

Institutions For Thrift

By

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in England, they existed in several towns abroad. The earliest known is that of Brunswick in 1775, which was followed by others at Hamburg, Oldenburg, Berne, Loire, Basle, Geneva, and Kiel. Once introduced into England, they spread rapidly. Savings banks were established in London, Bath, Dumfriesshire, Edinburgh, Kelso, Hawick and Southampton. That at Liverpool was founded in 1815.

The savings banks so formed were under no legal restriction as to the securities in which their moneys should be invested, as to the amount that might be deposited, or otherwise. As the movement spread, it seemed to be desirable that it should be placed under some regulation, and at the same time that, as it was a good movement in itself and likely to be beneficial to the industrious poor, it should be given some measure of encouragement. Under the inspiration of these views the Savings Banks Acts of 1817 were passed—one relating to England, where there were then 74 savings banks, the other to Ireland, where there were four. It was felt that the first thing to be ensured was the safety of the deposits. For this purpose it was enacted that they should be handed over by the trustees receiving them to the State, as represented by the Commissioners for the Reduction of the National Debt.

The State thus entered upon an entirely new economical relation with the people: it became their banker. Years after, when events had forced

the question on public attention, it was debated whether the relation into which the State thus entered was that of a banker or of a trustee. The answer was clear, that the State was a banker. It received the deposits, it undertook to pay interest upon them; and undertook also to repay them on demand. If it fulfilled those undertakings it was no concern of the depositor what the State did with the money in the meantime. This is a more important point than it might seem at first to be, for in course of time, acting upon this principle, Chancellors of the Exchequer found the possession of large funds under these conditions extremely convenient, enabling them to enter with confidence upon measures for the reduction of interest upon stock, and to keep up the credit of temporary securities created for the purposes of government. Thus a source of indirect profit arose, which did not appear in the accounts of the government with the savings banks.

The relation of the State as banker to the trustees of the savings banks involved a further consequence which was not foreseen. The investment of the money by the National Debt Commissioners was restricted to securities forming part of the National Debt, and at first almost wholly to consolidated stock. Now consolidated stock does not represent a fixed amount of capital, recoverable on demand, but it represents a perpetual annuity, saleable in the money market. Hence, in times

of general prosperity, the price of Consols is high, and in times of financial depression, the price of Consols is low. But the times of general prosperity are times when the industrial classes share in that prosperity and have more money to put in the savings bank, and the trustees of that bank have accordingly more money to pay to the National Debt Commissioners for investment; while the times of financial depression are times when the industrial classes are compelled to withdraw their money from the savings bank, and the trustees of that bank are compelled to withdraw it from the commissioners, who meet the demand by sale of stock. It follows almost with the certainty of a law of nature, that the commissioners, with their restricted powers of investment and their liability to immediate withdrawal on demand, must in the long run lose some of their capital. There was another cause of loss. When the Savings Banks Act of 1817 was passed, it had for one of its purposes the encouragement of deposits in savings-banks, and one of the means it adopted with that view was the guaranteeing to the trustees of the banks a fixed rate of interest of 3*d.* per day or £4 11*s.* 3*d.* per annum. It does not appear whether it was contemplated at the time that that would involve a direct subsidy to the banks, for Consols were in 1816 so low as 62, and an investment would have produced as much as £4 16*s.* 9*d.* interest; but as the price of Consols rapidly rose after that date, it was soon apparent that the

interest credited to savings banks was more than that earned on the investment of the funds. Indeed, the operations of the Government broker in buying stock with savings banks money had in themselves a tendency to raise the price.

By 1827, the price of Consols had risen to 83, and an investment would produce £3 12s. 4d. per cent. only, a deficiency of nearly £1 per annum on every £100 deposited. During the eleven years that a rate of £4 11s. 3d. had been allowed, the interest earned was less than that credited by £744,363. The State was losing at the rate of £70,000 a year; and in consequence in 1828 the rate of interest was reduced to 2½d. a day, or £3 16s. 0½d. per annum. Provision was also made for limiting the amount to be deposited by any one person, for it was seen that the payment of more interest than was earned operated as a bonus to the depositor, which would be exceedingly dangerous if there were no limit placed on the amount to be deposited.

Besides the reduction of the rate of interest, something ought to have been done to clear off the deficiency. It was a great economical error to allow it to accumulate, and thus to withdraw from the attention of Parliament the circumstance that the nation had entered into a losing contract. The deficiency of interest ought to have been voted every year.

As this was not done, the deficiency went on increasing year by year by the compound interest

on the accrued amount ; but the reduction of the rate of interest had only a temporary effect. It was a time of general peace and prosperity, and the public credit, as indicated by the price of Consols, continued to improve. By 1843, Consols had risen to 95, which would only produce £3 3s. 2d. per annum, instead of the £3 16s. 0½d. that the savings banks were receiving. Again it became necessary to reduce the rate of interest, and by an Act passed in 1844 it was fixed at 2d. per day, or £3 5s. per annum. At that time the deficiency arising from over payment of interest amounted to nearly £2,200,000, having increased during the interval between 1828 and 1844 by nearly £90,000 a year. Still, the vicious system of letting it accumulate was persevered in, with the same results—the automatic increase of the existing deficiency at compound interest, and the fresh deficiency caused by the necessity of buying at high prices and selling at low prices. An analysis of the transactions of eighteen years showed that when stock was at an average price of 84, the excess of withdrawals over receipts was £4,000,000 ; when it was at an average price of 90, the excess of withdrawals over receipts was £4,600,000 ; while, on the contrary, when Consols were at an average price of 96, there was an excess of £2,000,000 in receipts over withdrawals, and when Consols were at an average price of 100, an excess of £1,300,000. More recently, this difficulty has been met partly by the inscription of a portion of

the savings' bank fund as a capital debt, instead of a perpetual annuity, and partly by the annual voting of any deficiency of income. The reduction of the interest on Consols to £2 15s., effected by Mr. Goschen, rendered necessary a similar reduction in the interest payable to the savings banks; and the necessity of a further reduction is obvious now that the rate is $2\frac{1}{2}$ per cent.; but immediate action has been delayed by the great fall in the price of stock. It is a curious circumstance that the depreciation in the credit of the nation should have operated to delay an inevitable further reduction in the rate of interest payable to savings' bank depositors—an instance in point of the old saw that it must be an ill wind which blows nobody good. But the general want of prosperity, which is due largely to the same cause, has been followed by a considerable increase in the withdrawals from savings banks, met by sales at a loss, and the necessity for a reduction of interest will have very shortly to be faced.

It is true that an alternative has been suggested—that of a considerable increase in the powers of investment entrusted to the National Debt Commissioners—and it has been pointed out that in other countries—notably in Belgium—the money of the savings banks is extensively used in loans to societies for providing dwellings for the industrious classes and in other ways considered to be beneficial. In Germany the money of the State Insurance Fund is so used. We are disposed to think

that—tempting as this prospect is—the machinery of the English Government is not very well adapted for the transaction of that kind of business.

So much for the relation of the State to savings banks. We may now consider the internal organization of the savings bank itself. One marked peculiarity in its constitution is that the trustees and managers are forbidden by law to receive any remuneration. This is an element of great advantage, for the unpaid services of good and generous men have been of much value to their poorer neighbours, not only by actual labour in the working of the bank, but by the advice and encouragement they have given to the depositors, and these institutions have thus done much to deepen and widen the sympathy between class and class.

Each bank has also to have a paid officer; for the routine duties could not be expected to be performed by anyone without payment. The paid officer is usually styled “actuary,” and this leads to a curious observation as to the devolution of official titles. The actuary was originally merely the recorder of the acts of the body by which he was employed, the minute-secretary, as we should now call him. The actuary to the convocation of the clergy is an example of the survival of the original meaning. But the officers of insurance societies bore the title, and as they had to make intricate calculations, it has become the designation of a highly specialised and scientific body. As the chief officer of a savings bank had to calculate

the interest due to depositors, and was thus a man of figures, he took the title of actuary. The profession of actuary, as a person skilled in calculation, was referred to in an Act of Parliament as a recognised profession in 1819. Where as it sometimes happened the actuary was allowed to become the master rather than the servant of the bank and of its managers, and was not properly supervised, evil results followed. The actuaries of some banks, trusted and respected up to the very day of death, were then found to have been engaged for many years in a deliberate course of fraud. In Rochdale, out of £100,403 due to depositors, the actuary was proved to have appropriated £71,717; and after realising his estate and raising £17,430 by subscription, the loss to the depositors was still £38,287, or 7s. 6d. in the £ of all their deposits. Other very heavy defalcations occurred at Dublin, Tralee and Killarney, in Ireland, and more recently at Cardiff, in Wales.

These frauds caused great distress in the localities where they happened, and great distrust as to the security of savings banks all over the kingdom. The State, as banker, was responsible for the sums which the trustees paid to the commissioners, but not of course for any money that the trustees and their actuary retained in their own hands. The trustees were not liable, except for their individual acts. By the Act of 1863 this liability has been so extended as to make them responsible also for the consequences of

neglect of the maintenance of the checks required by the Act. If means had not been devised for providing such supervision over the banks as would minimise the risk of fraud, this would have neutralised all the good they do and can do. With this view, the Act of 1891 established an Inspection Committee of Trustee Savings Banks, which is not in any way a department of the Government, but consists of three members elected by the banks themselves, a past president of the Law Society, a past president of the Chartered Accountants, the chief accountant of the Bank of England, and one member appointed by the Chief Registrar of Friendly Societies, in which capacity I have myself become a member since my retirement from office. The committee employs a staff of inspectors, who visit every savings bank at least once a year, and rigorously enquire into the management of the bank, the compliance of its officers with the requirements of the Acts of Parliament, the attention of the trustees and managers to the duties they have taken upon themselves, the expenses of the bank, and all other matters relating to its efficiency and solvency. Upon the report of the inspector, the committee are invested with strong power to call upon the trustees and managers to remedy any defect shown in their management. The result of this has been that the instances of neglect of the requirements of the Acts, which were found to be numerous when the committee first inspected the banks, have

diminished year by year and the reports of the inspectors have been in consequence more favourable.

One of the methods of encouragement which the legislature offered to savings banks consisted in the creation of a special tribunal for settling disputes. These were at first referred to arbitration; but when, in 1828, the legislature required the rules of savings banks to be submitted to a barrister appointed by the National Debt Commissioners and to be certified by him, the business of finally settling disputes in savings banks was transferred to the same barrister. In 1876 it was transferred to the Registry of Friendly Societies, which had succeeded to the other functions of that barrister. This jurisdiction, which has now lasted for more than seventy-five years, and was declared to be exclusive many years ago in the case of *Crisp v. Bunbury*, has undoubtedly been very beneficial to the savings banks and their depositors, whom it has relieved of the burden of law costs. The records of the cases settled—now numbering more than one hundred a year—contain many neat points of law and much romantic interest.

A development of the work of trustee savings banks, which shows in a marked degree the contagiousness of good example, and the fertility of a sound philanthropic movement, is familiar to Liverpool men, having been carried to a high degree of success in connection with the great Liverpool

savings bank—I mean the establishment of penny savings banks as auxiliaries to the ordinary savings banks. You have, as I understand, banks of this kind in nearly 200 of your elementary schools and other institutions, and their influence in training the young in habits of thrift must be abundantly beneficial.

The method adopted is this—deposits of any amount, however small, are received and recorded until they have accumulated to a sufficient sum—10s. or more—to open an account with the Liverpool Savings Bank; the depositor then transfers them to that bank. On the 20th November, 1904, there were more than 75,000 depositors left in the penny banks, with more than £12,000 to their credit, while more than 2,000 new accounts had been opened at the Liverpool Savings Bank, and over £7,000 transferred during the year.

The power of the pence is strikingly shown by the fact that in the last nine years these penny banks have received from depositors £295,000; have repaid £227,000, and have transferred to the Liverpool Savings Bank more than £64,000. It would seem that some three-fourths of these accounts stay in the bank as the nucleus of future saving, due to the lessons derived in the penny bank.

The force of these observations appears more strongly when the transactions of these penny banks are considered in detail, as one is enabled to do by the weekly return published in the *Liverpool Daily Post* and *Liverpool Courier*, a publi-

cation which is valuable, not only as keeping before the eye of the community the work that is going on in these banks, but also as assisting the trustees of the various banks in supervising their operations and keeping them up to the mark of efficiency. Thus, in the return for 1st February, one school bank appears in a single week to have carried through 750 transactions—£21 18s. 5d. in deposits and £6 4s. 6d. in repayments. From that down to the institute which had only 7 transactions, being 17s. deposited and 5s. 6d. withdrawn, the periodical issue of these returns must have a wholesome and stimulating effect, and the organisation by which all the banks have been induced so punctually to make their returns and pay in their balances must be excellent.

I am much impressed by the fact that the transactions of the penny savings banks in Liverpool have for several years past numbered one million per annum, and in the two last years were nearly 1,200,000. When I couple this fact with the testimony of the Lord Mayor that it is the regularity of the attendance of those who undertake the management of these penny banks and the carefulness of their work that gives the children confidence, and with that of Professor Gonner that their labours are difficult and heavy, and it is necessary that in those labours they should be sustained by their devotion, I get some idea of the truth that lies behind these figures. The marvellous amount of unpaid work which is

involved in the receipt and payment of these moneys, and in the keeping of accounts and statistics relating to them, is a clear indication of the fine public spirit that animates the people of Liverpool. This good work also prospers in the Glasgow and Manchester savings banks. The Glasgow Penny Banks dealt last year with deposits amounting to £135,000.

Collecting savings banks are also working with great success in many parishes in London.

Another interesting development of savings bank work arose after the limitation of the amount that might be deposited by any one depositor was enacted. It was thought that it might be convenient to depositors to allow the trustees to act as agents for them in the investment of any surplus over that limited amount. For a long time this privilege was but little used, only one or two banks having adopted it, and those only in the purchase of stock for the individual depositor at his own risk. After a while the possibilities of the section were more clearly perceived, and several banks opened special investment departments, paying fixed interest to the depositors and not earmarking their investments for any particular depositor. The practice was regulated by the Act of 1891, and an extension of it has been authorised by that of 1904.

In Glasgow there has been a further development by the establishment of an investment trust, still under honorary management, having

£2,000,000 deposited, so that the total funds in connection with that bank exceed £10,000,000. We thus find these voluntary and unremunerated bodies of men, subject to no control on the part of those for whose benefit they exist, carrying on and carrying on with remarkable success the business of investment agents. Indeed, hitherto, the only embarrassments they have had have been those arising from their great prosperity and from the amount of surplus profits they have accumulated. Some have sought to apply this in charity, but this is not contemplated by the statutes.

Leaving this branch of the subject, it need only be mentioned that it was not till 1819 that a Savings Banks Act was passed for Scotland, and that in some respects the Scottish legislation differed from that for England, so that there are or were till recently banks in Scotland that do not invest their funds with the National Debt Commissioners, and others that do, and these latter until recently called themselves National Security Savings Banks to draw attention to the distinction.

There are now 228 trustee savings banks in existence, having 1,687,661 depositors, who have invested £52,540,339 in cash and £2,098,359 in stock in the Government Department, as well as £4,531,102 in cash and £133,511 in stock in the Special Investment Department. Thus there is a total sum due to depositors by trustee savings banks of £57,071,441 cash and £2,231,870 stock, or together £59,303,311, besides the Glasgow Invest-

ment Trust. Since 1892, when the amount due was £48,016,361, there has been a steady increase, averaging £1,026,086 per annum, and in the same period the increase in the number of depositors has averaged 16,886 a year. In the year 1861, the amount deposited in savings banks was 44 millions, and there were then more than twice as many savings banks in existence as now.

I mention that date, because in 1861, the genius of Mr. Gladstone, acting upon a suggestion made by the late Sir Charles Sikes of Huddersfield, devised a plan which has greatly stimulated and promoted the practice of saving. By utilising the services of the Post Office, and by giving the absolute guarantee of the State for every deposit from the moment of its reaching the hands of the local postmaster, he greatly added to the facility of depositing and to the security of the deposits. Thus it has happened that though the amount of deposits in the old savings banks has not diminished, but increased, new deposits of far greater amount have been made. The amount deposited in the Post Office savings bank is 159 millions and that in trustee savings banks 59 millions, so that since the establishment of the Post Office bank the savings invested have increased more than fourfold.

We have thus seen that, notwithstanding the economic difficulties it has had to meet, the system of savings banks has conferred huge benefits on the thrifty, especially among the labouring classes.

The inspection committee have the following observations in one of their reports, made before I became a member of their body, but in which I heartily concur:—"We are more than ever convinced of the great value to the provident poor of these most useful institutions, and of the obligation of the public to the voluntary trustees and managers, who devote so much time and attention to this important means of promoting the welfare of the people. With, in many cases, large and increasing deposits, on which the maximum rate of interest is allowed, with excellent, safe and economical management, and with the personal interest and sympathy shown by many of the leading inhabitants of their respective neighbourhoods, they command and deserve confidence and support. We observe with special interest in several instances the care with which the rightful owners of deposit accounts of old standing, which might be in danger of being lost sight of, through the death of the original depositors, are sought for and discovered." I am able to confirm this statement from my 35 years' experience in the settlement of disputes. I hope, therefore, that for many years to come the two systems of absolute State guarantee in the Post Office savings bank, and of voluntary supervised management in the trustee savings banks—the latter having some incidental attractions to various classes of the population—may flourish and continue their beneficial operations side by side.

I now turn to another class of institution for

provident investment which differs greatly from the savings bank, though it to some extent fulfils the same function. I mean the building society. There is here a curious coincidence in point of time, for the earliest that we can trace is one established at Woolwich in 1795, the deed of settlement of which is contained in the report of a law case that arose many years afterwards upon the title conveyed by it to certain property. It is probable that such arrangements were entered into in various places for the development of estates, but the records of them are few and scanty. When the Friendly Societies Act of 1834 allowed of the registry under it of societies for any purpose which is not illegal, it is probable that many building societies availed themselves of its provisions, for by the year 1836 it was found necessary to pass an Act adding to the provisions of the Friendly Societies Act then in force certain special provisions to meet the case of building societies.

The Act of 1836 recited that certain societies, commonly called building societies, had been established in different parts of the kingdom, principally amongst the industrious classes, for the purpose of raising by small periodical subscriptions a fund to assist the members thereof in obtaining a small freehold or leasehold property, and that it was expedient to afford encouragement and protection to such societies and the property obtained therewith; and it provided that all societies then existing might have the benefits of

the Act without altering their rules. How many such societies there were cannot I think now be ascertained, and it is not very material, for all the societies then and for the next nine or ten years in existence were established on what is now called the terminating system, and have accordingly long since run their course and ceased to exist.

It is, I think, interesting to observe that these early building societies acted, whether consciously or not, upon some curious properties of compound interest. For example, money will double at compound interest in a term of years approximately equal to the figure 70 divided by the rate per cent.—the real figure is 69 and a varying fraction, but 70 is near enough. Thus, at 5 per cent. money will double in $70 \div 5 = 14$ years; at 7 per cent. in $70 \div 7 = 10$ years, and so on. It results from this that an annuity of the interest on an original sum will amount to that sum at the end of the period in which money doubles. A few moments' reflection will see how these two statements hang together. Accordingly, a building society started with shares of the nominal amount of £120 each would require each member to pay 10s. a month or £6 a year subscription for fourteen years, being the interest on £120, and would advance to a member in the first month £60, being the half of the amount expected to be realised at the end of the fourteen years.

The like arrangement would be made if each share were £100 or £150; and the adoption of

another rate of interest in the calculations would involve a change in the monthly contribution and in the date of expected termination, but not in the principle of calculation.

Another system adopted in many of these early societies was to make an advance of the whole amount of the share, instead of one of half the amount, in which case the member would have to pay in addition to his ordinary subscription a repayment subscription of equal amount.

It should be observed that the date of expected termination would only be realised if there were no loss of interest during the whole period of the society's existence—hence it often happened that, when that time came, the funds were not sufficient to pay the unadvanced members, in which case all the members—advanced and unadvanced—had to keep on paying till the deficiency was extinguished.

An incidental disadvantage of this system arose when a member desired to redeem his mortgage. As it could not be determined beforehand how long the society would last, the extent of the member's liability could not be accurately ascertained; and there were cases in which it was held that, notwithstanding the redemption of the mortgage, the liability to continue subscriptions after the time when the termination of the society was expected still subsisted.

The Act of 1836 imposed certain limitations on the business of building societies, doubtless with

the view of restricting their operations to the poorer classes. The shares were not to be more than £150 each, and the subscriptions per share not more than £1 per month. But, as there was nothing to prevent a member holding any number of shares, these restrictions altogether failed in effect.

Indeed, as time went on, mischief in the other direction was developed, for societies in their competition for business, entered upon large advances to commercial speculations and to enterprising builders, and some sustained heavy losses in consequence. At the present moment, building societies have £2,067,260 invested in sums of £5,000 and upwards on a single property. Many of these investments are doubtless perfectly sound, but they can hardly be said to be fulfilling the early purpose of a building society, which was to help the working man to become his own landlord. This and many other developments of building society operations are due to the invention, about the year 1845, of the system of permanent societies, which is simply the superposition upon one another of an unlimited series of terminating societies.

The distinction is this : in a terminating society, the membership of each member dates back to the commencement of the society, and continues until its termination ; in a permanent society, the membership of each member begins when he begins to contribute, which he may do at any time, and ends when his share has been completed, and

the amount realised has been paid out to him, or in the case of a borrowing member, when he has fully repaid the advance made, and his deeds have been returned to him; the society continuing to exist with those members who entered it after he did.

In the one case the society terminates; in the other, membership terminates and the society goes on.

The problem of how to meet a deficiency becomes a different one in the two classes of societies: in the one, as we have seen, the society goes on until the deficiency has been supplied; in the other, the matter requires careful adjustment.

It is obvious that if there had been losses in a permanent society, the members ought not to be allowed to withdraw until they have contributed their quota towards such losses, as otherwise an unduly heavy share will have to be borne by those who remain; yet it frequently happened that societies made rules in which they ignored the possibility that losses might arise and contemplated nothing but division of profits. How dangerous this was appeared in the case of *Auld v. The Glasgow Building Society*, which was decided in the House of Lords, who allowed a member to escape all contribution to losses that had occurred and to shift them on to the shoulders of other members upon the ground of a supposed contract that, whatever happened, withdrawing members were to be paid in full. Since 1894,

however, societies have been required by law to provide in their rules how losses are to be met.

So long, however, as building societies are conducted with care and integrity, and with a due regard to the purposes for which they are intended, the risk of loss is a remote one. It is true that, especially in the suburbs of large cities, their securities are to some extent on property, the market for which is a falling and not a rising one. As a city extends from the centre, it drives the better tenants of small dwelling houses further towards the circumference, and thus a process of deterioration of house property frequently is set up. On the other hand, the essential condition of a building society mortgage, which is the combining in the contribution a repayment of principal as well as of interest, adds month by month to the margin of security obtained by the society, and justifies the boast that was common in the palmy days of the societies, that they offered the best security a working man could get.

In 1836, when the first Building Societies Act was passed, the office for the registry of friendly societies had not been constituted. The rules of societies were then examined and certified by a barrister, who sent them to the Clerk of the Peace for the county where the society was established, from which county it could not remove, and who never saw them again. If the society afterwards desired to alter its rules, the same procedure was adopted. This was all the barrister had to do with the

societies. They made no returns to him or to anyone else. They never gave him notice when they ceased to exist. The result was, that all he knew about a society was that at such a time he had given a certificate to its rules, but what it was doing and whether it was still in existence and where he did not know. Accordingly there is very little information as to the progress of societies from 1836 to 1874.

About the year 1870, however, the managers of some of the larger societies met and formed a committee, which resolved to take steps to obtain an amendment of the law. The provision that societies, not being corporate bodies, could only act through trustees, had caused great inconvenience; the doubt whether societies could legally borrow money had left them in a position of uncertainty; the decisions that a building society could only be compulsorily wound up by the Court under the Companies Act had given rise to much hardship; and there were other defects in the Act of 1836 that it was expedient to remedy. On the other hand, the societies were willing that the Registrar should have custody of their rules, and should receive annual returns and other formal records from them; but their officers strongly resisted any proposal to give him power otherwise to interfere in the working of their societies.

After the Bill, which the committee drew up, had been under discussion some time and after evidence had been taken on the matter by a Royal

Commission, which had reported in favour of an amendment of the law, an Act was passed in 1874. By one of those lucky accidents which occur in legislation, especially in the House of Lords, a few words misplaced made the Act applicable to all existing societies. It is not easy to see how this hurt them, for the Act is entirely one for the remedy of real grievances, but the societies would not hear of its being made compulsory, and a short Act was passed in 1875, which restored the language of the Act of 1874 to its original setting, and made incorporation under it a voluntary act on the part of the societies. It was not till 1894 that the Act of 1836 was repealed, and then there was a saving clause for societies established before 1856.

By 1890, which was nearly a culminating point in the prosperity of building societies, 521 societies established under the Act of 1836, having 273,593 members and £37,124,618 funds, had been incorporated in England and Wales under the Act of 1874. There were also 2,231 new societies established since 1874, and they had 331,785 members and £13,457,747 funds—so that the total funds of all the incorporated societies were £50,582,365. Though this was about their culminating point, there had been previous warnings of disaster. The failure of the City of Glasgow Bank had been followed in 1878 by a panic among members of building societies in the North of England, who had been in

the habit of looking upon a building society as a bank which would repay their deposits on demand.

Two evils had been growing up out of the prosperity of building societies—one, the establishment of a great number of mushroom societies, the other arising from reckless speculation and actual fraud. In 1891, the Portsea Island Building Society failed. Its secured mortgages returned at £537,000 were really only £487,000, and those were valued at £370,000 only. The deficit was estimated at £243,000. The secretary was prosecuted to conviction, and a special Act was passed, under which Lord Macnaghten was constituted arbitrator to effect an equitable distribution of the assets among the shareholders and depositors.

This case, shocking as it was, was not the worst. In 1892, the Liberator Building Society, which had on its Board men of repute in religious circles and had received much support from ministers of religion and others over whom they had influence, collapsed. According to its return for December 31st, 1891, it had 11,825 members, holding shares amounting to £1,661,000 nearly all paid up, and was liable also for deposits amounting to £1,731,000. To meet these, it was alleged to have £3,423,000 secured on mortgages, and £67,000 otherwise invested, showing a nominal profit balance of £98,000. All this was fictitious: the society had long since ceased to transact any

legitimate building society business, and the supposed mortgages were merely claims upon other insolvent concerns started under the same management. Not one penny has been recovered by the unfortunate investors in the Liberator, whether shareholders or depositors. To many of them this was the loss of the savings of a lifetime, and sad tales of distress have been told as resulting from it. This calamity had two consequences: first, a great panic set in among the depositors in building societies, ending in a rapid fall in the total amount of their funds by nearly eight millions, and in the failure of some other societies in consequence, such as the London Provident and the Kent and Surrey, which had rashly undertaken to pay depositors on demand, though the bulk of their funds was locked up in mortgages, and found themselves unable to do so; and secondly, a strong impulse was given to the movement for the amendment of the Building Societies Act of 1874 by a considerable strengthening of its provisions. I had indeed myself, before these events occurred, indicated and afterwards urged in an address to the London Chamber of Commerce several matters in which that Act needed amendment; and there was a general feeling that my suggestions did not go far enough in that direction.

A Bill was introduced by Mr. Herbert Gladstone on behalf of the Government, and other bills by the present Lord Avebury, the present Lord

Allerton, and other members, and all were referred to a Select Committee of the House of Commons. From their labours resulted the Building Societies Act of 1894, which enforced on societies the making of their statement of accounts in a prescribed form, which should disclose the mortgages in excess of £5,000, the mortgages on property which the society had been compelled to take into possession and the mortgages the repayment of which were in arrear. It also prohibited for future societies the practice of balloting for advances; and provided that no society should receive deposits except upon condition that one month's notice should be given before repayment or withdrawal. It conferred stringent powers of investigation upon the Registrar.

The result of this legislation has been wholly satisfactory. The building societies apprehended mischief from the disclosure of the particulars required relating to their properties in possession; and this is not much to be wondered at, since later investigation has shown that they must at that time have had not less than $7\frac{1}{2}$ millions of their funds in that precarious condition—but the necessity of disclosure taught them the advantage of speedy realisation, and the properties in possession are now only £2,400,000—a reduction of two-thirds in the course of nine years. Though this must have been effected at some sacrifice, yet it has so cleared the ground for the profitable working of

the ordinary business of these societies that their profit balances have increased during the same period by nearly one million. There could not be a more apt illustration of the wisdom as a general principle of policy of frankly facing a difficult position, and realising and writing off loss, instead of waiting for a possible rise.

The prohibition of balloting societies has almost entirely put an end to the trade of the building society promoter, and the consequent creation of mushroom societies. The returns of 859 societies that have been dissolved (of which about 600 were terminating societies) having capital amounting to four millions, show a loss of half-a-million, or 2s.6d. in the £. The expenses of dissolution have only been six per cent. on the amount of assets realised. The 2,124 existing societies of all classes have 601,000 members, with nearly £41,000,000 capital. They owe to depositors and other creditors £24,100,000. Their mortgages are returned as £51,000,000, and their other assets as £15,000,000. Their receipts for the year exceeded £40,000,000, and the amount advanced during the year was nearly £10,000,000. Profiting by the lessons of the past, a prosperous and useful future may still be expected for these societies by their friends.

I pass to a third class of investment association—the Co-operative Society. Here again, singularly enough, we have to go back to the closing years of the eighteenth century for the origin of the movement. In the first report of the society for

bettering the condition and increasing the comforts of the poor, dated 1797, is an account of a village shop, "a subject the importance of which will be felt by all who interest themselves in the domestic concerns of the poor, when it is known that a saving of about 20 per cent. may be thereby made to the labourer in the purchase of the necessaries of life, that it is the most effectual means to prevent his running into debt, that the expense and trouble to the charitable founder of the shop is inconsiderable, and that it is liable to no objection but what may be easily obviated." The shop had been opened at Mongewell, in Oxfordshire, in 1794. In January, 1800, the Rev. Dr. Glasse opened a village shop on the same plan at Greenford, in Middlesex. In the winter of the same year, the Rev. George Glasse endeavoured to establish a similar one at Hanwell in the same county. The poor of that parish had been morally injured by the application in December, 1799, and January, 1800, of a considerable sum raised for their relief towards supplying them gratuitously and abundantly with articles, and were disinclined to pay for them after that supply had been exhausted.

The productive form of co-operation originated about the same time. The Hull Corn Mill was founded in 1795; in January, 1796, a parish windmill was erected by subscription on Barham Downs, and shortly after another at Chislehurst.

Full particulars of these and other co-operative

measures for the benefit of the industrial classes are given in a delightful little book by Mr. G. J. Holyoake, the veteran historian of co-operation, entitled "Self help 100 years ago." They were followed by the generous enterprises of Robert Owen ; and those again by the efforts of the noble band of Christian socialists, of whom my friends Dr. F. J. Furnivall and Mr. J. Malcolm Ludlow are almost, if not quite, the last survivors. It is, I think, greatly due to the influence of Mr. Ludlow, of the late Judge Hughes, and especially of the late Mr. Edward Vansittart Neale, that the co-operative movement has been developed on excellent lines and become the great and growing power that it is. Mr. Neale not only gave freely his advice and his excellent services, but devoted a handsome fortune to the cause.

It is, however, not as in any way the creature of patronage, but as the embodiment of self help and self management that we are to look upon the co-operative movement of to-day. The mother society of the modern type is the Rochdale Equitable Pioneers, established in 1844, and still flourishing after 60 years working. The 12,000 members hold £287,000 capital ; and the society makes £34,000 per annum profit. It gives no credit, and applies £800 a year to educational purposes. The expenses of management are, on the productive side, £8,000 ; on the distributive side, £19,000 ; so that the society itself manufactures a fair proportion of the things it sells, and

it continues to be an example to other societies of the best methods of co-operation.

The Rochdale Society and a few others started shortly afterwards obtained their legal constitution, under the Friendly Societies Acts then in force, as being societies for the frugal investment of the savings of the members for better enabling them to purchase food, firing, clothes or other necessaries, or the tools, implements, or materials of their trade or calling, or to provide for the education of their children or kindred. The story of what happened next is worth telling in Mr. Ludlow's own words: "Mr. Slaney, a very worthy M.P., but much more fond than were his colleagues of the sound of his own voice, had obtained a select committee to consider and suggest means of removing obstacles and giving facilities to safe investments for the savings of the middle and working classes. He had no evidence to produce before it, and I don't know if he had ever heard of industrial co-operation; so he very judiciously appointed Mr. Vaughan Johnson, a clever young barrister, his secretary, and directed him to find witnesses. Vaughan Johnson knew Hughes, and through him of the Christian socialist movement, and of our wish to get co-operation legalised; so he called upon Hughes, and told him that if he wished to give evidence to this effect, here was an opening. We availed ourselves of the chance; I was the first witness examined, and out of seventeen witnesses ten gave evidence in our favour, the

weightiest testimony of all being that of John Stuart Mill, which was at once entirely favourable to our object and entirely independent. The result was a report recommending, as a pressing necessity, that the legislature should speedily attend to the removal of the difficulties placed in the way of the middle and working classes by the law of partnership. The word co-operation is never breathed in the report, and it was carefully avoided when the first Industrial and Provident Societies Bill was brought in, and not without reason, for I remember hearing that, after the Bill had passed into law, an employer M.P. declared that, had he known what was taking place, he would have blocked the Bill. It may be observed that co-operative bodies were kept out of the power to limit the liability of their members for seven years (1855-1862) after it had been granted to companies. To me," Mr. Ludlow proceeds (and I repeat his words with all the reverence that is due to my learned friend's sincere and candid character), "as I look back at the close of what is now a long life, I seem to see more and more clearly the hand of God in the work. A worthy parliamentary bore ; a select committee chucked to him, if I may use the expression, as a bone to a dog to keep him quiet ; an accidental acquaintance between two young barristers ; a group of men, only two or three of them well-to-do, all but one virtually unknown, all of them perilling their position or their prospects by the course they were taking ; a

few struggling bodies engaged in co-operative production; a much larger group of societies for co-operative consumption, but almost all content with a sort of back-door recognition by means of the frugal investment clause in the Act relating to friendly societies—such were the elements out of which has grown the splendid co-operative movement of to-day.”

For myself, though the word “co-operative” has become popular, it has always appeared to me that the expression “industrial and provident,” used in the Act, is more truly characteristic of the nature of the societies. Every body of three or more men working together for any purpose whatever is, in the literal meaning of the word, a co-operative society. On the other hand, the co-operative movement has always proceeded along two broad lines: the productive and the distributive. The one is aptly represented by the word “industrial,” the other by the word “provident.” Men agree to labour together in the production of some commodity; that is industrial. Men agree to buy goods wholesale, and reduce the cost of living by distributing them at net prices; that is provident. Many societies do both, and are thus literally “industrial and provident.”

The Act of 1852 retained much of the friendly society type, and indeed incorporated in itself many sections of the Friendly Societies Act. It was repealed by an Act passed in 1862, and other provision made, which indicated a tendency to

approximate rather to the type of the joint stock company. In point of fact, a co-operative society is in substance, and might very well be made in form, a trading company with variable capital. That is the view taken by the legislature in France, where they pay more attention to logical coherence in framing their statutes. One enactment, and not a very lengthy one, deals with societies *en commandite*, societies with fixed capital, and societies *à capital variable*. By 1867 a further amendment of the Industrial and Provident Societies Act was found to be necessary, and an amending Act was passed through the House of Commons by Mr. Thomas Hughes, and through the House of Lords by Lord de Grey, who is still among us under the title of Marquis of Ripon. One of the amendments then made was that of allowing any registered society to hold any amount of interest in its own name in any other registered society. This enactment greatly facilitated the work of the Co-operative Wholesale Society, which had been established 5 years before, and which has had marvellous success in its mission of supplying the societies with goods of its own manufacture. It is an instance of co-operation upon co-operation, as all its 1,100 members are societies, and these have contributed to it about £1,000,000 capital. Its sales amount to £19,000,000 a year, on which it makes from £300,000 to £400,000 profit. It also carries on a large banking business for the societies, to the extent of £3,000,000 or £4,000,000.

In considering, therefore, the statistics of co-operation, it is well to bear in mind that, as the sales of the wholesale society are mainly to other registered societies, who in their turn sell the same things to their own members, the aggregate returns of sales will include those sales twice over. Other amendments in the Act of 1867 enabled societies to take summary proceedings against fraudulent officers, and provided for nomination on the death of a member. Mr. Hughes had also drawn up clauses enabling the society to undertake dealings of any description with land, but, as he tells us, "as generally happens with private Bills, it was almost the end of the session before we got into committee, and there was the usual block of business. The Home Secretary very fairly said that he could not see his way to agreeing to the land clauses without a discussion," and so they had to be dropped for the sake of getting the Bill through. That difficulty was triumphantly settled by a short Act passed in 1871 at the instance of Mr. Morrison. What Mr. Hughes describes as a most valuable clause was added to the Bill expressly making the buying and selling of land a trade within the meaning of the Act of 1862, which, as he truly says, gave the societies more power of dealing with real property than building societies had. This Act enabled societies to be established for the sole purpose of dealing in land, and there are now 129 such societies, having 17,133 members, who hold

£526,000 in shares. These societies have advanced £674,000 on mortgage, and hold land to the value of £182,000. The dealings in land of the ordinary co-operative societies are, however, much larger. In 1872, when the Act had only been one year in operation, 120 societies held land worth £230,000; in 1891 374 societies held land worth £2,500,000. In the absence of precise information to a later date, it may be assumed that that amount has considerably increased.

In 1875 a new Friendly Societies Act was passed, and in 1876 the industrial and provident societies, going back on their work of 1862, obtained a consolidating Act, adopting as nearly as possible the language of that Friendly Societies Act. The broad distinction that the societies under the Act of 1876 are incorporated bodies, while those under the Act of 1875 are not, but are represented by trustees, was of course maintained. Under this Act, which continued in operation for 17 years, the co-operative societies increased in number from 938 to 1,333, their members from 440,000 to 1,060,000, their sales from £17,600,000 to £39,000,000. Their share capital grew from £5,000,000 to £12,700,000. There was thus evidence of great and growing prosperity; but it must not be supposed that all were alike prosperous, for out of 1,262 societies registered under that Act 433 had already ceased to exist, as well as 400 older societies. Upon these figures it would seem that when a co-operative society is regis-

tered its mean probable expectation of existence is about $13\frac{1}{2}$ years, as many societies being discontinued before that date as those which survive it.

By 1893 the leaders of the movement thought the time was ripe for another consolidating and amending Act, and they entrusted Mr. George Howell with the carriage of their Bill through Parliament. The lot of the private member had become even harder than it was in Mr. Thomas Hughes's time, but Mr. Howell was so tactful, and had so thoroughly won the confidence of the leaders in both Houses, that he not only carried this Bill, but also two others in the same session, and thus established what I am afraid is a record success for a private member. The Act of 1893 was in the main a consolidating one, but it introduced several alterations, and one was of great importance. Theretofore the definition of an industrial and provident society had been "a society for carrying on any labour, trade, or handicraft." This was altered to "societies for carrying on any industries, trades, or businesses specified in the rules." It is clear that this greatly extends the scope of the Act, and allows societies for almost any purpose to be registered under it. The expression industries and businesses is much wider than labour and handicraft. The promoters of the Bill thought the previous definition unduly restrictive, but it is open to doubt whether it has been good for the co-operative movement to enlarge it so greatly.

There have always been speculative gentlemen anxious to take advantage of the privileges of easy incorporation afforded by the Industrial and Provident Societies Act, and the Co-operative Union has frequently expressed its sense of the mischief done by bogus societies, but it has never been able to suggest a practical method of preventing them, and the open door created by the new definition has to some extent served as an encouragement to them.

The great co-operative movement itself has, however, continued to flourish. On the 31st December, 1903, there were 2,086 societies, with 2,092,000 members. Their sales for the year were nearly £90,000,000. The capital held by their shareholders exceeded £27,000,000, or nearly £13 per member. They owed to depositors and other creditors £12,804,000. Their stock-in-trade was valued at £9,981,000; their buildings, fixtures, and land used in trade £12,965,000; their investments and other assets £20,458,000. So that their net profits (treating all the societies as one) were £3,463,000. Of these the bulk will go to dividend on purchases, reducing the cost of the things sold; but £77,600 was applied to educational purposes. I have already mentioned the figures relating to the land societies. The miscellaneous societies were 245, having 62,500 members, who held £237,500 in shares. The general aggregate of all societies registered under the Industrial and Provident Societies Act is 2,460 societies, with 2,171,642

members (an increase of 116,807 over 1902) and £45,369,891 assets (an increase of £2,041,813). The movement, which has attained such wonderful proportions in the half-century since 1852, still shows signs of vigorous growth.

I have dealt mainly with these three great institutions for thrift by way of investment from the economical and statistical points of view: the savings bank, which may in general be defined as investment on Government security, with £218,000,000 funds; the building society, for investment in land, with £66,000,000; the co-operative society, for investment in trade, with £45,000,000, together £329,000,000. I must now, in conclusion, say a few words on the side of the question which deals with the moral value of these institutions. The savings bank is an elementary institution for thrift; its depositors take no part in the management, and are content to know that their deposits are safe, and the interest on them is growing; but what a story of self-denial, of sacrifice of present enjoyment to future need, do the deposits not tell? Before the passing of the Married Women's Property Act, the savings bank was the only body to which a married woman could give a legal discharge, and even that only when the husband had not claimed the money. Endless were the plans poor women devised to keep their savings secret from cruel and drunken and wasteful husbands, pitiful the risks they ran with that object. The records of

disputes submitted to the registrars for decision are full of pathetic stories, showing how greatly savings banks have ministered to the welfare of the industrial population.

Building societies and co-operative societies differ from savings banks in respect that they are self-managed—the members take upon themselves the responsibility of their own affairs. In this respect, they have a great indirect advantage in the training in business habits, the practice of public speaking, the courtesy and decorum necessary for the conduct of meetings, that have helped members to fit themselves for service in municipal and public life. The direct benefit derived from these societies is also not to be measured in monetary figures, surprising as these are. To many a man the day when he could call his house his own, having discharged it from the claim of the building society, and so set free the amount of repayment contribution either for the purpose of procuring greater comfort for his family or for further accumulation, has been the beginning of days of prosperity and of real advancement in life. To many families the cheapness and purity of domestic supplies which they owe to the co-operative society have bridged over the gulf between poverty and competence. To all the lessons of thrift and self-denial have been of priceless value. The lover of his country can wish for her nothing better than that the prosperity of these institutions may ever continue and increase.

LECTURE II.

INSTITUTIONS FOR THRIFT BY WAY
OF INSURANCE.

My observations last Friday were directed to the institutions that have arisen for accumulating the savings of the industrial population by way of investment in Government stock, as in the case of savings banks; in land, as in the case of the building societies; in trade, as in the case of the co-operative societies. To-night I have to speak of those institutions which have for their object rather the redistribution than the accumulation of the wealth of those concerned; and in order to begin at the beginning, I must first establish their right to be considered as institutions of thrift. Their central principle of action, their reason for existence, lies in man's ignorance of the future. Some things, such as death, must happen, no one knows when; others, such as shipwreck, may happen, no one knows whither.

If these contingent or uncertain events produce grievous loss, it is in general beyond the power of the individual by any accumulation of his personal savings to provide against it. Suppose a man marrying on an income of £100 a year desires

to make provision for his wife and any children they may have should he die while they are dependent upon him. He knows that life is uncertain, that among men at his time of life death happens to more than one in a hundred every year, and that he may be that one. But what can he do? Say that he is able to put aside £5 out of his income each year. Say that he dies in the first year—what use will a single £5 be? But if a hundred or more people who are exposed to the same risk, out of whom one or two will die, club their £5 together, and so raise a fund of £500, there will be £200 or £300 at least for each widow.

That is a simple illustration of the principle upon which all insurance depends. It has been often observed that contingent events happen with a certain degree of frequency among a considerable number of persons equally exposed to risk. The number of persons who may be expected to die in any year out of any large population will probably correspond very closely with the number of deaths which have actually been recorded in the past among a similar large population; and this has been observed with so much constancy that it has been dignified with the title of a law of mortality. It is not, however, strictly a law, but only the application of the results of observation. It is obvious that increased temperance and better sanitation and other more wholesome conditions of life tend to reduce the number who die and increase those who survive; in like manner

that some climates are more favourable to life than others; as are also some occupations.

The contract of life insurance, in its most usual form, is a policy or promise to pay a given sum at the death of the person whose life is insured in consideration of the annual or more frequent payment of a fixed sum as premium. The party making the promise usually takes measures to ascertain that the person whose life is to be insured is in good health; but he is not at liberty to withdraw from his bargain if that person should hereafter fall into bad health, the only condition of the continuance of the insurance being the continuance of payment of premium. It is obvious that the risk of dying during the year is greater in the case of a man in bad health than in the case of a man in good health, and is greater in the case of an old man than of a young man. The premium, therefore, must be more than enough to cover the risk of death during the current year, and the surplus must be carefully accumulated to meet the greater risks that will come with age and impaired health.

It will, I think, be seen from this description that these societies are as really institutions for thrift as those societies which merely receive and accumulate savings. The person insured pays his premium with two objects: first, that in a certain contingency arising he shall receive a sum greatly exceeding the amount that he has paid in; secondly, that the portion not required for that

current insurance shall be invested for his future benefit. These are both purposes of thrift; and though it is obvious that you cannot eat your cake and have it too, and that if you receive more than you have paid in, the excess must be paid by someone else, and that therefore in an insurance contract some must pay more than they receive in order that others may receive more than they pay, yet, as the uncertain calamity which is the subject of insurance would be the ruin of the thrifty person who had contented himself with mere accumulation, he cannot but insure.

I have taken the contract of life insurance as a typical example of thrift by way of insurance; but viewed in the light of a real provision for the widow and family of the insurer, it is very much more popular as an instrument of thrift among the professional classes than it is among the industrial classes. The latter are still too much disposed to be content with a mere insurance of burial money. It may be said that this is all they can afford, all that can be expected of them when the more urgent calls of life upon their scanty earnings are taken into consideration; and also that the widow of a working man is not so helpless as the widow of a professional man when left without adequate provision for the future, and is better able to provide for herself and her children. There must still, however, be many occasions when the premature death of a well-paid artisan would leave his widow in great distress; and it is

satisfactory to note that a move has recently been made by the Ancient Order of Foresters and some other bodies to induce their members to effect life insurances up to the limit of £200 which is fixed for a society registered under the Friendly Societies Act.

For the reasons given, I may claim the great life assurance companies of the country, whose business is so enormous, as in reality to a large extent institutions for thrift. Between them and the collecting friendly societies come the industrial assurance companies, of which the chief is the Prudential, which both in its industrial and in its ordinary business is of colossal magnitude. The collecting friendly societies call for some observation on the present occasion, as the largest of them is one which is established in Liverpool and bears Liverpool's bird, the Royal Liver, as its title.

In 1891 there were 43 such societies, with 3,875,000 members and £2,713,000 funds; in 1899 46 societies, with 5,923,000 members and £5,208,000 funds; in 1903 43 societies, with 6,973,000 members and £7,221,000 funds. The improvement in the condition of these societies, apart from the actual increase in the number of members and amount of funds, may be tested by stating the amount of funds per member. In 1891 this was 14s., in 1899 17s. 7d., in 1903 20s. 8d., an increase of 48 per cent. in 12 years. But the increase in the number of members is

still more remarkable, being as much as 80 per cent., and as a great influx of new members tends rather to diminish than to increase the average amount of funds per member, there is evidence in this of a real effort on the part of the societies to strengthen their reserves.

The returns to 31st December, 1899, give us further particulars relating to these societies, which throw some light on their methods of working. The number of new members admitted during the year ended that day was 1,620,000, the number of deaths during the year 125,000, the number of withdrawals 1,135,000, the increase of membership during the year, 360,000 only. The contributions of members for benefits were £1,140,000, the gross income of the benefit funds of the societies £1,310,000, the payments for benefits £961,000, the total payments £964,000, showing an increase in the benefit funds of £346,000. Comparing the payments for benefits with the number of deaths, it would seem that the average amount payable at death is something over £7 10s.; and if that proportion prevails at the present time it would appear that the aggregate sums insured by these societies exceed 50 millions sterling.

Compared with this liability, the capital of these societies does not appear to be as large in proportion to the liabilities as we should expect to find it in an assurance society of the ordinary type; but that conclusion is greatly qualified by the rapid changes in the membership. When it is considered

that for every 100 members who come in, 70 go out, it is evident that the average duration of the existing policies is much less than in an ordinary assurance society.

The contributions for expenses were £904,292, and the actual expenses £873,765. In other words, out of every £1 contributed 8s. 10d., out of every shilling contributed 5½d., was appropriated for the mere expenses of management. Every £1 paid in benefits to the members cost 18s. 2d., every shilling paid in benefits cost 11d., in expenses of management. When these are compared with the ratios that prevail in a well-conducted ordinary assurance society, they form an example of the general truth that the poor man has to pay more for what he wants than the rich man pays. A life assurance company that loaded its premiums with 80 per cent. for expenses would not get much business. This, however, is very much the fault of the poor man himself. The money is spent in the remuneration of canvassers and collectors; the poor man will not insure his life or the lives of his wife and children until he (or more often she) has been wheedled into doing so by a canvasser, and he (or she) will not keep on paying the premium unless it is called for every week by a collector. The collectors have to live, and the great majority of them have to work very hard for their money. If the poor man would make up his own mind that insurance is a good thing, and would himself get his insurance through

the Post Office, without troubling canvassers or collectors, he might save a great deal ; but that is exactly what he will not do.

It has sometimes been suggested that the Government should compete with the collecting societies for this business, and that the Post Office should undertake the collecting of the premiums. It might undoubtedly do so, but could it do the canvassing? If it did, it would require a separate staff for the purpose, for it would not do to delay the delivery of letters while the postman was arguing with the lady of the house on the moral urgency of life assurance; and indeed the persons who insure with collecting societies are not of the class which has a large correspondence. As the official canvassers would require special training, and a special organisation would be required for controlling the official collectors, I fear that little would be gained in economy, though doubtless much would be gained in security.

Behind the figures I have given there lurk some disquieting facts. In 1903 there were only 43 collecting societies, the same number as in 1891; but in the meantime a similar number of new collecting societies had been registered. What has become of these? The answer is that in too many cases they have collapsed, with disastrous results to those who trusted in them. An instructive case in point as to the manner in which some of these societies were conducted is given in my

last report. The return of a society, duly audited, showed an entry of £485 cash at the bank. A cheque for that amount, drawn on an insurance company promoted by the same persons, had been paid on the 31st December to the account of the collecting society at a bank which was also under their control, but with instructions to the manager that he was not to present it. The proceedings which I directed to be taken failed because the principal offender absconded, and the magistrate dismissed the summonses against his colleagues.

Another bad case was that of the Cumberland society, which obtained £9,300 from the public, spent two-thirds of it in management, and then, being insolvent, sought to transfer the members to another society, unregistered, under the same management. As it is an offence to do this without the consent of the members, fourteen summonses were taken out, and convictions obtained.

In another case, the society had been managed with disregard to its rules and to the Act, and, but for the resolute action of one of the trustees, nothing would have been left for the members. The manager of the society actually appealed to the Lords Justices to restrain me from proceeding in the winding it up. In this he failed, and I had the satisfaction of directing the return to the members of a portion of their contributions.

In another case, that of a collecting society in Yorkshire, people were induced to pay money in

the belief that it was a *bonâ fide* registered society, and the balance sheet for 1902 represented large assets, when in fact there was only £14 standing to the credit of the society in the Yorkshire Penny Bank. The secretary, having been traced by the police under an assumed name, was charged by Mr. Barlow on behalf of the registrar under twenty summonses, and fined £65 and costs, or three months' imprisonment.

A more recent case, that of the Empire Collecting Society, was heard by Mr. Curtis Bennett, the magistrate at Westminster, on four occasions, and in fining the directors and secretary for their breaches of the law on the 3rd February, 1905, the magistrate called attention to the fact that, while the rules allowed of as much as 75 per cent. of the receipts for the first year being appropriated to management, in fact the whole had been expended—nothing being put by for benefits.

A further mischief which I fear is widespread in the collecting and industrial assurance systems is the encouragement of speculative assurances. An old Act of George III. (130 years ago) prohibits insurances where the policy-holder has no interest in the continuance of the life, and the Friendly Societies Act allows of assurances only on the life of a member or for the funeral expenses of his wife or child, and does not allow of the insurance by a member of the life of a stranger, whether he has any interest in it or not; yet it is much to be feared that many such insurances are effected. They

cannot be profitable to the societies, for the speculative insurers would be likely to select bad lives rather than good ones; and they are greatly against the public interest, for there is no more shocking sort of gambling than gambling in the lives of men, and worse evils still may follow.

A similar question has often been raised with regard to the danger to child life supposed to be incurred by the practice of the insurance of infants. Where the provisions of the Act are duly complied with, there should be no risk of this. The Act limits the amount that may be paid on the death of a child to £6 if the child is under five years of age, £10 if under ten years of age, and directs that payment is only to be made to the parent, or if the child has no parent to the legal personal representative of the parent. Surely it would be a libel on the parents of British children to say that the small margin in these sums over the actual funeral expenses necessarily incurred would be sufficient to tempt them to murder their offspring. In this respect, also, the interests of the companies coincide with the public interest, and it is for them to use vigilance that fraudulent claims are not made upon their funds.

When we have considered these various drawbacks to the system of industrial assurance—its expense, the risk of mismanagement arising from want of control by the body of members over the collectors and managers, and the danger attending speculation in life assurance — we have still to

face the fact that the provision of burial money is an object dear to the heart of the very poorest, and that these societies are the only practical means existing for making that provision. The pauper funeral is a thing to be avoided at any cost. In this sentiment are the dawns of a noble spirit of independence, and it is distinctly one to be encouraged. I wish they could get their insurances more cheaply and more safely; but industrial assurance is a necessity, and the societies and companies which grant it fulfil a useful function.

It is an easy transition to pass on to the other kind of insurance which is offered to their members by the great body of friendly societies: insurance against sickness. It would be more accurately defined as assurance against inability to work arising from sickness; for the question is not a pathological, but a practical, one. The real thing insured against is the loss of wages. When this is borne in mind, one gets a clear idea of the proper function of a friendly society in respect of sickness assurance. It is an assurance applicable to the wage-earning period of life. When a man ceases to be a wage-earner and falls sick, it is a common practice with the societies to allow him sick pay—usually a very small sum—but in reality his sickness of itself causes him no loss of wages, and the pay allowed should be superannuation pay, not sick pay.

This is a distinction which it is rather important

to bear in mind. It is possible that if we had to deal with a physical condition only statistics might be collected and tables constructed that would give a so-called law of sickness as generally applicable as the law of mortality. But that is not so: we have what may be called two personal equations to solve. A strong and resolute and earnest man will go on with his work in circumstances of sickness much more severe than those that would lead a flabby-minded, lazy, shirking sort of fellow to lie by. An easy-going doctor will authorise payment of sick pay in circumstances which a strict, firm doctor would stigmatise as malingering. So with the managers and the sick visiting members of a society: if they are vigilant and earnest in the performance of their duty to the society, its burden of sick pay will be much less than if they are not.

The observations of sickness, therefore, some of which are of great extent—Mr. Sutton's comprised four and a half million years of life, and Mr. Watson's, of the Manchester Unity, three millions—are really observations of the sickness claims admitted by various societies, and are safe to use, because the errors on the one side are in such large averages compensated by errors on the other. The importance of this consideration is shown by the results of the valuations from time to time made by the societies. Mr. Leveaux has kindly supplied me with particulars of the valuations of 2,077 societies made by various valuers during the year 1902. The valuers compared the amount of sick

allowance actually paid by the several societies during the five years with the amount that they would have had to pay according to the table of sickness experience used by the valuer. The general average of the whole agreed very closely with the expected amount. It was £1,400,681, and the expected amount was £1,354,911—a difference of only 3 per cent. So also in a large county like Lancashire, where 312 societies were valued, the experience was £207,453, the expectation £206,893—a difference hardly noticeable. But in some of the smaller counties the differences, whether in excess or diminution, were very great. In Merioneth 12 societies paid £3,777 only to the members, while the tables would have allowed for £6,006—a difference of 37 per cent. in favour of the societies; in Glamorgan they paid £53,778, when the tables only gave £37,267—a difference of 44 per cent. the other way; while in Monmouth, where £8,459 only was expected, £13,861 was paid—a difference of actually 64 per cent.

Like life assurance, the practice of sickness assurance was not always regulated by scientific calculation. The early life assurance societies charged £5 per cent. all round, and it was a long time before they discovered that this was unfair to their younger members. So the early friendly societies charged uniform contributions, and some even now continue to do so, not having yet discovered that this is unfair to their younger members.

The younger men, however, find this out for themselves, and are not willing to join societies where they pay as much as the older men and get back much less. The same thing happens with societies which divide their funds. This is a very common cause of failure in friendly societies, for as the men get older the claims for sickness get more and more, until at last there is nothing left to meet them. It is a melancholy picture to see a society break up when all its members are old and want its benefits; and this has thrown discredit upon friendly societies generally.

The first thing essential, then, to the solvency and good management of a friendly society, is that its rates of contribution should be accurately proportioned to the risks. Too often the people who start friendly societies ask themselves the question, "How much can we afford to contribute?" and make that the measure of their contributions; and then ask again, "How much shall we want per week when we are sick?" and make that the measure of their benefits. This will not do. You must not promise yourselves in benefits more than your contributions will be adequate to insure; if you do, you will lay up for yourselves disappointment and disaster. The contribution for sick benefit is ascertained upon the same principle as the premium for a life assurance. Each man pays the same rate of contribution all through his membership, but as he gets older his liability to sickness increases, and therefore the contribution

must be enough not only to cover the current risk but also to accumulate a fund for the future.

Whether the fund so accumulated is sufficient or not it is the business of the valuer to find out. Accordingly, in 1846, the legislature, in one of its hot fits at helping friendly societies on the road to solvency, enacted that every society should be valued once in every five years. But, as usual, that was followed by a cold fit, and in 1850 the Act was repealed, before a single quinquennial period had expired. The great Manchester Unity of Odd-fellows, which has always been the pioneer among the affiliated orders in taking measures to secure the solvency of its lodges, made a valuation of every lodge in the year 1870, with the result of showing that their assets, which, including the value of future contributions, then amounted to nine and a half millions, were insufficient by £1,300,000 to meet the benefits assured. Six subsequent valuations have been made, showing a gradual improvement, until the last shows assets in excess of the liabilities, which now amount to twenty-three millions. There is still more to be done, for each lodge is an independent body, and one lodge which has a deficiency cannot call upon another which has a surplus to make that surplus over. Still it is a great thing for the Unity to be able to say for the first time in its existence that the lodges which have a surplus are more numerous than those which have a deficiency, and that the sum total of the deficiencies, exclusive of the

surpluses, has gone down from £1,360,000 to £1,030,000. This is real evidence of a very strenuous effort on the part of the lodges in question to meet the emergency, for the natural effect of a deficiency is to increase, partly by the operation of compound interest, partly by the continued operation of the causes that led to the deficiency.

In 1875, the legislature required every registered society to make a valuation once in every five years, and these valuations have followed the same course, though it is not practicable to draw the same comparison between them that has just been drawn between the first and last valuations of the Manchester Unity, inasmuch as the elements of the calculations are not, as they are, similar. I do not hesitate to say, however, that the thirty years which have passed since valuation was made compulsory have been years of great progress towards actuarial solvency on the part of friendly societies generally; and that if, thirty years before that, the Act of 1846 had been enforced instead of being repealed, the movement towards actuarial solvency would have been hastened to the same extent, greatly to the advantage of the members of the societies. For it is only by means of an actuarial valuation that a society can ascertain whether it is solvent or not. You will hear the officers and members of a society say "Why, last year our sick pay only amounted to so much, and we increased our investments by so much, making altogether such a sum, so you cannot say that we are insolvent."

It may nevertheless be the fact that the amount which the society set aside and accumulated in that particular year was altogether insufficient to meet the prospective liabilities it had incurred; that the society, notwithstanding its apparent wealth, had not sufficient assets to meet its liabilities. This subject of valuation is so important that, at the risk of being tedious, I will ask your attention to some particulars relating to the process and principles of it. One reason why I look forward with so much hope to the work of this School for Training for Social Work in connection with this University is that it cannot fail to spread abroad a knowledge of the true conditions of soundness in friendly societies and of the scientific principles that underlie the methods upon which that soundness is tested. I have myself ventured to suggest that this should be one of the subjects taught in elementary schools, on the ground that the children of these schools will soon be members of friendly societies, and that there is nothing more to their interest than that they should be intellectually trained to keep their societies in the right path; but the elementary text-book from which that is to be taught has not yet been adopted, and the overworked teachers are not keen to undertake new subjects. Meanwhile your School of Social Work will serve admirably as a centre of enlightenment on these points.

The Act allows any person to be a valuer for a friendly society who is competent to do the

arithmetical sums required; but I am far from suggesting that any society should be satisfied with that minimum of qualification. The Lords of the Treasury have appointed a number of public valuers and fixed a scale of moderate fees for their services. There are also many members of the actuarial profession who are willing to undertake this work, and there are some gentlemen, professing more or less actuarial knowledge, who have taken it up exclusively. The tables of values of annuities which have been constructed from the experience of societies are so complete that, given for each member the age, the amount of sick pay insured, and the amount of contribution payable, it is a very simple matter to extract the corresponding values from those tables and to furnish a valuation balance sheet, but this is not all that is implied in the duties of a valuer.

One very important matter for his consideration is the relation of the actual experience of the society to the calculated expectation according to the standard tables adopted by him. As we have seen, that may differ even to a considerable extent. It is for him to investigate the cause of that difference. If it appears to him to be permanent, arising from the nature of the occupations of the members or the conditions that surround them or from any other cause, it is evident that the standard table will not do, and that its results must either be corrected by making adequate reserves, or some table derived from the experience of men of the like

occupation or under the like conditions must be used instead. If it appears to him to arise from causes not of that nature, but connected with the management of the society or with temporary and passing conditions, it will be for him to advise the adoption of measures for effecting reforms in the management or for avoiding the recurrence of these conditions.

When he has struck his valuation balance sheet, it will either show that the funds of the society are exactly equal to its liabilities, or that they are less or more than the amount necessary to meet those liabilities. It is at this point that the greatest call is made upon his discretion, his wisdom, and his experience. Suppose the funds are more than necessary, he is to consider what increase of the benefits or what diminution of the future contributions that condition of affairs will justify. This is not a mere matter of arithmetical calculation, for the basis of the tables he has used in his valuation is an estimate of probabilities only, and before he deals with the surplus he has to consider what amount ought to be reserved for the contingency that there will be aberrations in the future from that estimate. On the other hand, he has to bear in mind that the existing members are entitled to the advantage of all the profit that their contributions have actually realised.

In the other, which is unfortunately the more usual event, that the funds are not sufficient to meet the liabilities, the valuer's task is even more

delicate and difficult. It is clear that he must devise means by which that deficiency may be entirely cleared off, for if not it will increase, both by the operation of compound interest and by the continued operation of the causes of the deficiency. He has to advise whether this is to be done by an increase in the contributions, a diminution in the benefits, or by a levy upon the members, or by all three together; and he has to devise means by which these strenuous measures may be adopted with least inconvenience to the members and least disturbance of the society's work. He has also to consider the case of new members. He must be careful that he does not advise such an increase of the contributions relatively to their benefits as will exceed the amount necessary for safety, saddle them with past deficiencies, and thus deter any new members from coming in.

This leads to the consideration of a practical point of great importance to social workers. They urge those they come across to join a friendly society, and are met with the inquiry: "Which friendly society shall I join? Is such and such a society sound?" The social worker feels that he incurs a heavy responsibility if he glibly answers, "Yes." How can he know whether it is really sound or not? What will be his position if some years hence it turns out to be insolvent, and the man who has been induced to join it upbraids the social worker as the cause of his having lost his money? Now, if the question "Is this society sound?" is to

be understood as implying that the society will always have a surplus of valuation assets over valuation liabilities, that is a question which no one can answer, not even the valuer himself, and it is not a fair question.

All that you can deal with is the result of the last valuation, and if that be favourable, you may wisely point out to the intending member that, in becoming a member, he becomes himself responsible for the future of the society. Every friendly society is self-governed; and if a society, once solvent and prosperous, comes to grief, the members are alone to blame for it. If the man with whom you are dealing is a young and energetic man, you may well put before him as an object of ambition an early election to office and share in the actual duties of management.

But how about a society which has shown a deficiency on its last valuation? Are you to warn everyone against such a society, and caution people not to become members of it? Unfortunately, these societies are in the majority, and if they cannot get new members it will be bad for them. Are we then bound to caution people not to have anything to do with a lodge, or court, or society that has a valuation deficiency of funds? Upon one condition, no! and that condition is, that the society has complied with the advice of its valuer and has taken the steps necessary to convert that deficiency into a surplus. A society which has done this may be even stronger than one which,

having a surplus, has increased its benefits, or diminished its contributions, or distributed a bonus; for it has been noticed by actuaries and other practical men that sick claims are often greater on a rich society than on a poor one. If a society is known to be poor the members are less anxious to claim its benefits, and the officers are more vigilant to scrutinize claims; if a society is supposed to be rich, the converse conditions operate. The figures we have given as to aberrations from experience in societies should show that no society need despair of retrieving its position.

It may be interesting, however, to give a few recent examples. In this county, the Cockerhàm and District Independent Oddfellows' Friendly Society was established in 1844, and as its contributions were insufficient when it was valued in 1897, there was a deficiency of £1,205. It complied with the valuer's recommendations and increased its contributions, and also imposed more stringent restrictions on claims for sickness. When valued again in 1902, there was a surplus of £202. So, again, the Accrington and District Goods Guards and Shunters' Friendly Society, established in 1891, was found at its first valuation in 1896 to have incurred a deficit of £87. The valuer advised a reconstruction of its constitution, and that having been effected, the valuation of 1901 gave a surplus of £6. In Staffordshire, the Bilston District Provident Society, established in 1849, was deficient in 1895 to the extent of £13,956.

Modifications of sickness benefits produced in 1901 a surplus of £9,310.

Instances like these confirm me in the opinion I expressed in 1881 when, in preparing the tenth edition of a book on the Law of Friendly Societies, I wrote: "A word of caution may be added against forming too hasty conclusions adverse to friendly societies, if it should turn out that the valuations in many cases show an estimated deficiency in the funds to meet the liabilities. It would be strange if it were otherwise when for the first time scientific tests are applied to contracts that have been in operation without a scientific basis for a long series of years. It must be borne in mind, however, that nothing is more elastic than the contract made by a friendly society with its members, no error more easy of remedy if found out in time than one existing in the original terms of such a contract. Hence the words 'insolvency,' 'rotteness,' and the like, which we sometimes hear freely used as describing the general condition of friendly societies, are utterly out of place. Of friendly societies in general it may be said that as there are no associations the benefits of which are more important to their members, so there are none that are managed with greater rectitude, and few with equal success. Indeed, one cannot withhold a tribute of admiration for the zeal and industry—hardly ever adequately remunerated—with which the secretaries of many societies labour for the public good."

I may now say a few words about the history of these societies. A return appended to my report for 1899, prepared with great care by Mr. Tozer, gives us some interesting information. There were then existing 229 societies more than a hundred years old out of a total of 7,526 societies, which figure does not include the lodges and courts of orders. The oldest societies are in Scotland, viz., the Incorporation of Carters in Leith, founded in 1555, which has 57 members and £7,081 funds; the United General Sea Box of Borrowstounness, 1634, which has 45 members and £7,898 funds; the Poor Sea Box Society of St. Andrews, 1643, with eight members and £2,256 funds; and the Fraternity of Dyers of Linlithgow, 1679, with 55 members and £3,827 funds. Next comes a very interesting group, due to the settlement in this country of those noble aliens the Huguenots, of societies established in Bethnal Green—the Friendly Benefit Society, established 1687, having 61 members and £1,386 funds; the Norman Society, 1703, with 60 members and £2,731 funds; and the Society of Lintot, 1708, with 61 members and £2,563. These societies suffice to prove that a friendly society, by good management, may continue in existence and in a condition of prosperity for a long series of years. It argues a grasp of the principles of accumulation necessary for soundness in a friendly society, much to the credit of the members of these bodies, that they have not been tempted by the increase in their funds

to apply them to present indulgence rather than to devote them to future security.

My learned friend Mr. Ludlow is strongly of opinion that there is evidence of continuity between the old guilds and the friendly societies of the present day, and we may go even further back to the Roman *collegia* and find instances of men of a trade, such as the College of the Smiths, men of a district, such as the club established at Lanuvium, united together for various provident purposes, including the relief of members in distress; but, as we have seen, the scientific aspect of friendly society work is entirely a modern development, and we need not therefore recur to these more ancient forms of association. You will observe that the older societies in Scotland and England to which we have referred are all isolated local bodies. A society established in Leicestershire in 1767 marks a new departure which has steadily grown in importance, and is now the dominant factor in the friendly society movement, for it still exists as the Grove Lodge 868 of the N.A.I. U.O.O.F.

The affiliated orders are almost alone in the colonies, and are the most active element in the United Kingdom in the development of friendly societies. Some of them make fantastic claims to antiquity, as that the Oddfellows were founded by the Emperor Titus in the first century of the Christian era; but we need not go into those. The establishment of these orders is due to the

rise of Freemasonry, and their lodges were at first mainly convivial and incidentally benevolent. The development into the regular friendly society was gradual. By the end of the eighteenth century many lodges of Oddfellows, Druids, Gardeners, and the like had been formed. The legislature looked with grave suspicion on these affiliated orders and resolutely ignored them until 1850. It was not until 1875 that their organisation as single societies with branches was fully recognised. There are now more than 170 such orders, having 20,000 branches and 2½ millions of members.

The system of the affiliated orders, as consolidated under the provisions of the Act of 1875, embodies an excellent combination of local independence with general central control. Each lodge, as we have seen, is, for purposes of management and finance, absolutely its own master. For purposes of equalising claims for funeral money, and more profitably investing accumulated funds, the lodges are generally grouped into districts, which are managed by delegates of the lodges. Formerly the custom was for the districts to make a levy on each lodge to defray the actual funeral expenses incurred. Now it is beginning to be generally understood that that plan is unsound and inequitable; and the districts are charging the lodges proper premiums calculated according to the ages of the members, and accumulating the surplus to meet future liabilities. The districts and lodges send delegates (according

to the constitution of the particular order) to the general meeting, which is usually called moveable committee or high court, and is held in various towns in successive years. This meeting makes general rules which are binding upon all the branches as long as they continue branches, and since 1875 has made rules which have made it more and more difficult for a branch to secede. The power of this general meeting has thus gradually increased. It prescribes the rates of contribution that the lodges shall charge. It collects from each branch a contribution towards a central fund to assist branches in distress. The assistance granted is, however, discretionary, and depends upon the questions whether the lodge has complied with the general rules of the order, whether it is prepared to meet the relief half-way, and help to relieve its own difficulties, and other like matters. It is by no means a guarantee of the solvency of every lodge in the order.

The preceding remarks have related exclusively to friendly societies of the permanent class, but I must not forget that in many parts of the country, and especially in Liverpool, the class of friendly societies that, instead of accumulating its funds, hands each year's surplus back to the contributors, and thus virtually commences a new existence each year, called in the north usually tontines, and in the south slate clubs, is vastly more popular than the permanent society. This is felt to be so great a grievance by the permanent

societies that I am told they have actually drawn up a Bill to prohibit the registry of societies of the dividing class. I am sorry to hear it. People are not driven into dividing societies by force or fraud. They join them because they prefer them to the permanent societies. They know their own business perfectly well, and they prefer the plan of having their money returned to them for their own use to the plan of leaving it in the hands of the society to accumulate for future years. What is there immoral in that? What right have the permanent societies to interfere with the freedom of others by prohibiting it? All that is best in them is due to the freedom by which they have been allowed to work out their own salvation. Why should they, at this time of day, ask for protection against trade rivalry, and ask that every society, forsooth, must obtain the certificate of an actuary approved by the registrar, and tax itself with the payment of such fee as the select body of actuaries so approved may exact? What would they have said if such a Bill had been introduced by the Government? They would have risen as one man to repel such an assault on their freedom. "*Quam temere in nosmet legem sancimus iniquam!*" The dividing society deals honestly with its members and satisfies them, and no one else has any concern in the matter.

I do not mean to imply that I recommend a dividing society or that I wish social workers to

do so. The objections are obvious, that the temptation to spend the amount divided is great; that the inducement to thrift is relaxed; that the relations between the younger and older members are unfair; and that when the young cease to join it the society will collapse. But the dividing society will always have an attraction for those who are not permanently settled in one place, and it has this advantage, that nobody ever supposes that a dividing society is a provision for old age. It is a weak point of the ordinary permanent friendly society that, while it is supposed to provide for the old age of its members, it generally seeks to do so only by the method of continuing sick pay throughout life. A movement is on foot and has made some progress for doing so by the much better method of insuring a deferred annuity.

*"Dum vires annique sinunt tolerate laborem;
Jam veniet tacito curva senecta pede."*

When I first wrote on this subject I said that there is no other way of providing for old age than by thrift, self-denial, and forethought in youth, and I have not succeeded in discovering any other way since. The earlier you begin to purchase a deferred annuity, the less burdensome it is; and I had hoped that the amendment of the Friendly Societies Act made in 1895, by which children could be made members of friendly societies from an early age, would have been found of great service in this respect. It must not be overlooked that the purchase of a deferred annuity is

not a favourite investment of money. The continuous payment of a premium over many years, with the risk of loss or of inadequate return, is a great deterrent. Some years ago I suggested a plan of meeting this difficulty by treating every £1 paid as a complete transaction, insuring a fractional annuity, and issuing a card as an unforfeitable completed contract to that effect, so that when the time for entry on the annuity came all the cards might be added together.

The suggestion, however, has not caught on, and the movement towards the general insurance of deferred annuities by members of friendly societies has been slow, partly because it has been hampered by the general circulation of the idea that the State is going to provide old age pensions for everybody, or at least for everybody who is thrifty. As the State has no gold mine to dig into for that purpose, except the pockets of the people, I think the expectation will turn out to be fallacious.

The ordinary friendly societies cannot promise deferred annuities except upon tables actuarially certified. The trade unions are not under any such restriction; and some of them undertake to pay pensions to their members when past work. I understand that hitherto they have fulfilled these undertakings, and that in particular the Amalgamated Society of Engineers, in all the pressure of their great strike a few years ago, left intact the small fund which they had accumulated and put aside for the payment of these pensions.

The method, however, by which trade unions raise the funds to provide benefits for their members is to a considerable extent that of levy, and it is not a scientific method of providing for a benefit so long deferred and so heavy in amount as an old age pension, and I cannot but think that a day will arrive to some of the trade unions when they will be unable to fulfil this part of their promises to their members. In a trade which is constantly being reinforced by young workers, who are practically compelled to join the union, the evil day may be long postponed, but should those conditions fail, it will be sure to come.

I propose, therefore, briefly to consider trade unions as one of the institutions for thrift by way of insurance. To those who look upon trade unions only as institutions for carrying on warfare between the workman and employer this may seem strange; but I hope to be able to satisfy you that these bodies are entitled to be ranked with insurance institutions.

First, they do actually grant friendly society benefits to a large extent. A return published by the Board of Trade, founded on the experience of 100 of the largest trade unions for the 12 years from 1892 to 1903 inclusive, shows this very clearly. On the average of those 12 years those 100 unions expended £1,239,000 in benefits of various kinds each year. Out of that sum as much as £612,000 a year, or 49 per cent., was for friendly society benefits; £347,000, or 28 per

cent., was for relief to the members when unemployed, which is a benefit friendly societies do not give, but is nevertheless a very useful form of insurance; and only £280,000, or less than 23 per cent., less than £1 in £4, was for dispute benefit, *i.e.* strikes.

These proportions fluctuate very much, as in some years there is much more expenditure on dispute benefits than in others. In 1903 the expenditure on that head was very low, being only £172,000, or less than 12 per cent. of the total, while the friendly society and unemployed benefits were above the average, being respectively £791,000 and £504,000, or 54 and 34 per cent. of the whole. During the whole twelve years these 100 trade unions provided the same benefits as ordinary friendly societies to the amount of £7,340,000, and gave as benefit to the unemployed, which friendly societies cannot give, £4,170,000.

There were altogether 672 trade unions registered and making returns on the 31st December, 1903, and their total expenditure was £2,200,000. There is no reason to think that the proportion of the several kinds of relief would materially differ.

It is clear, therefore, that, so far as trade unions do the same business as friendly societies, they are institutions for thrift by way of insurance. So also the unemployed benefit. There is no kind of insurance more important to a working man than insurance against want of employment. Bodies that raise from the contributions of

members in work a fund amounting to half a million a year for the relief of members out of work are engaged upon a valuable form of insurance. I am prepared to go further. The dispute pay is also an insurance. By its means the workmen are enabled to secure to themselves what they consider to be fair wages and favourable conditions of employment. It is not merely the sum actually applied to that purpose which is the measure of the benefit secured, for the knowledge that there is such a fund at their back frequently secures concessions to the workmen without a fight.

Thus, although it is true that the primary and paramount object of a trade union is the protection of the trade interests of its members, and the method by which it effects it is the provision of dispute benefit, to which all the other purposes must in case of need give way, yet in practice the amount applied to those other purposes is three-fold the amount applied to dispute benefit. It has always been recognised by the friends of trade unions that the circumstance that their funds are applicable in the ordinary course to relief to their members when sick or aged or out of employment is one that tends very greatly to the peaceable settlement of disputes, inasmuch as the members will be unwilling to see those funds greatly reduced except for a purpose which they find to be of paramount necessity. While, therefore, the existence of the fund is a powerful lever in negotiation, the fund itself is not always required to be drawn upon.

It is one consequence of the method of levy by which trade unions are mainly supported that they do not accumulate funds to the same extent that friendly societies do, though the returns show a gradual, though not continuous, increase in the ratio of accumulation. Thus in 1873 the annual income was about £1 per member, and the accumulated funds only about 16s. per member; in 1883 the income was 28s. per member, and the funds £2 2s. per member; in 1893 the income was 34s., and the funds had dropped to 26s. per member; while the last return, for 1903, shows an income of more than 30s. per member and funds exceeding £3 per member. The proportions fluctuate so much with the circumstances of the unions that it would be better, instead of taking individual years, to take an average over a series of years, but these figures are sufficient to indicate that the amount of sacrifice and the practice of accumulation are growing.

Taking the issue broadly, it would seem that the trade unions have increased their accumulations since the unions were first recognised under the Act of 1871 from an average of one year's contribution or less to an average of two years' contribution or a little more; that is, they have progressed from the notion of keeping one year's income in hand to the idea of forming an accumulated fund; but the accumulations have not yet proceeded far enough to constitute an adequate insurance fund. Meanwhile, a great blow has

been dealt by legal decision to their means of meeting their insurance liabilities. It has been held that their whole funds are liable to meet any claim for damages that may be made in respect of wrong-doing by any of their officers—in other words, a corporate responsibility has been enforced against them for the acts of individuals.

I confess that I think this constitutes an injustice that ought to be cured by legislation. The Act of 1871 expressly withheld from trade unions the privileges of incorporation; and it would seem that they ought to be exempted from its disabilities. The Act vests their property in trustees, and authorises them to make rules directing what shall be the powers of their trustees in the application of their funds. Any breach of trust by those trustees would be an injury to the whole body of members. How then can the whole body of members be thought to have sanctioned any illegal act of their officers? Surely the person aggrieved has his remedy against the officer who committed the illegal act and against any persons who aided and abetted him, but not against the funds belonging to the whole body of members. Yet this is the law of the Taff Vale case.

When one considers the self-denial and thrift that are exercised by the members of trade unions, and the great sacrifices they make when called upon to enter into conflict with their employers, one cannot but feel that they have met with less sympathy than they deserve. While we

may acquiesce in the decision that a combination between employers to close their works at the bidding of a majority was unlawful as being in restraint of trade, we need hardly follow it to the absurd extent of holding that a combination of workmen to obtain from their employer such wages as they think fair, and not only such as he chose to offer, was equally unlawful as a restraint upon his trade. It is quite evident that section 44 of the Act of 1855 was intended to protect the funds of these unions. The decisions of the courts left those funds at the mercy of the thief and the embezzler. What a divorce between law and morals!

The Act of 1871 re-established the Eighth Commandment in its application to the funds of trade unions. The Taff Vale case has now exposed them to a new peril. I confess I would rather that the legislature and the judicature were busy in protecting these funds, derived from the labour and the hardly won economies of the industrial classes, and devoted to purposes which they are justified in considering the most sacred and the most praiseworthy, than in taking the opposite course.

Another institution for thrift by way of insurance is created by the Workmen's Compensation Acts, but here the duty for providing for the insurance is cast upon the employer. I will not take you through the dreary story of the way the Employers' Liability Acts were frittered down

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by fictions ~~of law~~ ~~It is~~ enough to say that the Workmen's Compensation Act imposes upon the employer in certain specified employments the duty of insuring at his own cost his workmen against accident from any cause arising in his employment other than the workman's own serious and wilful misconduct. The Act also fixes, within certain limits, the amount of compensation; but it provides that the employer and workmen may agree to substitute for the compensation provided any equivalent scheme. Fifty-four such schemes have been certified as being equivalent, and about 120,000 workmen have accepted them. Their funds exceed £180,000. It is obvious, therefore, that the bulk of the workmen affected by the Act prefer to avail themselves of the provisions of the Act, and that, as the scheme requires an equivalent provision by the employer, he has no interest that it should be otherwise.

We thus find that institutions for thrift by way of insurance possess in the case of societies registered under the Friendly Societies Acts a capital of £47,666,000, in the case of trade unions £5,260,000, in the case of workmen's compensation schemes £181,000, together £53,107,000. We found last Friday that institutions for thrift by way of investment have accumulated £329,000,000; so that the total funds in the institutions for thrift with which we have dealt are £382,000,000. If to these we were able to add the money belonging to friendly societies and trade