was in force, and there was consequently some *quid pro quo*—something to give up in exchange for the sum to be paid by the Office. I need not go into the considerations which have led to a change of practice; but it is now frequently recognised that, if a man might have surrendered his policy, his failure to do so while the policy was in force is not to deprive him of his rights, and that the value which would have been paid to him is something at his credit, as it were, from which he may still derive some benefit. There are, so far as I know, three ways in which this benefit is provided for him: (1) The value is held to be at his credit, to be paid to him in cash, or applied as he may direct on his making application; (2) the value is applied by the Office to the keeping up of his policy by payment of the premium he has failed to pay, and of future premiums, so far as it will go; and (3) the value is taken as a single payment for an insurance of a reduced amount, and his policy is held not to have lapsed altogether, but to have been *ipso facto* reduced to the amount which the value would have assured at the moment of its lapsing. In each of these cases some limit of time is usually assigned within which the policyholder must claim to avail himself of these privileges. Whether in some instances that limit is not needlessly long for the policyholder, and inconveniently long for the administration of the Office, is open to question.

It has long been the practice of some Offices to afford facilities for the keeping up of policies, but on the not unreasonable condition that the persons interested should communicate their desire to have this done, and give their formal assent to the necessary arrangements. The more recent concessions are made to persons whose fault or whose misfortune it has been to allow their policies to lapse, despite notices and days of grace, without their paying any attention to the matter. When a man in possession of a iece of property such as a life policy, having not only a prospec- e but a present value, dependent on well understood conditions, glects it altogether, and when, in spite of his doing so, he is otected against the entire loss of his property, he may very well oe supposed to leave it in the hands of the Office, as representing his copartners, to determine in what way his interests are to be dealt with, until he is pleased to intimate his own wishes. There can be no complaint on his part therefore; but this leaves it all the more to the actuary to conjecture what, on the whole, will be most in accordance with the wishes and interests of policyholders generally in these circumstances. Something is to be said for each of the arrangements I have referred to.

In favour of holding a cash value at his credit, it is to be said that he has given some indication, by neglecting to keep up his policy, that its further continuance is not so important in his eyes as to secure his attention to it, and that, in all probability, a sum of money, receivable when he pleases to ask for it, will suit him best. In favour of using the value as a fund out of which the policy may be kept in force to its full amount, it is urged that it is a hardship on him to allow his policy to lapse when he has, in a sense, as much at his credit as would serve to keep it up. One objection to this plan is that it uses up the value, and only benefits the policyholder if he should desire to have the policy kept up, or if the life assured should die before the value has been used up. It seems uncertain, too, whether, when this plan is adopted, care is taken to secure that, in the event of death, the unpaid premiums can be deducted from the sum assured. In favour of the third method, by which the policy is reduced automatically to as much as the surrender value will assure, it is urged that this preserves for the holder at least a portion of his assurance without destroying the value, which he may take in cash, or apply to the revival and keeping up of his policy to its full amount, when he is pleased to take a sufficient interest in his own affairs. It is, however, a sound moral as well as legal maxim, though not perhaps a very generous one, "*Vigilantibus non dormientibus jura subveniunt.*"

Another very large question, involving the competing interests of different classes of policyholders, which I venture to recommend as an instructive study, has reference to the intrinsic fairness of the different methods in use of dividing surplus or so-called "profits." I rather think that the attention of your Society has already been directed to it, and it is too large a subject for me to enter on now, but a few words may set some minds thinking on it to their own advantage, and that of the profession. If you were called on to establish a new Office, and to suggest its Bonus system, how would you proceed, and what considerations would chiefly direct you? One system might commend itself by its simplicity, another by its popular attractiveness, and it would probably be the duty of an advising actuary to keep both of these features very much in view. A system might be absolutely more fair and just than any other, but unless this could be made reasonably manifest to the public, and would otherwise meet their desires, no one might be willing to insure under it. But while attending to these important qualifications, the actuary would no doubt desire to create a system which would be fair and just to assurers all round to the old as well as the young, to the assurers by limited payments or on the endowment system, as well as to those who adopt the more ordinary plan. One of the first lessons he will learn in attacking this problem is the difficulty, perhaps the impossibility, of reconciling its various conditions. There are two ways of approaching it. You may start with certain rates of premium and make your bonus system fit them, or you may adopt a bonus system, and adjust your premiums to fit it. Practically, as regards premiums, you will find yourself shut up within narrow limits. The rates at which persons can obtain assurance from numerous first-class Offices, must almost necessarily be followed. Any material increase either throughout, or at certain ages or for certain kinds of policies, will scarcely be submitted to by the public, unless the relative advantages can be made more plain and certain than it is likely any new Office could get credit for being able to give. Any material reduction under certain tables will either reduce the absolute surplus, and approximate to the line of unsafety, or it must be made up for by corresponding increase in other directions, which will be open to the objections I have just pointed out. The adjustment will therefore almost inevitably have to be made in the bonus system. The difficulty of absolute fairness here arises from the uncertainty as to what are to be the sources of future profit. We all know that there are, as a rule, four sources of profit open to a Life Office. There is (1) any difference to the good which may be experienced between its estimated and its actual rate of mortality—a source of profit which, contrary to all anticipation, most actuaries, I think, will be slow to reckon on to any great extent; (2) the difference between the interest earned and that estimated—a difference easy to be calculated for the past, but open to any amount of conjecture as regards the future; (3) the difference between the loading provided for costs and contingencies and the actual amount of these—an amount about which one may be more or less sanguine, but which it is useless to take as a basis of any system pretending to absolute correctness; and (4) there is the profit from expired cancelled and surrendered policies, whatever that may amount to under the new and somewhat prodigal conditions to which I adverted a little while ago. How far it will be possible out of these elements to construct a perfectly equitable system, I leave it for you to work out for yourselves. Having looked from time to time into many of the bonus systems familiar to us in practice, some of which are undoubtedly superior to others, I should find it hard to say what system, or even what group of systems, approached nearest to general and absolute fairness. All such questions may possibly be solved for us in a not distant future by the diminution of all surpluses to such an extent as will make the methods of their appropriation not worth speaking about.

I have been referring for some time to the interests of policyholders alone, but important questions will often arise for the consideration of an actuary as between the policyholders of a proprietary company and its shareholders. These are, for the most part, regulated by Acts of Parliament or deeds of constitution, or by the engagements made in prospectuses; and in most cases the interests involved are identical according to certain fixed proportions. But if a new company were to be formed, the actuary would have to face some problems requiring his most intelligent consideration. I will refer to one by way of illustration. The funds of a proprietary Office, contributed at first wholly by shareholders, come ultimately to belong partly to the shareholders and partly to the policyholders—the paid-up capital and any accumulation of unappropriated profits to the one, and the assurance fund to the other. When these funds are invested, in what way are the yearly returns from the investments to be divided between the funds? Three methods, so far as I know, have been or might be adopted. (1.) The shareholders might say to the assured, "We will take your contributions, and guarantee you a certain rate of interest on them; any earnings short of that we will make up to you, any in excess will be our profit." (2.) The two funds might be invested separately, some mortgages or other securities being specially assigned to the one and some to the other, each fund receiving the earnings on its own special investments, and bearing the relative risks and the losses if any. (3.) The whole funds might be invested indiscriminately, and the whole returns from them carried to one account, and thence distributed rateably in proportion to the several amounts of the funds. I shall leave it to you to think out the considerations for or against these systems respectively.

Whatever may be the difficulties which the actuary may experience in dealing fairly and prudently with the interests of the various classes of persons who depend on him for advice in these matters, there remains the consideration which I desire to impress on you, that great varieties of interests are confided to our profession, and that these give special scope for knowledge and skill, for intelligence, and for conscientiousness in the exercise of our duties. Our subject is one which the general public understands but little, and which even the ablest men of business outside of our profession are inclined to leave very much in our hands. There is plenty of room in our calling, as indeed in every other, for empiricism, for the sacrifice of sound principle to specious but dangerous fallacies, for the pretence of combining advantages which are really incompatible, for purchasing present advantage to ourselves at the cost of future embarrassments for our clients or our successors. My objects, in the observations I have addressed to you, have been twofold. First, to recall to you that our business as actuaries is mainly concerned not so much with abstractions, with statistics and figures, with tables of mortality or algebraic formulæ, as with men and women and children, whose welfare is largely in our hands, to whom the soundness and sobriety of our calculations may make all the difference between comfort and poverty, whom we may help or hinder in the work of prudence, whose hopes may be exceeded or disappointed by reason of our professional competence or our failures. My second object has been to suggest some of the questions as to which we are called on to exercise a sound judgment, not merely in the interests of individual persons or classes of persons, but with reference to ompeting and conflicting interests.

In referring at the outset to the various relationships which the ctuary bears to other men, or classes of men, especially in his connection with some life assurance institution, I mentioned the Staffs of other Offices as at once his friends, his coadjutors, and his rivals. In concluding this Address, I desire to congratulate you on already enjoying, through the medium of this Society, the prodigious advantage of association with the men who are now in some sort, and are all throughout, to be your friends, coadjutors, and rivals in your professional life. It would be difficult for me to exaggerate the benefits which have accrued to us in Scotland who have been engaged in the business of Life Assurance, and to the institutions we have been connected with, and to the large public who are so deeply interested in the subject, from the existence of the Managers' Association, the Faculty of Actuaries, and this Society. I do not forget the great debt which Actuaryship and Life Assurance owe to that distinguished body the Institute of Actuaries; but I refer more particularly to the personal association, the corporate unity, the interchange of ideas, the diffusion of sound and the checking of unsound opinion, the friendly competition, the support and comfort and happiness which these alliances have created or encouraged for us in Scotland, as well as the common action which has been rendered possible and effective. To the members of this Society I venture to say that they cannot too early or too fully cultivate the advantages which such professional associations are fitted to yield to them. Like all other useful things they will cost them a little time and a little self-sacrifice, but these will be more than repaid; for it will generally be found that it is the men who have given their best to the common good who reap the largest harvest of personal and individual benefit.

And having dwelt so long on what the actuary owes to other men, I may be pardoned for saying that what he owes to himself is to be thoroughly master of his own profession; to cultivate that breadth of mind and extended knowledge which will put him on a level with the most cultured men of other professions; so to live and so to labour as to establish for himself—unconsciously perhaps, and, indeed, the more unconsciously the better—a deserved reputation for the purest integrity and unselfishness; and while he seeks, by all legitimate means, success in his calling, to have his mind and heart so disciplined that all things shall be secondary to the approval of God and his own conscience.

Transactions of the
Insurance and Actuarial Society of Glasgow.
Second Series, No. 8.

The Economics of Insurance.

By
John M. M'Candlish, F.R.S.E.,
President of the Faculty of Actuaries.

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It will be one of the first objects of the Society to provide, for the use of Members, a Library of Works on professional subjects, embracing those connected with the theory and practice of Insurance in all its branches, with the theory and practice of Calculation, with Statistics and Finance.

As little can be expected, in this connection, from the funds of the Society, the Committee of Management look to combination on the part of individual Members to secure this most desirable object.

The Committee will be happy to receive donations of books or pamphlets for the Library, on any of the above or kindred subjects. These may be sent to the Secretary, or to any Member of Committee, and will be acknowledged in the Minutes of the Society.

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THE ECONOMICS

OF

INSURANCE.

BY

JOHN M. M'CANDLISH, F.R.S.E.,

PRESIDENT OF THE FACULTY OF ACTUARIES;
GENERAL MANAGER, SCOTTISH UNION AND NATIONAL
INSURANCE CO., EDINBURGH.

11TH JANUARY, 1888.

THE ECONOMICS OF INSURANCE.

The honour you have done me by inviting me to address you brought with it some perplexity as to the choice of a subject. Circumstances naturally suggested that Insurance must be the theme on which you would desire that I should speak. But Insurance is a theme so familiar to the members of this Society, they already possess so exhaustive a knowledge of it, that to say anything new about it, or even to place old things in any fresh light, seemed to me nearly hopeless. It is probable, however, that you have all felt like myself a desire to enlarge if possible the bounds of our professional horizon, to escape for a little from those details of business which demand of us such instant and unceasing attention, and to take an occasional and transient glance at general principles. Insurance in its various departments is not only a business with prodigious requirements of technical knowledge and administrative capacity, but may be looked on as a branch of social and economic science, with wide bearings on the progress of society, on the welfare of states, and on individual happiness and prosperity. I cannot pretend to set before you any such high argument, but I propose to recall to you just a few of the reciprocal conditions of that relationship which connects Insurance with the business of the world.

A Definition of Insurance.

All Insurance is the providing against the consequences, or some of the consequences, of certain accidents to which human beings are more or less liable. It is not within its province to guard men against these accidents (although this is not always sufficiently recognised), nor does it profess to make up to them for all their consequences. As a rule it seeks to mitigate the pecuniary loss arising from the accidents which happen to the few, by distributing it among the many. It enables each man to purchase a measure of indemnity from a pecuniary loss which he apprehends as possible, by contributing to indemnify other men against their losses. These contributions have acquired the name of premiums. They are in effect in each case a share of the aggregate loss, which necessarily includes the cost of conducting the business, and of yielding some return for the use of any capital which may be required.

It may be observed parenthetically that the word "premium" suggests a condition of vital importance. In this connection the word has reference to a purchase paid for beforehand. The thing purchased is the chance or prospect of receiving a large benefit in return for a small contribution. Many persons seem to find it difficult to understand that a chance must be paid for, however it turns out; and it is not uncommon to have a demand made for the return of the payments when the chance has not resulted in any immediate gain to the contributor. Unless therefore such contributions are paid beforehand. they will not be paid at all, and the expectation of collecting them afterwards will generally be futile. This is the fatal error of the so-called assessment system of life assurance recently introduced in America.

The principle that Insurance is a distribution of loss will be obvious enough when Fire, or Marine, or Accident Insurance is spoken of, although it may not seem at first sight so applicable to Life Insurance; but the essence of Life Insurance is the making of a provision against the accident of premature death. This is combined in practice in the great majority of cases with the making of an investment. The transaction involved in the issue of an ordinary policy for the whole of life may be looked at in many lights, but from the economic point of view it admits of this interpretation,—If I pay £30 a year to insure my life for £1,000 (which may be taken as the profit rate at age 37), and if I die during the first year, my heirs will receive back the £30 I have paid with interest, and will receive in addition nearly £970, for which in effect I have paid nothing. If I die in the second year there is repaid to them the £60 I have paid and interest, and they get nearly £940 besides. If I live for 21 years, and then die, the £1,000 which my heirs will receive will exactly repay all I have advanced with interest at four per cent. If the policy has in the meantime had bonus additions made to it, the period of an exact balance may be considerably postponed. It is only then that I shall begin to pay without the expectation of my payments being wholly returned to my heirs. Up to this epoch I have had an investment at four per cent., plus an Insurance against the accident of premature death, which Insurance began with a sum of about £970, but has gradually diminished as the period approached when death would no longer be premature. For this Insurance I pay, not as is generally supposed, year by year from the first, but only at the expiry of 21 or more years, when I have the consolation of having enjoyed a comparatively prolonged life, which, at the outset, I dared not reckon on, and when I have had time to prepare financially for the needful payments. What, however, is chiefly to be taken note of here is that the transaction has largely consisted of an Insurance against the accident of premature death.

This aspect of Insurance as a provision against pecuniary loss arising from accidents will help us to see the place which it holds in social economics. It does not claim for itself to create wealth, not directly at least, nor even to distribute wealth, for, as already suggested, its function is rather to distribute loss; but its indirect influence both on the creation and the distribution of wealth is very great indeed.

Modern Development of Insurance.

Insurance in all its departments may be accepted as a modern institution. Some ingenuity and learning have been displayed in discovering traces of the principle in ancient or mediæval times, but we need not dwell upon these. Whatever influence it wields as a system is wholly modern. It is manifest, therefore, that, like many other things which we find or imagine to be indispensable in these days, it was not a necessity in the old world, and that men lived and prospered and accumulated wealth without its aid. We arrive, therefore, at the question, What is it in the world of to-day for which Insurance is essential, or to which it contributes very important elements? It would be difficult to answer this question fully, without attempting a review of modern industrial and social life which cannot be contemplated here, nor might the same answers apply to every department of Insurance. I will briefly refer to three characteristics of modern business—the magnitude of its transactions—the prodigious number of transactions which are of large amount—and, above all, the extent and complexity of the modern system of credit. It has to be kept in view that the problem is a two-sided one, for we have to ask, not only what Insurance does for the modern world, but whether there are conditions now rendering the institution possible which did not exist in former times.

With regard to magnitude in transactions, it is to be noted that this in some forms renders Insurance unnecessary. The merchant who owns many ships may reasonably be his own insurer, and often is, and a landowner who has a multitude of detached farm-houses and other buildings on his property, may prefer to run the risk of one being burnt from time to time rather than bear the cost of insuring all of them. The obvious principle of spreading one's risks, as we call it—of not having too many eggs in one basket—must always have been in operation. *Antonio*, in the "Merchant of Venice," tells us—

> "My ventures are not in one bottom trusted,
> Nor to one place; nor is my whole estate
> Upon the fortune of this present year."

And *Shylock* refers to his having an argosy bound to Tripolis, another to the Indies, a third at Mexico, a fourth for England. *Antonio's* case, however, showed in what peril a merchant might be placed, even with all this prudence, in the absence of insurance.

But when we have regard to the growth in these latter days of the size and value of ships and their cargoes, of factories and their machinery, of warehouses and their contents, and see that it is not in a few exceptional instances, but in multitudes of cases all over the world, that property of enormous value is exposed to the risk of total destruction by one wreck or one fire; and when we see what vast numbers of persons there are whose lives possess a large money value, and whose premature death would occasion pecuniary loss to their families, their creditors, their partners, or others; and when we recall the extraordinary and rapid development of this principle of magnitude which has taken place in our day, and is making further progress under our own eyes, the need and the functions of Insurance are apparent. There are, no doubt, now, and there may have been in all times, a few individuals or institutions so rich that no conceivable destruction of property by wreck or fire would altogether ruin them even if wholly uninsured, but it needs no great imagination to conceive what the difference would be if the industry and commerce of the world were only in the hands of such as these. As matter of fact, the supplying of the wants of mankind by the ingathering of the fruits of the earth, the treasures of the mine, the harvest of the sea, by the manufacture of these into forms suitable for human use, and by their interchange, are almost wholly in the hands of persons to whom Insurance is an absolute necessity, and out of whose needs, therefore, Insurance has received its modern development.

Its Connection with the Development of the Credit System.

I am inclined, however, to think that the distinguishing feature of modern industrial and commercial life is the system of credit, the fact that a large part of the business of the world is conducted with the help of capital belonging to others than those who are actually engaged in the use of it. This principle is thoroughly modern.

That men lent money to each other in ancient times is familiar to every reader of so old a book as the Bible, and that men became sureties for each other's debts is frequently referred to there. But the Jews were forbidden to take interest of their own countrymen: and in the isolated condition of their nation during a great part of its history their loans to foreigners were probably neither many nor large, though a reference in the parable of the talents would indicate that one who committed his money into the hands of another might expect to receive it back with interest. The Christianity of the middle ages was hostile to the lending of money at interest; but about the time of the Reformation it seems to have been acknowledged as allowable, and it was sanctioned by Calvin. A principle began then to be recognised which has had an enormous development since, and which plays at this moment a foremost part in the conduct of the world's business. I refer to the use of loanable capital.

I ought, perhaps, to apologise for presenting to you some very elementary ideas about capital and interest, but at the present hour there is so great a tendency to question the most axiomatic principles that it is often useful to trace existing institutions to their roots. You will therefore pardon the obvious remark, that in the creation and distribution of wealth much time elapses and many things happen between the winning of the elementary material and the ultimate use and enjoyment of the finished product. We do not pay for the bread we eat nor for the knife with which we cut it until we actually require them. But before they reach our hands a prodigious number of persons have had to be paid each for his share in the production of these articles. The farmer in America, or India, or Russia, who has tilled his ground and sown the seed and has reaped the wheat of which our bread is composed; the makers and owners of the railroads and the ships which have brought it to our door; the miller who has ground it and the baker who has turned the flour into bread; the men who have sunk pits and brought up and smelted the iron ore, and those who have fashioned the metal into a knife; the men who have constructed the tools and machinery without which none of these operations could have been performed; and, lastly, the merchants and dealers by whose agency the ultimate supply of our wants has been effected, all these have had to be paid long before the consumable product of their exertions was ready for the market, or found a purchaser and yielded a pecuniary return. At every stage money capital has been required, and the owner of that capital is entitled to some share of the price ultimately paid by the consumer. He may be entitled to a double share, partly for his labour and skill and partly for his capital; but what has happened in these modern times is, that very often the man who contributes the labour and skill is not the owner of the capital, and the man who contributes the capital has little or nothing to do with the practical employment of it.

The wealth which has been created by all the operations we have been referring to consists of the difference in value between—let us say—a bushel of seed corn in Dakota or Manitoba and the bread consumed in a British city, into which this seed-corn has developed; or between an ounce or two of iron ore and the knife which has been made of it. The amount which represents these differences of value is in effect distributed into two portions, one goes to pay for the labour and skill, and the other to pay for the capital, these together having been required for, and devoted to, the effecting of this increase of wealth.

The vast superstructure of the credit system, of banking, of loanable capital, rests on the elementary principle we have been considering, the recognition that the use of money capital is a necessary element in the production of wealth; that this element can be supplied by persons who have no other part to play in the production, that is, that it can be lent; and that part of the common product reasonably belongs to the person who owns and has lent the capital; that in effect there has been a partnership between skill and labour on the one hand and capital on the other. Now this partnership extends much further than might at first be supposed, for every transaction into which credit enters is an example of it, but it would be beyond my present object to discuss this further. It is enough to recall the fact that modern industry and commerce are largely dependent on the use of borrowed capital.

In ancient and mediæval times, if men were able to accumulate any store of capital which they had no immediate use for, almost their only resource was to hoard it. Hoarded wealth not only fails to breed any increase, but is liable to be the prey of moths and rust, or of thieves who break through and steal. In our own days, and in civilised lands, the hoarding of surplus capital has been superseded by the loaning of it; but few persons stay to enquire what a vast machinery is required to make this possible. It depends on the prevalence throughout many lands of just laws and righteous administration, of public morality, and of that general trustfulness which these things breed. It is largely influenced by the certainty and the rapidity of means of communication; it is largely developed by means of association and joint-stock enterprise. But one other element is needed. The owners of loaned capital need protection against those accidents of wreck and fire and premature death which are so capable of disappointing the expectations of their debtors and their own, and this element, essential to the credit system, is provided by Insurance. If you will review in your minds all the various methods so familiar to you of investing spare capital by loans on lands or houses, on manufactories or ships, by deposits in banks, or by the purchase of shares in joint-stock companies; and if you will trace out the ultimate uses of that capital, and the sources from which the returns are obtained which compensate the owners of it, you will see how largely its safety depends on some kind of Insurance.

Principle of Association.

The prodigious development of industry and commerce during the last two hundred years, but more especially during the present century, have demanded and have indeed been conditional on a corresponding development of Insurance, and many of the causes which have rendered Insurance necessary, have contributed also to render it possible. In particular, the principle of association in the form of joint-stock companies, which has done so much for every other sort of enterprise, has been found essential to the development of Insurance. It is true that in one large department the individual underwriter still survives, but he could do little without the combination effected by brokers, and on a larger scale by such an institution as Lloyds'. In Life Assurance, where the transactions contemplate their own endurance through periods stretching from one lifetime to another, it is obvious that they require the existence of corporate bodies which aim at perpetuity. The contract of Fire Insurance, which is seldom undertaken for more than a year, and often for a shorter period, might reasonably enough be entered into between one man and another like Marine Insurance, and private Fire Underwriting is not unknown among us. Whether this can be pursued with any prospect of success remains to be seen, and is at the best highly problematical. To make the transaction of Fire Insurance safe, and to give it any chance of being profitable, to raise it from being a reckless wager into the conditions of sober business, there are needed a multiplicity and variety of separate contracts, and an extent of technical knowledge which individual operators cannot be expected to command. If we take, for example, 4s. per cent. yearly as being not far from the average rate of fire premium in this country, it requires 500 separate transactions before the loss to be occasioned by a single fire is provided for even on the assumption of the business being managed without expense.

Insurance generally, and at all events Life and Fire Insurance, are therefore among those departments of business to which joint-stock association is indispensable. This is not wholly an advantage, but it would be useless to balance the *pros* and *cons*, simply because the condition cannot be avoided. If it were possible that either of these businesses could be carried on as banking or manufacturing may be, by one person or by a private firm, the joint-stock company or mutual society would almost certainly have the advantage of a wider basis and a more thorough knowledge, of greater solidity, wealth, and continuity, of publicity, and the restraint afforded by public opinion. On the other hand, such associations can scarcely ever conduct their business with the energy, the promptitude, the singleness of purpose or the economy of private enterprise.

It is both a weakness and a strength of Insurance Societies, as compared with most other joint-stock associations, that the business engaged in is so highly technical that it must be left for the most part in the hands of experts. Any great interference on the part of the members of such an association, or even of the small body selected from among them to act as directors, will as a rule be of questionable advantage. No doubt the bringing together of men of business having varied knowledge and experience secures a valuable contribution to the aggregate skill that is needed; and their shrewd observation brought to bear on the capacity and character of the experts whom they employ, on the general conduct of the business, and even on some of its details, are of measureless value. Still it remains that between the knowledge of the most able director and that which is possessed by the officers of a Fire or Life Insurance Company there is, or there ought to be, a wide gulf: and, consequently, its success or failure depends more upon its executive officers than in the case of almost any other business. This, as I have suggested, is a weakness, because it is hazardous for the prosperity of a great institution to be dependent on the capacity and integrity of one or two men, and of a succession of such men; but it is also a source of strength, because much more force can be thrown into the machinery when it is practically guided by one or two men rather than by a dozen, and the concentration of management avoids many of the ordinary disadvantages of joint-stock administration.

A Complicated Machine.

There are few more complicated machines than a great Insurance office. Confining our view for the present to a fire office, let us recall some of the subjects with which it has to concern itself. The destructive power of fire is the grand centre round which they group themselves. There is no material substance capable of being injured by fire, from a bale of jute in Calcutta to a steel plate in a Clyde shipbuilding yard, nor any kind of structure, from a wool shed in Australia, a go-down in Shanghai, or a summer hotel in California, to a palatial warehouse in Glasgow, some knowledge of which is not necessary to us. There are no mechanical or chemical processes capable of generating heat which we can afford to be ignorant of. There are no conditions of business affecting the buying and selling and mortgaging of buildings or goods, or the transit and warehousing of merchandise, which we have not to take account of. Far-reaching and delicate considerations of personal or national character, of thriving or failing trade, of cupidity or hostility—all affecting what we know as moral hazard—have to be kept much in view. The settlement of claims brings us into contact with the values of every sort of material substance, with the causes that tend to alter their values, with trade usages about discount and prompts and other things, and with questions of the most perplexing kind as to the rights of claimants and the distribution of loss. And in dealing with most of these subjects we are bound to have regard to the interests of other offices as well as our own, and to conform to an intricate code of laws to which, for our common benefit, they and we have agreed to subject ourselves.

There is no finality about any of these things. On the contrary, we have to follow continual change. In addition to such great changes as the increased magnitude of warehouses and factories, and the increased speed of machinery, let me remind you of just a few of the novelties which have had to be dealt with in this city and neighbourhood within the recollection of most of us. Remember the surprise of the discovery that the dust of a flour mill mixed with atmospheric air would explode like gunpowder. Remember the Belgian yarn, saturated with oil, which set on fire ships, and railway trucks, and warehouses. Recall the introduction of mineral oils, of electric lighting, of radical changes in the machinery of corn mills and other manufactories, and the direct mitigations of risk from better supplies of water and more efficient fire brigades, or from our own organisation of salvage corps. If the risk of loss by fire were at any time capable of precise measurement, the constant changes I have referred to would demand a continual revision of our opinions and practice.

The Distribution of Loss.

Insurance, as we have seen, acts as an indirect agent in the production of wealth, and having regard to the scale and conditions of its production in these days, it is an indispensable agent. But if it can help to create wealth, it may also help to destroy it, and its usefulness or its injuriousness may depend on the principles and conditions which prevail in the conduct of it. As have already said, its great function is to distribute loss, but may tend to create the loss which it distributes. Public attention is at the present time directed to this subject, and although to the members of our profession the considerations involved are sufficiently obvious, it may not be amiss to recall some of them.

When a ship is lost at sea, or a house, or factory, or valuable goods are destroyed by fire, there is a real loss, even though every person interested should be fully indemnified. The community at large is so much the poorer, or, to put it in another way, a vast amount of labour has been expended in producing certain things—ships, buildings, or goods—which, being now at the bottom of the sea or reduced to ashes, are of no value to any one. If the owner has been indemnified, it is by contributions, under the name of premiums of Insurance, from the owners of similar property. All increase of loss entails an increase in these contributions, all diminution of loss tends to decrease them. Every fire and every wreck carries with it in the most direct manner an encroachment on the wealth of the general community. Now the essential condition on which indemnity is accorded to the owner of the property destroyed is, that the accident by which he would, in the absence of Insurance, be a loser must be an accident only, for which he is not responsible, which is neither caused nor hastened by his act or by his negligence. The implied, if not the expressed, condition is that he will do his best to prevent it. Even if the benefit of Insurance could be confined to those who suffer from accidents which no care of theirs could prevent, and even if it went no further than the merest indemnity, there would be abundant need for it, and the aggregate loss to the community would be very large. Nor could the system be expected to guard the community against loss arising from that sort of recklessness of which persons are often enough guilty, without any reference to whether themselves or others are to suffer by it, nor could the system be much blamed if the sufferer occasionally received more than he had lost. But if Insurance should, by any of its regulations or its practice, hold out a direct bribe to the owners of property to destroy it, or to indulge in wilful negligence about it, the system would inflict a serious injury and wrong on the whole community; it would tend to diminish the general wealth, to increase needlessly the burdens on all owners of insured property, and to imperil human life. This, unfortunately, is what Marine Insurance is at the present time accused of doing.

Enquiry about Marine Insurance.

A Royal Commission which has been enquiring into the loss of life at sea has arrived at the following conclusions: — That a large proportion of the loss of life at sea (and of course of the loss of property) has been due to causes within control, and therefore preventable; that this is largely to be ascribed to the law and practice of Marine Insurance, by which the owners of ships, "by being insured for more than the full value of the vessels, and all reasonable expectations of freight and profit, have been considerable gainers by the loss;" that "an owner who is fully insured (still more one who is over-insured), as compared with one who is uninsured, or who bears part of the risk himself, is almost insensibly deprived of many of the motives or inducements to care and caution which must inevitably be entertained by the other;" and that this "has its bearing upon every matter connected with shipping, the construction of the ship, its loading, its equipment, its manning, its officers and crew, and the sailing directions given to them." The Commission recommends that the law of Marine Insurance shall be so altered as to secure that every shipowner insuring his vessel shall retain some uninsured interest; in short, that he shall not merely be prevented from making a profit by the wreck of his vessel, but shall always bear a portion of the loss.

This Report, which is founded on a prolonged enquiry and a mass of evidence, only confirms a pre-existent belief. It might have been assumed that if there were no such thing as Marine Insurance, not only would there be no ships purposely thrown away, but the utmost possible care would be taken in the construction and managing of ships to prevent accidents. If Insurance serves to lessen the owner's risk of loss, it serves in that degree to increase the chances of wreck, and Marine Insurance under its present conditions is probably answerable for a large number of wrecks, and therefore for a great public loss. On whom does this loss fall? Not on the owner of the wrecked ship, who actually makes a profit; not on the underwriters, who charge a rate commensurate with the risk; still less on the brokers and agents who benefit by the higher rates of premium passing through their hands; possibly not even on the general body of merchants who pay these ·igher rates. But the loss must alight somewhere. It enhances ıe cost to the general community of all ship-borne goods. Every ·ece that comes from Australia, every bushel of wheat that comes rom America, every chest of tea that comes from China costs us more than it need do; and all the productions of this country which are sent across the sea go into the distant markets for which they are destined, loaded with an additional burden of cost, enhancing the price to the consumer and consequently restricting also the demand. Without entering into statistics, the truth may be put in this way, that if in any given trade, out of ten ships engaged in it one is wrecked, then ten ships have been required for the conveyance of only nine cargoes, and the cost of the extra ship and its cargo is distributed over the nine ships and their cargoes by means of Insurance.

Fire Insurance: Some notable Points.

Valued Policies.

The law and practice of Fire Insurance in this country do not allow of contracts which would enable the owners of property to benefit by its being burnt. In some of the States of America Insurance offices are required to issue "valued policies," and atempts have been made to introduce them here, but the offices have for the most part steadily resisted the innovation. Few days pass, however, without plausible demands being urged for the granting of such policies. A dwelling-house, a collection of pictures, a stock of cotton or of whisky, is to be insured. "Cannot we fix beforehand," says the owner, "what you are to pay me in case of a total loss? It will be difficult and troublesome for both of us to ascertain the value after the property has been wholly destroyed. Here is what I believe to be the value. I am not likely to value it too highly, for that will increase the premium I have to pay. You cannot suspect me of intending to burn my property; but if you think I am estimating it at too much, you can send and value it for yourselves."

The suggestion is plausible, but fallacious. A valued policy is operative only in case of total destruction, and there is probably not one case yearly of *total* destruction out of ten thousand properties insured. To secure a trustworthy valuation of ten thousand properties in order to save trouble in one case would be to enhance enormously the cost of insurance. To dispense with a trustworthy valuation would put it in the power of any unscrupulous person to over-insure his property, and so to secure, without proof or question, the certainty of profit in case of its being destroyed. If we agreed to pay one man £1,000 if a certain picture were burnt, because we knew its value, and were sure the owner would take the utmost care of it, how could we refuse to insure another man in similar terms, though we might suspect both his valuation and his carefulness? Values change too, and what was worth £1,000 yesterday may come by a turn of the market to be worth only £700; so that if the owner were entitled to get £1,000 for it in case of its being burned, such an accident would be a thing not to be regretted or very carefully guarded against.

Excessive Liberality.

The principle indicated has wider applications. Insurance offices sometimes boast of the liberality with which they settle claims, and there can be no doubt that the machinery employed for the adjustment of losses, and the wishes and interests of almost all the parties engaged in it, lead to results which err, if they err at all, on the side of profusion. This is not without its disadvantages. I had occasion lately to inquire as to the recent experience of the offices with regard to a particular class of property very largely insured, and it appeared that there had been a marked diminution in the number of fires. What was supposed to be the reason of this? That the offices and their assessors had shown a tendency to look more strictly into claims where this description of property was concerned, that consequently fires had not yielded any profit, that they were therefore more dreaded and better guarded against, and had become less numerous.

Indemnity Principle.

Beyond question, therefore, the interests of the community require a strict adherence to the principle that fire insurance is a contract of indemnity, and of indemnity against loss by fire, that no person shall by any possibility profit by a fire, that property shall not be of greater value to its owner when burnt than when safe and entire. Unfortunately, it has happened that a recent decision of the Scotch Judges has given a temporary sanction to an opposite principle, and has laid it down that although a solvent owner of unmortgaged property cannot recover more than the value of it in case of its being burnt, yet that the creditors of an insolvent owner who have lent more upon it than it turns out to have been worth, may get indemnification beyond the actual value, and so come to be better off than if no such accident had happened. It may be confidently expected that the House of Lords will reverse this decision.

Insurance of Joint Interests.

I may say here with reference to this well-known case that I have long been of opinion that where many persons are interested in the same property as joint owners, as life-renter and reversioner, as landlord and tenant or sub-tenant, as mortgagee preferable or postponed, as warehouseman and wharfinger, some legislation may become necessary to secure an equitable adjustment of the burden of a loss, and an equitable distribution among the persons interested. The questions that arise are too complicated and too unexpected to be provided for by contract, and it might be best to throw the whole Insurances into a common fund on which all parties should have the same claims as they had on the property which it represented. It would probably be easier, on the whole, for the parties to adjust the cost of Insurance to a system of this kind than to secure safety and simplicity under the present plan.

Magnitude of Values at Risk.

I will here speak of another of the conditions of Fire Insurance business which affect the relations of insurers and insured. I have referred to the magnitude of factories and warehouses as being one of the causes of the development of Insurance. It is a question whether this magnitude has not reached its limit, and whether its further increase will not be checked by the inevitable conditions of Insurance. I believe that at the present time there are many vast establishments in this country, on the Continent of Europe, and in America, and some in this city, which find it difficult to obtain protection against the risk of loss by fire to an amount at all commensurate with the value of their property. Insurance Companies, even the wealthiest of them, are anxious to avoid an exceptionally large loss by one conflagration, for although more than one great Company has survived a loss of half-a-million sterling by one fire, and may even have benefited by it in the long run, there can be no desire to repeat the experiment. The concentration of many large warehouses within a limited area increases the difficulty, and though a free interchange of business and distribution of risk between British, American, French, and German Offices might overcome the difficulty, arrangements of that character are not yet within measurable distance. The remedy which naturally suggests itself is to create new Companies, but few of the attempts in this direction which have been made in recent years have been attended with success. There has been no jealous reluctance on the part of existing offices to admit new comers into their comity; on the contrary, there has been a certain readiness to welcome additional facilities for the sharing of large Insurances. But when the accommodation required in individual cases amounts not to tens but to hundreds of thousands of pounds it wants many new and wealthy offices to overtake it. These cannot subsist on this class of business alone, even if it were in itself a very profitable class, which it certainly is not; and to build up a safe general business is a work of time and patience, of skill and courage and good fortune. It would be rash to say that there can be no new and unexpected development of Insurance which will provide for an unlimited amount of risk; but those who are ambitious of having under one roof, or exposed to the hazards of one fire, an exceptionally large amount of inflammable property, will do well to reckon on being their own Insurers for considerable amounts.

Extent of Fire Insurance Estimated.

At the present time, according to the best estimate I can form, the sum paid yearly by Insurance Offices throughout the world for losses by fire is not less than thirty millions sterling. A further sum of about twenty millions is probably required for the cost of distribution, including dividends on capital; so that, apart from those losses which are not covered by Insurance (and which in America are reckoned as equal to about two-thirds of the loss covered), the world pays at least fifty millions sterling as its yearly tribute to what has been called the "fire fiend." It will be obvious what vast sums may be saved or lost through any cause which tends to contract or expand this yearly impost.

We have no trustworthy statistics in this country about the causes of fires; but in America it is estimated that of the fires whose origin is known, 26 per cent. are wilful. Very many of these are laid to the charge not of the persons insured, but of outsiders influenced by a variety of evil motives. The loss by such incendiary fires appears to be only about ten per cent. of the aggregate loss. That one-fourth of the fires produce only one-tenth of the loss, may indicate either that incendiary fires chiefly occur among the smaller sorts of property, or that it is among these that they are most readily detected. A great conflagration, by which a very heavy loss is occasioned, usually destroys all evidence of its own cause.

Life Assurance: Its Economic Uses.

Provision for Families.

I must now pass on to speak for a little about Life Assurance, which, as I said at the outset, combines the principle of protection against loss by premature death with that of accumulation and investment. The results, at only a few of which it will be possible to glance, are both social and economic. They affect both the individual life and the community at large. It is the Insurance principle which chiefly influences the one, and the accumulation principle the other. To Life Assurance we owe the existence of thousands and tens of thousands of middle-class homes. No doubt men and women married and were given in marriage before Life Assurance was heard of; but in the majority of cases they either had to run the risk of the wife and children being left destitute (unless of an age and condition to earn their own support) by the premature death of the bread-winner, or they had to wait till they had provided against this by years of saving. No man now, whose circumstances entitle him to undertake the present support of a family, need be deterred from doing so by the fear of their being left penniless at his death. Income rightly used supplies the place of capital. A comparatively early marriage need no longer be an act of selfishness or imprudence, and vast numbers of happy and well-cared for families are reared upon the basis of a life policy. This application of Life Assurance is practically the back-bone of the business, though it serves many other social uses besides, and its influence will be best appreciated if we imagine for a moment what would be the consequences if it were unattainable.

Married Women's Property Acts.

In recent years legislation in this country, following that of some foreign countries and of our colonies, has given special encouragement and protection to assurances effected for the benefit of wife and children. The policy of this legislation has to my surprise been impugned, but it seems to me to be as just as it is beneficent. Every man owes it to his wife and children, as a condition of his indulgence in these luxuries, that he will make some provision for them after his death, and that if he cannot do so otherwise, he will apply a portion of his income for this purpose, and not selfishly use the whole of it during his own lifetime. This natural obligation is capable of being converted into a legal one, and then the law justly recognises the wife and children as creditors, and as having a right, like other creditors, to obtain, if they can, some security for their claims. Where persons can afford it, this security is often effected by the costly and cumbersome machinery of a marriage settlement; and it is regarded as perfectly legitimate for a man who is solvent at the time to tie up, under a settlement, not only policies of assurance but other property for the benefit of his family and to the exclusion of creditors. What the Married Women's Property Acts do is to enable a man to fulfil the duty to which I have referred as simply and inexpensively as it is possible to conceive, by effecting a policy on his life which, if it be kept up, will certainly be paid to his wife or to his children. The Acts appear to leave him at liberty to determine to whom the money is to be paid by the Insurance Company, and how it is to be apportioned among the members of his family, but in most cases, especially where the amount is small, it will be for the office to suggest the terms of the policy. Where the instructions are in the common form of requiring an assurance for the benefit of wife and children, the most advisable course appears to be to make the whole amount payable to the wife if she survives, and, failing her, to the children in such proportions as the father may direct, and, in the absence of directions, then equally among them; but other forms are no less consistent with the Acts, and may be used if required. Such policies, if properly expressed, will be effective as family provisions, and need impose no special inconvenience or trouble on the offices that grant them; whilst the degree of protection afforded to them, and the simplicity with which most of the advantages of a marriage settlement or a will may be secured, ought to make them attractive to a large class.

I may observe here, in this connection, that before Life Assurance acquired its present development, the objects I have been referring to were often sought to be attained by means of special Widows' and Orphans' Funds, confined to members of certain professional or other bodies.

A Source of Credit.

The security afforded by Life Assurance against the loss that may arise by premature death serves another economic purpose. In a petition dated in 1719 for the incorporation of a Life Office, the promoters suggested that "merchants would be encouraged to be more bold in their undertakings, because, in case of death before their schemes in trade succeeded, their widows and families might thereby receive a benefit in a great measure to recompense the failure of such their undertakings." Whether merchants are practically much influenced by this consideration I cannot say, but it is certain that those who trust them are, and that the possession of a Life Policy is an important adjunct to the credit which has its root in a man's personal capacity and integrity.

Loss by Premature Death.

It has been estimated that the money value of every inhabitant of this country, man, woman, and child, may be taken at £159. The value of a bread-winner is of course greater. If it be considered what it costs to produce even one ordinary working man of the age of 30, how he has had to be fed and housed and clothed and educated for many years, while he could produce nothing in return, how many failures have had to be paid for in order to yield the successful results, and how much such a man is capable of doing during an average lifetime to benefit the world by his labour and his intelligence; and if you carry forward the idea and estimate the cost and the value of other men of greater culture and fit to render still more valuable service, it will be felt that premature death involves a pecuniary loss to the community, just as a fire or a shipwreck does, and that this loss need not fall with crushing effect on the individual family but ought to be distributed by means of Life Assurance.

Conversion of Income into Capital.

But taking Life Assurance as a combination of this protection against loss with a provident accumulation of yearly savings, its great economic function is the conversion of temporary income into capital. There are no doubt many persons whose incomes do not cease with their lives who yet insure; some, as in the case of landowners, that they may transmit their incomes unimpaired to one person and yet provide for others; some to secure and ultimately pay off debts; some because it is an excellent method of saving and of increasing the fortune they mean to leave to their families; but, probably, in the majority of cases the object of insuring is to supply to some extent, to those who are to come after us, the place of that income which will disappear with our lives. There are few means of analysing the sums spent in Life Assurance, but some general facts may not be uninteresting; they will tend to show that with all that has been done to direct attention to the subject and to meet the public needs, Life Assurance is still not practised among us to anything like the extent that it might be.

The Life Assurance premiums received in 1886 by British offices amounted in round figures to over £13,000,000 sterling; their incomes from all sources were nearly £20,000,000; the amount paid in claims, bonuses, and surrenders was a trifle over £13,000,000. Some portion of these amounts came from and returned to India, the colonies, and foreign countries, so that we cannot well tell how much of British incomes was thus converted into capital, but if we assume from 11 to 12 millions we shall probably not be very far from right. We are able to compare this with the Income-tax returns. A part, and possibly no inconsiderable part, of the sum spent yearly on Life Assurance is no doubt a contribution from the persons assessed under Schedules A, B, and C—landowners, farmers, and fundholders—or from those incomes assessed under Schedule D, which arise from capital invested in trade and manufactures, in mines, railways, &c. Whatever is left is contributed out of the incomes which arise from the personal earnings of traders and professional men, and from the salaries of employés. The incomes from trades and professions, including no doubt a return on the capital engaged in trade, reached last year the net amount of £136,341,793; while salaries assessed under Schedule E were £30,290,853. If these classes contributed £8,000,000 or £9,000,000 of premiums (not an unlikely conjecture), the portion of their incomes which were spent in Life Assurance was about 5 per cent.

If, however, we take the claims made for relief from assessment on account of Life premiums, the proportion would appear to be much less, although the law allows of an abatement to the extent of one-sixth, or 16·6 per cent. Out of 190,000 persons assessed under Schedule E—that is, for salaries—only 29,000 claimed allowance on account of Insurance; and out of £30,000,000 of ncome, only £514,000 was deducted, or less than 2 per cent. nd under all the schedules relief on account of Insurance was ly claimed by 93,774 persons, and the amount of premiums aken credit for was no more than £3,906,960. As we know that British offices received £13,000,000 in premiums, the greater part of which must come from persons within the United Kingdom, it would appear as if many must fail to claim deduction on this account. It is true that the £13,000,000 will include contributions from persons whose incomes do not exceed £120. I have excluded from the figures I have presented to you the returns of the so-called Industrial Companies, but no doubt many persons of small income insure with the ordinary offices. From some estimates I have made, I am inclined to think that policies at or under £200 may contribute about one-tenth of the whole premiums.

Extent and Progress.

Before leaving these figures I may mention that, according to a recent estimate published in the *Journal of the Institute of Actuaries*, the number of all existing Life policies throughout the world, not including Industrial policies in the United Kingdom, is a little over *three millions*, and the amount of them is £1,200,000,000 sterling. British offices contribute to these about *one million* of policies, for £445,000,000 sterling. The Assurance funds belonging to all the Life offices in the world are supposed to amount to about £300,000,000, of which £131,000,000 are credited to this country; but our own Government returns show that the total funds belonging to British offices, including their paid up capitals, reserves, and annuity funds, are close on £170,000,000.

One word as to the progress of the business. Our Government returns show that within five years the premium income of British offices has increased by 10 per cent., their funds by 14 per cent., and the yearly amount of claims paid by 15 per cent. Mr. Besso, whose estimates of the world's business I have already quoted, reckons that the yearly amount of new Assurances has doubled within 18 years, and that the Assurance funds have doubled in 14 years. One practical deduction to be drawn from these figures by those of us who are engaged in the business of Life Assurance is the exhaustless field there is from which to look for new transactions. Every year, taking this country alone, there must be new transactions amounting to far more than £13,000,000 sterling to keep the existing amount undiminished; but the fact that the premium income is increasing at the rate of about £240,000 a year indicates that probably 18,000 persons insure their lives yearly for about £8,000,000 in advance of the amount of the year before. Again, the net assessable income of the United Kingdom is £530,000,000, of which only £13,000,000, or less than 2½ per cent., are devoted to Life Assurance, even if we reckon the whole as coming out of British incomes assessable for income tax, which it certainly does not. Life Assurance will not have reached its full development until the proportion of Life premiums to the total income of the country shall have greatly exceeded this inadequate rate.

It may interest you if I give you some American figures as contrasted with British ones in millions sterling—

	Gt. Britain	U.S.A.
Existing Life Policies, ...	445 ...	485
Assets, ...	170 ...	117
Yearly Premiums, ...	13 ...	19
Payments to Policy-holders, ...	13 ...	13
Yearly Expenses, ...	nearly 2	upwards of 6

In these observations I have not attempted to enter on the large subject of industrial companies and friendly societies. The social and economic influence of these is prodigious, if we look at the enormous numbers of the persons affected by them, but I limit myself to what we know as ordinary Life Assurance.

Accumulation and Investment of Funds.

The vast sums of which I have been speaking suggest another economic force of great importance. As we have seen, the funds of the British Life offices amount to about £170,000,000, and these funds have to be invested under conditions peculiar to themselves. Perfect security, as far as human efforts can attain to it, ought to be and is the first of these conditions—that is, expectations of profit must be subordinated to safety. These funds cannot be employed directly in commercial or manufacturing enterprise, nor, except to a very limited extent, in the purchase of land or buildings. But if this restricts their profitable application, there are other circumstances which extend it. Thus we do not need, as bankers or private trustees do, to see that more than a small part of our investments can be made available on short notice. If we can make sure that they will be realised at some time or other, we can afford to wait and to take repayment in almost any form; nor are we limited to home securities. The actual investments may be summarised as follows:—

Mortgages at home and abroad, ...	75	millions stg.
Government securities—home, foreign, and colonial,	19½	,,
Advanced on rates and rent charges, ...	21	,,
Debentures, shares, and stocks, ...	23½	,,
Loans on policies, ...	8	,,
Land, house property, and ground rents, ...	9	,,
Other securities, including outstanding interest, cash, and premiums in course of collection, ...	14	,,
	170	,,

The business of making these investments is a very great and arduous one. On an average, investments have to be found each year for about 4½ millions of new accumulations; but, owing to repayments and realisings, the amount to be invested yearly is probably three or four times as much.

Limits to Application of Insurance.

It is impossible within the limits of an address like the present even to touch on many of the conditions under which the principles and practice of Insurance exercise an influence on human society and its individual members, or which, on the other hand, the necessities of life impose upon it. I will only, in a sentence, observe that the application of Insurance is not free from limitations. Attempts have been made from time to time to extend it to almost all the accidents by which we can suffer loss, but it does not admit of such universal application. Some accidents are too infrequent to arouse a sufficient sense of danger. Some are too much under the control of one or other of the parties to permit of an equitable contract. My attention was directed lately to a proposal for insuring the safety of loans or other investments, but it did not seem to me to possess the elements of success. The differences in the return to be obtained from one sort of investment or another depend largely on the real or fancied differences of safety. The readiness with which an investment can be realised in case of need enters, no doubt, into its value. But setting this aside, there is no reason why £3 should be accepted as the yearly return for £100 when £4 or £5 could be obtained, except that the £3 can be more confidently reckoned on. The difference is the measure of the difference of safety. Now it would be possible, by a sufficient guarantee, to make the £4 as safe as the £3, or the £5 as safe as the £4, but the difference would have to go to the guarantor; and the question arises, whether in most cases the investor does not prefer to keep the higher return for himself, and to accept whatever risk it involves, rather than to obtain a smaller return with greater safety. On the other hand, the business of guaranteeing would be specially hazardous, and the contracts would be of prolonged endurance, not easily got rid of. The contracts of Life Assurance are based on well ascertained laws of mortality; those of Fire and Marine and Accident Insurance are all experimental and tentative, which the insurers are not bound to renew beyond the limited period for which they were at first granted. But the guarantee of a loan or an investment in shares, while not precisely measurable by any known laws, and therefore highly speculative and uncertain, could not be put an end to by the guarantor at his pleasure. To withdraw from his obligation because the security was deteriorating, or to increase the rate of premium, would defeat the object of the transaction. Moreover, these long-dated contracts would inevitably refer to categories of investments, and would be liable to the risk of a general depreciation. Thus, if there had existed a company which would have guaranteed Indian rupee paper, or Irish mortgages, or loans on suburban property in this neighbourhood, it might have found itself the victim, not of a bad investment here or there, but of large groups and classes of deteriorated securities.

Insurance as a Business.

We have been considering what we may call the exoteric aspects of Insurance, its bearings on a world outside itself; but I will conclude by saying something of that other light in which it usually presents itself to most of us. Insurance is so useful and so necessary that it might well be taken in hand by Governments, or as one of the institutions of benevolence. Government Insurance is not unknown. In some countries, such as the Canton of Zurich in Switzerland, all buildings are insured against fire compulsorily by the State. In others, such as Denmark and New Zealand, the State has established a Life Assurance business. In our own country the Government offers Life Assurance to a limited amount through the Post Office, and sells annuities without limit through the Commissioners of the National Debt. At the present day there is a strange tendency to return to the notions of paternal government which were thought to be among the sins of despotisms or oligarchies, and to desire that individual enterprise should be exchanged for State initiative and control. Happily for the general welfare, the business of Insurance is here and in most other countries regarded as a proper subject for private enterprise, the immediate object of which is the profit of those who undertake it. I say happily, because there can be no doubt that as a rule the public are best served by those whose interest it is to serve them well. Insurance, then, besides being the handmaid of many other industries, is itself an industry, giving employment to a vast army of educated men, of whom it demands much knowledge and capacity.

It results from this that there arises great competition for the privilege of serving the public with Insurance and for the attendant advantages, and the gathering in of the business to be transacted forms a large and essential part of the machinery. Even where Insurance presents itself, as Fire and Marine Insurance often do, in the form of an urgent necessity, there is generally a need of some intermediary to advise as to its conditions, and assist in negotiating it. But often, and especially in Life Assurance, there is need for more than this, and the most earnest persuasion has to be employed to induce men to avail themselves of benefits which ought to be their own advocates. All this gives occasion for variety of powers as well as complexity of motive. The officers and agents of a great Insurance office properly regard it as one of their highest duties to swell the amount of its business by all legitimate means, and their success affects their own credit and emolument. But they may be expected also to have regard, and, if they are right-minded, they will have regard, to the best interests of the public whose business they desire to attract.

Insurance as a Profession.

A Society like that which I have the honour to address exerts a very large influence for good upon the conduct of this business of ours. It brings together men engaged in every department of Insurance work, from the actuary engrossed with abstract calculations to the active and energetic agent whose business it is to be in constant touch with the public, to know their wants, and how to meet them, full of tact, untiring, persuasive, irresistible. That each of us should have his own individual interests in view is not only natural but legitimate, and competition tends to secure for the public that their interests also will be studied and provided for. But it is possible to take a narrow and degrading or a broad and elevating view of the work we are engaged in. It is possible to suppress in ourselves and to discourage in others purely selfish aims, and petty and questionable methods of promoting them. It is possible to cultivate the feeling that we belong to an honourable and a united profession, engaged in a business which contributes largely to the public welfare, which commands enormous resources, and has its roots and branches in every country of the world, a business which, if conducted with honour, will reflect honour upon us, and which invites the application of all the powers of knowing and thinking and doing which we possess or can acquire.

And while we thus feel the influence of that general union which binds in common interest and common credit all Insurance offices and all the men connected with them, and while we desire both to contribute to and to draw from the common stock of experience and reputation, it may be allowable to dwell for a moment on those closer ties which unite the servants of one great Insurance corporation. Their functions, their opportunities, their rewards, must necessarily vary exceedingly, and these may not always be distributed in a way to satisfy every one. There are not wanting occasions for differences of view and clashings of personal interests. There is no one connected with it who is not liable to err in principle or in practice, and who does not need the consideration and forbearance of his coadjutors. But there ought to be a sentiment of loyalty towards that abstract thing—the company or society—an enthusiasm for its prosperity, a pride in its good name, a readiness to stand by it against the world, a constant sense of our being a part of it, and of its being a part of us, a feeling that its interests are to be first with us and our own personal interests second. Such sentiments combined with a sense of brotherhood towards all connected with it, are among the most effective means of converting toil and anxiety into satisfaction and happiness, and giving a higher and healthier tone to our daily occupations, even to our daily worry and drudgery.

I will conclude by bearing my humble testimony to a fact. I have had for about half a century some means of knowing the character of the men who have been the principal officers of most of our great Banking and Insurance institutions in Scotland, and I have enjoyed the personal acquaintance and friendship of many of them. There has, of course, been among them a variety of character and capacity, and some few may have been neither extremely able nor extremely wise; but I firmly believe that, with scarcely any exceptions, they have acted on the principle of regarding the honour and interests of the companies they were identified with as in every way to be considered before their own. And what I say of the chief officers of these institutions I say also unhesitatingly of the great bulk of their employés, for I have over and over again had occasion to admire the unselfishness and zeal of clerks indifferently paid and young apprentices. It is to this element of personal devotedness that the success of these institutions is largely owing.

Acting, then, on such principles, believing that we are contributing, in ever so humble a degree, to the national prosperity and the wellbeing of our fellow-men, recognising that we are members of an honourable and a scientific profession, and cultivating a brotherly regard and sympathy towards all our associates in it, we who are Insurance men may face with composure the anxieties and labours of an arduous calling, and may hope to please God in it, and to enjoy the testimony of a good conscience.

POST-OBITS AND EQUITY.

Reprinted from THE JURIDICAL REVIEW, *January*, 1892.*

A CASE was decided the other day in the House of Lords which suggests some interesting considerations as to the law affecting Post-Obits. It was the case of *Salt and Another* v. *The Marquis of Northampton*, 30th November, 1891 (*Times*' Law Reports, Vol. viii. p. 104), in which the decision of the Court of Appeal, 14th July, 1890 (*Times*' L.R. vi. 427), was affirmed. In the Court of Appeal Lord Justice Bowen, and in the House of Lords Lord Hannen dissented from the judgment. In 1879 the then Earl Compton, who was in his thirtieth year, borrowed £10,000 from a London Assurance Office, to be repaid out of certain estates to which he would succeed on the death of his father, then in his sixty-first year. To secure the lenders against the contingency of Lord Compton predeceasing his father, in which event nothing would come to them from the estates, an insurance was effected on his life, payable if he should predecease his father. The policy was effected by the insurance office as lenders with themselves as insurers, but it seems to have been regarded by the Court in the same light as if it had been effected by the lenders with some other office. The amount of the policy was £34,500. There was no reference in the opinions of the judges in either Court to the significance of this particular amount, although, as will be seen presently, the sum and the way in which it must have been arrived at have an important bearing on the case.

Lord Compton died in 1887 during the lifetime of his father, without having repaid any part of the loan or paid

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any interest on it, and without having paid any premiums of assurance. Whatever security the lenders had over the estates came to an end, but the amount of the policy became payable. The deeds executed when the loan was effected seem to have contemplated the possibility of its being repaid during his lifetime, in which case the policy would have become the borrower's property; but it was expressly stipulated that if he should predecease his father without having paid the loan and redeemed the securities—the event which actually happened—the policy should belong absolutely to the lenders. An agreement to this effect was insisted on by the lenders as an essential condition of their completing the transaction, and it was duly executed by Lord Compton, after being approved of by his solicitors. Notwithstanding this agreement, Lord Northampton, as his son's representative, claimed that the policy belonged to him, subject to repayment to the lenders of all their advances with interest; and this claim has been allowed.

We need not follow the judges into their comments on the terms of the deeds. There was little or no dispute that if these terms were given effect to the policy would belong to the lenders. But it was held that "Equity" compelled the Courts to override and cancel these express stipulations. The principle that must prevail was that this had been in reality a mortgage, that "once a mortgage always a mortgage," that a mortgagor had an inalienable equity of redemption, and that neither his own act nor anything else could be allowed to "clog, fetter, or impede his right to redeem." Lord Bramwell acknowledged that he could not understand this principle, but reluctantly came to the conclusion that it was too firmly held to be got rid of, and so joined Lord Selborne in deciding against the lenders. Lord Selborne himself explained that his opinion in the case had undergone some fluctuations. Lord Hannen held that the transaction was not really a mortgage, and did not therefore come under this rule of equity.

It would be quite a fair question for argument whether either law or "equity" ought to recognise post-obits at all, and whether any one should be permitted to pledge or impair or renounce a future inheritance. Undoubtedly this is often done by foolish persons improvidently and for unworthy objects, to be heartily repented of too late; on the other hand, there are plenty of cases where a bird in the hand is worth ever so many in the bush, where to secure the means of immediate subsistence, or to provide funds for establishing one's-self in life, or to avert an impending and possibly an irreparable disaster, it may be most wise and prudent to make a large sacrifice of some distant and contingent benefit. Rightly, therefore, the law permits such transactions, but there has been a marked tendency to regard them with jealousy. Obviously minors ought not to be allowed to judge for themselves of the advantages of such a contract, but if the privileges of minority are to be extended beyond the legal age, it ought to be done, not at the discretion of judges, but by Act of Parliament, that all persons may be warned. Obviously, also, protection should be given, as in the case of other contracts, against misrepresentation and fraud; but it is not easy to see why the parties to this sort of contract should be allowed the exceptional privilege of obtaining relief from the consequences of their own wilful ignorance or carelessness or stupidity, or of their eagerness to secure a present benefit.

One strong argument against Courts of Justice attempting to revise and modify contracts deliberately made between persons of full age, where there has been no deception on either side, is the difficulty which even the judicial mind must experience in placing itself in the position the parties themselves occupied when they made their contract, a complete change of circumstances having occurred in the meantime. Thus, in post-obit transactions, and, indeed, in life assurance transactions generally, the premature and unlooked for death of the person or of one of the persons whose life or lives were in question, scarcely ever fails to affect the view. The great difference such an event creates in the interests of the parties makes it difficult to revert to the time when the event was justly and reasonably dealt with as a remote contingency.

It may be permissible to remark that the actuarial view of such transactions is most likely to be the correct one. The actuary is accustomed to deal with probabilities and contingencies, and to reduce them to a present value. He knows that the facts which will emerge in any given case are very unlikely to be in precise conformity with the suppositions he has made: such conformity can only be looked for in the average results of many separate cases: but the probability, or in popular language the chance, of any event or series of events happening, is as capable of being appraised at its true pecuniary value, if the data are sufficient, as the present possession of a house or a picture. If the value is rightly estimated before the event happens, its soundness is not to be challenged merely on account of something that occurs afterwards, any more than we should question the fairness of the price paid for a cargo of wheat or cotton because the market for these commodities had subsequently risen or been depressed.

The case of Earl Compton will illustrate these positions. As already stated, he borrowed £10,000 in 1879, to be repaid in effect out of property to which he would succeed at the death of his father; and although he seems to have granted a *de presenti* obligation for principal and interest, the lenders had presumably no prospect of recovering their money during Lord Northampton's lifetime. The Marquis was in his sixty-first year, and happily he is still living, and according to the ordinary tables of mortality he may live to be one hundred years old; but that we may not seem to strain our suppositions, let us take it that in 1879 the parties were satisfied to assume that he could only live to about ninety. On the footing that the lenders were to get back their money, if they could, with compound interest, and were to get nothing more—and this is what the Court has decided to be the limit of their rights—it would be a reasonable assumption that this was to be made sure to them, even if Lord Northampton should live to be ninety. The rate of interest agreed on was $5\frac{1}{2}$ per cent., not a usurious rate considering how long the lenders might have to wait for it. We will assume, however, that the rate was only 5 per cent. At that rate £10,000, accumulated at compound interest, would in thirty years amount to £43,000. But the lenders getting this or anything at all was dependent on Lord Compton surviving his father, and consequently the risk of his dying first had to be guarded against by an insurance on his life against that of his father, the yearly payment for which was at the rate of £1, 5s. per cent. If they were to secure in this way only the original amount of the loan, then a policy for £10,000 would cost a yearly payment of £125; and if the lenders had to pay this themselves, the amount of those payments in thirty years, with 5 per cent. interest, would be £8000. But if they were to protect themselves from loss, they must insure not only for the original amount of the loan, but for the interest that would roll up on it, and also for the amount of the premiums they would have to pay and the accruing interest upon them. We need not go into a close calculation of what all this would amount to, but we shall be considerably within the mark if we assume that if both Lord Northampton and Lord Compton had continued in life for thirty years, and the lenders had received nothing on account of principal, interest or premiums, their advances accumulated at interest would not have been less than £70,000.

It does not appear what was the value of the property out of which this was to come if Lord Compton should outlive his father; but one of the events which was possible was that, after both of them had lived for thirty years, Lord Compton might die first, in which case the policy was all that the Company would have to look to. The amount of the policy being only £34,500, while their advances would amount to more than £70,000, they would lose one-half of their advances. This was the risk they ran with absolutely nothing to compensate for it, because, if the Court were right, they could never under any circumstances receive more than the amount of their advances with interest. It is obvious, therefore, that this could not have been the sort of contract which was really intended by either party to it. Clearly what they had in view was the familiar transaction by which the lenders undertook the risk of losing if the borrower and his father should live beyond a certain number of years, and in compensation for that risk were to have the prospect of a profit if Lord Compton should die prematurely. It happened that Lord Compton did die prematurely, and what the decision of the Court has done is to deprive them of that contemplated profit by setting aside the express provisions of the contract, and on the ground of "Equity."

It would have been presumptuous to entertain any doubt of the soundness of this decision, if two learned judges had not dissented from it, while Lord Bramwell threw ridicule on the principle which yet he felt himself bound to recognise, and if we had not the authority of Blackstone and other great writers for questioning whether Equity in a legal sense has any connection now with equity in a popular sense. Here we have a man thirty years of age, and in a position of life which guaranteed to him independence of judgment and all necessary advice, and who was in fact advised by his own solicitors, obtaining £10,000 on the faith of an express and a reasonable stipulation, and we have that stipulation set aside and absolutely annulled on grounds of technical "Equity," with this curious result that while he has never paid one penny of principal or interest, his representative is found entitled to demand from the same parties a further sum of large amount in respect of a policy which these parties themselves effected and paid for. Even this might have been equitable in the popular sense, if over against the risk of losing so much money the lenders had obtained the chance of a corresponding profit, but, as we have shown, no such chance was permitted to them. One can scarcely help admiring the courage of the persons who made this further demand, but they no doubt feel justified by the fact that "the law allows it and the Court awards it."

One of the disadvantages of such a decision is that it must tend to render more onerous the terms on which future borrowers will obtain the accommodation they require upon this class of securities, because the lenders must be paid, not merely for the usual risks of death or of a bad security, but for the further risk of having the terms of their contracts set aside. Of course future conveyancers will see to it that their deeds are differently framed. But what will that avail them? In one of Anthony Trollope's novels, where the story turns on the terms of a will, some doubt seems to have struck him as to whether the will he described could legally have the effect he intended, so he desires his readers to imagine, if they share his doubts, that the will was in other terms sufficient to carry out the author's intention; but we should also have to imagine that there were no Courts of Equity to annul the express terms of such an instrument.

JOHN M. M'CANDLISH.

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Volume III., No. 2

ADMINISTRATION:

NOTES BY AN OLD HAND,

BEING

THE INAUGURAL ADDRESS FOR SESSION 1892-93

BY

JOHN M. M'CANDLISH, F.R.S.E.

HONORARY PRESIDENT OF THE SOCIETY

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Administration.

Any difficulty which may be experienced by an Honorary President of this Society in selecting materials for his opening address does not arise from there being a dearth of subjects likely to interest you. It has occurred to me, however, that for one who has retired from active business and who is almost certainly addressing you for the last time, an appropriate object might be to try whether his own professional experience could suggest any ideas or hints that might possibly be even a little helpful to his younger brethren. The chief occupation of my life has been to administer the affairs of a Joint Stock Company, and I propose now to speak of the work of administration generally, and more particularly of the management of such associations as Insurance Offices. In doing so, I need scarcely say that if a man near the close of life can think of any lessons he has learnt or any he can possibly impart, they must be chiefly drawn from his own mistakes and failures. Experience and reflection which have often come too late for his own use may be not altogether unserviceable to others.

Work of an Actuary.

I do not forget that I am addressing an Actuarial Society, but some of you may be aware that I have always sought to give a broad significance to the word Actuary. Twenty-eight years ago, soon after this Society was established, on the first occasion of my occupying this chair, I tried to express my ideas of what ought to be the character and functions of the Actuarial profession. While recognising the great value of high mathematical attainments, and looking on their possessors with sincere admiration and some little envy, I have been disposed even in the matter of figures to draw a line between an Actuary and a Calculator. But looking to the development of life assurance business in this country and throughout the world, and to the nature of the attainments required by those who conduct it, attainments which when fairly possessed by any man ought to place him on a level with the members of any other learned profession, it has seemed to me very desirable that the name of Actuary should not be used with exclusive application to one small though important part of the work to be done, but should include the whole range of duties involved in the conduct of insurance business; in other words, that an Actuary ought to be a man who can not merely make calculations, but who can manage an Insurance Office in all its departments, and that the man who can do this ought to be recognised as an Actuary.

But whether we so apply the word Actuary or not, there can be no doubt that every man who has adopted Insurance as the business of his life ought to study the art of administration, because in the proportion of his professional success this will be his principal work. It seems very desirable that the chief administration of Life Offices should be in the hands of men familiar with the principles and methods of those calculations which are required for fixing rates of premium and estimating liabilities, and able, if need be, to undertake them themselves, and at all events to guide the calculators and check their results; but what will chiefly occupy them will be administrative work; and for every employé the better qualified he is for that kind of work the greater will be his value to the office and the chances of his advancement.

Administrative work is not restricted to the employés of Joint Stock Companies. In some occupations, such as those of barristers and physicians, it is scarcely to be recognised, but there are few mercantile or manufacturing businesses where a certain amount of administrative capacity is not needed, and sometimes a great deal and of a high order; and we are all accustomed to see this capacity displayed—often brilliantly and to our great benefit—in the management of domestic households. It enters, of course, very largely into imperial and municipal government, into the control of the naval and military forces, and into the affairs of the churches. Wherever, in fact, bodies of men or of women, larger or smaller, have to be guided, controlled, or arranged for, the functions of the administrator find a place.

Constitution of an Insurance Office.

But it is with insurance offices we have to deal, and we may consider at this stage some of their characteristics. We need not in this connection recognise any difference between a Joint Stock Company and a Mutual Society, or even refrain from speaking of both under the general name of Company. Such a Company is a complex machine with many parts. There is, first, the Constituent Body, shareholders or mutual assurers, for whose benefit the business is conducted and whose votes ultimately control it. Then there is the small representative body, chosen by them to attend more closely to its affairs and to their interests, and to whom they delegate much of their power, the Board of Directors. Then there is the Chief Administrative Officer, by whatever name he may be called, Chairman, Manager, President, Secretary, or Actuary, who is no doubt the servant of the Constituent Body, acting through the Directors, appointed and controlled by them and responsible immediately to them, but who, by virtue of his office, is not a mere delegate or servant of the Board, but has both duties and responsibilities of his own, and who must often exercise an independent judgment. Then besides such important officers as Medical Advisers, Solicitors, and Auditors, there are the rest of the administrative staff, many of them exercising considerable independent authority, and all of them responsible in a greater or less degree for the right conduct of the business. Then there are the Company's representatives throughout the country and often throughout the world, the managers or other chief officers of branch establishments, and the very large body of agents. And lastly, there are the very numerous persons who have dealings with the office, such as the assured and applicants for insurance and many others. The rights and duties of the administrative staff in relation to each of the other classes as well as *inter se* may suggest a good many subjects for consideration.

There is a close and obvious analogy between the constitution of such a Company and what we know as the British Constitution. In both there are the Constituent Body, the Legislature whom they elect, the Executive, and so on, and we shall not find it difficult to perceive many characteristics, beneficial or otherwise, that are common to both.

Divided Responsibility.

One source of weakness in both systems is the great division of responsibility which exists. It is perhaps a necessary consequence of the limitation of the power possessed by any one person, and from that point of view the disadvantage is more than compensated. At the same time I have long been satisfied that businesses in the hands of individuals or small co-partneries, if they could command sufficient capital, confidence, and endurance, enjoy far more of the elements of success than Joint Stock Companies, and that it is therefore a mistake to assume, as has often been done in recent years, that a business which has prospered in private hands will be equally prosperous when weighted with the more cumbrous machinery of a Company. Fire or Life Insurance, however, owing to more than one circumstance, can scarcely be prosecuted at all except by a Company, but it is likely to be prosecuted more successfully when some one man is willing and is allowed to treat it very much as if it were his own private concern. That Company, indeed, is fortunate whose employés from the highest to the lowest regard its interests as if they were their own, and who are encouraged to do so, and I feel bound to say that according to my experience that has been the general rule with Scottish insurance offices. But what I am now referring to is the advantage there is to any business concern of having one competent man who can and does think and speak and act on its behalf as if its whole success or failure depended on him, and to whom all personal considerations, whether of ease or credit or money, are wholly secondary in comparison with the true well-being of the Company.

It would be comparatively easy to do this if the constitution of a Company gave this one man anything like absolute control, which may sometimes happen where the supreme executive authority is in the hands of the Chairman of a Board or of a Managing Director, where, in effect, both legislative and executive functions are in the same hands. But the power and influence which in such a case are capable of working beneficially are also capable of being abused; and on the whole, safety lies in a limitation of power and in efficient checks, even though they involve some sacrifice of force and vitality.

Relative Duties.

We are thus brought to one chief problem which faces the administrator, whether he is the man who has only to answer to the Board of Directors or a subordinate answerable to his immediate superiors in the official hierarchy. To what extent is he to exercise an independent judgment and to assume responsibility? It is, of course, generally easy, as it is the line of duty, to obey explicit directions; it is still more easy to avoid the trouble of thinking for one's-self, and to do nothing without explicit directions. How far it is one's duty to go beyond this may depend a good deal on the character and practice of those to whom we are immediately answerable. Here, then, comes in (as, indeed, all hrough our subject) what is of the very essence of successful dministration, a knowledge of human nature and the capacity to .dapt one's-self to its various phases. Let us suppose the case of some gentleman at the head of a department of the Company's business, with other men under him, but himself responsible to his chief. It may be assumed that his subordinates will not always see things in the same light that he does or be equally qualified to deal with them; and that, on the other side, the man above him may, owing to his very position, take a broader view and with wider knowledge and experience than his, and, at all events, may come to a different judgment. In dealing with those below him, he will find that while it may be essential that he should instruct them and correct their errors, and while they will expect this to be done, and will recognise the value of their being thus educated in their business, he will not secure the best work they are capable of doing, or that hearty and thoughtful co-operation which will be so useful to himself, unless he carefully avoids everything that would discourage them. It will depend on how he exercises his duty of supervision, whether his juniors strive to give their heart and mind to their work or content themselves with a mechanical attention to it.

When turning to the other side he has possibly a more delicate problem to solve. If he is fortunate in his immediate superior, he will find his suggestions welcomed, considered, and frequently adopted, and his work either accepted *simpliciter* or so talked over as to inspire him with a greater interest in it, whether he agrees with or dissents from the views of his chief. But in any event he will be wise not to allow discouragement to affect him otherwise than as a stimulus to greater thoughtfulness and renewed effort.

There is one point in the conduct of the superior powers in an office, whether directors or officers, towards their subordinates as to which I may interject a note, and that is that care should be taken to support them, if possible, in any dispute with outsiders. Some one may say, By all means let them be supported when they are in the right. But small thanks, say I, to the man who supports me only when, in his superior judgment, I am in the right; he is bound to do that for the right's sake; it is when I am thought to be in the wrong that I most need support, and when that support, being given to me from personal considerations, will be the more valued, and will attach me more warmly to those who give it.

Natural Ambition to Rise.

But we have to deal also with the natural ambition of men to rise in the official scale. I need scarcely remind those who have that ambition of the old and commonplace maxim, that the best preparation for guiding and controlling other men is to practise the art of being guided and controlled, and that to be able to command we must learn to obey. I do not expect that it will check ambition of this kind to know that the upward movement aimed at is not unaccompanied by drawbacks, and that a man often parts with much ease and comfort when, from some position where he has been accustomed to relieve himself of care and responsibility by casting them on an official superior, he passes into one where he has to face the burden of ultimate decision, and where he will often be not half so much his own master as he seems to be, but fettered by circumstances which he may not always be at liberty to disclose. I commend to your notice some ideas which Sophocles puts into the mouth of Creon when he is defending himself to his sovereign Œdipus against the suspicion of coveting his throne :—'Neither,' he says, 'am I of a nature to covet being a monarch rather than acting as a monarch, nor any other who has a sense of prudence; for now I receive everything from thee without fear, but were I a king myself, I should have to do many things against my own wishes. I am not so deceived as to wish for anything but what is with profit honourable. Now I am friends with all, now every one salutes me, now they who have a suit to thee court me. How then should I abandon this place and grasp at that other?' It is sad to think that this calm philosophy did not long save Creon from the fate of becoming a monarch, and tasting to the full the cares and dangers of that position.

Devolution of Work.

On the other hand, one sees every day how difficult men find it to learn the art of deputing, to acquire the inclination and ability to commit to others work which they fancy they can do better themselves. No doubt in many cases the man who feels this difficulty can do it better himself, and any way, he can usually do it more to his own taste. There is also the temptation that it is easier for the time to do the work yourself than to teach some one else to do it, and afterwards to alter and correct it when he has not done it according to your mind. It is far from uncommon to find a man of capacity occupying himself with work below his powers, and that might be well enough done by some junior, and so either burdening himself beyond his strength or neglecting more important matters while attending needlessly to details. Admitting that details are sometimes of the very essence of the work to be done, and have a value that is not always sufficiently recognised, it is of great importance in this, as in everything else, to cultivate sense of proportion, and, seeing that none of us have at our ommand either time or capacities absolutely unlimited, to learn to lect what work can best be done by ourselves and what may be sefully devolved upon others. But it takes half a lifetime to learn that there may be many things which our assistants can do better than ourselves; that in judging of their and our relative capabilities we are apt to be a little prejudiced; and that even if we could do everything better than any one else, it may be more important that a thing should be done promptly, even though not quite up to our standard, than that, waiting our leisure—a leisure that may never come—it should be postponed or omitted altogether. I feel bound, however, to add that to depute is one of those virtues which can be carried to excess; for I once heard of a Joint Stock Company where each of the principal officers, three or four in number, left the chief part of his work to be done by the man below him. The effect of this was not such as to encourage imitation.

Shareholders and Directors.

To return to the gradation of positions in the management of an insurance office, we may pass at once to the relationship between the Legislature or Board of Directors and their constituents the shareholders, or policy-holders. The former are elected by the latter, and are so far under their control, that as usually they retire from office after so many years' service they might fail to secure re-election, and might even be disturbed during their tenure of office by a refusal to approve of their reports, or some other vote indicating want of confidence. In ordinary circumstances, however, and so long as things are going reasonably well, any proceedings of this kind are happily unknown. Shareholders, especially if numerous, have little cohesive power, and as in most instances they have some interest in the prosperity of the concern, they hesitate to injure their own property by an open quarrel with their Board. This is as it should be. The Directors as a rule know far better than the shareholders do, what is, or what is not likely to benefit the Company: they possess information which the others do not, they are more deeply interested in the results, and even in such a matter as the choice of their own colleagues they have probably before making a recommendation, looked at the matter in a far more thorough way than any body of shareholders is likely to have done. It is well, therefore, that any interference with their judgment is seldom attempted and scarcely ever successful. You will understand of course that I am speaking of companies of recognised character; that there are Joint Stock Companies outside insurance business whose directors cannot be treated with the same confidence is a fact which the public records of legal proceedings make too evident.

Directors and Managers.

We may now turn to the delicate subject of the connection between a Board of Directors and its chief executive officer. I have long regarded it as one of the greatest advantages possessed by banks and insurance companies in Edinburgh, and as having largely contributed to their almost invariable success, that we have in the society of this city so many gentlemen peculiarly well qualified to be Directors of such companies. When there are met round one table lawyers, bankers and merchants, university professors, country gentlemen, retired Indian civilians and others, combining great varieties of experience, a present connection with affairs, and sufficient leisure to give ungrudging attention to the duties of their directorate, whatever can be done by means of a Board for the safety and prosperity of a company seems amply provided for. The functions of a Board are of course quite of a different kind from those of the Executive, which latter call for a far more minute attention and a keener sense of individual responsibility. Any attempt, therefore, such as has sometimes been observed, on the part of a body whose duties are deliberative and legislative, to usurp executive functions can only be detrimental to the interests concerned. The intelligent directors of insurance offices usually see this clearly. They recognise also that the business they have to deal with, whether it be fire or life insurance or both, is of an extremely technical character, not mastered even by the officers of a company without years of exclusive devotion to it, and of which gentlemen undertaking the office of director usually have little or no knowledge. Without inquiring how far the same state of things is to be found in connection with other departments of business, it is certain that in an insurance office the directors must be very dependent on their principal officer for the information and advice on which they form their opinions. A competent manager may indeed so place even a very complex technical problem before a body of intelligent directors as that most of them at all events will understand it, and be able to give a confident and correct decision on it, but then it is possible to imagine the same problem submitted to them with an equal appearance of clearness and trustworthiness, yet so as to lead them to quite a different conclusion. That different Boards equally intelligent do come to opposite conclusions on some of the questions which divide actuaries and managers is a fact, and must partly be ascribed to the different ways in which the questions have been put before them.

Fundamental Questions.

It is happily not my duty, and certainly is not my inclination, even if this were the place to do it, to offer any hints to Directors as to how they may discriminate between sound and unsound advice. If it were I should be inclined to ask what advice they would like to receive. There are some broad questions on which men in general and directors of Joint Stock Companies in particular have *a priori* different opinions and inclinations. Some, for instance, set a higher value than others on magnitude of business, some on the avoidance of risk, some on immediate results, some on permanent solidity, some on over-topping rival companies, some on the amount of dividends or bonuses, some on the amplitude of reserves. Fire and Life Insurance have one common feature which distinguishes them from most other kinds of business. The results as to profit or loss are very far from being immediate, and in life insurance in particular are greatly postponed, and when they are realised they seem to be largely matter of chance. It would be rash to say that the element of chance or what is usually regarded as such can be entirely eliminated; but those who look most closely into the matter will be least disposed to admit its importance. To take another point of view, we may regard life and fire insurance as articles that are manufactured and sold. Now those who make or sell cotton goods or iron bars or any other commodity know before they sell them what they have cost, and if the state of the market compels them to sell below prime cost they know it at once and are warned. But taking as the chief part of the cost of fire insurance the claims that arise, and of life insurance the premature claims, we do not know the cost till long after we have fixed the price, and the very nature of fires and early deaths gives them the appearance of accidents which could not have been guarded against. Another consideration is that as insurance offices exist for the purpose of providing for risks it seems to defeat the very object of their being if a transaction offered is refused because it involves risk. A life is proposed for assurance and some unfavourable circumstances reveal themselves; but every life, it will be said, is uncertain, the most healthy people sometimes die prematurely, it is our business to insure lives, some other office will take this one if we don't. why then should we restrict the volume of our transactions and appear to fall behind our neighbours? Or we are asked to insure property against fire at a rate which, if anything is to be gathered from the experience of the past, is certainly inadequate; but the hope will be encouraged that this place will not burn, there are offices so keen for business that it is sure to be accepted by one of them if we let it pass, why should we lose a customer and disappoint an agent, when after all any loss is entirely a matter of chance and may never happen?

Questions as to the Extension of Business.

Such are some of the views that are apt to suggest themselves, but the administrator who has the requisite knowledge and courage, and I may add the self-denial, will advise differently. Experience and a study of the conditions have taught him that in life insurance a careful selection and discrimination as to the lives to be insured make a material difference in the profits earned; that a low rate of profits in proportion to premiums charged can usually be traced to a high rate of mortality; that a high or low rate of mortality, extending over a course of years, is not a matter of chance but the direct effect of some cause which can be no other than laxity or care in selection; that persons of the same age of whom it can be reasonably concluded that they have not the same prospects of longevity, ought not to be insured on the same terms; and that to introduce into a profit scheme an inferior class of lives at normal rates so as to reduce the bonuses which the better class of lives might otherwise obtain, is a direct injustice to the latter, and can be of no advantage to the office, except by swelling the amount of its transactions to give it for a time a fictitious air of prosperity. If the administrator is dealing with fire insurance he knows that the results depend not on the number and extent of fires, but on the adequacy of the rates charged, that whatever the number and extent of fires prevalent in any locality or among any class of properties, the profit or loss depends on how far corresponding rates of premium are charged and paid. Now it is obvious that a great anxiety for magnitude of business leads inevitably to the reduction of rates: for where the fever of competition rather than the judgment of experience is allowed to determine rates, the rates and consequently the profits are practically at the mercy of the ignorant, the sanguine, the imprudent, and the ambitious. Periodical fluctuations in the number of fires are to be expected, and the cause is not far to seek, but this only suggests to the prudent administrator the need for ample rates of premiums and sufficient reserves; and he will not be readily led astray by the idea that because fires are numerous and all offices are suffering alike, it is a misfortune that no one could have guarded against. It may be when there are general complaints of diminished profits that this simply arises from the prevalent ambition for magnitude, and the consequent competition for transactions, having so blunted the critical spirit all round, and so reduced the rates of premium, that the balance of receipts over disbursements necessary for the provision of dividends has been allowed to disappear.

It must, of course, be acknowledged that a large and growing business may reasonably be taken as one indication of a Company's success, and of the ability and energy of those who conduct it. Unfortunately it is the sort of indication which is most conspicuous, and is therefore most quickly appreciated. It is also, I am inclined to think, the sort of success most readily attained. Insurance business, like other things, can be bought at a price, any quantity of it, and the difficulty is, not to get the quantity desired, but to get it without paying too much for it: and the payment, as I have already hinted, being an item which only appears fully in the long run, and is not too conspicuous at the time of purchase, the one thing which does bulk to the eye is the amount obtained.

It may be said that large businesses tend to lower the percentage of cost, but as matter of experience this is very doubtful. In fire insurance it may be said that shareholders may be more benefited by a low rate of profit on a large amount of business than by a much higher rate on a small amount: and this may be true where the differences of amount are very considerable. But it is an unquestionable fact that both in fire and life insurance a small business has often yielded, not merely rateably, but absolutely larger profits than one of greater magnitude.

Increasing Need of Caution.

The question of how large a business is to be done by an office is practically in the hands of the Directors, rather than of the executive, and they have it in their power to stimulate the production of quantity at the expense of quality and profit, or *vice versa*. Of course, it may be assumed that neither Directors nor any of the staff of an office will consciously propose to aim at magnitude without regard to profits: they will truly say that they desire both. But those of us who are familiar with the administrative work of an office know that every day, and almost every hour, questions arise as to how far the one or the other of these considerations is chiefly to guide us. The risk of loss, as has already been said, is remote and uncertain, while immediate satisfaction is to be derived from adding to the Company's business and its premium-income, and extending or strengthening its connections. The permanent staff of an office, if the matter were altogether in their hands, would probably exercise some caution, looking forward to the time when carelessly selected business is sure to produce its natural results. But when it is found that praise and more substantial rewards go at once to the men who do a large business, there is a temptation to leave the question of profit and loss to take care of itself, or to throw the responsibility of it upon the Directors, and to indulge them with that kind of success which, as it appears, they value most. And if the Directors of many offices are all ambitious of conducting great businesses and of out-rivalling each other, and show that that is what they are prepared to pay for, it is not difficult to see why expenses increase, and the rates and other conditions of profitable business are relaxed. What therefore I desire to urge on the members of this Society, the future managers and secretaries and actuaries of Insurance Offices, is that in the advice they may give to their Boards, and in what independent action may be open to them, they have an increasingly difficult problem to solve in connection with this subject. Confining attention now to life insurance, everything points to a growing need of caution. The profits of life offices, and even the certainty of avoiding absolute loss, are being largely affected by a variety of circumstances. Among these are the reduction in the rate of interest obtainable from investments, the increasing risks and uncertainties about the ultimate safety of investments in general, the need that will probably be felt of assuming in our calculations even a lower rate of interest than 3 per cent., and the increasing cost of procuring business. I take leave to mention another element of uncertainty, the acceptance of lives without medical examination. This, I believe, has not become general yet, but the high character of the offices that have introduced it, and their success in attracting business, will make it difficult to resist the example; and while I understand that the conditions upon which such transactions are entered on are intended to neutralise the additional risk, the experiment will be watched with some anxiety, since, so far as I am aware, there are no materials for estimating the extent to which a possible selection against the office may affect the future rate of mortality.

It may be acknowledged that to insure lives without a medical examination, but with such a difference of rates or conditions as to compensate more or less fully for the difference of risk, may be less hazardous than if the competition for business were to lead offices to adopt a lower standard of insurability in connection with their ordinary schemes and rates. That it would be possible to do this, and that it would tell materially on the rate of mortality, and consequently on the profits, is beyond dispute; and where there is a very great pressure all round to gather in a large business, it will tax the conscientiousness and care of those at headquarters to prevent the office being flooded with indifferent lives. You will, I dare say, recollect the length to which this was carried a few years ago by the agents in Belfast of an American office. All offices, I dare say, have had some frauds of this sort tried on them at one time or another, with or without the connivance of their agents. Some companies are accustomed to boast of the number of transactions they decline, as if it were an indication of their prudence. It may be, but I have long been inclined to believe that an office which is careful in the selection of lives does not really decline more transactions than another that is careless. It soon becomes known to its agents and others that questionable lives have little chance of being accepted, and they cease to be offered.

Details of Administration; Manner of bringing Business before a Board.

But leaving these broad and somewhat overpowering subjects, I would refer to another problem in the intercourse between a Board and its immediate advisers; a problem which involves difficulties on both sides. I have already hinted that the judgment of a Board on a matter submitted for their decision, especially if it be of a technical character, will depend a good deal on the manner in which it is placed before them. Now, there is a great disproportion between the time available for that purpose and what is required thoroughly to master a transaction. There are few acts of administration more difficult than after an exhaustive study of some complicated transaction to marshal the details of it for the information of a Board, so that each member shall readily follow them, to omit or pass lightly over those which, though not to be neglected, might confuse the main issue, and to anticipate the difficulties which may possibly occur to one or another. It is a curious circumstance how, on such an occasion, the views likely to be taken by each of the gentlemen present will suggest themselves to the speaker, and lead him to regulate his statement so as to meet them. I cannot suggest too strongly the need of careful preparation for this particular duty. It is an art not to be acquired without pains, and presents many difficulties; but the effect of efficient preparation is to save much time and discussion, to impart confidence, and to lead to prompt and unanimous decisions.

A doubt will often arise how far it is one's duty to indicate at the outset one's own opinion on the question submitted. There are cases where a decision for or against is so much a matter of course that it would be almost to insult the understanding of a Board to assume the contrary. It may happen, too, that it is the duty of a Manager to give direct advice rather than to submit a problem for consideration. But in most cases it seems desirable to aim at absolute impartiality, at all events in the first instance. Experience has led me to place a high value on the spontaneous opinions of such a body of men as most Insurance Companies possess in their Boards on a case fully and impartially laid before them. There will possibly be differences of opinion, and one man's difficulties will be answered by another, but much light will probably be thrown on the matter. It will seldom happen that the opinion of a Manager will not have some influence, even if it be purposely withheld at the outset. In the course of the discussions it may be asked for or volunteered, or there may be opportunities of drawing attention to points which may seem to have been overlooked, or of suggesting or removing difficulties, or of showing the desirableness of further inquiry. The responsibility of a final decision rests, of course, with the Board. How far it is a Manager's duty to offer advice, or to urge his own views, will depend in some measure on the importance of the point at issue, and largely on how far he believes his advice to be desired and appreciated. Cases will sometimes occur where it is his duty to indicate with the utmost respect, but explicitly, that he has the misfortune to have arrived at a different conclusion from that of the Directors.

Good Administration; Preparation Required.

I am conscious that in thus discussing the duties of a Manager in relation to the Directors of an Insurance Company, I may appear to be dealing with a subject which is not likely to be of much practical value to some of you at any very early period. I might hopefully ask your indulgence for dwelling on subjects which have had an interest for myself, but I am fain to believe also that some of the considerations I have been referring to may not be without service even to the youngest member of the Society. It may be some time before you have to submit complicated transactions to a Board of Directors, but you cannot too soon cultivate the art of making what is known as a *précis* of facts and considerations, and of expressing it with fulness, with brevity, and with precision. Both in matters of business and in the intercourse of daily life you will find this a valuable acquisition. Nor is it a manager only, but the youngest clerk or apprentice also, who will find the use of studying the characters of the men he has to deal with, and practising the art of dealing with them, of giving and taking, of supporting his own views and deferring to those of others. Something will be gained also if you are led to regard the business of an administrator as one worth studying and preparing for, and not merely as a thing in which success is to come to you by nature and at haphazard. Fortunately for us in this country, most of us have opportunities from our earliest years of practising this art. In our cricket and golf and football clubs, in our debating societies and other literary or professional institutions, in the work of all sorts of charitable and religious societies, as well as in municipal government, in school boards, poor-law boards, and the like, in short, pervading our whole lives, there is ample room for administrative capacity, and for the practice which helps to create it. This is one advantage of any occupation like ours in which administrative duties play so large a part. The qualities which serve us in our profession have a hundred other uses, and know no limitation of age or country. At the same time they do not call for the possession of genius, nor for any exceptional endowments of mind or body. No demand is made upon us for eloquence or for learning, for the eye of the artist or the passion of the poet, for the keen observation of the naturalist or for the strength or agility of the athlete. If this be true, you may say, our vocation must be very commonplace, and only fit for an inferior class of minds; and I should not be greatly surprised if some ambitious young member of this Society had already taken this into his head, and were fancying that the work of an insurance office, into which circumstances have thrust him, was scarcely worthy of his powers or deserving of his efforts. I may be allowed to say something in reply to this suggestion.

Insurance Business worthy of all pains.

The business of insurance, whether Fire or Life or Marine, yields to no other that I can think of in its far-reaching importance and beneficence. I will not repeat here what I have had occasion to say elsewhere on the influence which insurance exercises on the wealth of nations and the well-being of mankind. It does not, indeed, create wealth, and it does not even prevent loss, not directly at least. Its function is to distribute loss, and, in one sense, no man can legitimately be made richer by means of insurance. But not only are thousands and tens of thousands of men and families every year delivered from ruin, or, at all events, from very serious loss, by means of insurance, but millions are saved from apprehension of such loss and ruin almost worse than the reality; while scope is afforded—otherwise unattainable—for manufacturing and commercial enterprise, and for the happiness and safety of personal and domestic life. We have splendid objects to aim at if we choose to rise to them.

And in seeking these objects, there is ample room for the use of scientific and general knowledge much more extensive and accurate than most of us possess. In a former address to this Society on Fire Insurance, I referred to the quite extraordinary number and variety of subjects which it brought under our notice; and though Life Insurance can scarcely boast of so many points of contact with the material world, if you include under this head the investment of funds you will find it leads you over a very wide field. I have often been struck with the way in which even fragments of imperfect knowledge proved unexpectedly useful, and alas! with the still larger number of cases in which dependence had to be placed on the more exact knowledge of others.

Administration largely the Management of Men.

But what I have been chiefly referring to has been the purely administrative part of our work, and that, as I have already hinted, consists largely of the art of influencing other men. I remember being amused when a rough-looking fellow-passenger on board an Atlantic steamer, in answer to some question about his occupation, told me that 'he handled cattle on a thousand miles of the river Missouri.' On a different occasion another fellow-passenger, who told me that he had been a Cheap-Jack in England, described the plans and devices by which he had induced the crowds in market-places to buy his wares to an extent that in a very few years had raised him from the position of an ex-corporal in a foot regiment to that of a man of large fortune. Happily, we have not to handle men as my one friend did cattle, or my other the rustics or artisans of English villages; but it is undoubtedly true, if I may be allowed to say it, that the work of an administrator in its highest form is to handle men, that is, to inform and guide and influence them, to act in concert with them or to bend and restrain them, to bring them into agreement with himself and with each other, to organise them for action or to reduce them to a harmless inactivity,—in short, to manage them. Not many men, of course, have either the capacity or the opportunity to be administrators on this ideal scale, but no man can pretend to manage a Joint Stock Company without having occasion at one time or other to attempt at least some of these enterprises; and no man can look forward hopefully to such work, or be fit for it when it comes, who does not deliberately prepare himself for it.

I can readily understand that to some persons, especially to those who have not tried it, the handling of cattle on a thousand miles of the Missouri might seem a more interesting sort of occupation than sitting at a desk and doing even the superior work of an Insurance Office. But I have long come to the conclusion that the most interesting work a man can engage in is the work in which he chooses to interest himself most—that, in fact, the interest is in the man more than in the work. No doubt, there are occupations, as there are persons and books, naturally more interesting than others, and the different idiosyncrasies of individuals have to be reckoned with; but if it is possible, as I believe it to be, for the most commonplace occupation to become interesting to the man who engages in it with high motives, and who makes up his mind to do every bit of his work as well as it can possibly be done, it is still more certain that if such a subject as ours fails to interest any man he ought to inquire very seriously whether he cannot himself apply the remedy.

One of the Inductive Sciences.

Administration is an art, but it is also a science, and I have been accustomed to regard it as one of the inductive sciences. The inductive philosophy as taught us by Lord Bacon and others comprises three leading principles. There is first the collection, verification, and arrangement of observed facts; secondly, the suggestion of some hypothesis which will connect these facts, and explain their common origin and the laws which control them; and thirdly, the processes of investigation and experiment by which the hypothesis is questioned and put to the proof, and, if it bear the trial, is converted into an established law. I need not go further for an illustration of these principles than to the laws of mortality with which we are all so familiar. It is true that we have not yet arrived at any such well-defined and simple law respecting human mortality as the law of gravitation in physics, but, by the processes I have referred to, we have arrived at conclusions which, at all events, afford a trustworthy foundation for the great fabric we are rearing upon them.

But it is for the ordinary business of administration that I claim a philosophic basis. I am afraid that among able men of business there are some who would be inclined to repudiate this; what they justly pride themselves on is being thoroughly practical, and they may think it would detract from that high claim if they were suspected of looking at the common affairs of life with a philosophic eye. But it is quite possible to act on scientific principles without knowing it, and especially without clothing these principles with scientific phraseology. It is possible to be a good chemist and a good physiologist without being able to cook a mutton chop, but that cannot be well done except on a scientific foundation, however little the cook may recognise it. So in our daily work we are constantly, though perhaps unconsciously, putting into action philosophic principles, and unless we do that and do it well our work will be a failure. A Writer to the Signet with whom I was associated many years ago, one of the cleverest men in his profession, used to tell me that in writing business letters he did not trouble himself about the laws of grammar and rhetoric but just said what he meant. He did not recognise that grammar and rhetoric are merely expressions for those methods by which (and by them only) we express what we mean, accurately, unmistakably and forcibly, and his attempts to express his meaning without attending to these rules often failed to convey that meaning to other minds. What seems very desirable is that we should each of us, whatever our duties are, get as clear a conception as we can of the principles on which we are acting. The mere inquiry will often disclose to us that we are on a wrong line, but when we see that we are on the right line we shall march on with far greater firmness.

A little of this philosophising will impart an interest to our work which is wanting, when we only stumble through it in a haphazard way. Another advantage may be described in the words of Sir David Brewster, though he is speaking of something so transcendant as the discoveries of Sir Isaac Newton. 'The importance,' he says, 'of such a discovery does not lie in its intrinsic novelty and beauty; it is the number of its applications and the ubiquity of its range that stamp its value.' So in our business and in our ordinary dealings with men, if by some process of induction we arrive at a clear general principle on which to act, its great use is, that in new and unexpected emergencies, where otherwise we should find ourselves at sea, we may be able to recognise at once that they fall within principles already settled in our minds, and we are able to act with promptitude and with confidence.

Value of the Faculty of Imagination.

There is one faculty of the human mind which enters largely into inductive science and into the management of men and the conduct of affairs, whose useful if not indispensable character is not always recognised as it ought to be. I refer to imagination. I go so far as to believe that it is difficult to be a first-class man of business without possessing and exercising this faculty in some considerable degree. I have known indeed very able men of business, who if they would scarcely be flattered by being classed among philosophers, would resent still more strongly the imputation of being influenced in business by so dangerous a power as imagination. But if they are good men of business they are influenced by it. To many persons who have thought little about it, the fruit of the imagination appears to contrast itself with truth and facts, and any yielding of belief or sentiment to the influence of this insidious faculty is regarded as a weakness to be ashamed of and a temptation to be guarded against. No doubt many hard-headed men of business have been keen lovers of poetry, and some have even been votaries of the muse, but they would probably have regarded their business and the poetry they loved as things utterly foreign to each other and to be carefully kept apart. If this were the place and the occasion, it might not be difficult to show that poetry and so-called fiction are often the embodiment of the truest of truths, and the hardest of facts, but I will merely invite our attention now to one or two instances in which imagination ill assist us in the ordinary work of our profession.

(*a*) *In Selecting Lives for Assurance.*

Take first so simple a question as the acceptance of a given life for assurance. The question about the insurableness of lives in general and of any one life in particular is not whether the man is in good health at the moment, but what are his prospects of longevity. We have to form some opinion about what is entirely future, and the future is eminently the realm of the imagination. Our opinion will be based upon existing facts, and there are of course many cases where the facts at our command appear to leave no room for hesitation, but we all know how many cases there are of a doubtful kind, and we can see that the number of these would be much increased if we could get at all the facts of them. The reason of this is not far to seek. In two-thirds of the insurances effected on lives with ordinary assurance offices the age of the insured is 35 or upwards. Now 35 is very near that proverbial age of 40 at which it is said that every man is either a fool or a physician, which just means that then if not earlier he begins to be warned that he is mortal. The facts which warn him are fitted to warn us also if we know them, and it is their probable effects on his longevity which we have to weigh and measure. It is here where there is room for great differences of practice. What adverse facts are to be treated as serious, what disregarded? What slight hints or indication in the man's own statements or in the relative reports are to be passed by or made the subject of further inquiry? We have to map out in a sense the man's future life and see him with the eye of imagination yielding to or surmounting the various hazards which his papers suggest as more or less likely to present themselves; and thus to form some opinion of what we ought to regard as a fairly average life, and whether the life under review comes up to that standard.

Where the imagination comes in is in drawing inferences from slender indications. Where the more severe methods of inductive philosophy come in is in the endeavour to get at facts from which to draw inferences, and in a rigid scrutiny into facts to test the inferences. Let me give an illustration. Some years ago the manager of an Insurance Company was calling on one of their agents when this conversation occurred. Said the agent, 'Mr. So-and-So wishes to increase his insurance.' 'I am glad to hear it; what has he already?' 'He took out three policies last September for £700 in all.' 'Ah, that was when I was away from home; why did he cut up his insurance into three policies?' I don't know.' 'What is he?' 'A Commercial Traveller.' It did no require great imagination on the manager's part to suggest tha either this man was in embarrassed circumstances and needed to give security to three different creditors, or that his life was a bad one, and was being made the subject of speculation by more than one person. The medical examiner was asked to pay special attention to the case, but his report did not disclose any abnormal features; and it was found on searching the books that no notice had been received of the policies being assigned. Still the manager had some faith in his imagination, although the facts seemed to contradict it, and he set on foot further inquiries. These disclosed the fact that while this man was earning in a precarious way no more than a guinea a week, his life, though it had been declined by several offices, was at that moment insured for £8000. Proceedings were adopted to compel a cancelling of the transactions; and these brought the speculators into the field, and they, after a little while, delivered up the three policies. What became of the other insurances I do not know. The man died a few months afterwards of some disease which a physician would have recognised if he had been informed of the symptoms, but which could not be discovered merely by examination. On another occasion a similar fraud was prevented by the London Secretary of the same Company, who, observing a very slight peculiarity in the dress of an applicant imagined that he might perhaps have been got up for the occasion, and having probed the case further found that it was so. This man also died very soon afterwards, having his life insured with several offices.

(b) *In Making Investments.*

In dealing with investments there is much scope for this faculty of imagination, and a great deal of money has been lost for want of it. A loan is desired on the security of some sort of property at home or abroad. Take the simplest case of a mortgage at home. You are shown a rental and a report by some well-known valuer, and you are satisfied. The valuation for many purposes is unimpeachable and could scarcely have been different, for the property has just been bought for the amount at which it is valued, or it could be sold to-morrow for that amount, or neighbouring properties of a like nature have recently fetched that amount. What more do you want? A little imagination! For your object it is, of course, desirable to know what the property is worth now; but the important point is what it will be worth five, ten, twenty years hence when you want back your money, when the borrower may be dead or bankrupt, when ever so many things may have happened, in addition to neglect or decay, to affect its value. It may be hard to anticipate every contingency, but very great losses have been sustained even in this city, where we fancy ourselves so long-sighted, through the overlooking of things possible and even probable, which a little exercise of the imagination might have foreseen. Still more important is this faculty where the conditions of a transaction are complicated, where various interests are involved, and where perhaps the laws and customs and even the prejudices of a foreign country or a British Colony have to be taken into account.

(c) *In Dealing with Men.*

It is by means of the imagination that we are able to project ourselves into the minds of other men, to place ourselves in their position, and to look at things from their point of view, and so be prepared to anticipate their wishes, to meet them or to frustrate them as circumstances may require, to influence their minds and remove their difficulties. I have often seen when a group of persons were discussing some subject, and apparently all at sixes and sevens, that one man by the use of his imagination has got behind the phrases in which the others were expressing their differences, and seen that they were really more nearly at one than they themselves supposed, and so has been able to suggest a solution that has satisfied them all.

I have known, indeed, men of great force of character who have been devoid of this faculty of entering into other men's minds, and whose power lay in their inability to see any other side of a question than their own, or to imagine that they could by any possibility be in the wrong, and who were thus able to pursue their objects with unhesitating, and often, therefore, with triumphant energy. But such a man needs to possess not only great force, but a suitable field of action; and to most of us it will be far more serviceable to prepare for future difficulties by exercising the imagination beforehand on what they are likely to be and on the way to meet them.

I remember a very clever friend telling me that he sometimes amused himself by preparing witty repartees for imaginary incidents in conversation; but he must have been fortunate if, for the good things he thought of, he often found fit opportunities, and if, when an opportunity came, the appropriate repartee was ready at hand. I suppose that candidates for Parliament, who expect to be *heckled* on the topics of the day, do not trust entirely to the inspiration of the moment for their replies. It may be thought by some that this habit of preparation would unfit a man for ready and spontaneous action, but it is not so; on the contrary, it accustoms the mind to take in such situations and to deal with them, so that by-and-by the prevision and the preparation come to act so rapidly as to appear intuitive or automatic. Both social and business life have a good many of the characteristics of a game of chess, where you ought not to make a single move without considering the probable countermove of your adversary and how you are to meet it, then his next move and yours, and so on for as many successive moves as your mind has power enough to anticipate. In the game of life and of business, as in chess, the successful player will, *cæteris paribus*, be he who looks farthest forward, and most correctly forecasts the future moves.

Other Faculties, Tastes, and Pursuits to be Cultivated.

I have dwelt on the uses of the imagination because they are apt to be overlooked, but there is scarcely any mental faculty or any kind of information which may not find scope for itself in our profession. I shall not apologise for the discursiveness of this address. In its frequent change of topics it has in a manner reflected the characteristics of our business. Each of us is a part, though it may be a humble part, of a very great and complex machine built up on a scientific foundation and working for far-reaching and beneficent objects. If we can broaden our conceptions of our ordinary duties, see them in their relation to the great world around us, feel them to be worthy of all the preparation we can give, and of every present effort we can make to perform them in the best possible way, we may confidently reckon on present comfort and ultimate success.

While I thus regard the business of insurance as capable of employing and stimulating both the mental and moral faculties, you will understand how my attention is increasingly drawn to the importance of men cultivating and keeping in continuous exercise through all the exacting and exhausting duties of professional life, interests and occupations outside of these, that when these fail the others may 'receive them into everlasting habitations.' I think it is Locke who recommends that every man besides the main business of his life should have some other pursuit secondary to it but capable of furnishing that variety of occupation so necessary for mental and moral healthfulness. I can scarcely help fearing that in our day physical recreation, so valuable and necessary in itself, is sometimes used too exclusively as the alternative to our business activities. What ought to be aimed at is some kind or kinds of pursuit which will not merely occupy and interest at the moment, and by strengthening our faculties increase our fitness for the ordinary duties of our calling, but will be something to hold on to and to fall back upon, when these have come to an end. There can be few men who do not regret, when they arrive at a period of enforced leisure, that they have made not only so poor a use of their season of activity, but so insufficient a preparation for employing to advantage the remaining term of life.

You will I am sure excuse me if I am led to look still further ahead, and to suggest to you who have now the power of choosing that in acquiring and cultivating faculties and tastes and habits for use whether in or out of business, we shall act wisely if we specially favour such as, according to the imagery used by the Divine Teacher, whose words I lately quoted, will 'receive us into everlasting habitations.' None of us I imagine will be satisfied to think that the business of insurance, still less the recreations with which we intermit it, are the whole end and scope of our existence. But even amidst the darkness which veils the future we can discern the abiding influence which these things are exerting upon us. I have been speaking of some of the ways in which we may shape our lives, but our lives are still more certainly shaping us, moulding and fashioning individual character, the only one of our possessions which we can be sure of carrying into a future life. It is not irrelevant, therefore, to the subjects we have been considering, to remind ourselves that there is one pursuit of infinite value open to each of us, which may be followed concurrently and in accord with our daily business and with every other worthy occupation, even 'Godliness, which is profitable unto all things, having promise of the life that now is and of that which is to come.'

CAPITAL:

SOME OF ITS

ECONOMIC & MORAL ASPECTS.

BY

JOHN M. McCANDLISH, F.R.S.E.,

Late President of the Faculty of Actuaries in Scotland.

A PAPER READ AT THEIR REQUEST TO THE MEMBERS OF THE INSURANCE INSTITUTE OF YORKSHIRE, LEEDS, ON 9TH MARCH, 1894, AND REPRODUCED FROM THEIR "TRANSACTIONS."

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CAPITAL: SOME OF ITS ECONOMIC AND MORAL ASPECTS.

I HAVE selected the subject on which I propose to address you because it is one of those points at which the business of Insurance touches the larger world outside. There are many such points, and it adds, I think, to the interest which, as insurance men, we feel in our own department of business, to enlarge our outlook occasionally, and to feel that we are a portion—perhaps an essential portion—of that great economic machinery by which the welfare of States and the happiness of their citizens are conditioned and promoted.

Insurance Offices; their connection with Capital.

We shall presently enquire what is meant by Capital, but in the meantime, taking one of the common applications of the word, we may recall how in this country, in the present state of the law, no Life Insurance Association can exist without the preliminary existence of a certain amount of Capital. That, however, is a mere precaution against unqualified persons intruding into this business, for the prosperous existence of many great Mutual Offices has shewn that the possession of an initial capital is not essential to success. Infinitely more important is the fact that one great function of Life Insurance is to create Capital, to turn income into Capital, and so to employ and accumulate Capital as to restore it to those who have contributed it, vastly increased in amount. It will illustrate, however, the variety of senses in which the word Capital is used, if we remember the common distinction between the Capital of a proprietary office and its Insurance Fund, a distinction reasonable and necessary, and yet consistent with the undoubted truth that in a larger sense, as we shall presently see, the latter fund is as truly Capital as the former.

In Fire Insurance, the existence of an initial Capital is essential, although, strangely enough, it is not required by law. But the link between us and our subject here is that the whole object and end of Fire, as well as of Marine Insurance, is to protect Capital, and that the protection they afford to it, or rather to its owners, is in a large sense essential to its very existence. There can be no question that whatever else comes under the term Capital, it includes buildings and ships, machinery and stocks of goods; and although such things did formerly exist, and might again exist, in the absence of insurance (the owners of them running all the risk of their destruction), it is certain that the prodigious growth in modern times of the quantity and value of such forms of Capital, is largely owing to the safety from loss with which it may be created and accumulated and dealt with, owing to the protection afforded by Fire and Marine Insurance. We may well therefore enquire what this thing is which we call Capital, and with which we are thus so closely associated: what its uses and objects are; what conditions it is subject to; what are its duties and its privileges; what can be said for or against it, especially as to any services it renders to mankind, or any injuries it inflicts on them. It is only a small portion of this great subject that can be dealt with now.

Capital and Labour—Labour.

Let us take as a first text such a familiar phrase as "Capital and Labour," and it may help us to a clear understanding of the first of these terms if we look for a minute at the second. What then is Labour? We have of course a general idea of what is meant when the "labouring classes" or the "working classes" are mentioned—that the persons spoken of are the men who are engaged in manual or physical labour; but I suppose there are not many occupations of that sort where some mental effort is not also needful, and it is most certain that in a great many of them there is scope and need for no inconsiderable amount of mind to direct the hands.* There are speakers and

* On visiting Leeds for the delivery of this Address, I had the privilege of going over two or three of the great manufactories for which the city is famous; and in watching the men and women at work I was deeply interested to observe the extent to which their contributions consisted of skill, attention and intelligence, in short, of Mind, while the physical labour was chiefly supplied by the ingenious machinery, which, however, was itself the fruit of Mind.

writers who express themselves as if, in paying due honour to work and industry, the highest praise ought to be assigned where there is the smallest admixture of intelligence or skill or taste; and occasionally, when the so called "toilers" are contrasted admiringly with other classes, one would suppose that people who labour and toil only or chiefly with their minds, are regarded as among the idlers of human society. I recollect that many years ago, a friend was engaged in a great engineering work, and the machinery used was so complete that it was said that the heaviest weight a workman had to bend himself to was to lift his pipe to his mouth. On the other hand, I have no doubt that many of us here, who have never in the way of our business handled a more formidable weight than a pen or a ledger, have yet, when dealing with the human beings whom we were persuading to insure, or whom we have had to serve, or to guide and animate, whom, in other words, we have had to manage, have felt infinitely more weary and depressed than if we had been labouring with those more ductile and responsive materials, stone and iron. It is simply an absurdity to refuse the name of workers to those who work chiefly with their brains, or to honour Labour only when it comes as near as possible to mere brute force. The truth is, that whatever credit attaches to Labour, whether of the head or of the hands, really depends on the sort of mind that there is behind it; the man who is most deserving of honour, and does most to elevate and dignify Labour is he who, whatever his work is, does it from the purest motives and with the most conscientious resolution to do his very best.

Capital—What it is.

Leaving Labour for the present, let us look at Capital. The same class of persons who make such mistakes about labour, are equally, and I fear sometimes wilfully in error with respect to Capital. To them it presents itself as embodied in the owner of a big mine or factory; and a malignant contrast is drawn between what his Capital yields to him and what their Labour yields to his workmen. We may notice presently some great mistakes made about this, but keeping now to the true nature of Capital, I recall what Sir Walter Scott tells us of a narrow-minded character in one of his novels, who never embraced an abstract idea, and whose notion of the public revenue was personified in the officers of excise whom he happened to know. So there are many who have no clear idea of what Capital is; the Capitalist is all that their minds can take in. They are like the man who could not see the forest for the trees. Capital exhibits itself to us in a variety of ways, in the form of land and buildings, machinery, and stocks of goods, and so on; but it will tend to simplicity if we look at Money Capital in the first place, since that is in effect convertible into these other and more visible forms.

Economists are not at one in their definition of Capital. Mr. John Stuart Mill says it is "that portion of a man's possessions, whatever it be, which is to constitute his fund for carrying on fresh production," and he seems to hold that nothing can be regarded as Capital unless it is expressly set apart and used for reproductive investment. But as we constantly use the term "reproductive Capital," this recognises a sort of Capital which is not reproductive. I would rather hold Capital to be that portion of our possessions, which, not being required for the immediate support of the owner, is capable of being used reproductively. A large part of what is produced from day to day by the joint action of Capital and Labour, is consumed from day to day, necessarily in the support of life, or unnecessarily in greater or lesser degrees of luxury or waste. What is saved may be allowed to remain idle or may ultimately be wasted, but as it is capable of being used reproductively it is Capital.

In speaking of Money Capital I must not be understood as referring to the circulating medium commonly known as money, but which really is, as its name implies, only the means by which money circulates; for it is familiar to all of us that very numerous and very large transactions take place in money without involving the use of gold or bank notes. This will be more apparent when we enquire, as we shall now do, whence Money Capital comes. Let us take some of the familiar sources.

The Sources of Money Capital.

The deposits in Savings Banks in this country amount to nearly 120 millions sterling, contributed by seven millions of individual

Capitalists. The average contribution of each is only about £17, but the aggregate you will see is considerable. The funds of British Insurance Offices amount to about 220 millions. Of this, the portion contributed by the Insured is 180 millions, comprising about 1,200,000 separate transactions in ordinary Offices, and nearly 13,000,000 in Industrial Offices; the average contribution in the one case being about £140, and in the other less than a pound. Here, then, from these two sources alone, we have a Money Capital of 340 millions, and a host of Capitalists beyond number, but which, after allowing for many individuals being interested in more than one transaction, we may certainly reckon at not less than 10 millions, being about one out of every four persons in the United Kingdom—men, women, and children. The sum I have named, large as it is, forms of course a small portion of the whole money saved by the people of this country, but our knowlege of where this has come from, and of the high motives and the self-denying efforts which have gone to the saving of it, will to us give it a peculiar significance.

We hear a good deal of the contrast between Capitalists and Working men. What if they should very largely be the same persons? Capital is said to be one thing and Wages another. What if they should prove to be identical?

In this country the great majority of men are wage-receiving. The price of their labour may not always be called wages, but a mere name makes little real difference. A man who earns seven shillings a day or two guineas a week, calls his earnings "wages"; another who gets £100 a year may call his earnings "salary," but the result is much the same. Other men are paid not by the week or the year but by the job, and they perhaps like to call what they receive a fee or commission. The merchant or manufacturer again may call his earnings "profits," but that is merely a term for describing two or three things mixed up together, such as interest on capital and compensation for risk, but one of which is wages for his own time and trouble, his knowledge and skill. I don't know how the writers of books or the painters of pictures describe their earnings, but every man who lives by his labour, whether of the head or the hands, is in one sense, if not in every sense, a receiver of wages.

Now when a man earning wages eats them all up from day to day, perhaps even drinks and smokes away no small part of them, he is safe never to be a Capitalist, but the man who saves any portion of his wages at once becomes one. Where a man earns wages enough during three days in the week, as colliers and others sometimes do, to support himself during the whole week, no one disputes that he lives upon his wages, not merely in the three days he is working, but on the other four days also. So the man who saves a part of his earnings during the earlier period of his life, and lives on his savings during his later years, equally lives on wages all through ; yet in another sense he has become a Capitalist and lives on his Capital. He may have increased his Capital by dint of personal skill and labour, or by favourable investments, but it is still nothing else than wages earned and saved and nursed. When he dies these savings may become the property of his son, and the son may be content to live on this inheritance without making further demands on the fund out of which wages are provided : he may employ his leisure in study, in works of benevolence, or in other occupations that yield him no income ; but he continues to live on wages—earned indeed not by himself, but by his father—but still wages. And so it may be with his son's son. In short Capital is to a large extent wages saved. They may not have been all saved in our day, or under our bservation, but that makes no real difference. Whoever has, as we ll no doubt have, a great respect for wages honestly earned, the awful fruit of industry, the due reward of labour—whether of the hand or the head, or as mostly happens, of the two combined—is bound to respect them equally when they have become Capital, unless indeed he views with greater sympathy the wages that are squandered and wasted by the selfish and improvident.

We see then from these examples some of the sources of Money Capital, and that Capitalists are a far more numerous class than we may have imagined. We need not go into further details as to the accumulation of Capital in the form of money, but will rather turn our attention to other forms of it.

Other Descriptions of Capital.

If money saved is Capital, so is the capacity to use to advantage that or any other thing we possess, for our own good or for that of the community. Many economists fail to include among the elements of Capital the possession of intellectual and moral qualities; but in enquiring how wealth is created, how food and clothing and other things needed by mankind are produced and distributed, after taking due account of the credit to be allotted to money and machinery and manual labour, we shall miss some very important factors if we exclude those mental potencies without which all the others would have proved ineffective—knowledge, skill, enterprise, foresight, courage, the capacity and the will to work, and that combination of moral qualities which constitutes character, and which exercises so great an influence on other men. If these things or any of them belong to a man, they are, to say the least of it, as much his possessions, as much the fruits of labour, as much the means of reproduction, as much Capital therefore, as any amount of gold or any quantity of machinery.

But there is another source of Capital often overlooked, and that is the bounty of Heaven. No doubt it may be said that political economy, when dealing with the philosophy of production, assumes the existence of the raw material, and only discusses the forces which are supposed to create, or at all events, to enhance its money value. But it is often very difficult to get back to the raw material, so as to eliminate from it all the influences that have told upon it, and to determine the relative force of these influences, without keeping in view its own share in the production of wealth.

If a man who had saved money bought land with it, and proceeded to use it for the production of food, and with that object erected buildings on the land, and collected ploughs and horses and a threshing machine and so on, no one would dispute that the land was part of his Capital, just as much as the buildings and machinery; and it would not make it the less a portion of his Capital, if, instead of buying it, he had inherited it, or had had it allotted to him in some new country, where the inhabitants had been glad by a free gift of land to encourage the settlement among them of industrious immigrants.

The character of the land as an element in production is the same, whether it has been paid for or not, and whether you estimate its value according to its present condition, to which generations of successive occupiers may have brought it, or try by some effort of the imagination to determine what is called its prairie value, *i.e.*, what it would be worth if no human efforts had ever been directed to alter its original condition. What applies to the surface of the land is equally applicable to the minerals below the surface, to the natural vegetation of grass or trees that enrich it, to the animals that feed on them, or that swarm in the neighbouring seas; and to those laws of nature, the sunshine the rain and the inherent powers of reproduction, which are the real sources of fruitfulness, and which all the human skill and labour afterwards employed can do little more than encourage and direct.

> "Wherefore did nature pour her bounties forth,
> With such a full and unwithdrawing hand,
> Covering the earth with odours, fruits, and flocks,
> Thronging the seas with spawn innumerable;
> And set to work millions of spinning worms
> That in their green shops weave the smooth-haired silk
> To deck her sons; and that no corner might
> Be vacant of her plenty, in her own loins
> She hutched the all-worshipped ore and precious gems
> To store her children with."

Whatever claims the Labourer or the Capitalist may make to be the main producers of wealth, they are bound to recognise that production has made vast strides before either of them contributed to the process. We are now in a position, however, to consider their respective claims.

Some of the Claims and Gains of Labour.

It is not uncommon in these days to hear it said on behalf of the so-called working classes, that the value of almost everything we possess and enjoy has been created or enhanced by Labour; that Labour has done it all, since even the rival claimant Capital has been itself the fruit of Labour; that the wealth produced ought therefore to belong wholly to the Labourer; that whatever portion of it is appropriated by other classes, is so much wrongfully taken from him; and that at all events he may reasonably claim a far larger share of it, and take his own way of enforcing that claim.

and that the possession of it might expose them to violence and death. They told off, therefore, certain of their number to serve as police, and as these men had to be paid, they taxed themselves to provide for this. Disputes arose among them as to the right of the first comers to exclusive occupation of certain parcels of land, and when the British Governor visited them they referred these questions to him and he decided them. I shall not dwell on these points, for they do not directly affect our present subject, but the story will serve to introduce you to the men.

It requires no detailed account of them to enable you to understand that though in law and in social condition there was absolute equality among them, there were great inequalities in other respects. Two men would be working together, with very unequal physical powers; two who were equal in that respect, but one of whom was quite new to the work, and the other had acquired experience and skill in California or Australia. Of two men equal in other respects, one had a complete set of tools, and the other nothing but his own hands. One man, having nothing whatever in his pocket wherewith to purchase his day's food, had to work at any spot that first presented itself, while another who had brought with him some previous savings, could afford to look about him and choose the best fields. But if they had all been equal in every respect at the first, important inequalities soon declared themselves. One man ate and drank and smoked and gambled away each day's earnings, while another, by a little prudence and self-denial, gradually accumulated an amount of gold dust which made him independent of manual labour, and he was able to employ others in his service who were glad to secure a certainty of the means of living. Their employer could take the risk of providing this, and of their failing to secure gold enough to pay their own wages, while he looked for his compensation in any surplus they might find, which would all be his property. Some men of organising capacity would find that to supply the diggers with shelter and food and clothes, to arrange for the conveyance of their gold to the nearest city, and to do other services of that sort, secured a larger quantity of gold dust than they could have got themselves with any amount of digging. Supposing that this community had endured (which I believe was not the case), you can imagine how it would have developed—how the retail provision dealer would become a merchant, how the clothes needed might come to be manufactured on the spot, how some men would be told off to serve as ministers of religion, and others as schoolmasters or newspaper editors, and others again merely to supply amusement and recreation.

Now the main inequalities which existed from the first, and which became ever more numerous and more striking, arose largely, if we take a broad view of the matter, from the possession or non-possession of Capital. This is obvious enough if we look at the men who had tools—that is, rudimentary machinery, and still more if we think of the men who either brought with them or accumulated on the spot more money than they needed for their daily wants. But we may very fairly reckon as effective Capital those physical, mental, and moral possessions to which I have already referred as giving real and productive value to all the rest.

The Consumer: Food.

Having thus by one or two examples, hastily sketched, traced Capital to its sources, we may now turn to the questions affecting its use. Reference has been made to two great factors in these economic problems—Capital and Labour; but here we had better introduce a third party who is greatly interested in them, who is really the *primum mobile* of whatever is done by the others, and, as the Duke of Argyle expresses it, is "the ultimate cause and author of production." This is the Consumer. It may have happened to-day, gentlemen, to one of you to buy a penny roll; you have paid your penny and eaten the roll. You are the Consumer. Has it ever occurred to you to think where your penny has gone, or what a world of enterprise and labour has been set in motion by the expectation that you would at some time or other want this roll, and be ready to pay a penny for it? Your penny, you will say, has gone to satisfy the baker; but that is a small part of its function. The wheat of which the roll was made has come, perhaps, from America, from Egypt, from Russia, or even from India; but let us assume that it came from Canada. The farmer who raised it must first have cleared the land and built a house for himself, some dwelling place for any assistants he has, a barn, and so forth, and he has furnished himself with a plough and other implements. These, with the seed he has sown, are all of the nature of Capital, and obviously he would not have provided this Capital unless he expected and was accustomed to receive some payment for it. A part of your penny, therefore, has to go to him. Then other Capitalists have spent their money in making railroads and building ships, and have carried your wheat to some British port, and they also must have a share. Then there are the warehousemen at the port here, the millowner who provided the newest and most effective machinery for converting the wheat into flour, and lastly, the baker who has made a roll of it. At each stage of this process many persons have been employed, to say nothing of those who constructed the railways and ships and the machinery of the mill. They have all and each been doing something for you, the Consumer. They have had you distinctly in view throughout all these operations. On the other hand, except for them you would not have been a Consumer. Without their co-operation you would have had nothing to consume, and as a penny is all you have thought fit to pay, it must somehow be divided among all of them. But there has probably been one other person, at least, largely concerned in the production of your roll. There may have been some one person, possibly more than one, by whom all this business has been arranged, who has negotiated the transfer of the wheat from Canada to New York or the St. Lawrence, and thence into the hands of the baker, and who, on your behalf, though you did not know it, has advanced and paid to each of the agencies employed their respective shares of your penny. He may have no Capital in the shape of machinery or material objects, he may only rent an office in Toronto or in Liverpool; but he has money, and has by the use of it removed the difficulty otherwise existing between you and the Canadian farmer, who might not have had patience to wait till you found yourself in want of a roll and ready to pay for it. A portion of the penny deservedly goes, therefore, into the pocket of this Capitalist. But come with me a little nearer home. The house and barn of the farmer have been insured against fire; so, perhaps, has the plant of the railway; so, certainly, have been the ship and the corn mill. These insurances may have been effected with British offices worthily represented in this room, and some portions of this wonderful penny may have come here. Or, among the men who, by their skill and enterprise as well as by their Capital, have smoothed the way of this small handful of wheat, there may be one whose commanding powers as an organiser of commerce have been thought so essential to the success of the enterprise, and his possible death so fatal to it, that his life has been insured, and the premiums, regarded as a necessary part of the trade expenses, have partly come out of the penny. Scientific people tell us of the infinite divisibility of matter, you will have no difficulty in understanding that problem.

The Consumer: Clothes.

Our first illustration has been taken from the production of food, but we need clothes also, and we may look for a moment at how they reach us and what connection they have with our present subject. The coats which we are wearing to-night may have been made from Australian wool. The sheep that produced it belonged to some land-owner in Victoria or New South Wales, and obviously formed part of his Capital. The land on which they fed formed another and legitimate part of it. He had not grabbed it or stolen it, but had paid for it to the Government of the Colony—that is, to his fellow-colonists represented by their Government. He had fenced and cleared and drained it, had sown it with the best grasses, stocked it with sheep, and waged for it a more or less successful war against that dangerous wild beast, the rabbit. I need not refer to the processes and agencies by which the wool found its way to Leeds, and passed through various beautifying processes, until it reached the climax of them in its connection with our persons. Let us go back to the breeder of the sheep, and imagine some incidents in his history. The purchase of the land and his other outlays may have more than exhausted his own Capital, so he has borrowed money from some bank in Melbourne or Sydney. But the money the bank has lent him was not their own. It may, not improbably, have been furnished by some British Insurance Office. Thus a portion of the Capital required to produce the wool in Australia out of which our coats have been made may be neither more nor less than the accumulated premiums of British insurers—that portion of their yearly incomes which, under our influence and with our help, has been converted into Capital. It has never, perhaps, occurred to us that some part of the modest price we have paid for our coats may appear in the accounts of some great Insurance Company under the form of "Interest on Investments."

Effects of Increased Demands of Labour.

Let us suppose, now, that the tailors here strike for higher wages and are successful. Either our coats become dearer, or the difference comes out of the pockets of some of the other persons concerned in their production. But if tailors are to be more highly paid, why not the workers in woollen mills, the seamen who have brought the wool home, the shepherds and shearers who have tended it and prepared it for export, and the Capitalists who have been at the trouble and expense and risk of these various operations? Up, then, goes the price of coats; but though we cannot well do altogether without coats, we are probably not obliged to use so many of them as we do, and if we find our tailors' bills running up, we avoid as long as we can making any new purchase. Other persons at home and abroad are going through the same process, and there are, consequently, fewer coats and fewer tailors wanted, and less wool. One effect is that the price of wool goes down, the Australian producer finds it impossible to repay to the bank the money he has borrowed from it, the bank itself goes into liquidation, and it may be that Insurance Offices, or Friendly Societies, or other similar institutions here, lose some of their money. When the war of Labour against Capital began, which was to benefit the tailors at the expense of the hard-fisted and selfish Capitalist—a war with which some well-intentioned but not very wise people may have sympathised—it was scarcely contemplated that the Capital to be sacrificed might be the hard-earned savings of hundreds and thousands of small tradesmen or artisans, who with a superior self-denial had devoted to Insurance for the benefit of their families what so many of their class had spent on beer and tobacco.

Our illustrations of the use of Capital have hitherto been taken from cases where one of its functions has been to assist in the importation of goods from abroad. We will now try to see what it does for us when all its work is done at home, and following the method already adopted, we will take individual cases by way of example, beginning with the production of the prime necessary of life, namely, food.

Capital at Home: Food Production.

Have any of us ever seen a food manufactory? I do not speak of a baker's workshop, or even of those great establishments in Cincinnati or Chicago, where one has seen thousands of living pigs converted in an incredibly short period into pork. These are advanced processes in the preparation of food. The sort of manufactory we are now to look at belongs to an earlier stage, and is known to us by the familiar name of a farm. There small quantities of seed are converted into large quantities of wheat, and oats, and barley, and potatoes; there grass and turnips are converted into beef and mutton; there, in fact, the great bulk of the food by which human life is supported is produced. No doubt there are also such things as fish, and wild animals, and garden fruits, and vegetables, but the world would be very poorly fed if it were not for the machinery of the farm.

The Partners Engaged in Food Production: First, the Landowner.

In this country there are generally three sets of persons, and often four, engaged in this manufacture—the landlord, the tenant, the labourer, and the money capitalist. We shall suppose a case where all of these are concerned. Each of them does his part towards the required result, and each naturally receives his share of the profits, if there are any, The landlord supplies the ground and the necessary buildings. He or his ancestors, or, as it is phrased now, his "predecessors in title," have probably paid hard cash for the land, relying on that protection to ownership which the laws and administration of all civilised countries have for countless generations afforded. One of the lamentable features of our day is the extent to which an unblushing covetousness of other people's property is avowed and encouraged. There are theorists, indeed, who would abolish property, but most of the attacks made on it resolve themselves, not into any scheme, if such could be devised, under which individual ownership of anything would cease, but into the more intelligible and practical operation of taking the property of those who have any, and handing it over to others, especially to ourselves. Many of the projects for dealing with land, with mines, with ground values, with game, and other things, are in effect transfers of property against the will of the owner, and we may depend upon it that if these are successful, the spirit of plunder will not restrict itself to any one kind of property. Whether an owner of land has bought it or has inherited it through countless generations, whether he has laid out his own money in enclosing, draining, planting, and other improvements, or has bought or inherited the land in its present condition, I will not insult your intelligence or your honesty by supposing that any argument is needed to prove his absolute right to it, or to condemn any such theory of spoliation as the nationalising of land or of the minerals beneath its surface.

Second—The Tenant Farmer.

The next partner in the food-producing business is the farmer, who, under an arrangement with the landlord, which ought to be wholly voluntary on both sides, brings in his share of the Capital required, namely, his agricultural skill and personal attention, his ploughs and other tools and instruments, and a certain stock, perhaps, of horses and sheep and cattle, of seed and manures.

In this country the tenants, no less than the landlords, belong to a class who are perfectly capable of taking care of themselves, whom natural intelligence, knowledge of their business, and the possession of some Capital render as fit to make their own bargains as can well be conceived. And yet, within these few years laws have been enacted in this United Kingdom which have seriously interfered with freedom of contract between landlord and tenant. It is difficult to see why this particular relationship should thus have been exceptionally treated. Theorists have sometimes suggested that the whole population is interested in the production of food, and in seeing, therefore, that those who own and occupy the land make the most of it. Something might be said for this if it were the case that we were wholly or chiefly dependent for our food on the production of our own country; but even in that case it could scarcely be doubted that the partners in this food-producing business would for their own sakes take care that the production should be as large as could possibly be accomplished, and that on the whole, and with insignificant exceptions, their own arrangements might be trusted to secure this far more effectively than could any Act of Parliament or Government supervision. Similar interference with the agreements in use to be made between the partners of other manufacturing concerns, would be recognised as intolerable; but land, being a sort of property, a sort of Capital, which is very conspicuous, much coveted, and easily subjected to legislative interference, is the favourite object of attack by those who are really the enemies of all Capital.

Third—The Labourer.

The third partner is the labourer, and he has obviously a right to share in the produce. St. Paul tells us that "the husbandman that laboureth must be first partaker of the fruits," and so he always is, or, rather, he is allowed to anticipate them, for he is paid for his labour long before it has borne any fruit. We have no materials for discussing the question, What proportion of the produce of this or any other industry should go to Labour, and what to Capital? They are each to some extent dependent on the other, and each enjoys some advantage in the contest, if there is one, for a larger share. But the agricultural labourer has this peculiar advantage, that, unlike his employer, he need have no anxiety about weather, and seasons, and prices; his brains are not overtaxed, nor his sweet sleep disturbed, by the cares which affect his master, and if his remuneration is small, it is certain, immediate, and steady.

Fourth—Money Capital.

We come now to a fourth partner, who may often be found in these food-producing factories. The owner of the land may not have had money enough to pay for it and to make the necessary improvements on it, and so he has borrowed money on mortgage. The tenant also may have required a loan. The persons who, by lending their money have contributed a portion of the needful Capital, are obviously partners, and we know who these persons may be, or some of them. Of the funds belonging to British Insurance Offices, the accumulated savings of the persons insured, no less than 84 millions sterling are lent out on mortgage, so that these toiling and saving multitudes have a very material though indirect interest in the value of land. Through other channels the same class of industrious and provident people, or their widows and orphans, to say nothing of religious, educational, and charitable institutions, have their money invested in this way, and so are partners in the business of producing food for the whole community. Hence, the legislation which affects, and the political nostrums which threaten the value of land, are of vital interest to millions of persons who have scarcely dreamt they had any concern in them, as, indeed, many a poor widow and aged spinster, whose humble means have been invested on the security of estates in Ireland, could testify.

Questions as to a Peasant Proprietary.

It is impossible to think of this partnership in food production without some reference to the question of whether it would be better for the parties or for the community that the requisite Capital should be provided by one person rather than by two or three—in other words, whether the man who works a farm ought not also to be the owner of the land. Very large sums of public money, mostly the product of taxation in Great Britain, are being used to enable tenants in Ireland to become their own landlords. The only question we need consider here is whether it is desirable, from an economic point of view, that the production of food should be carried on by men who can provide the land, with the needful adjuncts of houses and offices drainage and fences, &c.; and at the same time the Capital required for working a farm, for the purchase of horses and cattle, implements and seed, including enough for the support of themselves and their families, and for the wages of their labourers, until they can bring their produce to market. Men who, even with the help of loans, can do this, except on the smallest scale, are so rare that their case need scarcely be considered, and they will usually be found among landowners who farm merely for pleasure, and without much view to economic results. The real question lies between the class of peasant proprietors, as in France, and men able to work farms of considerable size, of which they are not themselves the owners, but which they occupy on terms agreed upon between themselves and the owners. Which of these methods of food-producing will most benefit the country at large?

No doubt there were in former days in this country a class of landed proprietors which scarcely exists now—men who owned and farmed small estates, and were known in England as Yeomen, and in some of the northern counties as Statesmen, and in Scotland as Bonnet Lairds. These were somewhat above the rank of peasants, and their number has diminished, chiefly because they found more lucrative employment for their Capital and their energies. Many a story, I believe, could be told of old families of this class in Yorkshire and Lancashire, who had the enterprise to turn to account the streams which gurgled through their properties, by setting them to drive the machinery of a small woollen or cotton mill, to be supplemented ere long and ultimately superseded by steam, and so to develop into some prodigious factory. But there can be no doubt that under present economic conditions, if a farmer is to farm profitably for himself, and if the land is to be so cultivated as to produce for the country the largest possible amount of food, this will be best done if the cultivator uses all his available Capital as a farmer, leaving some other man to employ his Capital as a landowner; if, in other words, the business of food-manufacturing is undertaken by partners who each bring their own Capital and capacities into the concern, agreeing with each other as to the division of the products. If a tenant farmer possesses capital enough to become a landowner as well, he will probably use it more profitably to himself, and more advantageously for the community, by farming on a larger scale rather than by buying land.

There is for some people a fascination in the idea that land might be so parcelled out as to be owned and cultivated by a greatly increased number of persons—in short, that large estates and large farms, and even those of moderate extent according to present notions, should be exchanged for a vast number of smaller holdings owned by the men who farm them. We have not time now for the full consideration of this question, but one or two points may be just mentioned. Such a change would involve the displacement to a large extent of existing landowners and existing tenants. The new occupiers would either be the present labourers, who have no Capital of their own to buy or to stock even the smallest holding, or they would be artisans or shopkeepers drawn from the towns and from other industries. Whether the social changes to be thus brought about would be happy for the country at large or for the individuals concerned may be doubted; but there can scarcely be any doubt that the production of food could neither be so great nor so economical as at present. Assuming that a labourer or an artisan, when converted by some State machinery into an owner and farmer of land, will always be competent to manage even a small farm, and that he will work for himself with greater zeal and success than for a master—which is far from certain—it is difficult to imagine that a farm of 500 acres, worked by a man of experience and skill, with sufficient Capital to command the best stock and machinery, and with the stimulus of having to provide a rent for his landlord, will not be worked more cheaply and more effectively than if it were divided into five separate holdings of 100 acres or ten of 50. Even if any improvement were likely, there would remain the question of how the money is to be provided to buy out existing owners and tenants, and to supply working Capital for the new proprietors, without having recourse to confiscation, or to the appropriation of funds raised by taxation, coming, of course, out of the pockets of the general body of taxpayers. Then there would be the further question, which has proved a very practical one in Ireland and the Scottish Highlands, of what is to happen after the land has been parcelled out in the way proposed, when the next generation, twice or thrice as numerous, shall make a similar and an equally reasonable demand to have a sufficiency of land provided for them, and to have the 50-acre farm cut up into two or three portions, each with its separate dwelling and office-houses. What would be thought of a proposition on behalf of the men who work as assistants in factories, shops, and warehouses, that each of them should, by legislative enactment, and with the help of public money, be provided with a factory, or shop, or warehouse of his own, and with the necessary Capital to stock and work it; and yet the one scheme is as reasonable as the other. One truth is constantly overlooked when the condition of small tenants in Ireland or elsewhere is considered—namely, that their holdings do not afford occupation for a man all through the year, and for that and other reasons were never intended to be the sole support of a family, but to be places of residence and of supplementary support for men who should gain their living chiefly by working for others, by fishing, by harvesting, and in other similar ways. To make the productiveness of a small holding of this sort the measure of rent is scarcely more reasonable than it would be to fix the rent of some suburban villa near a city like this, at what might be got out of the garden and paddock forming part of the tenancy.

Capital applied to other Industries.

I have dwelt too long on questions about Capital employed in the production of food; but this, after all, is the primary use of Capital, and it will not be difficult to apply the principles we have been considering to other industries. The production of clothing, of dwellings, of machinery, of means of transport—just to name a few leading examples—are all largely governed by the same laws. Take any of them, and trace what has created them. First, there have been the gifts of nature, as they are often called—more correctly, the provision made by a foreseeing God for the wants of His creatures. For clothing we have the sheep and the silkworm, the cotton and flax plants; for dwellings the rocks, the clay, the timber; for machinery and ships and railways, timber and coal and iron ore, and that

Joint Stock Companies and Co-operative Associations, or by departments of Imperial or Local Government. I cannot detain you with even the merest sketch of this great question. I shall content myself with expressing the conviction that where work is done and Capital used by groups and combinations of men, however constituted and directed, success and usefulness will very largely depend, in almost every case, on the brains and will and character of a few of the individuals engaged in them, and that any serious interference with individual energy and responsibility will bring its own retribution.*

The Laws of Political Economy.

I have referred to the laws of Political Economy as ordinances of God and nature. Many worthy persons would dispute this. To them these laws appear to be human ordinances of a hard and cruel kind, and mostly framed in the interests of Capital and Wealth. It may readily be acknowledged that, like others of God's ordinances, these laws may be misinterpreted, and may be used to justify selfishness and greed, and that in the supposed interests of Labour no less than of Capital. It is plain, also, that if they are God's laws they will not conflict with those other laws of His which enjoin us to love our neighbour as ourselves, to do good to all as we have opportunity, to deny ourselves, to regard a good name as rather to be chosen than ... rather than silver and gold, to give to

such as buildings and machinery, ships and railways, the Labour employed is paid for long before it becomes productive, as we have seen to be the case with agricultural Labour. When the workman, therefore, looks round on a great factory and says, "My hands reared these buildings and fashioned all this beautiful machinery, why should the Capitalist reap all the profit of it?" the obvious answer is that he has already enjoyed his share of the profit by anticipation, and that if this valuable property represents the labour of his hands, it also represents the bread he and his family have eaten, and the Capital which another man has spent in paying his wages. A moment's consideration shows that the workman has only three alternatives before him if he is to work at all, and that not because of human laws or of artificial social conditions, but of necessity. He what is to happen after the land has been parcelled out in the way proposed, when the next generation, twice or thrice as numerous, shall make a similar and an equally reasonable demand to have a sufficiency of land provided for them, and to have the 50-acre farm cut up into two or three portions, each with its separate dwelling and office-houses. What would be thought of a proposition on behalf of the men who work as assistants in factories, shops, and warehouses, that each of them should, by legislative enactment, and with the help of public money, be provided with a factory, or shop, or warehouse of his own, and with the necessary Capital to stock and work it; and yet the one scheme is as reasonable as the other. One truth is constantly overlooked when the condition of small tenants in Ireland or elsewhere is considered—namely, that their holdings do not afford occupation for a man all through the year, and for that and other reasons were never intended to be the sole support of a family, but to be places of residence and of supplementary support for men who should gain their living chiefly by working for others, by fishing, by harvesting, and in other similar ways. To make the productiveness of a small holding of this sort the measure of rent is scarcely more reasonable than it would be to fix the rent of some suburban villa near a city like this, at what might be got out of the garden and paddock forming part of the tenancy.

is Risk. Everybody of course recognises the risk of loss by fire and shipwreck or early death, and it is part of our business to measure that risk, and to insure men against it. Insurance against other risks, such as the loss of health, the default of employés, accidents, and the like, are also familiar, and attempts have been made lately to apply insurance to losses by investments—attempts which, as I ventured to predict some years ago, have proved unsuccessful. But the sort of risk we have now to deal with is the risk of the loss of Capital through unprofitable trade. When the profits of Capital are contrasted with the wages of Labour, when men look with grudging and envious eyes on the palace, the equipages, the pictures, and the general splendour of the great manufacturer or merchant, or when we read in the newspapers of the vast fortune which this or that man has

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* *See* Appendix.

become the prey of poverty and disease. It is not by rebellion against such laws, but by an intelligent regard and obedience that we shall escape the penalties which, with a certainty not attained by mere human ordinances, attend the infringement of them.

How to become a Capitalist.

To most persons it seems a fine thing to be a Capitalist. To be one on a large scale must entail great responsibility, anxiety, and labour. But to possess some Capital is an object which each of us ought to aim at, and which almost all of us may attain to. As we have already seen, the man who has even one pound in a Savings Bank is a Capitalist, and may regard his contribution to the aggregate Capital of the nation as promoting the employment of Labour and the prosperity of the country. And there are very few men who, especially if they began early enough, might not, with sufficient industry and self-denial, become Capitalists on a much larger scale than this; while in every community we can find numerous men who, by the blessing of God on their own endeavours, have attained to conspicuous wealth and social position. For every man who does this there are dozens who might have done it if they had chosen. All of us must be conscious that in every department of Labour, whether of the head or of the hands, there is a great deal of work done grudgingly, carelessly, unconscientiously, and therefore ineffectively, and that too much of the wages earned is absolutely wasted and thrown away, and this is one chief reason why there are not more Capitalists.

But you are aware, from what has already been said, that I do not regard the word Capital as confined to money or to those material things which money can purchase. Each of us is born with a certain portion, more or less, of the raw material of reproductive Capital. There are, no doubt, great differences in the volume and quality of brains with which each man is born, in physical power and nervous energy, in capacity for endurance, and in inherited tendencies towards good or evil; and, further differences may arise from those influences and surroundings which tell on the future man before he has much part in the ordering of his own life. But beyond doubt each of us possesses certain capacities and proclivities which it is his business either to encourage and cultivate or to combat and repress. It is by the patient, persistent, and energetic application to this business that a man becomes a real Capitalist in the sense I am now referring to; and there is no man who, seeking and obtaining the help of God, need despair of success. This sort of Capital, like the more material kind usually spoken of, grows out of the application of labour to the original raw material supplied by nature, and it is eminently reproductive. Who that has had any experience of life would compare in point of value, either to the possessor himself or to the world, the ownership of money, or land, or houses, or machinery, or stocks of goods, with the possession of such things as a cultivated intellect, extensive knowledge, original genius rightly directed, self-control, the power of influencing and guiding others, untiring industry, high and unselfish motive, unswerving integrity and uprightness? Men endowed with such qualities in a high degree are as rare, alas! as men of large fortune; but since—happily, perhaps, for ourselves—we cannot all be in the latter position, so we must, many of us, be content to make the most of what mental powers we find ourselves possessed of. There are, happily, no restrictions on the cultivation of our moral faculties, and these being duly attended to, and our intellectual qualities, such as they are, assiduously improved, we shall become Capitalists in the most honoured sense, to our own well-being and happiness here and hereafter, and to the advantage and prosperity of the community to which we belong.

APPENDIX.

I.—The Socialist or Collectivist Theory.

In considering some of the questions which are suggested by the words Socialism or Collectivism—the latter a new and not very explicit term—it is important to come to an understanding, if possible, as to the exact points at issue. We will here only refer to those questions which circle round the proposition that Capital employed in industrial pursuits, whether manufacturing or commercial, ought to be in the hands and under the control, not of individuals, but of bodies of men, and especially of public bodies, the representatives of the people at large, and practically under the control ultimately of their constituents, in other words, of the "democracy."

That very many and very large industrial enterprises are conducted successfully by Joint Stock Companies is, of course, a familiar act; and also that some could scarcely be conducted otherwise. As o this, it has to be kept in view, that where the arrangements of such companies are legitimate, the ultimate control of the business is in the hands of the shareholders, that is, of the persons who have contributed the capital, and whose interest it is, therefore, that the enterprise should be successful. They no doubt have to commit the immediate management to a smaller body of directors or managers, but as these also presumably have their own money engaged in the concern, there is usually the guarantee of personal interest for their doing the best they can for the common good. The only question therefore, in this case, is whether a change from individual to joint stock management and control will increase the profits of the business, or prove more beneficial to employés or customers. As regards all of these, there can be little doubt that in most cases such a change is not beneficial, and that that business will be managed most effectively, and will be most readily adapted to the wishes and interests of all connected with it, where, other things being equal, the ultimate control is in one or two hands, having the largest possible personal interest in its success, where prompt action is not interfered with by the inevitable clumsiness of joint stock machinery, and where there is no division and consequent weakening of responsibility. It is, of course, possible that a Joint Stock Company may be saved from these disadvantages by the exceptional zeal and capacity and courage of one or two of the persons engaged in its management, but these qualities are not common.

We cannot know all the difficulties which individual Capitalists have to meet in the conduct of their own business, nor all the causes which lead to failure, but, as regards Joint Stock Companies, there are some facts which are being daily forced on public attention. One is that many concerns which have been eminently successful in private hands, cease to be so when converted into Companies, the reason being often not far to seek. The previous success has been mainly owing to *individualism* : to the skill and enterprise—in other words, to the brain and character—of the man who has "made it;" and large sums of money have been lost to investors by the groundless assumption that the machinery of a Joint Stock Company will secure a continuance of similar prosperity. Then, again, one painful and humiliating experience is rapidly succeeding another, and shewing how difficult it is to secure sound judgment, and even common integrity, in the management of corporate funds. The failure of banks at home and in Australia, in America and lately in Newfoundland, of Land and Investment Companies, and such occurrences as are associated with the name of the Liberator Companies, shew the risks attending this joint method of employing Capital. The Socialist will tell us that it is not for Capital or the Capitalists that he cares. He might be expected to care for those small Capitalists who have saved a trifle out of their wages, instead of eating and drinking the whole of them; and every one knows how many thousands of these have lost their little savings by entrusting them to Companies. But it ought to be plain to all that those enormous failures, arising chiefly out of the throwing away of Capital on unproductive enterprises, must have also a powerful effect in lessening the resources available for the employment of labour, and in discouraging the incentives so to employ it.

I have no desire to throw discredit or doubt upon Joint Stock Companies generally. The community have derived enormous benefits from such institutions, and the safe and successful working of them ought not to be, and is not in fact, impossible. All that has to be kept in view is that it would be a very unwise thing to sacrifice and set aside *Individualism* in favour of this form of *Collectivism*.

What are known as Co-operative Associations have the same difficulties as the more ordinary kind of Joint Stock Companies, with the added disadvantage, that usually the persons interested are much more numerous, have each of them a smaller stake in the concern, and neither themselves possess, nor can command the service of even such an amount of knowledge and capacity for looking after their interests, as do the shareholders in Companies of a different class.

But the Socialist and Collectivist programme does not seem to point so much to an increase in Joint Stock or Co-operative enterprises, as to some undefined extension of the system under which Capital is employed and controlled by public bodies, created by popular election. We say an extension, for such things exist, to some extent, even at present. The most successful example, often held up as a model, is the Post Office, and no one will deny that, although even it does not escape criticism, it is an admirable product of public administration. It is often forgotten, however, that this great institution is not subject to any rivalry, and that it is almost equally free from public control. No doubt the office of Postmaster-General is a political appointment, and is more or less, therefore, under the influence of the popular will. But this is exercised very remotely, and few of the men who attain to this high office are likely to interfere injuriously with the permanent staff, and the ordinary administration of the Department. These, no doubt, are under the eye and subject to the criticism of Parliament, but, happily, on the whole, there can scarcely be an institution less exposed to popular guidance.

We may take as more common examples of Government interference with industrial enterprise, such things as the building of ships of war and the manufacture of ordnance by Imperial Governments and the supply of gas or of water by Municipal Corporations. It is often alleged that for such things the community ought not to leave itself dependent on private persons, whether individuals or Joint Stock Companies. But the question is, by whom is the public need in these matters best supplied? and those who have experience of both, are not likely to give the preference to public administration.

But what we understand to be the wish of the Socialists, is that the Central Government, or local municipal bodies, the fruit of popular election, should undertake the production and distribution of such things as food and clothing, or coal and iron. In dealing with this project, we are under the difficulty of having had no intelligible details suggested. We are left to imagine for ourselves, therefore, how this could be brought about; and, first, as to the necessary Capital. Let us, as has been done in the foregoing address, take just one case at a time: we will assume, therefore, that the production of cotton goods is to be gone about in this way, and that all cotton mills and factories in the hands of individuals or of Joint Stock Companies are to be prohibited, or are to be driven off the field by being undersold. We need not decide at present whether the business in future is to be managed by the County Council of Lancashire, or whether each Parish Council will have its own mill. We shall not malign the mass of our fellow countrymen by the supposition that the existing mills and machinery will be appropriated by these Councils without payment, or even that the owners will be forced to sell them at a price to be fixed by the buyers, which would only be another form of robbery. The mills will either be purchased at a reasonable price, including something for the goodwill of the business, or new mills will be erected. Either operation will demand a very large sum of money, and the question is, Where is it to come from? "Public Money" will be used for this purpose, but there is no such thing naturally as public money. The State or the County or the Parish has no money except what it can extract out of the pockets of individuals. That may be done by taxation, but it is constantly forgotten that taxation may very readily pass into robbery, as it often does in countries despotically governed. A favourite democratic idea is that it is for the majority of the people to rule, and no doubt that, in the end, usually happens. But wherever power exists, whether in a Kaiser or in an oligarchy or in a democratic majority, the power may be exercised in accordance either with liberty or with tyranny; and it makes no difference to those who suffer from tyrannical oppression, whether it is exercised by a remote autocrat, or by a majority of the people in their own parish; many persons would prefer the former. In the case now under consideration, it is assumed that the power of taxation will rest with the majority, and it may be taken as certain that it is the money of the minority that will be called upon to provide the Capital needed for the setting up of cotton mills and other industrial machinery. The majority, if they are honest enough to charge themselves with their fair share of the current expenditure of the country, will not be able to furnish in addition any large proportion of this Capital. The project, therefore, must take the form of extracting from the pockets of all who possess property, and that whether they like it or no (for, being a minority, the theory in question gives them practically no choice), the enormous sum required to acquire enterprises have created being saved and accumulated instead of being spent unproductively. It must be obvious that no further savings will take place unless individual ownership and control are to be respected and secured.

We will now suppose, however, that all difficulties about Capital are by some miracle got over, and that Lancashire comes to possess a sufficient number of cotton mills and weaving factories, each under the direct control of a City or County or Parish Council; and that the managers are appointed by universal suffrage and largely by the persons who are themselves employed in the mills; in other words that these employés become their own masters. We may envy the sanguine and trustful people who profess to think—and some of whom probably do think—that under these altered conditions all work of head and hands will be as effective as where each man has a personal interest in exhibiting his own individual value; but we cannot share their ideas. The direct personal interest of an individual Capitalist may sometimes present itself in the unpleasant form of utter selfishness, but it is certain to produce a degree of care and attention in the general management of a concern, that will on the whole cause it to yield the best attainable results, and it is scarcely possible to conceive that he alone can engross the whole advantages of this. The workman, again, who is paid by the piece, or who is on fixed wages but dependent on the quality of his service for continued employment, has a direct personal interest in doing his best. We once visited a very large shoe factory in Canada where the men were paid by the piece, and where each man's interest was to earn as much as he could irrespective of the praise or blame of his employer, and where yet, as we were assured, the presence or absence of the employer affected materially the amount of wages earned. The natural tendency to take it easy and relax energy

be appropriated by the public authorities without reference to the wishes of the persons who have saved and own it. But a very little consideration will show that the existing Capital which our its own mill. We shall not malign the mass of our fellow countrymen by the supposition that the existing mills and machinery will be appropriated by these Councils without payment, or even that the owners will be forced to sell them at a price to be fixed by the buyers, which would only be another form of robbery. The mills will either be purchased at a reasonable price, including something for the goodwill of the business, or new mills will be erected. Either operation will demand a very large sum of money, and the question is, Where is it to come from? "Public Money" will be used for this purpose, but there is no such thing naturally as public money. The State or the County or the Parish has no money except what it can extract out of the pockets of individuals. That may be done by taxation, but it is constantly forgotten that taxation may very readily pass into robbery, as it often does in countries despotically governed. A favourite democratic idea is that it is for the majority of the people to rule, and no doubt that, in the end, usually happens. But wherever power exists, whether in a Kaiser or in an oligarchy or in a democratic majority, the power may be exercised in accordance either with liberty or with tyranny; and it makes no difference to those who suffer from tyrannical oppression, whether it is exercised by a remote autocrat, or by a majority of the people in their own parish; many persons would prefer the former. In the case now under consideration, it is assumed that the power of taxation will rest with the majority, and it may be taken as certain that it is the money of the minority that will be called upon to provide the Capital needed for the setting up of cotton mills and other industrial machinery. The majority, if they are honest enough to charge themselves with their fair share of the current expenditure of the country, will not be able to furnish in addition any large proportion of this Capital. The project, therefore, must take the form of extracting from the pockets

But not only is Capital necessary to start all industrial or distributive enterprises; a constant supply of fresh Capital is required to sustain them. That fresh Capital, as we have seen, is dependent on fresh savings, on a certain portion of the wealth which these enterprises have created being saved and accumulated instead of being spent unproductively. It must be obvious that no further savings will take place unless individual ownership and control are to be respected and secured.

We will now suppose, however, that all difficulties about Capital are by some miracle got over, and that Lancashire comes to possess a sufficient number of cotton mills and weaving factories, each under the direct control of a City or County or Parish Council ; and that the managers are appointed by universal suffrage and largely by the persons who are themselves employed in the mills; in other words that these employés become their own masters. We may envy the sanguine and trustful people who profess to think—and some of whom probably do think—that under these altered conditions all work of head and hands will be as effective as where each man has a personal interest in exhibiting his own individual value ; but we cannot share their ideas. The direct personal interest of an individual Capitalist may sometimes present itself in the unpleasant form of utter selfishness, but it is certain to produce a degree of care and attention in the general management of a concern, that will on the whole cause it to yield the best attainable results, and it is scarcely possible to conceive that he alone can engross the whole advantages of this. The workman, again, who is paid by the piece, or who is on fixed wages but dependent on the quality of his service for continued employment, has a direct personal interest in doing his best. We once visited a very large shoe factory in Canada where the men were paid by the piece, and where each man's interest was to earn as much as he could irrespective of the praise or blame of his employer, and where yet, as we were assured, the presence or absence of the employer affected materially the amount of wages earned. The natural tendency to take it easy and relax energy was strong enough to overcome the sense of self-interest, but was effectually rebuked by the watchful eye of the master, and the stimulus of the directions and encouragement he was accustomed to give. As regards general management and superintendence, it must not be forgotten that, if the selection of those who are to undertake it is to be in the hands of a popular body, it will be determined by all sorts of considerations other than those of mere fitness for the work. We will say nothing here of the risks of dishonest management, but the experience of New York, and even of cities nearer home, suggests that democratic control does not always secure immunity from such risks.

One idea underlying a good deal of the loose notions of democratic Socialism is that the labour of one man is just as worthy of reward as that of another. No doubt, at the same time, the general feeling is expressed in the famous formula: "One man is as good as another—and better too"; and there are probably not many of us who do not see that, whatever our own weaknesses may be, there are other fellows less worthy, and less capable. But a great deal of the work of "labour leaders" at the present day is directed not to removing the real inequalities, or to making the idle and incapable as industrious and useful as the better sort, but rather to discourage superiority, and in any case to put all on the same level as regards the certainty of employment and the rate of wages. This policy of reducing the standard of good work, if it were successful, would, of course, lead to the most disastrous results, but what we desire here to suggest, is the utter folly of refusing to recognise that there are natural or acquired capacities among men, and classes of service which they can render to the rest of mankind, of an infinite variety of monetary value; and that the world to obtain the benefit of the best and rarest of these must be prepared to pay for them. Even in employments that seem purely mechanical there are these differences. Hugh Miller tells of a brother mason who could carve out a pillar in half the time that it cost other men, and he shews what were the mental qualities that enabled him to do this. It requires some skill and trustworthiness in a man to make him a good signalman on a railway, but you will get hundreds of men fit for such a post for one that can organise and direct the whole traffic of the line. For one man who can devise a new machine, you will get a hundred

ARBITRATION.

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THERE has long existed in the mercantile community a hankering after arbitration in preference to a resort to the constituted legal tribunals, and a great variety of contracts contain a clause obliging the parties to submit any questions arising between them to the decision of arbiters. Indeed, it was recently stated by the *Times:* "There is scarcely a well-recognised form of mercantile contract by which the jurisdiction of the Courts is not excluded, so far as that is legally possible." A familiar example of this is the usual building contract, and another, which has had special interest for the present writer, is the clause usually contained in fire insurance policies. In this latter case there is a distinction of great importance to the view of the subject I propose to suggest. Two kinds of question may arise under a fire policy—one relating to the quantum of loss caused by a fire, and the other to whether the insurance company is liable at all. The latter may be, *e.g.*, a question of ownership, of fire raising, of breach of the conditions embodied in the policy, or of whether the liability attaches to one company or to another. It is obvious that one tribunal may be needed for the settlement of such questions, while another might be more suitable for estimating merely the quantity or the value of the property destroyed. Accordingly, the usual form of arbitration clause has been held effectual to bind the parties to refer any question as to the amount of loss, although not those more serious questions to which I have alluded. It may be supposed that as the obligation to refer at all is introduced into the contract

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by the company rather than by the insured, it must be thought to be specially beneficial to the former; but this would be a mistake. No doubt insurance offices, like other prudent and experienced people, dislike litigation, and the reputation of being litigious might affect their business. But on the other hand, if a costly battle had to be fought in the Courts of law, the large resources of the company would often give it an advantage. The real use of the clause is its suggestiveness. An arbiter is at the least not less likely to favour a claimant as against a wealthy company than a Court, or even a jury would be, but the obligation to refer suggests to both parties some rapid, easy, and non-litigious settlement of any questions that arise between them.

The law of Scotland has hitherto been somewhat hostile to arbitration. At least, it has done what it could to discourage obligations to refer disputes to an arbiter. The Courts have decided against the validity of such obligations where the referee is not named, or where he is only described by an official title. There has been a strong feeling that these legal obstacles to arbitration should be removed. Lord Watson, than whom there could be no more trustworthy guide on this subject, introduced a bill into the House of Lords to amend the law as hitherto interpreted. This bill was highly approved of by some of the legal bodies in Scotland, and was passed into law on 3rd July, 1894 (57 & 58 Vict. c. 13). The Act provides that agreements to refer shall not be invalid by reason of the arbiter not being named, or of his being to be named by some third party, or of his being a person described thereby as the holder of an office; and in case of the difficulty arising that one of the parties having bound himself to name a referee fails to do so, or that two referees differ in opinion, and fail to appoint an oversman, the bill gives power to the Court—a Sheriff having jurisdiction, or a Lord Ordinary—to make the necessary appointment.

There are undoubtedly many circumstances in which some sort of arbitration will on the whole suit men best; as, for example, where the matter in dispute can be laid before some competent person shortly, and perhaps, *viva voce,* by the parties themselves, and an immediate decision can be obtained; where no elaborate proof is needed; where technical knowledge on the part of the judge will supersede the necessity of a further reference to experts; and especially where it is desired on both sides that the decision should be founded on substantial justice rather than on strict legal principles. I may be excused for mentioning again a department of business where I have had some experience of arbitration. The Fire Insurance Companies of the United Kingdom have a great many transactions with one another, and have long had a code of laws to regulate them. It was in Scotland that such a code was first in use by the local offices, and it became the basis of what is now employed by all British companies. Its existence, however, does not prevent many differences of view arising between office and office, often involving very large amounts, and questions of great complexity. None of these questions, so far as I remember, has ever come before the Courts of law. A board of nine arbitrators is appointed yearly, before whom all such questions are brought, unless the offices concerned prefer, as they often do, to select one or more of the number to act in place of the whole. The system has worked well, but that arises largely from arbiters and litigants being experts in the business they are dealing with, and familiar with its ever varying phases and many technicalities.

But most persons who have had experience of arbitration on any large scale, where there have been no organised rules to appeal to, where referees have been chosen with little regard to their judicial qualifications, and where perhaps there has been proof to be led without much attention to the laws of evidence, have come to the conclusion that this is one of the most unsatisfactory methods of obtaining a decision on a disputed point. The difficulties of agreeing upon and obtaining the services of a competent judge are often considerable; then there are the delays and the consequent expense arising out of the failure to secure continuous procedure. There is a tendency among mercantile men selected as referees to compromise a dispute rather than to decide it on principle, as for example to take the familiar step of "halving the difference," a result seldom appreciated by either party. The uncertainties of the law are proverbial, but these are greatly increased when it is administered by irresponsible arbiters with little or no experience of judicial functions, and with no precedents to assist them. And when the decision is come to, the intervention of a Court may still be required before it can be enforced, giving occasion perhaps for fresh disputes as to the regularity of the proceedings.

But even if arbitrations were more satisfactory, it could scarcely be complimentary to our judicial system that there should exist any substantial desire to avoid its tribunals, and to resort to amateur judges; and we are not surprised to find agreements to refer described as "obnoxious to the charge of invading the jurisdiction of Her Majesty's Courts." No doubt, persons who have thought little on these subjects are apt to complain, if they fail to secure different kinds of benefit which are really incompatible with each other. Any complete judicial system must be guarded by rules and forms, and must administer a more or less elaborate code of laws; and a nation cannot enjoy the advantage of legal institutions which protect them against the dangers of ignorance or partiality or venality on the part of judges, without there being in some cases reason to regret the rigidity of the modes of procedure, and occasional failure to meet the equities of exceptional circumstances. No country, we believe, can boast of a better judicial system, administered with more capacity and purity of intention, than we possess in Scotland; and much has been done within living memory, and at the instance of the legal profession itself, to simplify and cheapen procedure, and facilitate the administration of justice. Nevertheless there still subsists among members of the general community, here as well as in England, a not unnatural desire to refer their disputes to outside arbitration, even when they concern matters of considerable importance, and questions which the ordinary tribunals are really best qualified to deal with.

In a previous number of this *Review*—Vol. V. p. 76—an account was given of the institution of the London Chamber of Arbitration promoted by the Corporation of London and by the London Chamber of Commerce. This new Court of Justice, for it is nothing else, has been in operation for about two years. One of its objects is to provide a choice of arbitrators competent to decide on every subject under the sun, and I have now before me a list of these arbiters nominated by the important bodies just mentioned, and willing to act, when called upon with the formalities prescribed by the rules. The list comprises nearly two thousand names, including some Peers and Members of Parliament, and many persons well known in the mercantile world. The variety of qualifications possessed by these gentlemen is very considerable, and some of the names appear oftener than once. Besides fifty-two under the head of "general," eighty-five Accountants, and a modest contingent of twenty-one belonging to the legal profession, we have separate lists under the heads of Advertising, Africa, Analysts, Asphalte, and so on down to Wine and Spirit, Wood Pulp, and Wool, ninety-four separate subjects, many of them sub-divided. Ninety-seven gentlemen undertake "Shipping and Allied," besides forty-five who go in for Marine Insurance. Nine will decide questions about soap, although this subject may also be dealt with, perhaps, under the head of Advertising. A quiet breakfast-table may be secured with the help of thirty-two arbiters about Tea, thirteen about Coffee, and thirty about Sugar: while it takes fifty-seven to deal with Wine and Spirit, but no more than two to dispose of questions about Malt.

The enquiries I have made about the success of this Institution have been succinctly responded to in the words, "a dead failure." It appears that in the two years of its existence it has dealt with forty cases, and at the date of my enquiry it had not a single case on hand. The reason which its promoters assign for this is that it has not become sufficiently known, but a Court that has two thousand judges scarcely needs greater publicity. The non-success of this London establishment has not prevented the recent formation of a similar one in Birmingham, and already it offers the services of 181 arbiters, whose names have been suggested by various public bodies. It has adopted the London Chamber's rules, modified to suit local circumstances, and it puts forward a lower scale of charges. In both cases, however, any saving of expense to be attained by resorting to these new Courts will chiefly depend on a litigant being his own lawyer, which may or may not give him, according to the proverb, a fool for a client.

It may be that the people of this country are becoming less litigious, or that they cannot afford the luxury of litigation, or that they have fewer transactions to fight about, but both in England and in Scotland there appears to be a falling off in the number of cases of any importance coming before the ordinary Courts, and so far as London is concerned this evidently does not arise from the successful rivalry of the Chamber of Arbitration. We are told, however, by persons likely to know, that there has been no falling off in the number of private references. Two conclusions may be arrived at: that the public do want some method of having their disputes settled other than by the ordinary procedure of the Courts of law, and that a Chamber of Arbitration does not meet this want. The truth is that such a Chamber is neither one thing nor another. It has not the simplicity and supposed cheapness of private arbitration, and it does not command public confidence as the Courts of Law do.

In considering the subjects about which disputes arise between men, leading to the desire for a comparatively simple tribunal, an important fact is often lost sight of. The subject may be of a technical kind, and then it is assumed that it will be best understood and decided on by some person engaged in the same sort of business as the litigants. Hence the variety of special and technical knowledge which the London Chamber of Arbitration places at the service of its customers. No doubt it often happens that little more is needed in a referee than such knowledge, as where the question might be whether goods supplied or work done was in conformity with conditions previously agreed upon. Even for the right decision of such a question it is very desirable that a referee should have some judicial faculty, as well as a special acquaintance with the subject, and these do not always go together. But a great many questions, even when they deal with technicalities, have vital elements in them beyond these.

We venture to give one or two illustrations. An Actuary is often asked some such questions as this: What is the present value of an annuity of so much on the life of a man of such an age? Or the question may involve two or more lives, and various complications. Obviously such a question cannot be answered except by reference to an actuary, but it may be far from being simply a matter of calculation; and, indeed, before any answer could be given the actuary would have to ask what was the object of the enquiry, whether it was to ascertain the sum that it would cost to purchase such an annuity, or the price that could be got for it if it were desired to sell it, or what would be a fair value to assign to it in a friendly arrangement between the persons interested. It might be asked also if questions of health were to be entertained. Now, if instead of being an adviser in such a case the actuary were to be an arbiter, and had to decide in a given state of circumstances what principle ought to be adopted in fixing the value, it is plain that he would need other faculties than merely those that would serve to make a calculation. The writer has often had occasion to consider such questions on behalf of heirs of entail, sometimes only as an adviser, sometimes as a referee, and many interesting points have had to be considered and decided on, especially before the Courts of Law had on appeal determined how some of these questions were to be solved.

Turning again to Fire Insurance, here are one or two examples of cases that have actually arisen. A printer's offices were burned and amongst other things the stereotype plates of an edition of the "Waverley Novels" were destroyed. Thousands of copies had been printed from them so that they had well repaid their cost, and borne the brunt of it in diminished sharpness. It was claimed, however, that the owner was entitled to have the plates replaced at the cost of setting up the types and casting new plates. The matter was referred to a gentleman who was at once an eminent publisher, and a man of high standing in the community, and he, not unnaturally perhaps, sustained the full claim. In another case which recalls itself, also connected with literature, a publisher's stock had been injured, including hundreds of copies of certain books. Was he entitled to have the price of these volumes paid to him as if, but for their being burned, he could have sold off the whole edition the next day, or would it be reasonable to raise the enquiry whether a single copy of some of these books had been sold for months past, and whether they had any real commercial value? This question was not raised but it might have been, and it will be seen that in such cases the technical knowledge required to give the value of a printed book or a stereotype plate is quite a secondary matter compared with the broader questions of substantial justice which may have to be dealt with.

If then such questions are to be submitted to arbitration the problem is how to secure the best possible tribunal. If judicial capacity and technical skill can be found in combination, well, but, if not, the conclusion we arrive at is that the important point is to secure judicial capacity and to leave the arbiter to procure from other sources any technical information which he cannot himself supply. Now beyond question we have in our ordinary Courts judges more thoroughly qualified on the whole to arbitrate between litigants, whatever the subject of the dispute may be, than any other men likely to be found. As regards modes of procedure it is possible of course that still further improvements might be made without any material change on the judicial system. But one cannot hear of attempts to create rival Courts, or of Acts of Parliament being passed to facilitate private arbitration, however reasonable in themselves, without apprehending, to quote the words of a previous writer in this *Review*, that it arises from "the inability or failure of the ordinary Courts to grapple with and supply the growing needs of a commercial community." Many circumstances, indeed, at the present time, point to the existence in the mercantile world of a dissatisfaction with present judicial arrangements. I venture then to offer a suggestion which need not interfere with ordinary procedure, and which indeed had better be kept as distinct from that as possible. To put this suggestion in the barest, and possibly the least attractive form, it is that we might utilise our Judges, Lords Ordinary and Sheriffs, as Arbiters.

One obvious objection to entering as a litigant the Courts of law is that the adventurous person does not know when he may get out of them; he may be successful before the judge to whom he appeals in the first instance, but his opponent may carry him from one Court to another at a prodigious cost to him of time and money and anxiety; and it is far from uncommon to hear of cases, where the costs have come to be of much greater consequence than the original subject of dispute. Now, why should not two litigants select a judge in whom they both have confidence, and renounce judicially and effectually all right of appeal? It is possible that they have it in their power to do this at present, but it would make a great difference in many respects, if there were a recognised system of this nature. It would no doubt throw upon the judge a greater responsibility, for a judge will sometimes make the observation that if he is in error, the error will be corrected in the Court of Appeal; so it may be confidently reckoned on that he will be all the more anxious not to be in error if he knows that his decision is to be final. One advantage to the litigants is that they can select their arbiter from the most competent, experienced, and trusted class, and may enjoy his services without having to pay him for them.

But a Lord Ordinary or a Sheriff will scarcely fulfil the expectations of those who desire arbitration, unless he is much more free to deal with the whole matter before him than he would be in ordinary circumstances. This freedom must of course be given with the special consent, or rather at the special desire of both litigants; and there might be more than one scale of freedom distinctly set up. It will probably be necessary to give the judge some power of fixing which of these is to rule the proceedings. One principle might be common to all, that the case may be heard and decided *in camera*. That ordinary Courts should be open to the public, except where justice may be defeated or public morals offended by publicity, is probably a necessity. But even where men have no cause to be ashamed of the dispute they are involved in, they may shrink from the publication of their private affairs; and as this, no doubt, is sometimes one cause of arbitration being preferred, there appears to be no reasonable objection to a judge who is acting as an arbiter being allowed to proceed with closed doors, as any other arbiter would do.

In the ordinary Courts litigants may appear and plead on their own behalf; the same choice would of course be open to them in this form of judicial arbitration, but it ought to be within the power of either of them to obtain the assistance of agents and counsel. It will be necessary in every case that the claim of the pursuer and the answer of the defender be put in writing, to avoid the risk of misunderstanding as to the point in dispute. The arbiter might have it in his power to require the matter to be placed before him with clearness and precision; and, if necessary, to insist on counsel being employed, especially if the amount at stake should warrant the expense.

One of the advantages of a tribunal of this kind, as compared with private arbitrations, would be the power to cite witnesses and examine them on oath, and to require, if the arbiter approved, the production of documents. The decision, when pronounced, would of course have all the effect of a decree of an ordinary Court. The principle of *res judicata* would also be applicable. The judge will, of course, be as much protected as he would be in any other case from the risk, which private arbiters run, of being cited as a defender or a witness in any subsequent attempts to set aside his decision. No litigant would have reason to complain of this or any other regulation which might be thought necessary, for it would be only with his own express consent that he became subject to such regulations.

But the most important point on which a greater measure of freedom might be conferred on the judge-arbiter, always of course with the express consent of both litigants, consists in the sort of view which he would be allowed and expected to take of the merits of a case. One notion prevailing among those who prefer arbitration is, that, while an ordinary Court will be guided by principles of strict law, an arbiter will aim at justice, and that law and justice do not always lead to the same result. That in a judicial arbitration both law and equity would be considered goes without saying, but it might be necessary to make it clear that the equity was not the technical equity of legal nomenclature, but something much broader. How a principle of this sort would fall to be expressed may require some consideration, but the general idea to be given effect to is that what is desired is substantial justice as between man and man.

An amateur arbiter will generally act wisely if he assigns no reasons for his decision, remembering the warning given, if we recollect rightly, by Lord Erskine to a distinguished soldier, who, when looking forward to the governorship of a West India island, shrank from having to act as the Court of Appeal in his province, and was told that if he applied his common-sense to the cases before him he would almost certainly come to a right decision, but that if he gave his reasons they would generally be wrong. Our judges usually give their reasons, and we believe are bound to do so, but it might be well to relieve a judicial arbiter from any such obligation.

Why, it may be asked, should judges of the Supreme Court, or sheriffs, have these additional duties laid upon them? The answer is, that if these duties were really to become burdensome, it would indicate that a want was being supplied which was very generally felt. It is possible also that if a system of judicial arbitration were established, it would be found to afford some corresponding relief to the business of the ordinary Courts; for litigants who had the option might prefer this speedier and more simple method of having their contentions decided on. If, on the other hand, it induced litigants to appeal to the judges of the land instead of to amateur judges of their own selection, it ought not to be unsatisfactory to the legal profession to effect some increase in the number of cases in which the assistance of professional judges is valued and invoked, even if it involved an increase in the number of judges required to deal with them.

An arrangement of the nature contemplated will of course require an Act of Parliament, and many details beyond what have been here referred to will have to be considered and provided for. Among these will be the form of agreement to refer to a judicial arbiter, and the form to be used when the reference is actually entered upon. Some scale of expenses might be set up, perhaps after a little experience of how the system works. It is not inconceivable that by an extension of Lord Watson's Act the Court, when applied to for the appointment of an arbiter or oversman on the failure of any of the parties concerned to name one, might have power to remit the dispute to this new form of judicial arbitration, for which, by-the-by, some suitable name may have to be found.

It is possible that the suggestions contained in this paper may have been made before; but at the present time, if never previously, the plan seems worth consideration, in view of what appear to be the requirements of the public, and as likely to confer a benefit on a class of persons who may be described as non-litigious disputants, and to increase the efficiency and popularity of the judicial machinery of Scotland.

JOHN M. M'CANDLISH.

[Although arbitration between employers and employed is not my immediate subject, the interest felt in the question may excuse the observation that while much may no doubt be done by third parties, trusted individuals, or boards of conciliation, to clear away misunderstandings and bring about agreement, disputes of this sort are not proper objects of arbitration in the sense in which I here deal with it. For one thing, the questions at issue do not depend on explicit rights and obligations which an arbiter might interpret, but altogether on the will of the parties. Another difficulty is that it is practically impossible to enforce the decisions of an arbiter. If, for example, the workers at a colliery had their wages fixed by arbitration at a rate below what they or their leaders chose to accept, the difficulty of compelling them to resume work would be insuperable. If, on the other hand, wages were fixed at a rate higher than the employer found it convenient to pay, it would be impossible to compel him to keep his colliery open, or to forbid him to employ other men willing to work for him on his own terms, without such an interference with liberty as would seriously affect all industrial pursuits.]

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5. NOTES UPON INSURANCE, AND THE PRACTICAL WORKING OF A LIFE ASSURANCE FUND; being the Inaugural Address for Session 1882-3. By Thomas Marr, F.F.A., F.I.A., President of the Society.
6. CORN MILLS. By Charles Knight Rutherglen, National Assurance Company of Ireland.
7. THE MANUFACTURE OF PARAFFIN OILS. By G. T. Beilby, Fellow of the Institute of Chemistry of Great Britain and Ireland.
8. A GLANCE AT THE POSITION AND PROSPECTS OF FIRE INSURANCE. By T. M. Macdonald, London and Provincial Fire Insurance Company.
9. THE RESPONSIBILITIES OF INSURANCE COMPANIES, being the Inaugural Address for Session 1883-4. By J. Wyllie Guild, C.A., F.S.A., Scot., President of the Society.
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11. THE ART AND PRACTICE OF ACCOUNT-KEEPING. By John Campbell Maccall, C.A.
12. THE ECONOMICAL ASPECTS OF FIRE AND LIFE INSURANCE AT THE PRESENT DAY. (*Prize Essay*). By James Gemmell, Scottish Union and National Insurance Company.
13. THE THREE GREAT FACTORS WHICH HAVE CONTRIBUTED MOST TO THE MATERIAL ADVANCEMENT OF THE 19TH CENTURY. By J. Wyllie Guild, C.A., F.S.A., Scot.
14. INVESTMENTS: HOW MONEY MAY BE MADE AND INVESTED. By A. H. Morgan, F.F.A., Resident Secretary, Scottish Equitable Life Assurance Society.
15. ON THE NON-ACTUARIAL DEPARTMENTS OF LIFE ASSURANCE BUSINESS. By J. J. W. Deuchar, F.F.A., F.I.A., Assistant-Actuary, City of Glasgow Life Assurance Company.
16. NOTES ON BUILDINGS. By Alex. B. Dansken, Assessor of Fire Losses.

THE PHILOSOPHY AND ETHICS OF BUSINESS.

A Lecture

DELIVERED BEFORE

THE INSURANCE AND ACTUARIAL SOCIETY OF GLASGOW,

DECEMBER 14th, 1896.

BY

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A FIELD of battle would suggest to a spectator who could command a general view of it subjects of the most profound and interesting reflections; but to a man engaged in the fray, whether leading a battalion or fighting in the ranks, general observations are impossible. His attention is engrossed by his immediate surroundings: there is some vantage ground to be won, some danger to be avoided; there are exacting details of duty to be performed, happen what may in other parts of the field. He has no time or attention to bestow on the general strategy, and can form but an imperfect judgment as to the probable results of it. But let such a man be transported for an hour to some eminence whence he may overlook the field, and he may be able, in spite of the smoke and the apparent confusion, to take in the whole of the exciting scene, to apprehend with some correctness the tactics of the leaders and the general movements of the combatants, and to speculate with intelligence on the fate of the day. His breadth of view will make his own future soldiering none the less effective, and will give it an interest which will go far to modify both its dangers and its fatigues.

Those of us who are engaged from day to day with the urgent details of business, and mostly of one department of business, would do well occasionally to convey ourselves by an effort of the mind to some point outside the sphere of our ordinary activities, whence we may take a wider survey of that world of industry of which we are humble, but constituent, parts. We are more or less familiar with many descriptions of business, but what are the characteristics of business in the abstract? Business is being transacted all around us, and men of business form a numerous and sufficiently distinctive class. To others the subject is apt to present itself with some air of mystery, and, indeed, there is much that is mysterious about it, and that is incommunicable by ordinary methods. One can scarcely be turned into a man of business merely by reading books or hearing lectures, but only by actual and long contact. Attempts to generalise may seem to run into commonplace, or to incur the almost deeper reproach of ceasing to be practical. Yet, what I should like to aim at now, if it were not too ambitious, would be to give some view of the philosophy of business, to exhibit it as growing out of a Divine ordinance, shaping itself according to the infinitely varied exigencies of human life and the endless diversities of human character, and stretching its roots or its branches into the regions of philosophy of taste and of morals—"A mighty maze, but not without a plan." We can try, at least, to inquire what business is, and what a man of business ought to be.

To any man who contemplates such a task a doubt will suggest itself at the outset as to his fitness for it. But this difficulty must be faced. The Christian preacher is called upon to enforce lessons of faith and virtue which must often be, and perhaps always ought to be, above the level of his own attainments, and he is never, perhaps, so conscious of his own shortcomings as when he rises most nearly to "the height of his great argument." The mariner, describing for those who are to follow him, those

"Perilous seas in fairy lands forlorn,"

where he has gathered his own experiences of good and evil fortune, draws his worthiest lessons, not from the quiet havens where he has found shelter and a kindly welcome, but from the rocks and shoals which have often imperilled his frail bark, from the currents with which he has drifted into regions of mist and storm, or from the luckless ventures which have impaired his fortune. So it must be with any who try to gather the lessons of human life and experience.

The Objects and Motives of Business.

Without attempting in the meantime any definition of business, we shall, perhaps, get an idea of what it is by looking first at what its objects are; and here we may trace its connection with humanity from the earliest stages of life. In a community like ours a child can scarcely be born into the world without becoming at once the object of the assiduities of business. Indeed, in some cases long before his birth his possible future existence has been in the contemplation of men of business, and has been an element in wills and settlements and life assurance transactions. But apart from such cases it becomes apparent that from the first the child is regarded as a personage who contributes to the world's industry by making fresh demands upon it, and whose infantile requirements even it will be in the interest of many to supply. Thus the wants of man from his earliest infancy serve to keep the world of industry in motion. It is to supply each fresh inhabitant with varieties of food and clothing that the prairies of the West are brought under cultivation; it is for this that sheep are bred in Australia and sables hunted in Siberia; this which—

> "Sets to work millions of spinning worms
> That in their green shops weave the smooth-haired silk;"

for this that the merchant buys and sells, the manufacturer grinds and spins and weaves, and a thousand varieties exist of collateral and subsidiary agencies.

One of the first things to be noted is, that although the supply of the general needs of mankind is the end, it is not the motive of any of these operations. To provide the bread we eat and the clothes we wear people in all parts of the world have busied themselves more or less directly, but not one of them has thought with any special sympathy of our wants. It has been to feed and clothe himself and his children that the farmer or the baker has laboured to provide food for us, and each man who has been an agent in supplying the objects of our desires has aimed chiefly at gratifying his own.

One might be tempted to regret that a principle apparently so selfish should lie at the bottom of the ordinary operations of business, but we come to see that it is a happy circumstance in two important respects. On the one hand the supply of human necessities, the general welfare, is made to depend on what are, as matter of fact, the most powerful motives of human action, and on the other it reacts in promoting the industry, the happiness, and the wealth of those who supply these wants.

It is legitimate, however, to recognise that there are some occupations where a man of business, without making any claims to merely benevolent action, has the opportunity at least of giving direct consideration to the benefits he may be conferring on those who are dealing with him. There are occupations indeed, such as those of the clerical and medical professions, where the immediate good of others may always be the principal, and often the only motive, and may entail much self-sacrifice; but those who are engaged in the business of insurance have often the satisfaction of feeling that the diligent pursuit of their calling, which has been not unprofitable to themselves, has conferred benefits on other men and their families, which, but for their successful exertions, might have been missed altogether. This arises partly from the circumstance that, great as these benefits are, the demand for them has to be stimulated as well as the supply provided, and that the supply has to be carefully adapted to the real needs of classes and individuals. It must be matter of sincere thankfulness to the members of an Insurance Institute to reflect that in the conduct of their business whatever of lawful consideration they may give to their own interests, the furtherance of these interests is consistent with nothing but advantage to those with whom they are dealing.

To return to the general principle. Here we find a manifest end which has to be accomplished, the supplying of human wants and necessities, and here is a prodigious machinery in motion by which this end is successfully and habitually attained. And yet no one of the agents employed, nor all of them together, have this end in view. Each is working for little ends of his own, and we are driven to find in the Creator, Preserver, and Governor of mankind, the Author of so enlarged and beneficent an arrangement.

Individual Enterprise.

There are persons at the present day who do not regard this state of things as either divine or beneficent. They denounce it as a great system of competition which is, in their view, the bane of producers, keeping down prices, and yet enforcing good and satisfactory service; and they would like to see the supply of human wants placed in the hands of governments and corporations. It would be out of place to discuss these Socialist theories at present, and I will only refer to two considerations often overlooked. One is that it is this competition which stimulates in large measure the industry, the energy, the powers of invention, the thought and the integrity which enter into the service of humanity, and which usually win for themselves an adequate reward, and that our common wants would be very ineffectually supplied if there were no competition. The other observation is that the work of governments and corporations is really the work of the comparatively small number of persons by whom they are practically controlled, and who would not, as mere agents of the public at large, or merely as the overseers of such agents, have half the motive that individuals have to provide satisfactorily for our wants. We are all familiar with the fact that governments and corporations are the machinery by which many of our wants are supplied, and that they are often very large business concerns. The transmission of letters and parcels and telegraphic messages is one department of the business of our central government, and the production of ships and weapons of war is another while local corporations supply us, though not always very successfully, with water and gas and electricity; but an indefinite extension of this system would be most injurious. I say nothing here about Joint Stock enterprise, because the immediate question has reference to exclusive production and the absence of competition.

Many examples might be given of the weakness of Governments in supplying human wants as compared with individual enterprise. I was myself greatly impressed with this truth at the time of the Crimean War. We had then an army of about 40,000 men in the Crimea. They were picked soldiers, and, as they proved to the admiration of the world, they were capable of doing or enduring anything. Almost all we had to do for them was to provide them with food and clothing. To do this well we had every motive and every facility. The honour and almost the safety of our own country depended on its being rightly done. We had unbounded wealth, and the stores of all the world, scarcely excepting Russia itself, were at our command. If raw material had to be made fit for use we were the greatest manufacturing nation in the world; if carriage was required, our fleets were equal to those of all other countries together; were skill or enterprise needed, we had given proof of possessing these qualities; and we were governed at the time, as it happened, by a combination of the ablest men of both of our great political parties. Yet we failed utterly and disgracefully to supply the needs of our army, and the shortcomings of the State had to be supplemented by private and individual energy, not to speak of charity.

But in our great cities we have often five or ten times as many persons to be provided daily with food as we had British soldiers in the Crimea, and there is ample provision for all of them. If any lack it is not for want of food, but for want of money to purchase it, while in the Crimea the richest men fared little better than the poorest. There are daily poured into the markets of each of our cities abundant supplies of oxen, and sheep, and poultry, and fish, and vegetables, and flour, yet no human prince or potentate, no lord mayor or lord provost, arranges for these supplies. A general end is served, but no general design is traceable to any human authority, and the mind naturally turns towards some unseen power, constrained to cry "The eyes of all wait upon Thee, and Thou givest them their meat in due season; Thou openest Thine hand and satisfiest the desire of every living thing."

During the reign of the Emperor Napoleon III. in France, that country was threatened with a famine, and his government, impelled partly by benevolent feelings, and partly, no doubt, by a desire to prevent popular disturbance, set about the purchase of corn with a view to selling it again to the people at ordinary prices. In about a week they stopped; they found they were about to do the country an irreparable injury. The moment they began to buy all the corn merchants throughout France ceased to buy. These could afford to buy only if they had a prospect of selling again without a loss, whereas the government intended to sell at a loss, and while their competition as buyers enhanced the price to the merchants, their competition as sellers made it impossible for the merchants to sell. It was instantly seen that, irrespective of other difficulties, the most powerful government could not undertake the whole work of distributing the food of forty millions of people; they had to leave it to the far more effective machinery of individual enterprise.

There are, of course, two sides to this question, the producer's and the consumer's, and there are abundant questions as to the share of benefit which falls, or which ought to fall to each. One thing is certain, that we are all consumers whatever else we may be, and while in that character we represent the whole mass of mankind, and therefore its paramount interests, we cannot expect our wants to be supplied unless we can make it worth the while of others to supply them. The business view of these matters will generally be found the safest and the most philosophical. Some of the other views are almost ludicrous. The man who has built my house or supplied me with food and clothes may claim that it is to him I owe all my means of subsistence, while I may take the view that he owes all his means of subsistence to me, who have given him employment and found the money to pay him. The benefits are reciprocal, though politicians and poets may overlook this. Here, for instance, are a few beautiful lines in which Keats suggests what the luxuries of some may be costing their fellow men:—

> "And for them many a weary hand did swelt
>   In torched mines and noisy factories;
> And many once proud-quivered loins did melt
>   In blood from stinging whip; with hollow eyes
> Many all day in dazzling river stood,
> To take the rich-ored driftings of the flood.

For them the Ceylon diver held his breath,
  And went, all naked, to the hungry shark;
For them his ears gushed blood; for them in death
  The seal on the cold ice, with piteous bark,
Lay full of darts; for them alone did seethe
  A thousand men, in troubles wide and dark."

The Law of Tempered Self-Interest.

There can be no doubt, however, that a law of tempered self-interest is the foundation of business, and this law cannot with impunity be violated by the individual any more than by the community at large. It might at first sight seem a nobler plan that our immediate aims should be the good of others rather than our own, and certainly in business, as in all the concerns of life, the best interests of our fellow-men may be and ought to be constantly before our eyes. But it is the teaching of experience that in the details of business it is in the long run, and indeed, in most cases immediately also, for the good of those with whom we deal that we should act on business principles, as they are called, with as little admixture of sentiment as possible. It is sometimes said in jest that a lawyer's opinion is of little value unless it is paid for, and there can be no doubt that advice gratis, and especially when volunteered, is seldom worth much more than has been paid for it, and that payment does increase its value by giving rise to greater care and sense of responsibility on the one side, and more disposition to be guided by it on the other. If we are selling anything, we ought to get the fair price for it, and it is scarcely ever good for either party to a transaction that a thing should be partly sold and partly given away; if we are purchasers it will probably do more harm to the dealer than to us if we knowingly give him more for it than it is worth. It may be proper for us sometimes to lend with little hope of return, but it will scarcely ever be to the abiding advantage of the borrower; and nothing but disappointment in both directions has often followed the attempt to combine the indulgence of benevolence with an investment at five per cent.

On the other hand, it is equally matter of experience that when legitimate self-interest degenerates into selfishness, when the desire of gain becomes cupidity; when a man pays no regard to the interest of those he is dealing with, but only to his own; when he is keen to seize every advantage, and hard-fisted to retain it, the result, even when he withstands the temptation to exceed the limits of honesty and fair-dealing, is often disastrous to himself in the very things he has most cared for. An eager desire for profit from his investments blinds a man to their insecurity; the love of excessive gains renders him distrustful, and tends to repel customers and clients; the hard-driven bargain disappoints him; the goods laid up for many years become a prey to rust and moth, or to thieves that break through and steal. Shylock insists on his pound of flesh, and finds, indeed, that—

"The law allows it, and the court awards it,"

but finds also what it is to have merely "justice and his bond."

This, however, belongs rather to the ethics of the subject, but I refer to it here as indicating the limits on either side of that great principle of reciprocal benefit which is the foundation of business dealings.

The Infancy of Society.

In endeavouring hitherto to trace the operations of business I have spoken directly only of those which minister to man's primary and physical wants, going back for illustration to the infancy of the individual. But in pursuing the subject with reference to the other necessities of mankind, we may consider them in connection with the infancy of society. I will give an illustration from an incident which I read of in the newspapers of the day, and which struck me at the time as curious and valuable.

Previous to the year 1857 the extensive region known as British Columbia had been peopled only by a few scattered tribes of Indians. But about that time the "all-worshipped ore" was discovered there, and a rush of miners assembled on the Frazer River to dig for it. This young community consisted of 7,000 men, chiefly, I believe, from California and Australia, many of them owing no allegiance to the Government of Great Britain or its Colony, and few, perhaps, much inclined to defer to authority of any kind. There was a British Governor in Vancouver Island supported by a hundred soldiers, but practically the gold diggers had it all their own way, and were in a position to make their own institutions. Here was a chance of seeing what were the first necessities of society among men not uncivilised, and to what principles they would revert when left unfettered by the restraints of more complicated social systems.

In Paris, after the outbreak of the Commune, I remember seeing the walls of its ruined palaces inscribed with the words, "*Liberté, Egalité, Fraternité,*" and there have probably always been numbers of Frenchmen who have dreamt of a social condition in which these principles would be predominant; and, rightly interpreted, there might be something to say for them. But our gold diggers in British Columbia were more practical, and they started with three institutions which, perhaps, of all others, are most in abhorrence with political dreamers—police, taxes, and exclusive ownership of land. It happened in this way. Athough they were rough men and strong and well able to take care of themselves under ordinary circumstances, each felt that during the night at all events his person and his gold were liable to mischief at the hand of his neighbours, and even during the day a man who might feel himself equal to a contest with any other man might dread a combined attack from two or three. It was resolved, therefore, that a certain number of them should be told off to act as guardians of the rest, to watch by night and preserve order by day. Of course, these men, taken from their gold digging, had to be paid, and each of the others agreed to contribute a certain portion of his findings to be distributed among them. Then an important question of land rights arose. The earliest comers had either appropriated to themselves or had had apportioned to them by the representative of the Colonial Government certain portions of land along the banks of the river. But it was found that gold was to be had away from the river banks, and the question was started, how far back from the river each man's lot was to extend. This was referred to the British Governor who pronounced a decision on it. Thus police, taxes, and legal procedure, and an exclusive right of property in land were established among them.

My impression is that that community came to be broken up, but if it had developed, as others have done from similar beginnings, its wants would have become more complicated, and all the machinery of business would have come into operation. The retail dealer would have brought the wholesale merchant, the engineer would have come to make roads and bridges, the banker to take care of their earnings and to transmit their savings to the centres of monetary enterprise; and the whole would have culminated in what is the highest form of business, though not, as we have seen, the last in point of time to be developed, the business of government and social administration.

Statesmanship, if it embraces, as it does, other aims than those of business, and other qualities than those of the man of business, includes these also. Many of the errors and misfortunes of governments, even those of great States, have been traceable to the want of these qualities in public men, and more revolutions, perhaps, have been caused by financial mistakes and difficulties than by political conflicts. The structure of our own Government bears a close resemblance to that of an ordinary Joint Stock Company. In each there is the distinction between legislative and executive functions, in each there is an outside constituency to whom both are responsible; and there are many of the same elements of strength and weakness.

We are sometimes said to be a "Nation of Shopkeepers," which just means that among all ranks there is a conspicuous aptitude for and interest in business. This tells largely on the public life of our country, for those qualifications to be presently noticed which characterise the ideal man of business, and, in minor degrees, all who are worthy of the name, when they are brought to bear on legislation and public administration, have a large influence in producing that union of stability and progress, of personal liberty and constitutional government, which we may reasonably lay claim to. It is to be feared that in some other quarters of the world the connection between business and politics sometimes takes an unwholesome form, and that selfish and personal interests exert far too great an influence on public questions. It cannot, indeed, be expected that anywhere men will overlook altogether the effect that public measures will have on their own prosperity, and even an unselfish man may incline to the belief that what will be injurious or beneficial to himself will injure or benefit others also, and is to be opposed or promoted accordingly. But, happily, the political atmosphere in this country is sufficiently elevated to visit with general condemnation any such subversion of public interests for the sake of those that are personal and selfish, as in some other countries is recognised as not unreasonable.

The General Features of Business as Contrasted with its Technicalities.

Of all men of business, from the humblest tradesman to the man who commands an army or rules a state, the work, the skill, and the experience are distinguishable into what are technical and peculiar to each calling, and what are common to all. This will be best understood by reference to some one department of business in particular, and none will afford a better illustration than that with which you gentlemen and myself are most familiar. The business of Life Assurance is justly regarded as one which is highly technical. Its chief technicalities may be arranged under these divisions—1st, the whole system being founded on certain facts as to the probable duration of human life, these facts have to be ascertained, verified, re-examined from time to time as fresh data present themselves, classified, and by means of algebraic and arithmetical calculations applied to an endless variety of contingencies. 2nd, The system being further founded on the assumption that each person whose life is assured will have the same chance of living for a given period of years as every other person of the same age, whereas, in fact, these chances are affected in many individual instances by health, by modes of living, by hereditary predispositions to disease, by climate or by occupation, some knowledge is required of the mode and degree in which such influences are likely to operate. 3rd, The system involves the accumulation of money at interest, and the consequent selection of safe and yet profitable investments. 4th, The practical outcome of the system developes itself in certain contracts between the society and the persons assured, called policies, in the adjustment of these contracts at the first so as to ensure safety and fairness on either side, and in following them up through the various incidents to which they are liable until they are consummated by payment. 5th, It is necessary to ascertain from time to time how far these contracts are proving safe and remunerative, and how far the original calculations on which they were founded are borne out by experience, and this demands highly technical processes akin to those referred to under the first head. And lastly, the operations of Life Assurance are carried on by means of joint stock companies or societies, having a structure more or less complicated, and involving all the machinery required for conducting public companies in general.

This profession, therefore, involves an amount of technical knowledge and skill, both of a scientific and of a practical character, which are quite peculiar to itself, and call for special preparation. And yet in considering what qualifications are necessary for conducting the business of Life Assurance, there can be little doubt that even here what is peculiar and technical yields in importance to what is catholic and general.

All business ends in the living men and women who are to be benefited by it, and this business in particular requires not only that the system shall, as it were, be prepared for the persons, but that the persons shall be introduced to the system. In plain terms, it must be acknowledged that to those who are engaged in this business the technicalities are a trifle compared with the work of inducing men to insure their lives. It is for this that agencies and branch establishments are created everywhere, that almost all forms and channels of advertising are resorted to, that pamphlets are written and scattered broadcast, that tempting baits are held out of easy terms and magnificent bonuses, that appeals of all sorts are made to the cupidity, the fears, and the affections of men. In short, we have to deal with human nature, with its selfishness, its ignorance, its sluggishness, its want of faith, its prejudices, its deceitfulness, but with its sense of duty too, its home affections, its foresight, and its honour. We have to ascertain or to imagine the variety of circumstances in human life to which Life Assurance is applicable, and to present it in suitable forms. We have to withstand the rivalry of the rash and the empiric, and to make what we offer attractive without ceasing to be beneficial. And this has to be done in large measure through an army of officials and other agents, who have themselves to be organised, informed, stimulated and controlled, each of whom has a position and circumstances habits of mind and temper peculiar to himself and requiring to be studied. The chief labours and anxieties of this particular business lie not in the technicalities, not in the most difficult calculations, not in judging of the eligibility of lives for assurance, or of the soundness of investments, but in influencing the opinions and the actions of our fellow-men.

And in this connection we cannot leave out of view the relationship that exists between each man engaged in this business and all the others. There is not one of us who has not in his own place to sustain the honour of the profession, and to have some special regard, not only to his fellow-workers whether to his equals or to those above or below him in the professional hierarchy, but possibly also to his competitors and opponents. I will not enlarge on this subject. What I desire to suggest is that in this department of business there can be no isolation, and that the very large number of educated men who are engaged in it form a body, one and indivisible.

Even in occupations that seem to be purely mechanical, the importance of personal dealings is very considerable. The shoemaker or the baker must know how to make shoes or bread, but must know also how to manage his workmen or to get on with his fellow-workmen, how to buy his material, how to attract customers, and when and how far to trust them. Much of the skill and experience required for any one department of business would be equally available for any other.

The Scientific and Philosophic Aspects of Business.

It is this science of human nature applied to the common affairs of life which constitutes a man of business. The Christian minister ought to know mankind, and has many opportunities of studying human character, and much of his power and usefulness will depend on the extent and intimacy of his knowledge, but it is not usually a knowledge applied to the ordinary affairs of life. So with the physician; so with the literary man. They may, of course, all be men of business, and it is well for them when they are, but it is not a necessity. On the other hand, the man busied with some description of the common affairs of life who yet wants this knowledge of human nature may, perhaps, be a good manufacturer or a good accountant, but cannot be said in any proper sense to be a man of business.

The true man of business is a philosopher after his kind. He may not trouble himself much with the forms and phrases of philosophy, and probably seldom stays to analyse his own consciousness, or to marshal in scientific order his conceptions of the moral and intellectual characteristics of other men. But he knows them well, so well that his knowledge has become an instinct, and his conclusions intuitive. He enters into the minds of others, anticipates their wishes or doubts or fears, and reads their thoughts equally in their words and in their silence. Experience teaches and trains him, on the other hand, to be reticent of the knowledge he himself possesses, chary of offering advice, and diffident of his own opinion. When he has to decide for himself or for others, he is conscious of how imperfectly he may know the facts, how readily he may have overlooked important considerations, how liable to err is the soundest judgment, how little any man can forecast or control the future. But he has learned the range of the Probable and the limits of the Possible; he accepts with a good grace what is inevitable, and is content with second best when he has assured himself, but only when he *has* assured himself, that the best cannot be attained. He knows what is due to the wishes, the feelings, even the prejudices of others, and indulges in no crotchets of his own. Constant intercourse with all sorts of men has rounded the angles of his character. He can command his temper, and finds it, indeed, easiest to do so when other men are losing theirs. He can bear a defeat with good humour, and a victory without undue elation. He probably began life by believing in everybody, especially in himself; if he has passed through the unhappy phase of believing in nobody he *has* passed through it, and now he recognises in the most stupid people some intelligence, and in the most selfish some goodness. He, therefore, makes a large allowance for other men; and if he still concern himself with the judgments they may form of him, he is contented with a very reasonable measure of candour and forbearance. One secret of this equanimity is the discovery he has made of the intellectual, no less than the moral, value of simplicity of view. He has found that among the cross lights and trembling shadows of conflicting motives the image of duty will always stand out clear and beneficent to him who looks for it; that on the stormiest sea of doubt a guiding star will shine, if uprightness be at the helm; that if the eye be single the whole body will be full of light; that of the many paths which invite him, there is one of which it can be said, that "the wayfaring men, though fools, shall not err therein." Wot ye not that such a man as this can certainly divine! But this is not his own view. As his experience and wisdom increase in the estimation of other men, he himself sets a less value on them, and he arrives, though perhaps by a different road, at the same conclusion with the thinker and scholar, praying :—

> "Keep Thou my feet; I do not ask to see
> The distant scene; one step enough for me."

One of the Inductive Sciences.

I have never met with the suggestion, but it has often occurred to me, that the ordinary business of life is one of the inductive sciences, and has to deal with the laws of nature and the phenomena of existence just as the astronomer or the geologist does. The natural philosopher who has in hand such subjects as light and motion, carefully observes the phenomena, compares and classifies them, invents some hypothesis to explain them, and then examines and tests this and other theories by fresh observations and experiments, till he has arrived at some certainty as to the laws which regulate them; and his discoveries and conclusions are often followed by very practical and utilitarian application of them. What we may call the science of business has to do, not with material objects merely, though these do enter into it sometimes, but with the great facts of human nature and human life, and with the physical, moral, and spiritual phenomena which these present to the observer. In those dealings with our fellowmen in which, as we have seen, business consists, there is ample room for the inductive processes, for close and just observation, for the formation of opinions and canons of judgment, for the honest and sincere testing of these, and, lastly, for giving practical effect to the philosophical principles thus arrived at. And if the man of business is a philosopher, he needs also to be a man with some powers of imagination, with some ability to conjecture and to foresee; but he will keep his imagination well under restraint, and will apply to what it suggests to him the tests of close observation and solid reasoning.

Business and the Poetry of Life.

The experiences of business connect themselves intimately with the poetry of life, especially with its pathetic poetry. Who has not known or read of the tenderest lovers parted on the question of settlements, or more happily, perhaps, by the less unusual circumstance of there being nothing to settle. How often has the sad spectacle presented itself of brothers and sisters, long knit together in affection, torn asunder at last by some fatal, and often paltry inheritance. Few histories are more touching than those of the gradual decay of prosperity in a household, or the sudden stroke of bankruptcy, not always unaccompanied by temptation and wrong-doing and shame; few are more spirit-stirring than the records of youthful energy, intelligence and virtue climbing the steep ascent that leads to fortune. To those who can read them aright, the money articles of a newspaper, its business announcements, its records of actions at law, from which most persons turn as dry and unintelligible, are full of personal histories; they are the outcome of the thoughts, the feelings, the passions of men, the offspring of some of the infinite mutations of human affairs, the parents of others yet to be.

Business Makes History.

Consider for a moment how business makes history. See the stately Abraham bargaining with the sons of Heth, and with a care, a formality, and a fulness of words which a lawyer might almost envy, securing for himself and his descendants, "The field of Ephron which was in Machpelah, which was before Mamre, the field and the cave which was therein, and all the trees that were in the field, that were in all the borders round about;" and think how this memorable purchase, of which the legal as well as the dramatic details have come down to us through so many ages, was a prelude and a symbol, and for four thousand years has furnished a witness, as in its carefully guarded state it does even at the present day, of the most momentous history the world has ever known. See the long caravan of Arabian merchants—

> "Where o'er the sand of morning land
> The camel bears the spice,"

dragging with them the weeping slave boy they have just bought to sell again in Egypt, who is to be the hero of so wonderful a romance and to influence the destinies of two nations. The earliest glimpse we catch of our own forefathers is not in connection with the invasion of Roman arms, but in the dim records of Phœnician commerce and of the tin mining of Cornwall. I need not dwell on the influence of business in civilising or harmonising the world or in diffusing a knowledge of letters and the arts. Even now countries the closest to each other are brought more close, not by treaties of peace and amity, but by increased means of communication, by the removal of fiscal restraints, and by the growth of commercial relations and of consequent dependence on each other. The social progress of far-off lands is often largely influenced by foreign capital invested there in railways, in harbours, in internal navigation, in agriculture, in mining. In countries still less civilised the merchant exercises as much influence as the missionary; not always, alas! yet certainly often in the same happy direction. Is the horrid traffic in slaves to be rooted out of a great Continent, it is to be done, according to the testimony of many heroic missionaries, not by Christian teaching merely, still less by armed fleets, but largely by the superior attractions of legitimate commerce. The man of business, eager to employ his own and other people's capital for his and their profit, bridges the sea, tunnels through the Alps, covers the earth with roads of iron, uses the deep mysterious bed of ocean as a pathway for his messages. He organises the co-operation of Capital and Labour, of Science and Industry, of Enterprise and Credit, of Demand and Supply; he gathers the superfluous productions and the superfluous capital of one land for the use of other lands that need them, and stores up the savings of to-day against the wants of to-morrow; and thus unites the nations and the ages in the bonds of knowledge and sympathy and a common welfare. He intrudes even among the grey relics of extinct civilisations; establishes his Joint Stock Bank, Limited, within sight of the Parthenon: wakens with the scream of his locomotive the solitudes of Memphis and the undying echoes of the Pyramids, and forcing a channel for his commerce through the Arabian sands, defies the—

> "Fierce winds with which Orion armed
> Vexes the Red Sea Coast, whose waves o'erthrew
> Busiris and his Memphian chivalry."

Its Relation to War.

Of the great forces which control mankind one of the greatest is War, for—

> "Is not War a youthful king,
> A stately hero clad in mail?
> Beneath his footsteps laurels spring,
> Him earth's majestic monarchs hail
> Their friend, their playmate; and his bold, bright eye
> Compels the maiden's love-confessing sigh."

But even war must yield to business. He often depends for his existence on the capitalist and the Stock Exchange, and his deadliest enemy is the taxpayer whose pockets he will empty, or the merchant with whose enterprise he interferes, unless indeed, as has sometimes happened, he is sent forth expressly in the merchant's own interests. A recent military authority says, "There are other matters that enter into a question of war than merely hostile acts between two armies. These include commissary stores, provisions, arsenals, dockyards, and in fact everything that takes part in daily life." But while war is thus dependent on business, it is often powerless to control business. When Buonaparte, by his famous Berlin and Milan decrees, tried to shut out British manufactured goods from the whole Continent of Europe, his own armies were found to be wearing British made cloth. At the siege of Sebastopol the earthworks so extensively used on both sides were constructed by the help of bags of coarse sacking filled with earth, and these bags were made in Dundee from material brought indirectly from Russia, and sent back to Russia again despite all the obstacles which war could present.

Its Relation to Letters and Art.

Business is the ally of letters and art, their handmaid, and their patron. What have these not owed to the merchants of Florence and Venice and Holland; what do they not owe still to the merchants and manufacturers of this Empire? The patron does not, indeed, make the artist, nor does a market for works of art necessarily benefit art in the abstract. The wealthy purchaser has not always the highest idea of what art is, and I recollect reading, in Lord Byron's Letters, I think, of an English gentleman in Rome who, hearing of the death of Canova, the sculptor, inquired who had succeeded to his business. But when the man of genius has done his work, not for lucre's sake, but from love of his work, from the constraining impulse of his genius, and from the legitimate desire of fame, he is entitled to be paid for it in more common coin, too. In his early days Byron held that—

> "When the sons of song descend to trade
> Their bays are sere, their former laurels fade,"

but he recanted that theory, and did not spurn the money value of his works any more than the fame they brought him. A slight acquaintance with artists or literary men is sufficient to betray how much their business relations tell upon them in the way of encouragement or distress, and all the world can picture to themselves Dickens worried by his negotiations with his publishers, or poor Haydon waiting in despair for patrons, whose persistent absence is driving him to suicide.

Its Æsthetic Elements.

The man of business recognises that the men he has to deal with do not live by bread alone, but may be influenced through their imagination and fancy. This is a growing element in business. Leaving high art out of view, everyone is aware of a prodigious growth in these latter days of a demand for and a supply of articles fitted to please a cultivated taste, to do that alone, or to do it in combination with the fulfilling of meaner uses. This is only a revival, indeed, and our greatest triumphs in this direction are often little more than imitations of Greek, Etruscan, Roman, or Mediæval patterns, but it is a happy circumstance in an age otherwise so utilitarian. What, however, I desire to observe is that in the conduct of business an appeal to taste has become a large element. You are tempted to purchase not merely by having a useful or a beautiful or a cheap thing offered to you, but by the offer being made in a palace. And this appeal is not made to the ultimate consumer only, but to the middleman, whose views might be supposed to be limited to the question of profit alone. The corn merchants of Mark-lane and the produce merchants of Mincing-lane, and the warehousemen of many of our greatest cities, have discovered that dealers will be attracted, not merely by the quality of the goods to be sold, or by the calculation of profit, but by the splendour of the building in which their business is transacted. Banks and insurance companies have been among the earliest to recognise this principle, both in the architectural beauty of their offices, and in the attracveness of the publications which speak of their other and more ıbstantial merits; and though they may have been blamed at rst for needless extravagance, they have, undoubtedly, displayed true wisdom; for the veriest man of business has some sentiment in him; and it is said that even the state of the weather, with its influence on men's spirits, affects the price of Consols, and promotes or discourages purely business transactions.

The Man of Business.

But I must not dwell longer on this part of the subject. I contemplated at the outset trying to give some view of what a man of business ought to be, what mental or moral qualities he requires to possess and ought to aim at. I must, however, content myself with a slight sketch of this large and important subject, and will hope that it may suggest further considerations to your own minds.

In reflecting on the lives and character of successful men of business, their characteristics seem to range themselves under the following heads :—

His Characteristics—Natural Endowments.

1st. A man may possess, by the bounty of heaven, certain qualities which he cannot acquire for himself, but which he may cultivate and improve, or may waste and dissipate. I refer to such gifts as great natural talents, force of character, health and vigour of body, inherited dispositions of a solid and useful kind, the benefits of a finished education, and that start in life which is often given by wealth or influential connections. All that can be said of these advantages, to him who has them, is that they ought to be matter of profound thankfulness, and that they involve serious responsibility; while to him who has them not it may be said that they are not indispensable to success, and that men wanting every one of them have yet attained to high distinction and much usefulness.

Acquired Endowments—Intellectual.

2nd. Fortunately the more important qualities which a man of business ought to possess are manifestly such as every man, by the blessing of God, may acquire for himself, and of these I shall first refer to such as are of an intellectual kind. First, perhaps, of these is a thorough knowledge of his own business. Whatever a man may know in connection with other things—science art, literature, philanthropy—he will never succeed or be respected as a man of business unless he possesses the knowledge of all that pertains to his own calling. If a man is to be a good lawyer he must have a thorough acquaintance with law; mere cleverness, or literary taste and ability, or powers of speech, or familiarity with other branches of learning will be no effectual substitute for this technical knowledge. It was not intended as a compliment when it was said of a very accomplished Lord Chancellor that if he only knew a little of law he would know a little of everything. So with other occupations. It is very desirable, too, that this peculiar knowledge should extend beyond what is needed for daily use, and reach, for example, into the history and literature of his calling, for almost every calling has both of these.

In the next place I doubt if any man will excel in his own peculiar business if his knowledge is confined to it and its technicalities. As has already been said, the higher departments of every calling have much to do with human nature in general, and a man who can only think and speak about leather, as someone is reported to have said of himself, will scarcely secure so much of the interest and sympathy of his fellow men as will enable him even to buy or sell leather with advantage. Many occupations absolutely require a wide range of knowledge, and while it may not be desirable to imitate the distinguished man of whom it was said that while his forte was science his foible was omniscience, it is well to recognise the value, from a mere business point of view, of general acquirements and accomplishments.

Passing by many minor though still valuable qualities, I will only further refer under this head to the importance of the power of expression, whether by the tongue or by the pen. This is an endowment which some men of business fail to cultivate. They think that speaking and writing come by nature, as it were, so much of them at all events as the mere man of business needs, and I have heard able and sensible men excuse themselves for writing inelegantly, and even ungrammatically, by saying that all they cared about was to express their thoughts without reference to style. But the truth is that no man can express what he means with precision and without ambiguity except by practical attention to the laws of grammar and rhetoric. Human language is at the best an imperfect instrument, and the words which to a man who is full of his own meaning seem to express that meaning may easily convey quite a different impression to another, who can only gather the meaning from the form of words used. More than half the lawsuits in our courts are occasioned by the loose phraseology of mercantile dealings, and even of legal documents and Acts of Parliament. It is certain, also, that imperfect powers of expression lead to defective thinking, and many of the differences which divide philosophers and theologians have their origin in a want of clearness of expression. Language, written or spoken, is the machinery of thought, and to think clearly and soundly it is necessary to have this machinery in order. Further, in many of the ordinary dealings of life it will be an immense advantage to a man if, whether in spoken or written language, he can express himself with force or with persuasiveness, if, for example, he can say a disagreeable thing with the needful emphasis, and yet so as to excite no displeasure; if, as an old Edinburgh banker got the credit of doing, you can send away a man happy and contented to whom you have just refused a favour. The art of good composition is for the most part to be acquired only by study and labour, by frequent practice, and by assiduous self-correction.

Moral Qualities.

3rd. I proceed to say a few words about those moral characteristics which the man of business ought to cultivate, and here I find the field so large that the most rapid mention of one or two of them at present must suffice. First among them I find Industry, with its kindred, Perseverance. There is no one infallible specific to ensure success in life, but the nearest approach to it is hard work. One can recall many men who have been comparative failures in spite of talents and accomplishments, a happy commencement, and brilliant prospects, and very many who have succeeded without any of these advantages by the sheer force of industry. Your clever fellows often scout such men as mere plodders, and so, possibly, they are, but plodding brings knowledge and experience and skill. The usefulness and modesty of their claims often commend them to a class of persons to whom unhappily the exhibition of superior abilities almost gives offence, and they win in the end when their more brilliant rivals are nowhere. I need scarcely say that industry combined with ability and integrity are as nearly sure of success as can safely be said of anything in this world.

I mention, secondly, though in another sense of primary importance, Integrity and Honour. I believe that there exists among us a higher standard of honour with reference to business than is to be found in other parts of the world, but there is ample room for improvement even here. In every department of business at the present day we see the growth of a keen competition, a feverish hasting after success, and an impatience of moderation which are not conducive to a high sense of honour. I do not wish to conceal from young men that if they are habitually to enjoy the praise and the far worthier consciousness that their—

> " Eye, turned even on empty space,
> Beams keen with honour,"

they may often in their business lives have to make important sacrifices, but I need scarcely tell them which course in the end they will be most glad to have followed.

Along with integrity and honour in one's business I may class as of value to a man of business personal and domestic virtue. And here, returning for a moment to a subject already touched upon, I venture to suggest that unselfishness, conspicuous and genuine, is one of those virtues which will not only afford a man immediate happiness, but may even promote his success in life, especially if that is not the object which leads him to practise it. The reason is not far to seek. The man who is recognised as being comparatively free from selfish motives will not merely be respected by other men, but his advice will be accepted and sought after, his word will be trusted, and in business transactions he will command a preference.

Other qualities which more directly affect the persons we are dealing with, are an equable temper, courtesy, conciliatory manners, liberality, and truthfulness; I may add humility and a teachable spirit.

Another group of high value, when combined with some of the rest, consists of courage, presence of mind, and decision. On none of these, however, can I now stop to enlarge.

Commonsense.

I have said nothing yet of a quality which many will at once feel to be among the very first in importance, namely good commonsense, because it is a compound or result of various other characteristics, a product of a happy original organisation, of cultivated mental powers, and a well-disciplined spirit. It is the habitual exercise of a sound judgment Every man, however modest he may be in other respects, believes himself to possess commonsense, because he necessarily believes his judgments to be sound, that being, indeed, the reason why they are his judgments; and yet in any measure, as everyone knows, it is one of the rarest qualities to be met with. It is, to some extent an enemy to enthusiasm, but when combined with great force of character, as it sometimes but not often is, it produces men of the highest order.

The Aims to be Cherished.

One other moral consideration may be mentioned—namely, the aim with which we engage in business. This will in some degree colour all the rest. Many mistakes are made about this; I will speak for a moment of two. A man sets out in life with a high aim, but he gets so mixed up with petty aims that his soul cleaves to these only, and loses sight and care of that with which he started. He is to do great things for God and men when he is rich; he will then, too, cultivate his own mind and care for his own soul, but to get rich is the first necessity. And in these days he probably succeeds, but the effort and the success bring their own temptations—

> "For Satan now is wiser than of yore,
> And tempts by making rich, not making poor,"

and there is very great occasion for watchfulness. The higher aim, too, would need to be, not merely kept in view all through, but to be all through acted on at each stage of life according to his opportunities, if it is not to die out and perish long before the end.

Another common error is to be discontented because we cannot accomplish more than one aim. I am inclined to believe that any man of moderately good abilities may achieve riches, or learning, or distinction, or high usefulness, whichever he pleases, if he will give himself exclusively to his one object. Most of us, however, aim at more than one, and we are dissatisfied with the moderate degree in which we succeed in any. But this is inevitable for all but the few who enjoy singular powers or exceptional good fortune. It seems very desirable, therefore, that in striving after success in his calling, the man of business should from the the first accustom himself to regard as satisfactory such a measure of success as will be consistent with his attainment—not in the distant future, but at once, and from day to day—of such other ends as these, so often sacrificed, mental cultivation, domestic happiness, bodily vigour, the love and the study of nature, an active beneficence, and an unselfish devotion to the service of God and of his fellow-men.

A Vast Machine and Individual Responsibility.

I have tried to set before you the busy world of human industry as a vast machine, organised, sustained, and governed by Divine Law. But we are apt to be carried away by such analogies, and to lose sight of the fact that often what makes an analogy so striking is the prodigious extent of the differences. Thus, if we men are in any sense machines, or parts of a machine, it is somehow consistent with this position, and, indeed, an element in it, that we possess freedom of will, that we are responsible individually for our actions, and that we have the power as well as the duty of cultivating and improving our faculties. Above all, we find implanted in our hearts a conviction, which the sacred writings confirm and enforce, that the work we have to do in this world, whatever it may be, the daily duties, the daily drudgery even, our conflict with sordid cares, our trials, disappointments and successes, are probationary, intended to test, and, if we will have it so, to secure our fitness for other and higher work to come. We are taught that our whole life, not that of Sundays and holidays alone, not merely our domestic and social life, not the life only of the study or the cloister, but the life of the workroom, the shop, the office, the market-place, the forum

—in short, our business life—ought to be a preparation and a discipline for life eternal. This is not, indeed, the whole of religion, as some would have us think, but it is a vital part of it. Who can believe that those occupations which engross so overwhelming a portion of our time and thoughts—necessarily and lawfully engross them—have their end in this world, or that their only connection with the world to come is that the fruits of them should be tithed for pious uses.

It is as men of business that we have been considering the philosophy and ethics of business, but we should be taking a very imperfect view of the subject if we neglected to look at its bearings on our life as a whole, and I have not hesitated to assume that you will excuse and, I hope, will welcome the reference I have made to higher themes. They are closely connected with our immediate subject, for it is impossible to overlook either the influence which the fear of God and religious principles must of necessity have on our business life, or the influence which that life will have on our eternal interests. We have it on high authority that we cannot serve God and Mammon, but we may, and we must, reconcile our duty to God with the diligent pursuit of our lawful calling. There are three things commended to us, not as independent virtues, but as objects to be conjoined in our daily lives—"Not slothful in business, fervent in spirit, serving the Lord."

A Leading Authority on the Subject.

By way of help, let me conclude with a few short quotations, chiefly from an author who has dealt with this subject, and who, besides other claims on our attention, has this, that he was an eminent and successful man of business. For his commercial enterprises long—

"Held the gorgeous East in fee,"

and his fleets brought him in "wealth beyond the dreams of avarice." But he was more than this. The son of a great statesman, soldier and poet, he inherited the highest rank and the most exalted genius. He adorned his native country with public works which rivalled in splendour and celebrity those of Pericles or Lorenzo the Magnificent. His literary fame now rests chiefly on one tender and passionate poem, and on reflections upon life and morals which in their keen insight into human nature, in their happy and forcible expression, and in the purity and loftiness of their ethics, put to shame the writings of Rochefoucauld or La Bruyère. The circumstances of his life gave him ample means of observation and reflection. Nor did he gather experience from success alone, but found that riches and wisdom beyond the lot of other men were no safeguards against sin and its attendant sorrow. His name has long passed into a proverb. It is among the few names held in honour alike by Jew and Mussulman and Christian, and even yet in obscure Eastern lands tribes of semi-barbarous men are known to conjure with it. Let us hear then what he has to say on some of the questions which suggest themselves to men of business.

How are we to attain success? "He that walketh uprightly walketh surely." "By humility and fear of the Lord are riches and honour and life." "Seest thou a man diligent in his business? He shall stand before kings, he shall not stand before mean men." "He becometh poor that dealeth with a slack hand, but the hand of the diligent maketh rich." "Whatsoever thy hand findeth to do, do it with thy might." "The blessing of the Lord it maketh rich, and he addeth no sorrow with it."

What false methods are we to avoid? "Wealth gotten by vanity shall be diminished, but he that gathereth by labour shall increase." "He that by usury and unjust gain increaseth his substance, he shall gather it for him that will pity the poor."

What use are we to make of our success? "Honour the Lord with thy substance, and with the first fruits of all thine increase." "There is that scattereth and yet increaseth; and there is that withholdeth more than is meet and it tendeth to poverty."

What are we to reckon as success? The answer has been inscribed round the walls of their Exchange by the men of business of Manchester. "A good name is rather to be chosen than great riches, and loving favour more than silver and gold."

How are we to comfort ourselves in the absence of success? "The race is not to the swift, nor the battle to the strong, neither yet bread to the wise, nor yet riches to men of understanding, nor yet favour to men of skill."

What are to be the beginning and the end of all our efforts? "The fear of the Lord is the beginning of knowledge." "Let us hear the conclusion of the whole matter. Fear God and keep His commandments, for this is everything to man," not his whole duty merely, but his whole life, his whole hope, his whole wisdom.

beyond the lot of other men were, no autograph [illegible] and its attendant sorrow. His name has long passed into a proverb. It is among the few names held in honour alike by Jew and Mussulman and Christian, and even yet in obscure Eastern lands [illegible] of semi-barbarous [illegible] are known to compare with it. Let us hear then what he has to say on some of the questions which suggest themselves to men of business.

[illegible] success? [illegible] "The Lord [illegible] prosperity [illegible] the Lord [illegible] [illegible] great diligence [illegible] [illegible] [illegible] and [illegible] [illegible] it maketh rich, and he addeth no sorrow with it." [illegible] [illegible] [illegible] "Wealth gotten by [illegible] [illegible] but he that gathereth by labour shall increase." "He that by usury and unjust gain increaseth his substance, he shall gather it for him that will pity the poor." [illegible] "Honour the Lord with thy substance, and with the first fruits of all thine increase." "There is that scattereth, and yet increaseth; and there is that withholdeth more than is meet, but it tendeth to penury."

What are we to reckon as success? The answer has been inscribed round the walls of their Exchange by the men of business of Lancashire. "A good name is rather to be chosen than great riches, and loving favour more than silver and gold."

Is it ever so [illegible] as excellent [illegible] in the chances of affairs? "The race is not to the swift, nor the battle to the strong, neither yet bread to the wise, nor yet riches to men of understanding, nor yet favour to men of skill."

What ought to be the beginning and the end of all our efforts? "The fear of the Lord is the beginning of knowledge." "Let us hear the conclusion of the whole matter. Fear God and keep His commandments; for this is everything to man," not his whole duty merely, but his whole life, his whole hope, his whole wisdom.

A STUDY

OF

CHRISTIAN SOCIALISM

BY

JOHN M. M'CANDLISH, F.R.S.E.

FORMERLY PRESIDENT OF THE FACULTY OF ACTUARIES

A Paper read to the Scottish Society of Economists, and Reprinted from the 'Accountants' Magazine' for January 1898

WITH APPENDIX

WILLIAM BLACKWOOD AND SONS
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MDCCCXCVIII

PRICE SIXPENCE

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A STUDY OF CHRISTIAN SOCIALISM.

THESE two words have at first sight an attractive appearance. I need not enlarge here on the value of anything that is truly Christian, and in dealing with the subject in hand I will only refer to the ethical characteristics of Christianity. These are common ground with the Christian and the non-Christian, for there are few who will dispute the proposition that the personal and social morality which Christianity teaches, and which the Christian character exhibits just in proportion to the genuineness and vitality of its Christianity, are, on the whole, of a higher standard than any other we are acquainted with in history or in modern experience. The word "social" has pleasant suggestions, and calls up ideas about the common happiness of ourselves and others. It introduces us, as it were, to our human surroundings, and to that community of interest, of sentiment, and of action with which we are all so familiar, and which manifestly produces so many happy effects.

But the words Socialism and Socialist have come to have specific meanings. Socialists themselves are far from being at one as to these meanings, and the use of the words has therefore to be guarded, if it is not to lead to false interpretations. The very phrase "Christian Socialism" would seem to indicate some qualification, and to suggest that there may be a socialism which is admittedly not Christian; but we may find that this is not the intended meaning of the phrase, but that what it desires to express is not so much a difference in the kind of socialism advocated as in the line of argument to be used, and that the aim of the Christian socialist is to show that ordinary socialism may be upheld on Christian principles. If this is not meant by any who profess to be Christian socialists, their adoption of the name is misleading.

According to one voluminous writer,[1] a D.D. and Dean in the Church of England, who has been allowed to preach socialism in the English universities, it is matter of indifference whether we are to "Christianise socialism or to socialise Christianism." Whatever views we may hold about either Christianity or socialism, these two things are not from any point of view identical. Under the name of socialism some very extreme doctrines are insisted on, and we may hope that it is only a loose and careless use of words which leads a Church dignitary to suggest that so to modify Christianity as to render it socialist is as desirable as to render socialism Christian.

Socialism is the avowed enemy of political economy. One of its advocates tells us that "so-called political economy is nothing but a string of maxims specially devised to excuse the worship of mammon."[2] Socialism aims expressly at revolutionising most of the economic arrangements which prevail among us; and every day in this and other lands attempts are being made to give practical effect to its theories, often in very serious directions. Its somewhat conspicuous activity, and the risk there is of its increase of power if its claims to be regarded as a Christian socialism are allowed to go forth without being thoroughly tested, suggest that it should early engage the attention of this Society. We will first look very shortly at some of the authorities on which it bases its claims, and then see whether its leading characteristics have either an ethical or an economic foundation.

Socialist doctrines embrace a variety of subjects, some of which we may refer to presently; but in the meantime we

[1] Dean Stubbs' Creed for Christian Socialists, p. 28.

[2] The Magna Charta of Democracy; or, The Catechism of a Christian Socialist, by H. Thompson, p. 20.

shall not be far wrong if we start with the assumption that socialism aims at one or two achievements of a broad and general character. One of these is that capital, including very specially the land, and the buildings, machinery, and funds which are now employed in producing all that is needed for the supply of human wants, including also, according to many socialists, all descriptions of property, is to be taken out of the hands of individuals, and even of groups of individuals such as joint-stock companies, and transferred somehow or other to the general community. Another aim is to deprive individuals, employers and employed, capitalists and proletarians, the aristocrat and the man in the street, of a large portion of their personal liberty, and to bring all men under greater subjection to the general community — that is, to the majority of the community, necessarily represented by persons elected to administer its affairs; so that what work any man is to do, when and where and how long he is to work, what share of the results he is himself to enjoy, according to what scale he is to live, and other things intimately affecting his life and happiness, are to be matters as to which his own wishes, his personal interests, and what agreements he may be able and willing to make with other men, are to count for nothing, his life being regulated by the will of the majority enforced by its representatives. Some socialist writers express strong objections to this abandonment of personal freedom, and expressly plead for anarchy, and for the doing away with all regular government;[1] but most of them would lay on the shoulders of the general community and its administrators the production and distribution of everything needed by individuals and by families, which would obviously call for a great increase in the machinery of government.

There are at least two general propositions on which we are all agreed. No one would think of denying that community of action amongst men is often of the greatest value, and indeed a necessity. It is, of course, the basis in such a country as ours of the central and of all local government,

[1] See 'Anarchist Socialism *v.* State Socialism,' by Morrison Davidson, Barrister-at-Law.

and we owe to it the existence of such institutions as joint-stock companies, co-operative societies, trades unions, and many others. But this is not to be confounded with the socialism of the day, nor does it contradict the tremendous importance of that individualism to which socialists are so much opposed. The truth is, that the most useful examples of common action are mostly the fruit of individual influence.

The other proposition on which we are agreed is, that in the best regulated communities there is abundant room for improvement, and that a greater infusion of the spirit of Christianity among individuals and communities would be very beneficial. But the question remains whether the sort of changes insisted on by the socialists of the day are most likely to do good or to do harm, whether they are even practicable, and whether they have any claim to be Christian. It is easy for socialist speakers and writers to show up existing evils, and to dream of a speedy Millennium. Their utterances often recall the advertisements of quack medicines, and the prospectuses of a certain class of joint-stock companies. They dwell upon the evils to be remedied and the wants to be supplied, and paint in gorgeous colours the improved condition of things which they promise to introduce; but they prudently refrain from explaining in detail, or attempting to prove, how the particular measures they advocate will secure the desired improvement. It is for each of us to do what we can to remedy and to mitigate social evils which we all recognise, and if possible to leave the socialist no excuse, for the more his plans are looked at closely the more will they suggest the most unhappy consequences.

But the question to be dealt with now is whether anything like the general doctrines that have been referred to can claim to be described as Christian. Our time will permit of only a brief reference to some of the leading considerations.

Although all socialists are not professed communists, there is a very close and almost a necessary connection between the two principles; and we must therefore advert to the interesting narrative we possess of the experiment of communism which was tried by the first Christians, when "they had all things common," and "as many as were possessors of lands or houses sold them, . . . and distribution was made unto every man according as he had need." This experiment, which was tried under exceptionally favourable circumstances and with the very highest motives, soon broke down. The story of Ananias and Sapphira tells us frankly how impossible it was found even then to secure fair and honest contributions to a common fund; and the incident of the murmuring of the Grecians against the neglect of their widows illustrates the difficulty of securing a satisfactory distribution. We hear no more of this community of goods, and are not without reasons for believing that it proved a failure.[1]

While the Scriptures afford no warrant for enforcing a community of goods, they furnish abundant authority for the existence of private and individual property. Every exhortation to a right use of wealth and of possessions of any kind assumes that they exist, and rightfully exist, and that the mode of using them is for the individual conscience. The Commandments "Thou shalt not steal" and "Thou shalt not covet" assume that there are possessions which may be coveted and stolen, and men capable of coveting and stealing them. The individual ownership of land in particular, which socialists so much object to, and its descent in families, are familiar features of the law prescribed for the children of Israel; and the exaction of tithes assumes that individuals possessed property of which, if one-tenth was given for sacred uses, nine-tenths might be reserved for themselves. The New Testament offers no contradiction of these principles. We read, no doubt, of one man being told to sell all that he had and give to the poor and to follow Christ, just as others are exhorted in imitation of Christ to "lay down their lives for the brethren"; but as this last would not justify suicide, still less murder, so the advice given to one rich young man, who thought he had kept all the Commandments, but had probably to be taught the further virtues of self-sacrifice and of exclusive devotion to God's service, cannot be read as a command to each of us to sell all that we have,

[1] See Appendix A, "Scriptural Authorities."

still less as a warrant for other persons coveting what we have, and forcibly depriving us of it. The dangers and deceitfulness of riches are strongly dwelt upon, but the duties of rich and poor are equally enjoined, and it is not suggested that this distinction ought to have no existence and that Christianity will extinguish it.

There is a quotation from Holy Writ which is sometimes used by the unthinking as having a bearing on socialist questions, and especially on the relations of employers and employed. St Paul writes to Timothy, "The husbandman that laboureth must be first partaker of the fruits."[1] What he meant was that the man who, like Timothy, was teaching religion should be a religious man himself; but, no doubt, he drew his illustration from everyday life, and this passage is often read as if it gave St Paul's authority for the doctrine that it is the man who labours with his hands that has the first, the largest, and the most unquestionable claim to the things his labour has contributed to produce. St James indeed indicates that there is need of patience in this case,—"Behold, the husbandman waiteth for the precious fruit of the earth, and hath long patience for it, until he receive the early and latter rain."[2] This exactly describes the condition of the farmer or landowner of our own day; but it is not their case that socialism takes under its wing—it is the labourer who is to be the first partaker of the fruits. And here, however far behind St Paul's ethics generally we may be, in this particular we have gone much ahead. With us the labourer enjoys the fruit of his labour long before it has yielded any fruit. The socialist does not propose that the man who ploughs and sows the land shall receive no wages till after the harvest. His employer may live through months of anxiety about early and latter rains, and as to what his crop may be, and what it will be worth in the market; the ploughman need not worry himself on such subjects,—he and his family have had their food and shelter and clothes provided for them all these months, quite irrespective of whether there will be any or no fruits from his labours.

[1] 2 Tim. ii. 6. [2] James, v. 7.

This happy position he owes to capital; it is the fruits of other men's labours that have been saved up in order to meet his needs. This has been done not by previous labourers, but by their employers. And this is the condition of things in every department of human industry. It is the result of a very simple and obvious fact, that time is required to produce almost anything that is worth having, and that during the time so required every person concerned in its production must find the means of living elsewhere than in the immediate fruits of his own industry.

A good deal of so-called Christian socialist opinion is founded on a theory of a broad and of a rather captivating nature, which we may take from no less distinguished an authority than a recent Encyclical Letter addressed to "the faithful" by the archbishops and bishops of the Church of England. Referring to economic and industrial problems of the present day, they say, "We think it our duty to press the great principle of the brotherhood of man, and to urge the importance of bringing that principle to bear on all the relations between those who are connected by the tie of a common employment. Obedience to this law of brotherhood would ultimately, in all probability, prevent many of the mischiefs which attend our present system." Coming from such a source, these views are of course worthy of serious consideration. It is very important that they should not be misread.[1]

The attractive theory that all men have God for their Father, and are therefore in some sense brothers, can only be accepted subject to considerable modifications, and certainly does not justify many of the conclusions drawn from it. Of some men it is said that they are of their father the devil, and we are expressly warned against false brethren. St Paul emphasises the distinction when he tells the Corinthians that they cannot altogether avoid keeping company with sinners unless they go out of the world, but exhorts them, "If any man that is called a brother" is guilty of certain vices, expressly including covetousness, "with such an one

[1] See Appendix B, "Universal Brotherhood."

no not to eat."[1] Our national poet suggests a species of brotherhood when, referring to the friend of one of his heroes, he tells us—

> "Tam lo'ed him like a very brither,—
> They had been fou for weeks thegither."

To most of us the way in which we regard a real brother suggests a standard of what our feelings to all men should approach to; but if we start with the assumption that all men are equally our brothers, and to be treated as such, we simply lower the standard. If all men are to be as much to us as our brothers by birth, or even by community of sentiment, then these are to be no more to us than all other men: we do away with the relationship rather than extend it.

Of the socialist doctrines which the brotherhood of men is supposed to support, I will first refer to the notion that this fraternity involves equality. But this equality takes strange developments. According to Canon Wilberforce, we are to recognise "the equal dignity, destiny, and sonship of men." We have long been familiar with the principle that "one man is as good as another—and better, too," and socialism would actively promote this not very logical view of equality. According to a writer already quoted,[2] it would have us "address ourselves steadily to the work—of honouring and encouraging, of consecrating, of nationalising the labour classes—of dishonouring and discouraging and denationalising the idle classes." These last, of course, are to be excluded from the brotherhood. One singularly absurd idea which runs through all socialist literature is that labour can only mean labour with the hands, and that the man who does not labour with his hands is an idle man. It is difficult, perhaps, to get rid of such phrases as "the labouring classes" or "the working classes," but every one knows that very hard work can be, and is, constantly done by men who would not be regarded as "working men." Even among "working men" there has been great progress in recent times in limiting the severity of the mere physical

[1] 1 Cor. v. 11.

[2] Dr Stubbs, Creed, p. 29.

part of their work, and increasing what comes from the brain—knowledge, intelligence, and taste; and what comes from the heart and conscience — integrity, industry, and fidelity. That there are in the world a certain number of idle men who, whether possessed of wealth or struggling with poverty, do as little and as easy work as they can, and would fain spend their whole time in amusement or in listlessness, is true enough; but of the people who are not working men, in the socialist sense, far the larger number go through much greater labour than the so-called working classes. The man who has never to encounter a heavier weight than a pen or a book, who has only to invent, to superintend, to direct, to advise, to persuade, to heal, to instruct, or to manage, may be of no account with the socialist, but is surely one of the labouring classes. The experience of our socialist Dean must be very limited if, as other men have done whose business it has been to guide and influence human beings, he has not envied the work of those who have only had to mould and fashion those more flexible and obedient materials—stone and iron.

Of course there is a certain number of men in a community like ours who, being under no necessity to labour for their daily bread either with head or hands, have it in their power to be idle if they please. It is this class, probably, that are denounced in scathing terms by socialists, even by those calling themselves Christian. This abused class chiefly consists of persons whose fathers or whose previous ancestors may have laboured and saved, and, by the laws of this and every other civilised country, and according to the usages of mankind generally, have handed down their property to their descendants. This law of inheritance is not only recognised all through the Scriptures, but, like marriage, is used as an illustration of the happiest connection between God and man—"If children, then heirs; heirs of God, and joint-heirs with Christ."[1] All experience tells us that large numbers of these so-called idle men employ much of their time in useful and gratuitous labour for their fellow-men. It is they mostly who devote themselves to the hard and

[1] Rom. viii. 17.

often thankless duties of being Members of Parliament, city and county councillors, members of school boards, managers of hospitals, and in numerous other ways servants of the community. It is familiar to all of us that, without the work done by the so-called idle classes, men and women alike, the labouring classes would want many of the benefits which they now enjoy; but these are evidently among the people whom our socialist Dean would "dishonour, discourage, and denationalise" as the idle classes.

But all men, it seems, are entitled to equality of consideration. What entitles any man to consideration? That he is a man, says the socialist; that he is your brother, says the Christian socialist. By all means let every individual have the consideration that is due to him in these capacities, but is the same amount of consideration due to the good man and to the bad, to the kind and the unkind, to the wise and the fool, to the hard worker and the idler, to the man who is useful to others and to him that only does them harm? This would not be to raise to the same level all men, our supposed brethren, but to depress them to the same level. And this is very largely the teaching of socialism: its aim and object are not so much to raise the masses as to lower the classes; to lessen the distance between them, but to do this by depressing the standard.

While it is foolish to place all men on the same level as regards consideration, there are still greater objections to attempting to treat them alike in the matter of pay. Socialists would go further, and reward with the highest pay the man who happens to have the largest number of children, quite irrespective of any other merits he may possess. Apart from this, the theory that men are not to be recompensed for their work in some proportion to its value to their fellow-men is as dishonest as it would be mischievous. At present men are not paid according to their own valuation of their work, except on the dictation of trades unions, but according to the juster estimate which other men form of its value to them. In almost all occupations the men who receive the highest rate of pay do not owe this to any exaction on their part, but have it offered to them, and sometimes even pressed on their acceptance; and this system inevitably draws out and encourages the highest service, and so directly benefits the rest of mankind.

The story of the labourers in the vineyard,[1] where a man received the same pay for one hour's work as others got for twelve, is a parable expressly used to illustrate two principles: one, that the penny paid to the man who began at the eleventh hour was not a debt but a gift to be paid or withheld at the pleasure of the employer; the other, that if the latter paid his labourers all they had bargained for he was not bound to give them more, but had a right to do what he would with his own. There is no communist or socialist teaching in that parable.

While the aim of socialism is to lower the standard value of men, Christianity has just the opposite tendency, and aims at raising the standard of consideration, of character, of value and its rewards. Within the memory of men still living there has been in this country a very considerable growth of religious feeling. It may have taken in some cases the form of Puritanism, in some others that of ecclesiasticism, but that there has been a greater and more general desire to conform to what men have believed to be the Will of God is beyond question. This development of religious principle has yielded enormous advantages to the whole community, and specially to the so-called working classes. Their progress has been all in an upward direction, and it has been largely due to the sense of justice, to the kindly consideration, the sympathy and benevolence of those above them in social position, stimulated directly or indirectly by religious sentiment.[2]

When this progress is thought of as the result of social conditions existing up to the present time, it is obvious that any revolutionary change such as socialists contemplate must be at the least attended with considerable risk. Pascal, with his usual good sense, says, "All that is made perfect by progress perishes also by progress." It would be rash to lay down absolute propositions on such a subject, but it is a

[1] Mat. xx.

[2] See Appendix C, "The Upward Progress of the Working Classes."

common experience that even good and useful principles, if carried too far, often do more harm than good. The truth is that Christian socialism is very largely benevolence run mad.[1] It is worse than this, as we may presently see, because it gives a Christian sanction to principles of an unchristian and dangerous character; but even when it advocates those virtues of brotherly kindness, charity, benevolence, and self-denial which we all recognise as distinctively Christian, it places these virtues under conditions, or rather perhaps a want of conditions, which can only tend to discourage and suppress them. Here are the views which we find in 'The Catechism of a Christian Socialist': "The condescending patronage of aristocratic 'Slummers,' and the sickly sentiment of the mere philanthropist, which in these days passes muster for Christian love, would not find much favour with the plain outspoken exponents of the original Christianity."[2] Another writer, said to be an American D.D., is quoted approvingly as having severely condemned Jacob for making himself rich, but to have pitied him because "he did not live at a time when, by giving a trifle from his robberies to endow a university,"[3] he might have escaped the consequences of having enriched himself.

What is to be the effect of sentiments and utterances of this kind and others which we may have to quote hereafter? They appear almost to be intended to check philanthropy, and to discourage those munificent benefactions of the rich, from which the rest of the community derive so many advantages. Is it not possible that even the much abused capitalist may be having some regard to the mandate, "Charge them that are rich in this world . . . that they do good . . . ready to distribute, willing to communicate"?[4] One of the most serious objections to socialist theories is that they tend to discourage those feelings of benevolence, liberality, and brotherly kindness which Christianity teaches. But it ought to be borne in mind that the sentiments we have quoted are not those of the classes who need the

[1] See Appendix D, "Benevolence Run Mad."

[2] H. Thompson p. 27. [3] Dr Herron (the 'New Age,' 10th June 1897).

[4] 1 Tim. vi. 17, 18.

philanthropic help of others: there is some danger, however, that their feelings may be influenced by such utterances, and changed from gratitude into bitterness and discontent. The philanthropist on his side will have to guard against having his heart hardened towards those so-called brothers, often very imperfect and unworthy characters, on whose behalf his help is demanded as a matter of right on their part rather than of Christian charity on his.

One of the leading aims of socialism, as we have said, is to substitute a large amount of administrative control for the individual liberty which is so happy a feature in our British experience. Confining ourselves to the economic aspects of the question, we hear much of the tyranny of capital and capitalists, and are led to understand that tyranny means the rule of the few over the many. It is often forgotten that tyranny does not depend on who the ruler is, but on how he uses what power he has. Obviously it may be exercised by the many over the few, by majorities as well as dictators, and, indeed, when absolute power is in the hands of majorities it often comes to be wielded by a dictator or by a clique of dictators in their name. While the authority of the capitalist is limited by law, by the power and legal rights of the workmen especially in combination, by his own interests and often by his own right feelings, the power of majorities working on the lines of socialism would be absolute, and if used tyrannically would injure alike employer and employed. Like the socialists we will have regard now only to the interests of the employed. We have frequent illustrations even now of the despotism which can be exercised over them, on distinctively socialist principles, in the name of majorities. It is in this name that the strikes so familiar to us are entered on. There is room to doubt whether they always have this authority, but let us suppose that they have, and that the majorities themselves are not practically dominated by a clique, or even by a single dictator; and let us try to forget that the leaders of these movements, who have sometimes little delicacy in expressing their sovereign will, are often in the position that they owe all their influence and importance, and possibly also their means of living, to their being able to stir up and maintain continual strife between employers and employed. But taking the case simply as between majorities and minorities, what greater tyranny, short of murder, can be exercised by a Czar or a Sultan than the compelling of hundreds, and even thousands, of men to forbear working for their living, and to surrender their means of supporting themselves and their families, and this without any reference to the wishes and interests of the individual men themselves.

It is of special interest at the present time to inquire into the philosophy of strikes. They are usually regarded as a means by which workmen in combination can do what individuals can seldom do, put a strong pressure on employers to accord them better terms in respect of pay or other conditions of labour. In this view, and up to a point, they are quite legitimate. What each man may reasonably do for himself, any number may do in combination. But a strike must always be attended by some risks, and its results cannot be reckoned on. If it were always effectual, the workmen would secure whatever they chose to demand; and even if a compromise is all that is sought for, that only means that the men are demanding twice as much as they expect or desire, and are prepared to exhibit their reasonableness by accepting the half of it.

Directed against employers, it will obviously be the policy of the workmen and their leaders to take them in detail, to begin by placing a certain number of them at the disadvantage of having their works closed and their business dislocated, while their men are being supported out of the wages paid in similar factories which have not yet been attacked. When their exceptional difficulties compel them to give in, the war will naturally go round. That employers, following the example of their workmen, should also combine and meet these tactics with a general lock-out can only be regarded as a reasonable act of self-defence. Such combinations of employers are only possible under great pressure, and it is certain that a lock-out will always be adopted very reluctantly, involving as it will much pecuniary loss. Whatever may be the evil consequences on either side, the responsibility for a lock-out, no less than for a strike, rests with those who begin the war.

But it is the tyranny exercised in these wars by the workmen on their fellows to which attention ought to be directed. A strike, as usually conducted, does not mean that the men who resort to it merely desire themselves to abstain from working. A common and significant expression is that the men in such and such a trade have been "called out"; in every case minorities have no choice, and if the majority and its agents can find the means of enforcing their decrees, they have no scruples about doing so, and, but for the protection often insufficiently afforded by law and police, this tyranny would always be enforced by the most cruel measures. It ought to be kept in mind also, that if strikes have the effect, as they certainly have, of driving trade out of the country, one consequence must be to lessen the demand for labour, to increase the competition for employment, and so to diminish wages, and thus in the end seriously to injure the men who have either been persuaded or compelled to take part in them.

A milder form of tyranny, but very mischievous, is common in some departments of industry, where men are expressly prevented by their trade unions from doing either the quantity or the quality of work they are capable of, and so earning better wages than their less able and industrious neighbours. In the same spirit individual workmen are prohibited from accepting a lower rate of wage than what the union has fixed as the common rate, so that if a man is old or infirm or unable from any other cause to do an average amount of work, he must either insist on full pay or deprive himself of all chance of employment.

Another form of tyranny much advocated at present is, that it should be made a criminal offence punishable by law for a man to work more than a certain limited number of hours a-day, however easy and however beneficial to himself and others that might be. The shortening of the hours of labour, whether by agreement or by legal enforcement, often involves of course a shorter working of machinery also. Every hour's work done by a man and a machine in conjunction yields a much larger product than the man's work alone could create. To prevent the man working throws his partner, the machine, idle, and probably more than doubles the resultant short-coming in the things required by the general community, and consequently in the fund available for wages. What the owner of the machinery may suffer is a secondary question; the important point is the restraint put on the personal freedom and the earning power of the workman.

At present every man has entire liberty as to how many or how few hours he is to work. It is simply a question of what is best for himself and what agreements he may be able to make with employers. To deprive him of this liberty is to return to those systems of medieval tyranny which we have always been taught to scorn and condemn. The democratic socialist will tell us, of course, that it makes a great difference whether such power is exercised by one man or by the many; but even if we could assume that power would always be wielded by the many with wisdom and fairness, if my personal liberty is needlessly restricted, and to my loss and damage, what difference can it make to me by whom this is done? The feelings of irritation and hostility inevitably created will be more pleasantly entertained towards a distant Kaiser than to one's immediate neighbours and possible rivals and competitors.[1]

We must come now, however, to the grand central and very practical doctrine of socialism—its methods of dealing with property. There are differences of view among socialists as to the rapidity with which the property of those who possess any is to be taken from them and appropriated by or on behalf of other men, but this appropriation is of the very essence of socialism. Private capital is to be replaced by collective capital; one individual is to possess no more than another; all capital is to be held by the community generally for the common behoof. According to a sermon preached in London in 1894 by a clergyman of the Church of England on behalf of the "Christian Social Union," the "accumulations of idlers, the men who toil not nor spin, who render no personal service,—legally entitled to be a first charge

[1] See Appendix E, "The Economic Results of Socialist Theories."

upon some portion of the national dividend before a single toiler by brain or hand can eat his breakfast,—these must somehow be laid low."[1] I need scarcely suggest the absurdity of the conditions here imagined. It could easily be demonstrated that this transfer of property from individuals to the community can be effected only by simple robbery; and how persons professing to be Christians can give support to a system of avowed spoliation it is hard to understand. Yet, according to one journal, this work of spoliation is the larger range which Christianity must "take if she is to retain her hold upon the masses." The Christianity that is to be preached to them is to attract them by the promise, not of spiritual benefits, or of nobler ideas and a holier life, but of getting hold of the money and goods that have hitherto belonged to other people. It is said that soon after the great French Revolution a Frenchman came to consult Talleyrand. The man had invented a new religion, but was finding that it made few converts. Talleyrand asked him if he had ever thought of having himself crucified. The reply of a Christian socialist would have been, "Vilify the owners of property as idle and useless and cruel, and promise your converts a share of everything they covet."

The socialist is fond of drawing invidious distinctions between the working classes and the capitalists; but there is a good deal of confusion in this classification. Let us look for a moment at the divisions which exist in the larger of these classes. They may roughly be broken up into three subdivisions. One of these consists, according to a socialist writer, of the "residuum of unskilled, unemployed, unprofitable, and hopeless human beings which in all great cities festers about the base of the social pyramid." Then there are the capable and industrious men who earn fair and often good wages, but spend them all; and there is a third division which, whatever its rate of wages, contrives to live within them, and to accumulate capital. Numerous members of this last class become employers of labour. It is to them largely that the deposits in the savings banks belong, amounting to 143 millions, and various other descriptions of

[1] Dr Fry.

property. How do socialists propose to deal with this class of capitalists. Of three men who began in the same workshop and with the same wages, one of whom idled and drank and gambled, another spent his wages as he earned them, regardless of the possible rainy day or of the future old age, and the third worked hard and proved his superior usefulness, denied himself needless indulgences, saved his earnings, and made a wise use of them,—are they all to be put on the same footing, and to share alike in the savings bank deposits and in whatever other property the third man may have in his possession? What would be the industry and the morals of a community where such a principle was to be enforced even for a day![1]

The socialist will naturally tell us that the property he wishes to see torn from the grasp of the owners is not that which belongs to the working classes but what belongs to the idle classes. Amongst the foremost of the things that he covets are the instruments of production, such as the buildings and machinery of a cotton-mill or an engine factory. These it seems ought to be in the hands of the community at large, to be used for the general behoof. We will not enter now on the question of whether they will be more or less productive of what the community requires, when organised and worked by public functionaries elected by majorities, than they are in the hands of the present owners. We will only suggest that it will require a very high degree of zeal and conscientiousness, on the part of these public functionaries, to make their work as effective as that of the men who have each a personal interest in producing the objects desired by the rest of mankind, as largely, as cheaply, and of as good a quality as possible. It is to be feared that even the change, so common in these days in the case of many productive industries, from management by individuals to that of joint-stock companies, may prove very disappointing.

But if all the instruments of production are to become the property of the community at large, one would expect it to be a primary question for the Christian socialist how

[1] See Appendix F, "The Work of Money Capital."

these are to be transferred from their present owners without simple robbery. We shall be told that they are all the product of manual labour, and therefore ought to belong to the labouring classes. This absurd theory, often proclaimed, ignores the part which brains and capital have played in the creation of these instruments, and the obvious fact that what manual labour has contributed has been already paid for.[1]

The socialist, however, looks forward to a millennium when manual labour alone will be recognised as having a right to all property; but he must see that, even if this can ever be brought about peaceably and without a revolution, it will certainly not come for a considerable period. In the meantime, his speeches and writings and sermons may have serious consequences. Men who are being taught that they are the victims of injustice, cruelty, and oppression, and that other men have no moral right to the property they possess, can scarcely be expected to work steadily and conscientiously, so as to benefit either themselves or their employers, or to have much hesitation in appropriating any property they can lay their hands on.

Here are some of the avowed sentiments of that socialism for which a Christian sanction is sometimes claimed. The number of similar quotations might be greatly increased.

"Government is in its essence always a force acting in violation of justice. Christianity destroys all government."[2] "Government means aggression."[3] "The State, with all its monstrous brood of kings, peers, M.P.'s, bishops, admirals, generals, gaolers, and hangmen."[4] "The overwhelming predatory forces of the common individualist enemy."[5] "Private greed and oppression."[6] "Receivers of rent, interest, or profits," are "robbers."[7] The existing owners of property are "landlords, usurers, and extortioners."[8] "The toiling disinherited masses are to be emancipated."[9] Present employers of labour are "a ring of greedy, grasping fools, a

[1] See Appendix G, "The Appropriation of Private Property."
[2] Leo Tolstoi. [3] M. Davidson, p. 7. [4] Ibid., pp. 8, 9.
[5] M. Davidson, p. 11. [6] Ibid., p. 8. [7] Ibid., p. 15.
[8] Ibid., p. 5. [9] Ibid., p. 4.

coterie of rich barbarians."[1] "All wealth is got by plunder."[2] The question of socialism divides society into two camps. "On the one hand are ranged all the sages, all the saints, all the martyrs, all the noble manhood and pure womanhood of the world; on the other hand are the tyrant, the robber, the manslayer, the libertine, the usurer, the slave-driver, the drunkard, and the sweater."[3] The man who lends money and charges interest for it is "a usurer and a miscreant."[4] "Under our present system of robbery and murder by individual enterprise the widow and the orphan will find none to pity and defend them, unless they can pay for value received."[5]

All socialists, of course, may not approve of such language; but do they repudiate it, and do they show on what other foundations their own theories rest? Is the Christian socialist prepared to hold himself responsible in any way for such an illustration of universal brotherhood?

In dealing with questions relating to the production of the things called for by human needs, while they would in the supposed interests of the producers stimulate a different and an artificial system, they mostly overlook the interests of the consumer. Now, whatever else any of us may be, we are all consumers, and the so-called working classes form by far the largest portion of the consumers. It is on them, therefore, chiefly that the evil consequences fall of anything that tends to increase the cost of production, or to restrict the quantity produced, or to deteriorate its quality, or that prevents the inhabitants of a country, as is done in America, from obtaining the better and cheaper products of other lands. Socialism has a hatred for that competition which does so much among us to stimulate industry and invention and the highest developments of personal effort. When its tendencies are followed out, their very narrow and short-sighted character becomes apparent. The men employed in each separate industry are to be made more happy by having shorter hours and better pay, and greater liberty as to the quality of their work; but the effect of this on the men

[1] Merrie England, by Robert Blatchford, p. 148. [2] Ibid., p. 132.
[3] Blatchford, p. 109. [4] Davidson, p. 17. [5] Blatchford, p. 118.

engaged in all other industries is overlooked, and even among the men whose improved condition is taken for granted, it is obvious that the more capable of them, the more steady and industrious, are sacrificed for the sake of the lazy, the self-indulgent, and the incapable. It is largely in the interests of the latter that many socialist schemes are promoted.

Our time will only allow of a short reference to one or two practical questions which we hear much of at present in connection with socialism, and which illustrate the need there is for both sides of its proposals being looked at in the interests of the working classes. One of these is known as the theory of a "living wage," a plausible suggestion for catching the support of the benevolent. It means, of course, that wages, or the rewards of labour, are generally to be higher than at present, and are not to be determined between employer and employed, but by some outside authority, and to be regulated by the wants of the employed rather than by his value to the employer, or to the consumer who is the ultimate paymaster, and of whom the employer is in effect the agent and representative. Obviously if this is to be the measure of a man's pay, there will be room for great inequality, and for the exercise of a good deal of tyranny on the part of those who determine what it is to be. If the man with a large family is to be paid at a higher rate than the bachelor for the same amount of work, he will naturally be the last person to be selected for employment. Such a system, too, will interfere greatly with the ordinary motives for good and efficient work.[1]

But the socialist will tell us that there is no need to make any limitation of the rate of wages; they may be increased *ad libitum*, for all that has to be done is to increase prices in proportion. Let us suppose this to be done. If the better prices are to be procured from strangers, from our present customers in the colonies and in foreign countries, the question arises, whether they will be able and willing to pay higher prices, and whether they may not dispense altogether with the things that have been produced for their purchase, or may obtain them cheaper elsewhere. If the higher prices

[1] See Appendix H, "A Living Wage."

are to prevail among ourselves, what will be the advantage of the higher wages? The miner will be paid better for the coal he brings to the surface, but every other man will have to pay more for it, and he will have to pay more for his clothes and food and everything else that he needs. It is constantly forgotten that whatever may be the nominal rate of wages and in whatever sort of money they may be reckoned and paid, the real measure of them is what they will procure for the wage-earner. Higher wages may necessitate higher prices, but do not secure them, and higher prices inevitably reduce the real value of wages. The socialist will, no doubt, assert that these matters will come all right if the burden is laid upon capital. We need not return to that question.

The thoughts that have suggested themselves in connection with Christian socialism will assist perhaps in establishing the important truth that political economy has no need to fear this new adversary. Political economy is sometimes represented as a system of artificial laws framed for the benefit of certain select classes. It is really as much a natural law as the law of gravitation or the laws of health, and like them carries its own sanctions with it. It is, in fact, the scientific expression of what long and interested observation, repeated experiment, and broad and lengthened experience have shown to be the inevitable sequences of certain familiar causes. This being so, it is equally certain that the laws of political economy must be consistent with Christian principles, and that any system that directly and avowedly contradicts them cannot have any title to the appellation Christian.

I shall conclude, however, by expressing my belief that the utterances of Christian socialism, and the countenance given by some Christian thinkers to socialism in general, may often and in the main be ascribed to errors of judgment proceeding from an unwise and uninformed benevolence. Where their Christianity is sincere, socialist writers are indulging in dreams that have but a slender connection with the present state of things. Our socialist Dean seems to have some perception of this. He asks us indeed not to forget that he and his co-thinkers *may* be Christians, though he does not venture to say that they are, and evidently apprehends that they may not be. "After all," he says, "the contingency of their being Christians is the all-important one, for if the English democracy of the future is not going to be a religious democracy, then God help us all."[1] It is one thing to hope and desire, as we all do, that a true Christianity will prevail more absolutely among the democracy, and among all classes and conditions of men; it is another thing to assume that this will certainly happen, and on that assumption to stimulate the institution of new conditions of society which even in that case may have very questionable effects, and which, if this does not happen, and happen immediately, will certainly be so fatal to the morality and to the welfare of all branches of the community. A serious responsibility is incurred by the Christian supporters of wild theories and unguarded language, which, passed on with their indorsation, may encourage ideas and practices they have not dreamt of.[2]

It may be hoped that if the errors, the inefficiency, and the dangerous tendencies of socialism come to be generally understood, it will contribute to the solution of the many and urgent social problems of the day, by suggesting the room there is, and the need, for methods of dealing with these which shall be at once economically sound and inspired by the highest Christian principle.[3]

[1] Dr Stubbs, Creed, p. 102.

[2] See Appendix I, "Christian Socialism and the Clergy."

[3] See Appendix K, "The Danger of Progressive Socialism." See Appendix L, "Individualism and Collectivism." See Appendix M, "An Equal Division of Incomes."

APPENDIX.

The foregoing paper has been printed in the form in which it was read to the Scottish Society of Economists, and subsequently published in the 'Accountants' Magazine,' and in which the reasonable conditions of time and space had to be considered. Many of the subjects dealt with invite further elucidation. Some of the following notes formed part of the paper as originally prepared; others have been selected by the author from a previous address which he delivered on a kindred subject to the Insurance Institute of Yorkshire in 1894.

A.—Scriptural Authorities.

Writers professing to be Christian socialists naturally appeal to Holy Scripture. Of course they find abundant authority for the virtues of love to our neighbours, of charity and benevolence, of liberal and cheerful giving, of doing good unto all men, especially unto them who are of the household of faith. But these are not socialist virtues according to the current meaning of the word. What socialism points to is the depriving of our neighbours of the property which now belongs to them; and it would put an end to charity and benevolence, for it would enforce entire equality of position and property, and, if we could imagine its wild dreams accomplished, no one would have wherewith to feed the hungry or clothe the naked, if unhappily there were any needing to be fed or clothed.

But the misuse of Scripture is lamentable. I will only notice, as unworthy of being dwelt upon, the statement, equally false and profane, that our Lord Jesus Christ, because He took upon Him the life of a carpenter, and because He declares Himself to be the friend and Saviour of all ranks and conditions of men, is to be regarded as "a democratic socialist." It is interesting to recall that Christ Himself expressly tells us that "His kingdom is not of this world"; and that when one "said unto Him, Master, speak to my brother, that he divide the inheritance with me," "He said unto him, Man, who made Me a judge or a divider over you. . . . Take heed, and beware of covetousness."

In their appeals to Scripture, socialists may have to reckon with such a description as St Peter gives of a class of men who were to be found in his day, and who have many examples among ourselves: "Unjust, that despise government, presumptuous, self-willed, not afraid to speak evil of dignities, speaking evil of the things that they understand not, beguiling unstable souls, hearts they have exercised with covetous practices, while they promise liberty they themselves are the servants of corruption." Those who claim to be Christian socialists would need to see that they give no encouragement to views and practices which bear any resemblance to those here described.

The famous attempt at communism, referred to in the preceding paper (p. 7), is a subject of great interest. The experiment was tried in the most favourable circumstances, under the influence of new and heart-inspiring religious feeling, and apparently with the sanction of men who, by their message and by the miracles they wrought, gave evidence of their divine inspiration. The story was no doubt written for our learning, but, like other narratives in Holy Scripture, has been told for our warning rather than for our imitation. It is one of the many proofs which the Bible gives of its divine origin, that, in narrating the actions and words of its noblest human characters, it frankly reports their faults and mistakes, and that of the many descriptive portraits that are set before us only one is represented as perfect. It is easy to imagine the socialistic promoters of a false religion rejoicing to present a picture of this kind: "And the multitude of them that believed were of one heart and of one soul: neither said any of them that ought of the things which he possessed was his own; but they had all things common. . . . Neither was there any among them that lacked: for as many as were possessors of lands or houses sold them, and brought the prices of the things that were sold, and laid them down at the apostles' feet: and distribution was made unto every man according as he had need." But if the author of such a narrative wished to set it up as an example, he would certainly not have proceeded at once to narrate the entire failure of these proceedings. Yet this is what is done for our instruction by the inspired historian of the Church of Christ.

The story of Ananias and Sapphira tells us how impossible it was found, even in such circumstances as we have spoken of, to secure fair and honest contributions to a common fund; and although the failure was visited with condign punishment, it was expressly stated that this was for the attempted deception, and not for their having withheld a portion of their property. "Whiles it remained, was it not thine own? and after it was sold, was it not in thine own power? . . . Thou has not lied unto men, but unto God." The inevitable difficulty, on the other hand, of securing fairness and satisfaction in the distribution of a common fund was very soon manifested when "there arose a murmuring of the Grecians against the Hebrews, because their widows were neglected in the daily ministration." We hear no more of this community of goods. It certainly did not place the poorer of the Jerusalem Christians above the need of external help, for we hear frequently of the collections made and the relief sent to the brethren which dwelt in Judea; while we hear also of the not unnatural effects of an injudicious liberality in the existence of "some which walk among you disorderly, working not at all, but are busybodies," leading to the reasonable ordinance, "This we commanded you, that if any would not work, neither should he eat." It is to be noted that, even in the first experiment of a communion of goods, it was only those who were "in need" who were favoured: what that meant does not appear precisely, but it possibly has reference to widows, the only class of needy persons expressly mentioned. Altogether, the story of this experiment is as far as can well be imagined from giving any encouragement to modern socialism.

B.—Universal Brotherhood.

The attractive theory that all men are in some sense brethren is probably from the Christian point of view largely founded on the principle of the universal Fatherhood of God. That there is a sense in which God may be regarded as the common Father of mankind need not be questioned, but beyond all doubt there is another and a far more important sense in which He is represented as the Father only of what is, alas! a limited and special class. That He holds a different relation to the righteous and to sinners,—to those who believe the record He has given concerning His Son and have accepted the salvation He has wrought out for them, and to those who reject it or are indifferent to it,—is clearly the teaching of our Lord and His apostles. The Jews who claimed first to be the children of Abraham and then to be the children of God, were plainly told that they were of their father the Devil; and many other similar and very distinctive statements might be quoted. We need not dwell on this. If those passages of Scripture which refer to the brotherhood of men be examined, it will be found that in almost every case the relation spoken of is far from being a universal one, and the image is made use of for very specific objects. When the Romans are told to "be kindly affectioned one to another with brotherly love," or the Hebrews to "let brotherly love continue," it is their fellow Christians who are referred to as the objects of these feelings. No doubt the admonitions refer to all men when we are told not to be angry with a brother without a cause; how we are to behave "when our brother hath ought against us"; that we are to be "reconciled to our brother"; and that there is to be practically no limit to the number of times we are to forgive a brother who has offended us: but there is no suggestion of dividing our property with this sort of brother. The idea of human brotherhood is full of valuable lessons, but is apt to be fatally misused. It is often not more dangerous to neglect a divine ordinance than to give it an entirely wrong application.

If all men were our brothers in the closest possible sense, about the last thing that would be useful to them would be to divide our property with them. We have all known of men who have had prosperous brothers, to whom any such proof of brotherly kindness would only have been disastrous. So it would be to our brethren of "the masses" if socialists had their own way, or rather the vague and unexplained way of which they dream.

C.—The Upward Progress of the "Working Classes."

That labour enters largely into the creation of wealth is beyond dispute. "In the sweat of thy face shalt thou eat bread" was the primeval ordinance, and very little bread will be eaten unless some men work for it. That there is so great a need of physical labour having little admixture of intelligence or skill is a happy circumstance for millions of human beings who could not otherwise find the means of subsistence, having no capacity for any higher sort of work, nor anything more valuable to offer to their fellow-men in exchange for a share of the common products. It may be admitted, however, that such men do often lead sufficiently hard lives, with long hours, monotonous uninteresting work, and small wages. How far the hardness of their lives may often be their own fault we scarcely need inquire, although there certainly are very many whose precarious employment and scanty earnings are due to the irregularity of their habits, or to the careless, unconscientious, and casual way in which they do what inferior work they are fit for. Even for them, however, as for workers in general, late years have brought many alleviations. Wages have certainly increased all round, and in many directions half-a-crown will go nearly as far in food and clothing as five shillings would have done within my recollection. But there have been other and prodigious changes in the condition of the "Working Classes." Among these may be recalled the progress of education and the extent to which it is now attainable free of cost, the cheapness and multitude of books and periodicals, and the number of institutions all over the country, mainly supported by others, for promoting the improvement and recreation of the so-called toilers; improved dwellings, greater light and air and beauty of surroundings; the free use of parks and gardens, libraries and museums; the facilities for locomotion, yielding almost to the very poorest means of change, whether in search of livelihood or health or pleasure, which the richest did not possess little more than half a century ago; to say nothing of personal freedom, and the influence possessed by men who enjoy an imperial and municipal franchise, and are probably besides members of powerful trade organisations. These and many other things are among the substantial gains of Labour, not sufficiently recognised just because they are making continual progress. They form a prodigious addition to the wages earned by Labour; and to a large extent they are supplied at the cost of the employers of labour, among whom we include, of course, the persons who use and pay for its products.

D.—Benevolence Run Mad.

Benevolence is a virtue which is of the essence of Christianity, but indeed it forms a feature of God's law from the beginning: and even in the earliest legislation for the chosen people there is a remarkable delicacy of suggestiveness in such precepts as "Thou shalt not seethe a kid in his mother's milk"; "Thou shalt not muzzle the mouth of the ox that treadeth out the corn." St Paul, when, *apropos* to this last passage, he asks, "Doth God take care for oxen?" opens to us a view of the kindly and thoughtful sentiment about our fellowmen which the precept was intended to encourage. And there is very ample room and need for the exercise of this and all kindred virtues. Poverty, indeed, and its accompanying trials, are not the only things that call for the exercise of benevolence: the sorrows of the rich may be, and often are, of a description and an intensity which cannot be exceeded. But no doubt the trials of poverty are both conspicuous and heart-moving; and even among those of the masses who can scarcely be ranked as poor, for all wealth and poverty are comparative, the kindly Christian heart has many occasions to wish for and to aim at an improvement in their condition. It is possible, of course, to call these feelings "socialist," and in this city we have more than one society doing much good which introduces the word "social" into its name.

But it cannot be too often or too clearly expressed that what is in these days most generally meant by the words "socialist" and "socialism" is very different indeed from the sort of benevolence we have spoken of as enjoined by Scripture, and hitherto practised among us — not so universally, perhaps, as it ought to be, but sufficiently to indicate its aim and spirit. A great deal of the literature which professes to be socialist dwells less on the sorrows of the comparatively poor than on the iniquities of those who are better off. The capitalist, the employer, the man who does not work with his hands, are held up to the envy, the jealousy, and the hatred of the rest of the community, and as fit objects for spoliation. The Christian socialist might be expected to consider the different way in which the Scriptures deal with rich and successful men who have raised themselves above the rest of the community. Here are some of the men who are held up to us as most worthy of our admiration and imitation: Abraham, who "was rich in cattle, and in silver and in gold," and who was "the friend of God"; Joseph, who, from the inmate of a prison, became the second ruler in Egypt; Moses, who, from being an outcast child, became the ruler of the Israelitish nation and lawgiver for them — and indeed for all the world; David, who, from keeping his father's sheep in the wilderness, became a king; Isaac and Jonathan, who inherited the wealth and the position of their fathers. The democratic socialist —and all socialists are democrats—has no love or respect for any man who is better off than himself; he feels no benevolence towards him.

A fundamental difference between Christian benevolence and the leading principle of modern socialism may be illustrated by reference to our Lord's beautiful parable of the Last Judgment. "Come, ye blessed of My Father; for I was an hungered, and ye gave me meat; naked, and ye clothed me." Let us imagine that the socialist theory has been translated into practice, and that the hungry are fed and the naked clothed at the public expense and by State machinery—the property of those who have any being taken from them, by taxation or otherwise, for the use of other people, and without any respect to their own wishes: what possible merit could there be in the contributions thus extracted from them that would warrant the "Come, ye blessed of My Father"? This enforced benevolence ceases to be a Christian virtue. Some dreamer may say, "Yes; but the community at large will be acting on benevolent principles, though no room may be left for individual merit, and will be entitled to the praise of God for its justice and beneficence." This means that the majority, who have coveted and appropriated the property of the minority and used it for themselves, have the same claim to be regarded as Christian and virtuous as if they had freely parted with their own property for the sake of others.

But with the socialist it is not the simple question of feeding the hungry and clothing the naked; these things, happily, are largely done at the present time by Christian benevolence. It is the quality of the food and clothing that the socialist complains of. Why, he asks, should not the employed be as well fed and clothed as the employer. Is absolute equality necessary, and is there the slightest chance of its being achieved?

If the Christian socialist is a benevolent man, as no doubt he sometimes is, he will do well to consider whether his principles and utterances are fitted to promote benevolence or to crush it out of existence. The extravagant claims he makes on behalf of the objects of his special sympathy, the summary and drastic methods with which he would enforce these, the discontent and carelessness and hatred of the better-off classes which he does his worst to stimulate, are not likely to promote good wishes (benevolence) on either side. The benevolence of the Christian socialist is benevolence run mad.

E.—The Economic Results of Socialist Theories.

When what is known as the new trades unionism, which is decidedly socialist in its aims and in the various tyrannies which it tries to enforce on employers and employed alike, is closely looked into, its disastrous economic effects become apparent. These effects are not merely hostile to the interests of Capital, which is their professed object, or to the general trade and prosperity of the country, which socialists profess to care nothing about: their chief danger lies in the effects, and the almost immediate effects, they are fitted to have on the bulk of the population—the "working classes." Some of these may be shortly dealt with under the following heads:—

The Theory of Restricted Production.

A fallacy which seems to prevail among sections of working men, or is, at all events, frequently commended by their professed leaders, is that profits and wages may be increased by restricting production: that by limiting the quantity of any article the price will be raised, so that the producers, capitalists and workmen together, will get as much as they got before, and for a smaller quantity of outlay or labour. I do not propose to discuss the many questions that arise out of the proposals to shorten the hours of labour. There may often be much to say for such proposals, even if they were to involve a heavy sacrifice of profits and wages. I can only consider now whether there is any foundation for the theory that restricting production will increase the divisible profits.

Machinery and Labour.

I will refer in particular to two principles often lost sight of. In the partnership between capital and labour in most of the great industries, a large share of the work is done by machinery—that is, by capital and brains, in the form of machinery. At one time machinery was regarded as hostile to labour, but few persons are so ignorant now as to hold that view. If machinery increases and cheapens production—as beyond all question it does—it benefits, of course, the consumer, and we are all consumers, whatever else we may be. But it can be shown to have done far more for labour than that. In an article on "The Economy of High Wages," by Mr J. A. Hobson, in 'The Contemporary Review' of December 1893, some very interesting facts are presented. It appears that in spinning-mills (cotton-mills, I imagine), between the years 1820 and 1880, the quantity of material produced by each "hand," which in 1820 was 968 lb., increased in each decennial period to 1546, 2754, 3671, and 5520 lb., while the cost of production fell from 6s. 4d. to 1s. 9d. per lb. weight. During the same period the average yearly wages increased from £26, 13s. to £44, 4s., and the hours of labour were materially shortened. In weaving factories the product per "hand" increased from 322 lb. to 4039 lb., while the cost of production fell from 15s. 5d. to 2s. 3d. per lb., and the average wages rose from £20, 18s. to £39, or about 86 per cent. The same results were observed in America.

What these facts teach us is the prodigious action of machinery in increasing the value of human labour, enabling the man who is in partnership with it to earn far larger wages by a smaller amount of work—the work, no doubt, being of a better and more intelligent, and probably, therefore, of a more interesting, character. But if the increase of machine work does this for the man who works along with it, it is to be feared that the decrease of it will have the opposite effect. Thus, a machine which is idle during two-thirds of the twenty-four hours cannot yield so much profit to either of the parties concerned as if it worked longer hours. The shortening of the hours of human labour is generally accompanied by a shortening of the hours of machine labour also, so that, however necessary or desirable the former may be, and even if it were always true, as it may be in some cases, that a man can and will do, say, in eight hours as much as he now does in ten, the same productiveness from the joint work of machinery and men cannot be expected. The owner of the machinery, on whom the damage arising from its enforced idleness will chiefly fall, will naturally try to compensate himself in some other direction, but whether he does so or not, it is certain that the loss will have to be shared by the hands also.

The Theory of Increased Production.

The other forgotten truth is to some extent based on the same principle. The capitalist and the worker are in partnership, whether they recognise it or not. By their joint efforts they create a certain quantity of some product which is in demand, and for which other people are willing to pay. What can be got from these other people forms the fund out of which has to be obtained a return for the use of capital, including money, buildings, and machinery, and for the wages of labour, including payment for the skill and knowledge, and generally for the brains, as well as for the hands employed. Now each of the parties concerned may legitimately claim as much of this common fund as he can get, but obviously the larger the fund the better for both, and the less occasion will there be for quarrelling over the sharing of it. It may, of course, be possible in some cases, by limiting production, to enhance for a time the money value of the products, so as to obtain an equal amount of money in return for a smaller outlay of capital or labour. But this will scarcely ever last long or be confined to one article. If coal-owners close their pits or miners refuse to work, there may for a time be a scarcity of coal and an increase of its market value, but this inevitably limits the demand for it. Other industries, which cannot afford the increased price, become idle, and in every direction economy in the use of coal comes to be practised, so that the demand, and consequently the price, adjust themselves to the diminished supply, and the object of restricting the supply is not gained. But if it could be gained, other departments of industry might try the same methods of enhancing the price of their commodities. What the advocates of restricted coal production hope for is that the producers of food and clothes and other necessaries of life will give more of their productions in return for a smaller quantity of coal; but the producers of food may just as reasonably hope that by restricting their productions they will get more coal for less food. Price is merely the instrument and medium of barter. In the end it will be found that the less any set of people produce, the less of other people's productions they will get in exchange for theirs. Any artificial interference with so natural a law must eventually revenge itself on those who attempt it, even if they could secure a world-wide combination; while anything short of a universal conspiracy to enhance the price of a commodity by restricting its production leads inevitably at once to fresh competition and loss of markets.

F.—The Work of Money Capital.

As a rule the use and value of money Capital is that it can form the reward of labour, whether of the brain or of the muscles. Money will not purchase everything, but in effect it does purchase intellectual, artistic, and manual labour—that is, it provides for the labourers food and clothes and other things which they need or desire, and so supplies at once the means of living and a motive for their work. In short, it provides wages, and it is constantly forgotten that capital is almost entirely spent in wages. Thus, of the money spent in producing a given quantity of machinery, a very small proportion goes for the raw material compared with what is expended in bringing it to the surface and manufacturing it into the finished product. The more capital there is, therefore, the more wages will be got out of it, and any reduction in the aggregate capital of the country by losses, by plunder, or by its being driven into foreign lands, will entail a corresponding reduction in the demand for labour and in the wages available to pay for it. In looking at the cost of certain products, we often hear complaints of the price that has had to be paid for the raw material, as if the appropriation of that material by individuals was a wrong to the community, enhancing the cost of some needful commodity without any contribution towards the skill or labour required for its production. It may be interesting to look for a moment at what is the magnitude of this question. I will only mention two examples. Why, it may be asked, should the cost of such things as the rails for our iron highways, the plates for our iron war-ships, the machinery used in our factories, be aggravated by the necessity of paying to some landowner for the iron ore that happens to lie beneath his land? Well, I have reason to believe that if a given quantity of any of these things should cost in the end one pound, the sum paid for the ore before its separation from its native bed might be as much as sixpence, or as small as the twentieth part of a penny. The excessive price of land in large towns is often the subject of remark. In a street in Edinburgh with which I am acquainted, the cost of the land per acre may be taken at about £3000—a very large sum; but if we take land and buildings together, the cost has exceeded £70,000 per acre. In each of these cases the great bulk of the cost of the finished product has, as I have said, consisted of wages.

One large item of money capital, belonging chiefly to the "working-classes," consists of the deposits in Savings Banks, and as these deposits are mostly invested in Government Securities, it may be asked how it can be said that they are turned into wages or used reproductively. The answer is that every £100 invested in Consols releases a like sum for other uses. You cannot buy an amount of Consols without some one else selling it, and it is almost certain that in most cases the money received for the Consols sold is at once used in agriculture, or manufactures, or commerce, so that the savings of the seven millions of Savings Bank depositors find their way, like other capital, into reproductive service. The Public Debt itself may be held to be reproductive, if it is regarded as the price paid during old wars for the protection and safety of the country, its property, and its commerce. Beyond all question there can be no capital, and consequently no wages, no goods produced, and consequently no price got for them, no scope for industry or for commerce, unless there is an assured protection against foreign aggression and internal disorder, against violence and dishonesty; and the expense of securing that protection by navies and armies, by police, and by wise and vigorous administration, is an indispensable part of the cost of production.

G.—The Appropriation of Private Property.

There can be no question that it is a fundamental principle of socialism that capital is to be taken from its present owners. Some writers suggest that it will be well not to do this all at once or too rapidly, lest it should stimulate a successful opposition. Mills and machinery may be paid for at first, but in the long-run everything is to be seized and appropriated by the community. Supposing, however, that an attempt were to be made to pay for the sort of capital so much coveted, where is the price to come from? "Public money" will be the answer, but it is constantly forgotten that primarily there is no such thing as public money. What is used as such is simply the money of individuals extracted from them by taxation; and there are many worthy persons at the present day who would be far from calling themselves socialists who give much encouragement to the misuse of taxation. It ought never to be forgotten that in this country at the present time the public taxes are laid on and spent by the votes of one section of the people, the majority, and paid by the other section, the minority. That there should be a great temptation in the majority, and among those who desire by their support to obtain power and distinction for themselves, to use this lawful but far from legitimate way of helping themselves, goes without saying. One of the leading suggestions of socialism is so to extend the principle of taxation as to make it the means of transferring from its owners not a portion only but the whole of the property that can be made the subject of taxation. To pay for all the cotton-mills of Lancashire out of public money in order to place them on a socialist footing would be simply to pay for them out of the pockets of the minority of the whole population and without their own consent. But supposing it were right to do this in order to transfer all cotton-mills to the general community, would it be possible? Another great general principle which is constantly overlooked is the extent to which capital depends for its very existence on the trustworthiness of laws and customs. A very little consideration will show that the existing capital which socialists are bent on appropriating would under their influence speedily disappear. Apart from what return there might be to the primeval practice of hoarding, which might be the only protection against a tyrannical and unscrupulous majority, let us look for a moment at where this capital is that is to be made available by means of taxation for collectivist use. Let us lay hold of one rich man and order him to stand and deliver. He will perhaps reply to the exactors in some such terms as these: "I was rich; I had, for example, shares in several successful banks, and had money deposited with others. My money, like the other resources of these banks, was lent out to manufacturers and traders, and employed by them in promoting various industries; but your projects have driven these men out of their former positions, and ruined them, and my banking investments have been lost. I had money lent out on mortgage, but your interference with property in land has so reduced its value that my mortgages now yield me nothing. I had two or three houses, costly and handsome, for which I received large rents, but there are no persons now well enough off to pay such rents. I had contributed money for the making of railways, which have greatly promoted your comfort and prosperity, but your regulations about trains and fares, and the reductions that have taken place in trade, have made my railway shares worthless." And so on through other forms of wealth. Horses and carriages, pictures and fine furniture, &c., have a money value at present, when the rights of ownership are respected, and when there are numerous persons able and willing to pay for them if you desire to sell them; but the socialist programme would simply annihilate these values. The result of all this is the obvious and absolutely true conclusion that individual ownership, and a complete and assured protection of it, are necessary to the very existence of capital; as well as that capital is essential to the employment of labour.

II.—A Living Wage.

This is an attractive title. The whole object of wages is that we may live on them; and that they should be capable of being lived on seems a necessity. Let us look at some of the questions which this idea raises.

1. There being great varieties among us of scales of living, is any particular scale to be fixed on by Act of Parliament, and what is the scale to be? There is a story told of a little Scotch boy who was asked by a stranger what he got for breakfast. The answer was, "Parritch, sir." "What for dinner?" "Parritch, sir." "And what for supper?" "Parritch, sir." "Are you never tired of parritch?" "Tired of my meat, sir!" Between a humble diet of this sort and the case of some working men who confessed that at a time of unusual prosperity they had indulged in beef-steaks thrice a-day, there is room for differences. What about the wife's dress and the dress and recreations of the children? What allowance, if any, is to be made for beer or whisky or tobacco? Is there to be a premium on the number of children, or is a bachelor to be paid at the same rate as a man with twelve children?

2. If the living wage is not to be matter of arrangement between employer and employed, what outside authority is to fix the rate, and is the rate so fixed to be compulsory on both sides? It is very obvious that the workman at all events will be under cruel subjection to the man or men who will have it in their power to deter-

mine his scale of living, and possibly to deprive him of all employment by shutting him up to demand a rate of wage beyond what any other man will be willing to give him.

3. The same authorities will have to decide another grave question, What service is to be rendered in exchange for a living wage? A socialist or trades unionist will see no difficulty in fixing on the number of hours, but how as to the quantity and quality of work to be done during these hours? Is the same scale of living to be secured by so many hours' work without reference to whether it is hard or easy, indoor or outdoor, of much or of little value to other people; whether it is work that everybody can do, or that can only be done by a few who have specially qualified themselves for it; whether it is done with steadiness and industry and skill, or very indifferently; and who is to be the judge of whether the work entitles the man to his living wage?

The socialist will tell us that all this will be easily arranged when the employers come to be not individuals but the community or the State. But it cannot be too often repeated that in all such matters the community means individuals or small groups of individuals employed by the community to conduct its business. These will, no doubt, be chosen by universal suffrage, and it is not difficult to conjecture what sort of persons they will be, nor what temptations they will be exposed to. The demagogue class is not what most of us would like to feel our lives and happiness dependent on.

I.—Christian Socialism and the Clergy.

It seems very desirable that ministers of religion, and such influential bodies as Church Congresses or General Assemblies, should approach these subjects with great caution. We can sympathise with their desire to promote peace and goodwill among all classes, to do what they can to improve the condition of the destitute, and to increase the comfort and welfare of those classes that are the most numerous, and that appear to stand most in need of extraneous help. Existing evils are conspicuous to them, as to all of us; but when it comes to be a question as to the best remedies, it is possible that other men have better opportunities of testing any that are proposed. For reasons touched upon at the outset, Christian socialism by its very name may offer some attractions. Judging from a good many clerical utterances on these subjects, it is pretty obvious that neither the ethical character of socialist theories nor their probable consequences have received much consideration. Ministers of religion incur special danger in two important directions. By some error of judgment they may accord not their personal sanction merely but the sanction of religion to ideas and practices that are immoral, and that will seriously injure rather than benefit the classes in whom they are interested. If they meddle with economic, social, or political questions on which the community are divided in opinion, and deal with subjects of which they have not been called on nor prepared to be teachers, they may, of course, have the concurrence of some of those whom they address, but they will incur the distrust and condemnation of others, and these feelings will be apt to extend to their religious as well as to their economic teaching. That man is not likely to accept with readiness the religious teaching of a clergyman even when he feels that he has need of it, who believes that his teaching on other subjects, with which his hearer is probably better acquainted than himself, is both erroneous and dangerous, and of an immoral tendency. At a recent Church Congress held at Nottingham, the Dean of Rochester, in referring to questions between employers and employed, had the good sense to say, "It is not for us clergy to take sides, to dictate in matters which we do not understand, but, so far as in us lies both by our lips and in our lives, to promote this great principle in the Gospel of Christ—that all sorts and conditions of men should hold this faith in unity of spirit in the bond of peace and in righteousness of life."

K.—The Danger of Progressive Socialism.

A few words may be said on this subject. Attention was very forcibly drawn to it by the Earl of Wemyss in a speech which he addressed to the House of Lords in September 1895, and which was afterwards circulated as a pamphlet. Many persons at the present day, who would repudiate the idea of their being socialists in the sense we have been dealing with, give much encouragement to the principles involved by promoting what are beyond question socialist proceedings. It is a temptation of democracy. Apart from that misapplied benevolence we have already considered, there is a great tendency in such bodies as municipal councils to take on themselves what has hitherto been the work of individuals or joint-stock companies—the supplying of the wants of the community in a variety of directions. There may be something to say for the peoples' representatives seeing to the needful supplies of light or of water, though where this is being done it is very seldom so well done as by private enterprise. But we are all familiar with the attempts that are being made to carry the functions of a town council further than this, and even to insist on important work being done directly under their orders and inspection without the intervention of contractors, and without the advantage of the cheapness and efficiency which the competition of rival contractors is fitted to secure. With the utmost respect for the ordinary members of such bodies, it may be allowable to recognise that they are not always fitted by previous training or experience for the planning or the ordering of great public works; and that the interest and the importance of controlling the expenditure of large amounts of public—that is, of other peoples'—money offer great temptations to undertake these duties. We may hope that in this country there is little risk of these public functionaries using their position to promote, directly or indirectly, their own personal interests; but unquestionably there are countries where democracy has fallen into such errors, and it would be well for our local governing bodies to take very special care to avoid not merely the temptations but the suspicions to which such enterprises expose them.

But what we desire here to suggest is, that any extension of this system is an obvious step in the direction of that general and universal socialism which will reduce all men to the humblest social level, and put an end to private property and to private enterprise. We do not believe for a moment that this is the desire of the men who are encouraging these movements, but there can be little doubt as to the tendency of them.

L.—Individualism and Collectivism.

Much attention is being directed to the connection or the contrast between the individual and the community. Two mistakes of an opposite character are apt to be made on this subject, both as matters of philosophic speculation and as very practical and operative questions. We are all agreed that no man either can or ought to regard himself as isolated: he is largely the product of the community of which he is a part however important or however humble, inheriting bygone and subject to present influences, and in his turn exercising some influence positive or negative upon others. But what we are all apt to forget is our duty to others, to the community, and to its individual members. An unthinking selfishness, if it exists in any man, is not more a breach of religious and moral duty than an economic mistake. A true and sound individualism will take an intelligent and an ethical account of the fact that, besides being an individual entitled and bound to have some regard to his own interests, he is an item, a fragment, a constituent part of a much larger unity, whose claims and interests he is bound to consider.

While most of us come short in the performance of this duty, there is another serious error promoted in these days by many well-meaning persons, and that is a tendency to sink the individual in the community. Socialists, in particular, make so much of the community and its rights and duties as almost to blot out those of the persons of whom it is composed. They seem often to overlook the fact that the morality and the happiness of a community are really the morality and happiness of its individual members, and that there can be no common life or common action except through the influence and the agency of individuals.

This raises the question of what difference of character and quality there may be in common as opposed to individual action. That there are differences must be recognised by every one who has any familiarity with the work of committees and societies of trades-unions, or of local governing bodies, and it may be observed even in such great institutions as legislatures and church councils. All such bodies are apt to exhibit in their members a lessening of the sense of personal responsibility, where each man feels himself only a small part of a large machine. The man, for example, who has to appoint another even to a very humble post will generally approach that duty in a different spirit from him who, though he may influence by his vote the election of a member of Parliament and possibly the fate of a Ministry, feels that he is only one of five thousand voters, and that only one five-thousandth part of the responsibility rests upon him. It is to be feared that the prodigious change which is taking place daily through the multiplication of joint-stock companies will add greatly to an experience not unknown in the past, and that any joint-stock enterprise will be found to have but a poor chance of success unless it is virtually in the hands of one or two competent men whose interest as well as whose duty it is to work as if it were their own individual concern.

Co-operative stores and factories are favoured by many persons in these days. They will be singularly fortunate if they can make even a distant approach in effectiveness or economy to the work of the private traders whom they displace. If such institutions were to be much extended they would of course thrust out of existence a very creditable and useful class in the community—the smaller kind of manufacturers and dealers. Apart from some manifest disadvantages which this would cause, the question arises whether the community at large will be as well served. Can any one imagine that the persons employed in a co-operative store or factory will feel anything like the individual responsibility or the personal motives to supply the needs of the community satisfactorily and cheaply which would be felt by the men whose individual enterprise has been driven out of the field? And we may take it as certain that if such institutions do enjoy anything like the knowledge and skill and personal devotion to duty of the successful private trader, these qualities must in the long-run be paid for by the consumers in some form or other.

But if joint-stock enterprise which can and often does repay the care bestowed on it, and which enjoys many safeguards, is open to this unfavourable comparison with individual industry, what can be expected from socialist attempts to leave the supply of human needs in the hands of servants appointed by the community, no doubt by universal suffrage, and who ought to have no personal interests of their own to serve? The very possibility of such a question having to be answered suggests a theory which a Christian, even if a socialist, might be expected to favour. Without raising unnecessarily any questions as to the providence of God, it may be legitimate to look around us and see what is as matter of fact the machinery by which human needs are most effectively provided for throughout the world. The vast supplies of food and clothing which are so prominently in evidence, the domestic furniture, the books and journals, are not created or gathered together or distributed by any central or local administration. We see the surplus productions and the surplus capital and energies of one country exchanged for those of others. What sort of organisation is it that has so benefited and so united the various races of mankind, and that has established on so enormous a scale the means of communication between them? The socialist, of all men, ought to recognise in this a unity of design accompanied by a vast diversity of individual action. The motives of individuals may have been paltry and selfish, but as matter of fact they have been the most powerful motives which could have been employed to supply the wants and so to promote the wellbeing of the general community. Here we find a manifest end which has to be accomplished, and a prodigious machinery in motion by which this end is successfully and habitually attained. No one of the agents, nor all of them together, have this end in view, so we are driven to find in the Creator, Preserver, and Governor of mankind the Author of so enlarged and beneficent an arrangement.

M.—An Equal Division of Incomes.

We have met with speculations as to whether it would not be right and fair, and a happy consummation all round, that the existing enormous inequalities of income should somehow be made to disappear, and that the aggregate income should come to be distributed equally among all the families in the land. Let us look at this as a matter of figures. The population of the United Kingdom may be taken as about 38 millions, and if we assume, as is sometimes done, that five is the average number of a family, we may take it that there are rather more than 7½ millions of families. What is the yearly income of these families? The total amount assessed for income-tax is about 712 millions of pounds sterling. Estimates have been made as to the aggregate income of the classes who do not pay income-tax, and we will for the present assume it to be equal, on the whole, to the amount on which tax is paid. Any nearer approximation, as will be seen immediately, does not affect our present object. Let us take it, then, that our 7½ millions of families have an aggregate income of about 1400 millions sterling, or an average of £190.

Let us look at the basis of this calculation, and, in order to see how it works, let us take a very small portion of the immense sum we have mentioned, and trace its history. We shall suppose, then, that a lawyer has received for some service he has rendered a fee of ten guineas, which of course reckons as part of his income when he makes the usual statement to the officers of Inland Revenue, and which therefore forms a portion of the aggregate amount we are now dealing with. Next day he sends this same sum of ten guineas to the physician who has been attending his family, and it becomes a part of the physician's income, and enters a second time into our aggregate. The physician perhaps hands it to his wife, who uses it to pay for a dress she has bought, and the ten guineas appear a third time in our aggregate, partly, it may be, among the profits on which the draper pays income-tax, and partly among the earnings of the men or women who have manufactured the materials or constructed the dress. From these persons the ten guineas pass into other hands and become part of other incomes, and who can tell through how many incomes they had passed before they reached the lawyer? These ten guineas have probably increased by £100, or even £1000, the aggregate income of the whole population.

Here is another calculation on a larger scale. The total amount of imperial and local taxation raised and spent within the United

Kingdom at the present time may be taken as not far short of 200 millions. The greater part, if not the whole, of this finds its way into the estimated income of the population. From the salaries of Ministers of State, judges, and other public and local functionaries, the pay of the army and navy and the police, down to the wages of innumerable artisans and labourers employed in the public service, the gross income of the citizens has been swelled by a large portion of these 200 millions. But they have also come out of the incomes which go to make up the estimated total. They certainly, therefore, are reckoned at least twice over in this total. It will be seen, therefore, that in the 1400 millions, or whatever the amount may be, the same sums are reckoned over and over again, that the total amount depends largely on the rapidity with which incomes are spent, and that, to make use of these aggregate amounts, whether of assessed or non-assessed incomes, as any measure of what individual incomes would be under totally different circumstances, would be a glaring absurdity.

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FIRE INSURANCE.

BY

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OF THE
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LIBRARY OF THE SOCIETY.

It will be one of the first objects of the Society to provide, for the use of Members, a Library of Works on professional subjects, embracing those connected with the theory and practice of Insurance in all its branches, with the theory and practice of Calculation, with Statistics and Finance.

As little can be expected, in this connection, from the funds of the Society, the Committee of Management look to combination on the part of individual Members to secure this most desirable object.

The Committee will be happy to receive donations of books or pamphlets for the Library on any of the above or kindred subjects. These may be sent to the Secretary, or to any Member of Committee, and will be acknowledged in the Minutes of the Society.

FIRE INSURANCE.

Mr. President and Gentlemen,

In acknowledging the honour conferred on a retired member of the Insurance profession by his being invited to address so important a Branch of it on a subject with which many of them are familiar, I may recall the fact that in the year 1872 I read a paper on Fire Insurance to the Actuarial Society of Edinburgh, which has been long out of print, and afterwards made some use of that paper when asked by the editors of the Encyclopædia Britannica to contribute an article on this subject. Many changes have occurred since then, and several very able and useful papers on various departments of the subject have been read to this Society and published in their Transactions; and I need scarcely recall the opening address of your honoured President this session, which dealt so exhaustively with the progress and prospects of Fire Insurance as a science that scarcely any room is left for further observations. The subject, however, is large and almost inexhaustible, and I shall now attempt, as I did in 1872, to give as general and comprehensive a view of this department of business as I can, bringing as far as possible some of the facts up to date, and endeavouring to recall what my own experience has since suggested to me, and making use of what I may have learnt from the writings and from the talk of others, like your President, more intimately acquainted with the subject. I will naturally have to give expression to many facts and views familiar to all of us, but I am not without hope that it is those who know a subject best who will be most ready to bear with, if not to welcome, any attempt to give a general view of it.

Fire Insurance, I do not hesitate to say, is a department of business which presents a greater number and variety of points of interest than almost any other. In the first place, it deals with and aims at counteracting to some extent the influence of one of the most powerful forces of nature, at once necessary and beneficent, and yet capable of inflicting any amount of injury and loss. It offers a benefit to every man having an interest in property capable of being injured or destroyed by fire, and that this is not confined to persons in the direct possession of such property may be shown hereafter. Of the persons engaged in this business it demands much scientific and technical knowledge, and no small administrative capacity; and, lastly, it is represented by numerous powerful, wealthy, and for the most part successful institutions existing in almost every civilised country throughout the world.

Something will fall to be said on each of these subjects, but from our point of view we may regard the last of them as the centre from which the others may be looked at. Let us begin, then, with the subject of Fire Insurance Companies. These have had a comparatively recent origin. It was not till after the great fire in London in 1666 that any systematic provision was made in this country for protecting the owners of property from loss by fire. This seems at first to have been done in the form of underwriting by individuals or by clubs, and some attempts were made to engage the Corporation of London in a scheme of Fire Insurance; but in 1681 the first regular office for insuring against loss by fire was opened by a combination of persons described as "at the back of the Royal Exchange," and it was followed shortly by another. Of the offices now existing, the oldest, the Hand-in-Hand, dates from 1696; five date from the first half of the 18th century, and three from the second half. The first Fire Office in Scotland was established in 1720; the first in Germany in 1750; the first in the United States was established at Philadelphia in 1752, and had Benjamin Franklin as one of its early directors; the first in France dates from 1816, and the first in Russia from 1827.

The business of Fire Insurance did not in this country receive much encouragement from Government. So early as in 1694 a stamp duty was imposed on fire policies, and in 1782, during the administration of Lord North, fire insurances were made liable to an annual duty of 1s. 6d. for every £100 insured, this rate having been increased in 1797 to 2s., in 1805 to 2s. 6d., in 1816 to 3s., at which rate it continued for about fifty years. It expired finally in 1869. It was easily collected by the offices along with their own premiums, in return for a small commission on the amount, and it yielded at one time to Government nearly two millions a year. Some descriptions of property, such as agricultural produce, were exempt from this duty, and it only applied to property within the United Kingdom, but the records of this tax enable us to trace the progress of Fire Insurance within the United Kingdom during the 85 years of its incidence. The amounts insured on which duty was paid were—

In 1783 about	£135,000,000.	In 1840 about	£645,000,000.
In 1800 ,,	200,000,000.	In 1860 ,,	1,000,000,000.
In 1820 ,,	427,000,000.	In 1868 ,,	1,430,000,000.

The facts publicly known to us as to the more recent progress of the business in this country do not admit of direct comparison with those just mentioned. The published accounts of the companies do not usually state the sums insured, but only the premiums received, after deducting what has been paid for re-insurance, and they seldom distinguish between premiums received for property within the United Kingdom and the very considerable amount drawn from other countries; but the following figures may be given as affording information nearly up to date. The number of British offices at the present time appears to be about 60, including a few small establishments belonging to certain trades and some ecclesiastical bodies. The yearly premiums received in one year by these 60 offices, according to the figures in the Post Magazine Almanack for 1899, amounted to £19,185,780.* The corresponding income in the year 1888 seems to have been about £12,666,000, so that the increase in 10 years was 50 per cent. It need scarcely be stated that this increase may have been affected by at least three independent causes—the increase in the quantity or value of insurable property within the kingdom, the extension of business in the colonies and foreign countries, and the rise and fall of rates of premium.

A slight calculation will give us the economic value of these figures. It is difficult to tell with precision the average rate of premium which has gone to make up these 19 millions, but taking it at 5s. per cent., which cannot be far from the truth, we arrive at the conclusion that British offices alone are protecting the owners of property capable of being injured by fire to the extent of nearly eight thousand millions sterling, but probably worth a much larger sum, property being seldom insured up to its full value. In the Continent of Europe there are considerably more than 200 Fire Insurance offices, and in the United States the number of native offices is large. This will give some idea of

* "Fire and Water" gives the amount for 1898 for 52 tariff offices as £19,343,000.

the estimate that may be formed of the value of the property threatened by the demon of Fire. The extent of his assaults may be illustrated by one or two sets of figures. Thus, the number of fires which occurred in London alone in 1898 is reported to have been 3585, which, however, was above the average of previous years. The losses by fire in one year paid for by British offices has been about 11½ millions sterling, while in the United States and Canada recent losses have been at the yearly rate of about 130 millions of dollars or 26 millions sterling. As to the number of persons interested, we may recall the possible effects of the destruction of one large factory or warehouse, held, let us suppose, by a joint stock company. Uninsured, the loss will fall on numerous shareholders, possibly on creditors, and on the men who will be driven out of work by the loss of the buildings, the machinery, and the materials which went to support the industry. On the other hand, it is hard to reckon how many will benefit by the fresh capital supplied by the Insurance companies to provide the materials, the skill, and the labour which go to secure continued employment.

The figures that have been given afford some indication of the magnitude of the subject with which we are dealing, but Fire Insurance, after all, forms only one department of a much larger business. It is often in practice closely associated with Life Assurance, and their union as a matter of business is not unattended with some advantages. Insurance generally may be lefined as a species of machinery for protecting men from some of the consequences of accidents to which they are liable. The fundamental element of Life Assurance is the protection of a man's family, his creditors, or others to whom his life has a pecuniary value against the loss they may suffer by his premature death. Marine Insurance protects the persons interested in a ship or its cargo from the pecuniary consequences of loss or damage happening to it. There has been in comparatively recent years a development of various minor forms of Insurance business, some of them at once useful and successful, while the fate of others has shown, as might have been, and indeed was predicted, that there are pecuniary risks to which the principle is inapplicable.*

* In a previous address on the "Economics of Insurance," read to this Society in 1888, I ventured to show reasons for doubting whether the principle of insurance could be applied to protection against possible loss by investments. There has been since then ample evidence that these doubts were well founded.

The essential principle of all legitimate Insurance business is the distribution of loss. Fire Insurance, for example, does not aim, directly at least, at the prevention of fires, and only deals in a secondary way even with the minimising of the risk of fire. What it aims at is that since, in spite of every precaution that can be taken, it is certain that the accident of fire will frequently occur, and valuable property be injured or destroyed, the loss shall not fall exclusively, and possibly with ruinous effect, on the owner of that property, but shall be borne in easy proportions by a large number of persons who are all alike exposed to the risk of a similar catastrophe, and who are ready for their own sakes to assist in providing the necessary funds. This work of distribution is capable of being effected in more ways than one. In a few cases in other countries it has been undertaken by the State or by a municipality, but this plan is attended with considerable difficulty. It has been found possible in a few cases for the owners of certain descriptions of property to apply the principle of mutual insurance. But, on the whole, it is beyond question that the most effective security, and on the most fair and reasonable terms, is to be had through the machinery of joint stock enterprise, backed by the necessary capital, and the equally needed knowledge and technical skill.

If Insurance of any kind is to be undertaken as a matter of reasonable business, and not as a wild speculation amounting to gambling, it is necessary that there shall be some means of measuring and putting a limit on the risk to be undertaken ; and that every consideration shall be given beforehand, and given with some capacity and singleness of aim, to the conditions of the problem. It will help us to understand these if we compare for a moment the elements of risk in Life and in Fire Insurance. In the former the risks to be undertaken may be measured with a certainty to which the other is a stranger. This certainty arises chiefly from three causes—first, from the small number of elements involved, there being, in fact, but two that are essential, namely, the rate of mortality and the rate of interest; secondly, from the fact, established beyond all question, that laws of mortality do exist and may be reckoned on ; and, thirdly, from the eminent success which has attended the investigation of these laws, and the application of mathematical and medical science and common observation to the problems falling to be dealt with. Although the rate of interest to be reckoned on for long periods of years is an element of some uncertainty, as we have all felt strongly in recent years, and calls for much prudent consideration, the possible changes are not unlimited and may be provided for. The only other thing which enters into the calculation is the rate of expense, and this is to some extent within the control of the conductors of the business. It is obviously possible therefore to undertake Life Assurance with entire prudence, notwithstanding that its engagements extend over long periods of future years and do not admit of modification.

Fire Insurance has none of these elements of certainty. All experience shows that the chances of the occurrence of fire and the measure of its intensity are liable to great variations, and are often governed by causes which it is impossible to anticipate or to restrict. Much ingenuity and many curious statistics have been adduced to show that events which we are accustomed to regard as purely accidental must be governed by some law, and that their recurrence in the same proportions or in the same sequence may be confidently looked for. Thus, it is said that the number of letters posted without an address, and even the aggregate amount of money which such letters are found to contain, may be pretty confidently reckoned upon. But, if fires could be supposed to be subject to any law of recurrence, it has not been ascertained or formulated so as to be of any use. An ingenious paper, indeed, was read to the Institute of Actuaries in 1880, suggesting a mode of framing algebraic formulæ for the rates of premium that may be required for certain descriptions of property. But it is one thing to find a scientific expression for known and measurable quantities, and quite another to ascertain and to measure all the risks we have practically to deal with, and the innumerable varieties of circumstance which tend to modify them. The recognisable causes of fire have been subject to many changes within our own recollection. Among such variable causes are the magnitude of factories and warehouses, and the crowding together of valuable property, the increase in power and rapidity of machinery, and the invention of new machines and new chemical combinations, new means of transport and new plans of storage. Many of these changes, though not all of them, have increased the risk of damage by fire; while, on the other hand, improved methods of building and improved means of preventing and extinguishing fires have operated in the other direction. Then there is the very important element known as moral hazard, which does not mean merely the greater or less chance of wilful fire-raising, but is probably more influential in the direction of causing greater or less care among the owners and custodiers of property for the prevention and the extinction of fires. In Britain there is probably less attention paid to this class of hazards than in some other countries, but that they exist and are liable to change is certain. I remember in a great manufacturing city a partner in one of the leading firms complained to me that Insurance companies did not adapt their rates to the real differences in the risks they ran; and, being pressed for an explanation, he hinted that the financial condition of a manufacturer might make a difference in the degree of his reluctance to have a fire in his premises, and consequently in the care taken to prevent such a catastrophe. But he came to see how impossible it would be to measure this risk, or even to suggest it to the parties concerned, and that where it was believed to exist the course to be pursued was not to increase the rate but to decline any transaction. In New England I was informed of a mutual insurance arrangement which existed among a certain class of mill-owners, with the result that their average losses were greatly less than what are experienced in this country among the same description of factories; one of the causes being that the association was limited to persons who had entire confidence in each other.

The risks to be run by a Fire Insurance company being so uncertain and so variable, it might seem to be too hazardous a description of business to be undertaken by men of ordinary prudence, but it possesses an element of safety which does not belong to Life Assurance, and which in a large degree makes up for these uncertainties. This consists in the fact that, in this country at all events, very few Fire Insurance contracts are made for more than a year, and many for even shorter periods; so that ample opportunity is given for revising their terms from time to time, or for terminating them altogether, if either course should prove to be necessary. Neither Fire nor Life Insurance need ever prove unprofitable, although both are no doubt capable of being mismanaged; but in Fire Insurance mismanagement is followed by its punishment with a happy rapidity which ought to prevent any very fatal accumulation of mischief. The errors arising from an imperfect experience or a too sanguine generalisation are capable of being corrected almost from day to day. While the Life office, treading on the firm ground of well-determined laws, steps out boldly and undertakes engagements which may bind it for half a century, the prudent Fire office creeps along from year to year feeling its way, watching the ever-varying contingencies which affect it, raising and lowering its rates as growing experience dictates, and, having to deal with hazards which it can measure very imperfectly, it so deals with them as to attain a high degree of safety, not greater than that of well-directed Life Assurance, but certainly not less.

One temptation besets almost all the parties connected with Insurance business which is apt to have unfavourable effects without much delay in the case of a Fire office. At the present day there is a somewhat unhealthy craving for magnitude in almost all departments of business, and the persons in the employment of a joint stock company are apt to be valued and paid in proportion to the amount of their transactions. In Fire Insurance the premiums received are a conspicuous and measurable benefit, while as to the losses which are to follow there is room for any amount of sanguine hope; and when they do come, they have all the appearance of being purely accidental. And so they may be, but all the same they might often have been avoided, if in the selection of the business to be done, in the rates to be charged, and in the price to be paid to agents and others, safety rather than quantity had been most in view. It is sometimes suggested that a small percentage of profits on a large business may be more advantageous than a larger percentage on a smaller business; but the smaller percentage makes a nearer approach to the stage at which profits disappear altogether, and the larger the business the more room there is for unexpected variations in the nature and degree of the risks undertaken.

A very small business, on the other hand, especially if, as sometimes happens, it is limited to one description of property, has its own dangers. Owners of property who wish to be perfectly secure will probably avoid extremes. Of the British offices, in number about 60, as has already been mentioned, there are 31 whose incomes from premiums exceed in each case £100,000. Of these there are 23 which have a reserve fund, over and above their capital, exceeding one year's income, while the corresponding reserve of the other eight is less than one year's income. The income of the 23 is 16 millions, while their reserve is 24¾ millions. The income of the eight is nearly 2½ millions, while their reserve does not much exceed one million. In the one case the average reserve is equal to 154 per cent. of income, in the other only 42 per cent. As an illustration of what may be done with a business of moderate income, it may be mentioned that four companies have an income between £50,000 and £100,000, or together £293,276, and have a reserve of £477,803, equal to 160 per cent. of their yearly income.

In considering what amount of reserve is necessary it has to be kept in view that the published accounts of Fire Insurance companies do not usually provide for what may be described as unexpired risk. When a policy has been opened or renewed at the Scotch quarterly term of Martinmas (11th November) one year's premium appears among the company's funds, but the risk has still to be run under that policy for nearly ten months. If Christmas is the commencing term almost a whole year's risk has to be provided for. In America policies are often issued for three or five years, and the premiums received and forming part of the company's assets have to meet in these cases the possible losses of several years. But, taking the bulk of British business, it is probably a reasonably safe assumption that one third of the premiums received in one year will be required to provide for the unexpired risks. In tracing the history of a company it has to be kept in view that if any material increase takes place in its premium income a corresponding increase is needed on its reserve. In one sense, that reserve which every company ought to possess to meet unexpected and extraordinary losses, only begins after the unexpired risks have been provided for.

In connection with this very important department of our subject, it is desirable to look frankly at one element in the conduct of Fire Insurance business. Every company engaged in this business, like all other joint stock companies, is under the control of a Board of Directors. Directors often bring to bear on the business they are controlling an amount and a variety of knowledge and capacity which are invaluable, and in some departments familiar to most of us, such as the investment of funds, their united judgment will be acknowledged to be often of greater value than the advice of the most capable manager. But Fire Insurance is a business so technical and so complicated that few, if any, of the gentlemen who act as directors in that business will claim to have any great knowledge of it, and in what measure of control they exercise they will be very dependent on the information and advice of their officers. I know of one manager who, finding that some of his directors felt that they were very ignorant of the business for which they were responsible, invited them to look into its details. He tried to carry them through the history of one transaction, involving the numerous considerations which will be afterwards adverted to (page 359). I believe they were greatly interested; but one conclusion seemed to be generally adopted, viz., that they needed to place absolute confidence in their officers, and that any attempt to interfere with them would probably do more harm than good.

This state of matters points to a very serious responsibility on the part of those who are entrusted with the details of this business, from the manager down to the youngest clerk. And as regards the managers at the head office and at branches, the responsibility is not limited to details, but embraces the advice to be given on the principles which ought to regulate the business. The financial importance of this will be appreciated when it is kept in view that in 1898 52 British offices, with an income of upwards of 19 millions, paid away 60 per cent. of that amount in losses and nearly 35 per cent. in expenses, and only retained a little over 5 per cent. for themselves. An increase or a decrease of no more than one per cent. would have made a difference of nearly £200,000. One principle in the management of such a business is apt to be disregarded—viz., that in its influence on profits quality of business is of more importance than quantity; that selection, adequate rating, and economy in expenditure, may tell more on the results than mere magnitude.

While it is of the utmost importance to the owners of property that the companies which insure them should be solvent and entirely trustworthy, it remains an unquestionable fact that all losses by fire are ultimately borne by the owners themselves as an aggregate. The business of the companies is to distribute the loss. A familiar illustration of this truth may be referred to. One of our oldest Fire offices is accustomed to advertise the amount it has paid for losses. Some 30 years ago the sum was stated to be nine millions; to-day it has risen to 22 millions, and yet the capital originally contributed by the shareholders, which was less than £300,000, is now represented by a sum at their credit of a million and a half. Obviously, therefore, the 22 millions of losses have not been paid out of its own funds; it has merely been the medium by which they have been gathered and distributed. And upon the public, that is, upon the owners of insurable property, has fallen also the whole expense of this organised machinery, as well as some return for the use of the capital employed and the risks incurred. Let us see what would be the consequences if the public did not bear these burdens. The funds of the Insurance companies, large as they are, would gradually melt away, and if no remedy were found these companies, with the benefits which they confer on the public, would cease to exist. But long before that happened they would find the means of protecting themselves by simply refusing to renew their contracts except at greatly increased rates. Practically all prudent offices, and these alone are likely to have a continued life, endeavour to adjust their rates of charge to the amount of the claims and other outlay which they have to meet; and any community which permits many fires to occur within its bounds, by failing to guard against them, has in the end to repay to the Offices in the shape of increased rates the losses they have incurred. How this is arranged will be afterwards referred to.

It follows from this that it is for the owners of property and not for the Insurance offices to be at the trouble and expense of keeping down fires. This has not always been recognised, and even yet attempts are often made to lay on the companies the cost of keeping up fire-engines. In former days, before attention had been given to the duty lying on public administration of guarding life and property against the inroads of fire, and before the development of that happy mixture of competition and combination among the Insurance offices, which will presently be referred to, each Insurance company had a fire-engine of its own in towns where its business was of magnitude, and often had the walls of buildings insured with it marked with its name. In the "Rejected Addresses" the appearance of the fire-engines at the burning of Drury Lane Theatre is playfully supposed to be thus described by Scott:—

"The Hand-in-Hand the race begun,
Next came the Phœnix and the Sun,
The Exchange where old insurers run,
The Eagle where the new."

In London the offices ultimately associated together to keep up a great fire-engine establishment, and it was only in 1866 that they got rid of this responsibility by handing it over to the care of the Metropolitan Board, while they continue to contribute towards its support. In 1897, 67 British and foreign offices contributed £31,348 for this object, being at the rate of £35 for every million insured by them. The aggregate amount insured on property within the Metropolitan district was 895 millions. There are still perhaps one or two provincial towns where offices keep up engines of their own; but in most places of importance the local authorities keep up a fire-engine establishment, the expense of which is borne by the rates. In a very few cases local Acts of Parliament still subsist which confer a power of assessing the Insurance offices or making a charge on the owners of property where a fire has called for the assistance of the public engines, which charge often falls on the Insurance offices. Attempts have been very common to obtain such powers or to procure voluntary contributions from the offices, but they have come deliberately to the conclusion that such attempts are to be strenuously resisted. Fire brigades will never be efficient if they are managed by one set of people and paid for by another, and the Insurance offices cannot pretend to have the machinery for managing such brigades in every town all over the world where these ought to exist. Although the rapid extinction of a fire may seem to interest first of all the office that insures the property, there can be no doubt that the keeping down of fires in any locality, apart from the protection of life, is directly a matter of pecuniary interest to the inhabitants. If this is done effectually, a reduction in the cost of protecting themselves by insurance is sure to follow, or at all events it will be prevented from rising. Insurance offices have no desire to levy high rates of premium; they greatly prefer that risks and rates should both be kept down. But it is not their business to extinguish fires; it is for them to measure the risk they run and to charge for it according to its magnitude. It is to be kept in view also that a prevalence of fires occasions many evils with which Insurance offices have no concern, and which it is for the owners of property to guard against. The loss to the merchant or the manufacturer whose business is brought to a standstill, to the house-owner who sees his home and its irreplaceable contents destroyed, the horrors felt by neighbours, the risk to life, &c., are all things that obviously call on the inhabitants to organise for themselves some protection. The mere pecuniary loss, if it is increased by want of attention to protective measures, the Insurance offices can and will provide for by adequate rates of premium. What interest they have in the keeping down of fires, while it looks very conspicuous, is really a secondary matter. But the Offices have conferred a great benefit on the owners of property by some of the measures they have taken which tend to lessen the risk of fire. In comparatively recent times, for example, there has been a growth of attention to the inspection of properties offered for insurance, and to the application of scientific knowledge to their condition as affecting their liability to destruction by fire; and occasionally repeated inspections have been found very useful. Then the establishment of what are known as salvage corps has been a valuable step; that is the employment of a body of men to act at a fire directly in the interests of the Insurance offices, whose immediate duty is not so much to extinguish the fire as to lessen the destruction of property. Some attempts have been made to introduce the holding of a public enquiry as to the cause and history of a fire, which would often throw much light on the questions as to how fires may be prevented or mitigated. It may be difficult to measure exactly the degree of benefit conferred by any of these proceedings on the Insurance offices and the public respectively, but the matter will be better understood when we come, as we now do, to consider the problem of the system of rating and the variety of risk.

Fire Insurance, being the machinery for distributing losses by fire, aims at doing this with discrimination. It creates, as it were, a common fund out of which these losses will be made good, and each owner of insured property contributes to this fund; but it is only reasonable that each contribution should bear some proportion to the degree of risk which it brings with it. That some descriptions of property should be more liable to destruction by fire than others is obvious, and has become matter of ample experience; and the first great business of Insurance offices is to try to measure this risk. In this country long experience has shown that while with large classes of property an annual payment at the rate of 1s. 6d. per cent. will usually provide for all losses as well as for the cost of working the business, the corresponding payment which will be required by other sorts of property may rise as high as £7 7s. per cent. The risk of loss by fire is affected by innumerable circumstances. There are, in the first place, the chances of fire occurring; then the chances of its spreading, or, in other words, the greater or less likelihood of its being speedily extinguished; the chances of damage by water and by smoke; and the greater or less prospect of salvage. One or all of these chances will depend on the structure of the building which is insured, or which contains the goods insured, the materials of which it is composed, and the mode in which it is lighted and heated. In the next place, the contents of the building have to be considered, whether they are liable to catch fire readily or are capable of spontaneous combustion; and in this connection it has often to be had in view that two sorts of goods, neither of them very hazardous in themselves, such as oil and wool, may become extremely dangerous when brought together; and, indeed, as the addition of oil, and even of water, to certain kinds of goods will often cause them to take fire, their liability to this admixture has to be looked to. Then there are the manufacturing processes carried on, which involve great diversity of risk and of corresponding rates of premium. Lastly, there have to be considered what are known as moral hazards (already adverted to), and these are liable to vary from time to time, and to be more prominent in some countries than in others.

If the owners of any description of property are to pay for the protection afforded to them by insurance in some proportion to the risk incurred by them, it is of the highest importance to them and to the public generally, and to the Insurance offices, that that risk should be measured with as much correctness as possible. It might be supposed that, in conformity with the experience of other departments of business, competition might be left to fix the price at which the needed protection was to be obtained; but this is a business which has some very exceptional features. When goods manufactured or imported are sold, the seller knows what they have cost him before he has to fix his price; and, while there may be room for competition in limiting the cost of production or the ratio of expected profit, no man need carry on a business unless it is pretty certain to yield him a profit. But in Fire Insurance the price has to be fixed in the first place and the cost comes afterwards; and unrestrained competition might mean that the price would be fixed by the most sanguine, the most ignorant, and the most speculative of the competitors, and would certainly land them all in loss. This would probably be quite as injurious to the owners of property as to the offices, for it is of the utmost importance to the public that they should have a reasonable number of wealthy, prosperous, and therefore safe offices with which to insure their property. And if different classes of property are to be insured at fair rates corresponding to the risk, this could scarcely be attained if each office were to be guided only by its own limited experience.

Accordingly, it has been found in most countries that these objects can only be secured by the offices combining their experience and agreeing upon a scale of rates founded on this. This is known among us as the tariff system, and experience has fully established the practicableness of such a system and the benefits which the offices and the public derive from it. An association having these ends in view existed in Scotland long before any definite arrangement of the same kind was adopted in England or probably in any other country. The earliest records of the Scottish Association date from the year 1829. The English offices had a good deal of private communication with each other and occasional meetings, but no formal organisation until the year 1858. In that year it was arranged that all the offices in the United Kingdom, or at least as many as pleased, should join an association. They possess a central establishment in London, where their representatives hold frequent meetings. These meetings serve other important purposes besides the fixing of rates, some of which may be afterwards considered.

The main object is to secure adequate rates of premium. This is promoted by two methods—by an agreement as to what shall b the minimum rates to be charged for various descriptions property, and by affixing in the form of increased rates such penalty on dangerous constructions, substances, and processes as to induce if possible a lessening of the danger. In other words, and reversing the order, the organisation seeks to diminish the risk of fire and to secure the necessary payment for what risk remains. There can be no doubt as to the benefits which the public derive from the former of these. To have pointed out to them, not on the authority of one office, still less on hesitating and contradictory authority, but with all the weight arising from the combined experience of numerous companies, that this or that method of construction, this or that combination of substances, this or that mode of conducting a manufacturing process is attended by imminent hazard of fire which is capable of being avoided or mitigated, and to have the lesson enforced by a heavy pecuniary penalty, ought to be of advantage to those who, more intent perhaps on other objects than on the avoiding of this particular risk, must yet in the end suffer from the prevalence of fires, and must, as we have seen, bear the burden of all fires. That very great benefit has accrued to the public from this function of the combined offices admits of many illustrations. Many years ago an increase of rates following heavy losses drew the attention of the merchants of Liverpool to the defective condition and management of warehouses in that great entrepot. An Act of Parliament was procured for their better regulation, and the result was an early return to reduced rates of insurance, and an avoidance of those secondary losses and inconveniences arising from fires against which no insurance can afford entire protection. At a subsequent period it was discovered that many fires in Dundee arose from the doors and windows of flax warehouses being so imperfectly constructed that evil-disposed persons could and did set fire to the loose flax which was cropping out into the public ways, and which conveyed the fire to the whole contents of the warehouse. The offices as a body required all doors and windows of flax warehouses within fifteen feet of the ground to be carefully guarded by sheet iron. At some expense the regulation was universally complied with, and although there was some grumbling at first it was soon acknowledged by the merchants themselves that a great improvement had been established. What the offices did was to charge an additional rate when the required alteration was not effected. The increased rate became a nullity so far as yielding any additional income to the offices, but it lessened the risk of fire, and this, largely in the interests of the insured, was the object aimed at.

In many complicated processes of manufacture, flax or cotton or wool spinning, for example, there are parts of the process peculiarly hazardous as regards fire. In particular, the first treatment of the raw material is generally attended with this greater risk. The rough and dirty substance has to be smoothed and cleaned, and one common method is to pass it through machines, bearing different names, where it is subjected to the action of steel teeth revolving with prodigious velocity. The loose dust and small particles of fibre thrown off in this process create a highly inflammable atmosphere, while any fragment of stone or iron which may by accident have got amongst the material will strike against the teeth of the machine and create a spark of fire. The existence of such a process in the heart of a mill adds, of course, greatly to the risk of its being burned. A high rate charged where such a machine exists induces manufacturers to place it in some detached building where any fire it may occasion will have litle chance of spreading. A good many years ago attention was directed to another source of danger—the use of oil in lubricating machinery and the nature of the oil employed. I remember when, on behalf of the Scottish offices, I had occasion to receive from the dealers many specimens of oils to be tested as to their tendency to give off an inflammable vapour, and for a time a warranty was instituted against the use of mineral oils, but it was found impossible to enforce it, as mineral oils were freely sold under other designations. On the other hand, encouragement has been given by reduction of rate to the use of sprinklers or other means of preventing and stopping fires. These are only a few illustrations of what has been aimed at. On the supposition that the offices are correct in the estimate they form of certain elements of risk, the effect, and indeed the intention of their rules, is not so much to put money into their own coffers as to lessen the risk, and so to save themselves in the first instance, and the owners of property ultimately, from the consequences of preventible fires.

These rules, as will readily be seen, must have powerful influences on trade and manufactures. Many individual warehouses and factories are, with their contents, insured for very large sums—£10,000, £20,000, £50,000, £100,000, and more. An additional charge of 5s. or 10s. per cent. in respect of some supposed increase of risk may mean a payment by the owner of several hundred pounds a year, and may operate as a complete veto on some arrangement or some machine which it might otherwise be desirable to resort to. The occurrence of a few severe fires in one seaport town, followed by an increase of insurance rates, may have, and I believe has had, the effect of driving some branch of trade away to other localities—the seats of greater caution. It is therefore obviously desirable that so important an influence should be exercised, not precariously or capriciously, but according to the combined wisdom and experience of those establishments which may be supposed to understand the subject best, and to obtain their experience in the way which makes it perhaps of most value, by paying for it.

While the combined action of the offices is thus fitted to benefit both themselves and the public, it is beyond question that no association of the kind will ever hold together a large body of independent and powerful companies except under the pressure of some necessity. No conventional or excessive rates can be maintained for any length of time. Some member of the union is sure to perceive that popularity and profit may be gained by introducing a lower rate, if a lower rate is manifestly sufficient, or a new company starts into existence to remedy the grievance. It may be assumed, too, that directors and others interested in a company are also among the insured, and may be quick to raise the question of how far the rates they have to pay as individuals are a true measure of the risk. The associations we are considering are unions bound together by necessity tempered by competition. The wonder is that the competitive spirit and the personal interests of many of those who are engaged in the business do not lead more frequently to breaches of the understandings on which the union is based. It will sometimes happen that an office loses some business by being undersold by another which ought to have charged the same rate. This may be caused by the overzeal of subordinates; but if that were always discouraged at headquarters, as it ought to be, it would not occur often.

Before leaving this subject of the united action of the offices, something falls to be said of another important object which it deals with—the system of re-insurance. An obvious element of prudence in the management of Insurance business in all its departments is not to expose a company to the risk of an excessive amount of loss by any one accident. This has specially to be attended to in Fire Insurance, for not only may very large amounts be at risk under one roof, but as fires are apt to spread from one building to another, too large an amount of risk in one neighbourhood has to be guarded against. At the same time, it is often of importance to the persons who have large amounts to insure to be able to make their arrangements with one office. Hence it has long been the practice for an office which has to undertake a larger risk than it would be prudent to retain, whether in Life or Fire or Marine Insurance, to re-insure a portion of individual risks with one or more of its fellows, at once friends and rivals, who in return for a share of the premium engage to pay a corresponding proportion of any loss, and also to reciprocate with similar contributions of business. This has come to be a very large department of Insurance business, involving many considerations calling for attention.

But apart from these arrangements, it often happens that two or more offices have a common interest in certain risks and in the settlement of losses when they occur. The goods in a warehouse may belong to several owners who may have them insured with different offices, or the very same goods may be insured in more than one office by the owner, by the custodier, or by persons having some other pecuniary interest in them. The same building may be insured by its owner with one office, and by one or more mortgagees with others. In short, Fire Insurance offers, to a peculiar extent, occasion for intercourse between the parties engaged in it, for frequent questions arising as to their several rights and obligations, and for efforts to arrive at a common understanding on these subjects. The Scottish Association adopted at an early date a definite code of laws to regulate the reinsurance business transacted by the companies with each other, and many years ago I had the privilege of assisting in the revision of these laws. Afterwards, when the English offices resolved on similar arrangements, I had occasion to represent the Scottish offices as one of a small committee which met at Liverpool, when, though not without some hesitation, the Scottish rules were made the basis of a general code. One important feature of this code is the provision for submitting to arbitration any questions arising between one office and another. A board of referees is elected annually, and while offices may, and often do, select their own arbiters, and while the obligation to refer cannot be enforced in every case, the system as a whole has worked admirably. One curious effect of it has been that on many important questions that are apt to arise there is very little legal authority to be found, simply because the offices have been able, as they have been very desirous, to avoid formal litigation. The frequent meetings and personal intercourse, the value to each of the men engaged in this work of the information and the counsel obtained from the others, the opportunities afforded of intimate acquaintance and friendship with men whom we could not fail to respect for their mastery of their business and other qualities, has made this and other similar associations a source of individual happiness, and an important mitigation of the labours and anxieties of ordinary business life.

Returning to those aspects of the business which affect individual offices, we may look at the nature of the Fire Insurance contract. An Insurance policy is essentially a contract, as it embodies and gives effect to obligations on both sides. Limiting ourselves to Fire Insurance, it is an obvious condition that the fire to be provided for shall not be brought about directly by the action of the insured. Then it is a condition that the property to be insured shall be correctly described by the owner, and that all exceptional elements of risk shall be disclosed, and that nothing of this sort shall be introduced without the knowledge and expressed consent of the company. What is aimed at is that the degree of risk involved shall be fully understood on both sides, and that any loss to be claimed for shall be purely accidental so far as the insured is concerned, and that the contract shall be one of absolute good faith. It may be mentioned, however, that the policy protects the insured against the effects of carelessness or misconduct on the part of his own employés so long as he has had no part in it. What the policy does for the owner of property injured by fire is to provide indemnity against loss. In Life Insurance, although the main consideration probably is protection to a man's family or others against pecuniary loss occasioned by his death, that is not an essential condition of the contract. One of the many uses of Life Assurance is to provide a safe and convenient system of saving, and a man may legitimately assure his life even when those who are to receive the money may benefit otherwise by his death rather than suffer loss. In Fire Insurance the insured cannot, or at least ought not, to make a profit by a fire except through fraud or error. This arises not more from the terms of the policy than from settled principles of law, and these are largely founded on the consideration that the possibility of obtaining through a fire more than has been lost would inevitably increase the number of fires, partly by leading to incendiarism, but chiefly perhaps by encouraging careless and dangerous practices. An effect of this kind has been the acknowledged consequence of a different rule in Marine Insurance.

Other principles affecting the obligations undertaken in a Fire policy may be referred to. The loss must be genuine, but it must also affect directly or indirectly the person insured. He must either be the owner of the property, or the custodier with liability, or a trustee for the person really interested. Then he cannot recover more than the actual value of the property at the moment of the fire. Whatever may be the amount of the policy it is not the measure but the limit of his claim. It is only for the diminution in value caused directly by the fire that any claim exists.

Some interesting consequences flow from the last-mentioned rule. The owner of a house or furniture which is worth £1000 may insure it for that sum and go on paying premiums for twenty years. At the end of that time it is burned, and he is perhaps disappointed to find that he does not necessarily recover £1000, but only perhaps the smaller sum—possibly much smaller—which is the measure of its value at the date of the fire. It may be very inconvenient; the old house or the old furniture suited him perhaps just as well as the new will do, but he has to replace it with a new house or furniture, and as that may be of greater pecuniary value than the old he will have to provide part of the cost in addition to what he receives under his policy. But the insurance is against damage done by fire only, not against the deterioration of value by use and time, not against tear and wear as it is called. On the same principle, if you have bought a parcel of goods—grain, for instance—and the price of it falls in the market, you cannot, in the event of a fire, claim for what it costs you, but only for its market value at the date of the fire. Many curious cases have occurred within my own experience in connection with these questions. During the Civil War in America there was a great rise in the price of cotton, and importers naturally insured their cargoes for what they had cost them. Peace came, and a sudden fall in market value, and a consequent loss to the importers, from which the occurrence of a fire would have happily relieved them if the sum insured was to be the measure of their relief, but that would have amounted to an insurance not merely against fire but against the fluctuations of the market. Illustrations of the difference there might be between cost and present value frequently occur. About fifty years ago a fire occurred in the premises of a printer where many stereotype plates of an edition of the Waverley Novels were destroyed. These plates had been so frequently used that they had lost much of their value, but the full cost of setting up the types anew and casting new plates was claimed, and the question being referred to a public man, who, as it happened, was also a distinguished publisher, was decided against the Insurance Company. On another occasion some hundreds of copies of a certain book were destroyed in the premises of another publisher, and the full price was claimed for them. The question suggested itself whether volumes published some years before, and which had lain unsold in the meantime, involved a greater loss than if they were waste paper, and whether the owner was entitled, through the accident of a fire, to receive the same price as if the whole quantity had been sold off-hand. In that case the directors of the company took a view more liberal than perhaps was politic, and admitted the claim. On the other hand, some years ago the books forming Sir Walter Scott's library at Abbotsford were insured, and the offices agreed that in the event of their being burned they should be paid for at a rate largely in excess of the shop price of similar volumes, it being recognised that the fact of their having been Sir W. Scott's books gave them an exceptional market value. The alterations that often take place in the value of pictures afford another illustration. I remember the case of a wealthy collector who had paid several thousand pounds for an ancient picture being warned by an accomplished friend that it was not a genuine work of the artist, but a copy. Inquiries having been made through the eminent dealer from whom the picture had been bought, and who had himself been deceived, it was found that the picture was a copy, and was worth a comparatively small sum, and the large price paid for it was returned to the purchaser. If the picture had been burned before this discovery the Insurance Company would certainly have been entitled to inquire into the question of its real value, the price paid in such a case not being an absolute criterion.

The only safeguard against a multiplication of fires is a strict enforcement of the rule that the insured shall never profit by a fire. The offices themselves are often the promoters of fires; for a liberal spirit, which desires when a loss has occurred to deal with it generously, and a competitive spirit, which desires to purchase favour by the reputation of liberality, lead sometimes to too easy settlements of claims, and these are apt to be provocative of future fires. Unmistakable instances of this have come under my own observation. On the other hand, a reasonable amount of strictness in adhering to legal obligations tells the other way. Some years ago, in one very large department of manufacturing industry, there was a marked diminution in the number of fires. On inquiring into the probable cause of this, I was informed, on authority not likely to be mistaken, that for some time past the offices had been more strict than previously in ascertaining the amount of any loss by fire, that fires had consequently been found less advantageous to the persons insured, and that greater care had been taken to avoid them.

As a fire can never legitimately prove advantageous to the insured, those who set fire to their property with a view to defrauding an Insurance company, unless they do it under an erroneous impression that they will receive the sum in the policy without having to prove the amount of their loss, are obliged to do more than merely burn their property: they must be prepared to prove that it was worth more than it was really worth. Accordingly, in most of the cases in which there is a suspicion of arson, the question, when it comes before a court of law or a jury, turns largely on the value of the property at the time of the fire. Perhaps the man has sent away or concealed his property, and yet claims for it as if it had been burned; or he produces false invoices, or he and his family or servants swear to the destruction of property which never existed. In one case which I had something to do with, the Offices concerned found themselves able to purchase at an auction in Paris a picture for the destruction of which they had been called upon to pay In another case, in which many Offices were concerned, a somewhat remarkable man who dealt in pictures succeeded in defrauding one office after another by claims in which the same damaged works of art figured over and over again as the evidence of his loss. Being detected at last, while awaiting trial he committed suicide in prison, leaving behind him a MS. journal in which he had noted the details of each of his frauds, with many particulars of the various Insurance offices on which he had tried them, or still meant to try, even to the extent of describing the personal traits and apparent dispositions of the secretaries and surveyors whom it was his object to deceive.

One large and important principle in the nature of the protection afforded by Fire Insurance remains to be mentioned. Under ordinary policies in this country the insured may recover the whole amount of his loss provided it does not exceed the amount of the policy, even though he may have insured and paid premium for an amount far below its full value. If my property is worth £1000 and I insure it only for £500, I no doubt become partially my own insurer, and so run a certain risk; but the office bears the first brunt of any loss, and my risk only begins after their policy is exhausted. In some other countries, and in certain cases here also, the principle of average is introduced, and it is made a condition that if the property is only partially insured any loss shall be paid for only in the like proportion. This rule is applied in all cases where two or more separate buildings, or the contents of two or more buildings, are insured for a lump sum. As long as the Government duty lasted it was required by Act of Parliament that this should be the rule in every such case. With the repeal of these duties this law was repealed, but it is not the less universally acted on by the offices for their own protection and made a condition of their policies.

The application of this principle is extremely useful to some classes of insurers. A merchant may have a large cargo of foreign goods or produce consigned to him which he cannot get stored in one warehouse. Often he can scarcely tell for some little time in what warehouses it has found quarters and in what proportion, and in the meantime insurance is most necessary. A very common form of policy, known as a floating policy, is to insure the goods belonging to A, or perhaps the goods that have arrived by such and such a ship, in all or any of the warehouses in a certain town or district. The insurance may be limited to a certain class of warehouses which are known to be less hazardous than others, and are therefore insured at a lower rate. In the event of a fire the insurer has, of course, to show not only what he has lost in that warehouse, but what other goods he has covered by the same policy. If the value of these in the aggregate exceeds the sum insured then he can only recover a portion of his loss. The intention and effect of the system is to secure that the insured shall pay premiums in proportion to the whole value of their oods.

It need only further be mentioned in connection with the ature of the Insurance contract that it excepts from liability osses caused by invasion, foreign enemy, civil commotion, riot, or any military or usurped power; and there are some descriptions of property which are not insured, ready money, books of accounts (*i.e.*, their value as documents), bank-notes, stamps, bills, bonds, or other written securities. It is pretty obvious that a claim for such losses would scarcely admit of proof and might give rise to interminable questions.

Having thus attempted a sketch of the general principles of Fire Insurance, we may glance at some of the practical matters with which those who are engaged in this business have to deal. One way of doing this will be to follow out an individual transaction from its inception onwards. The importance to the owners of property capable of being injured by fire of obtaining the protection of Insurance is so obvious and so urgent, that every such owner might be expected to seek it eagerly without any external influence. It is found, however, that it is very necessary to bring the subject continually under notice by advertisement and otherwise, but especially by the employment of agents engaged and paid to induce persons to insure. The competition of rival offices renders this, of course, more necessary. Accordingly, there is a large body of men of business who are induced to undertake this work. In America an Insurance agency is often regarded as a distinct occupation, to which a man's whole time may be dedicated; in this country and in others it is usually undertaken by men whose chief occupations are different and of various descriptions. These agents are generally paid by a certain rate of commission on the amount of premiums which they gather in. Members of the legal profession are usually dealt with as the agents of any company with whom they are pleased to transact business, without being restricted, as many ordinary agents are, to the service of one office; but at the present time legislation is threatened which may put an end to the payment by one party to a transaction of anything that might be imagined to be a bribe to an agent of the other. Circumstances have led to a large development of a system by which the ordinary agents of a company are visited, assisted, and stimulated by Officers of the company, engaged especially for this duty; and it has been found very desirable, if not necessary, even within the comparatively narrow limits of the United Kingdom, to have this branch of the business cared for at numerous local centres, in direct communication, of course, with the headquarters. Hence the familiar arrangement of agencies, local inspectors, and branch offices.

Beginning with the work of an agent, his primary duty is to induce as many persons as he can to insure with his office. He will endeavour, of course, to show the desirableness of insuring with some office, and what advantages he can offer on behalf of his own. In the active competition for business which exists, there is, of course, a great temptation not only to plead for one's office but to be critical about others. This is generally a mistake. There may be offices of a character which it will be reasonable and even a duty to warn one's friends against, but in general it will serve the agent's purpose best to be not merely just but even generous towards other offices. To attempt to discredit them will be apt to suggest that his own may be open to objections, if the whole truth were known, and may produce hesitation and delay in acceding to his suggestions. It is, on the whole, better for each competing office that there should be a general feeling of unimpaired confidence in such institutions, than that one should be unduly magnified by its own paid officials at the expense of the others.

An agent having secured a proposal, his next business is to transmit it to the office of the company with which he is in immediate contact. He has, no doubt, been furnished with a printed form for this, and with a volume of instructions which he will do well to master. It will be his duty—and in the end it will be for his own interest—to see that the business he introduces shall be of a kind likely to be profitable to the company, and that at all events the officers of the company shall have as ample means of judging of this as he can supply. A correct description of the property, a matter of importance to both parties to the transaction, and of any elements of risk attaching to it, the character of the proposer, the existence of any other insurance by the Company on property in the neighbourhood, and many other particulars will accompany the proposal, and in general it will be expected that the property shall have been seen by him or some one in whom he has confidence. He will generally be empowered, when he sees it to be proper, to grant immediate protection; but, of course, he will lose no time in transmitting the whole matter to the office, with such information or suggesions as he can give.

In many cases it will be necessary for the office to have a more horough examination of the property than an ordinary agent can be expected to make; and so we arrive at a class of officers known as Surveyors, whose services are of great value. A thoroughly qualified surveyor will not only have powers of close observation, but will possess no small amount of scientific knowledge fitted to suggest the mechanical and chemical conditions likely to create or to promote combustion. He will, of course, be master of the rules adopted by his office and by the Insurance offices generally in the fixing of rates, and he will, no doubt, have his eyes open to anything that would suggest what is known as moral hazard.

And now the proposal with the reports of the agent and surveyor reach the company's office, and are at once looked at critically. If the property is of a kind which forms the subject of a tariff the rules and rates of the tariff will be applied.

Attention will have to be given to the form in which the property is to be described in the policy, requiring often great care, so as to leave no doubt as to the precise property insured, its limits and its present condition, to prevent the risk being increased without permission, and any other particulars which form the basis of the rating. The policy when made out and duly signed will, no doubt, be fully recorded in a register—*i.e.*, the MS. portions of it—and in several separate lists: in one, where the premium will be charged against the agent, who will receive and account for it; in another, where it will appear under the heading of the term at which it will fall to be renewed; and in another, where it will appear under the heading of the locality in which the property lies, so that it shall be known what risks the company are running in each locality. This latter record will have been searched lest the addition of this property shall have involved the company in too large a risk in one neighbourhood. At this stage, also, when the business has reached the company's office the important work of re-insuring may have to be attended to.

The ordinary history of such a policy will include its renewal from year to year, involving many considerations, as the preparation of receipts and notices, their transmission to branches and agencies, the days of grace to be allowed, the settlement of agents' accounts, and other matters. When a policy has, after full consideration, been issued and paid for, it might be thought that, excepting the details just referred to, there is no need to give it further attention. But this is far from being the case. The granting of such a policy is the undertaking of a serious obligation which must be constantly kept in view. Every day may throw fresh light on the nature of the risk undertaken. It may be altered in itself in spite of warranties, but even if no change takes place in the nature or situation of the property insured, there may be frequent occasions for reconsidering the degree of risk involved. Other property in the immediate neighbourhood may come to be insured, and the danger of excessive loss by one fire will have to be guarded against. This raises some difficult questions. Suppose a street in some city like Glasgow, where every building contains goods requiring to be insured, often for large amounts. Is it safer to retain a small sum on each of them or to insure only, let us say, every second tenement? What of connections between them, doors or common roofs, or common chimney shafts, or common extensions behind? There are some well-known city districts which present very difficult problems, such as the dry goods warehouses in the centre of New York.

But the most important sequel to the issue of a policy will be the occurrence of a fire by which the property is destroyed or injured. A letter, a telegram, or the public newspaper, none of them ever opened without some anxiety, intimates the occurrence. The origin of the fire is, perhaps, surrounded by more than the common mystery, and the first duty may be to institute enquiries demanding more than common acuteness and tact. Then to ascertain the quantity, the quality, and the value of the property injured, and the degree of injury is often a work of no little anxiety. Its destruction has swept away the readiest proof which could have been given; or where partial damage only has been sustained, it is often scarcely capable of exact measurement. Even where the cost of replacing a building may be capable of exact measurement curious questions may arise, as in two cases I can recall. One was the loss occasioned by the burning of a house which, strangely enough, happened to take fire just after it had been ascertained that it was sinking into ruin, owing to the development of a coal pit immediately below it, and had just been cleared of its furniture. Another was the case of a house in the old town of Edinburgh which had been sold to the authorities in order to be removed. The owner would receive the price that had been agreed on irrespective of the fire, and the Corporation lost practically nothing. In both cases a proposal to restore the houses where they had been—an option which the Company was entitled to exercise—afforded a very reasonable test of the loss sustained by their owners in consequence of their being burned, as they naturally preferred a much smaller payment in cash. In the ordinary case the insured is, of course, bound to state and prove his claim, and in dealing with it the office may have many things to attend to, matters of accountantship and book-keeping, perhaps even questions as to the character and circumstances of the claimant, customs of trade, and the best methods of dealing with the salvage. Then there may be other Offices falling to be dealt with. One may have insured only a portion of the property, while another has embraced under one head this and other properties. Some offices may have granted "average" policies, some specific policies; some may have insured the true owner, some the person in possession, some the mortgagee.

Questions have occasionally arisen out of such circumstances which have defied any but a Gordian solution, but in all cases they make some demand on the brain and on the common sense and temper of those who have to deal with them.

Fortunately for all parties, there are strong motives on every side tending towards a reasonable adjustment. In most cases the office is guided by the advice of an independent professional valuer, who, while attending to the interests of his employers, has a natural desire, even apart from his instructions, to conciliate the claimant, and to avoid landing the company he represents in troublesome controversies. Claims which cannot be adjusted in this way are usually submitted to arbitration, and it is a condition of most policies that both sides must refer the quantum of loss to an arbiter or arbiters, though not any question as to legal responsibility. Few claims find their way into the courts of law; and the Offices naturally shrink from litigation unless some important principle is involved, such as a breach of warranty, or where the claim is thought to be fraudulently overstated, or where the still more serious objection is taken that the fire has been the wilful act of the insured.

There are few grander or more startling sights than a great conflagration. It seldom fails to involve the intensifying interest of danger to human life. It is said that in London the number of lives lost at fires during the last ten years has been 776. But apart from this, it is a scene ever to be remembered. Witness the sudden alarm, often at dead of night, the hurried and hairbreadth escapes, the rapid progress of the flames lapping from window tc window and from floor to ceiling, the imminent danger of the adjoining buildings, the rush of the fire-engines and the heroic daring of the men, the glare reddening the sky and reflected from the livid faces of the eager yet awestruck crowd, the varying incidents of the unequal struggle between fire and water, the temporary languor of the flames and their outbursts of fresh fury, the crash of ruined walls and rafters, and the final catastrophe when the roof falls in, leaving the bare and ghastly gables to enclose a furnace of seething fire. The least interested spectator of such a scene cannot behold unmoved the rapid destruction of property, and the manifest helplessness of man in the presence of one of Nature's forces, so fierce, so stupendous, and so irresistible. And when the flames have expired from lack of aliment it is a piteous thing to stand amidst the charred and dreary ruins of what so lately was perhaps a palace adorned with treasures of art which no money can replace, or a factory crowded with ingenious mechanism, or a warehouse stored with costly and beautiful fabrics, or some modest homestead, around whose bleached walls there cling memories of domestic joys and of sorrows even more sacred:—

> "In the blank voids that cheerful casements were,
> Comes to and fro the melancholy air,
> And sits despair:
> And through the ruin blackening in its shroud
> Peers, as it flits, the melancholy cloud."

Scarcely more sad it is to wander, as I have happened to do oftener than once, from house to house and from street to street of some hapless city which accident or design has made the prey of fire.

The loss and waste and misery occasioned by some great conflagration may be so distributed as to be more easily endured. It is the beneficent object of Fire Insurance to effect this distribution, and those who are engaged in the work may rejoice that their calling, like that of Life Assurance, confers so great benefits on their fellow-men. Few occupations afford a wider range of interests. Some idea has already been given of the variety of subjects with which members of this profession may have to deal; and it is to be remembered that their knowledge about insurable property, the risks it is exposed to, the terms on which it may be insured, and the considerations which will affect the settlement of claims, must extend to the endless variety of conditions which these questions may present in different countries, since many British offices transact business of this sort in almost every portion of the world.

In this department of business, as in every other, there is room for a man to evince, not merely knowledge and capacity, but a scrupulous sense of honour and an unflinching integrity. It is comparatively easy in almost every walk of life to purchase a measure of success, more or less temporary or prolonged, by questionable means, for in modern business the speed and bustle, the eagerness of competition, and an impatience of moderation threaten to carry us off all firm footing. But some nobility of soul, we may hope, is not inconsistent with a zealous interest in our calling. Let us try, then, amidst all its activities, to keep our minds pure, our aims high, and our hearts warm, to recall to ourselves and to those around us that the faithful and successful performance of our professional duties, which forms, and rightly forms, so large a portion of our lives, is not the whole end of our existence; and to strive, through God's grace, whether within the limits of our daily business or beyond them, so to conform to His mind and will in all things, and so to trust to His promised help and guidance, as to glorify Him, that we may enjoy His favour now and for ever.

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