Title:
Banking Machinary

Word Count:
961

Summary:
Capital, then, is wealth invested in industry, finance is the machinery by which this process of investment is carried out, and international finance is the machinery by which the wealth of one country is invested in another.

Keywords:
capital, money, finance, price, lent, borrowers, borrower, machinery money, lending, borrowers money, wealth, saved, risk money lending, lending money, money lending, finance, drawn, international, bill, exchange, international finance, money, bank, machinery, bills exchange, london, firm, bills, trade, part, bills exchange drawn, exchange drawn

Article Body:
Capital, then, is wealth invested in industry, finance is the machinery by which this process of investment is carried out, and international finance is the machinery by which the wealth of one country is invested in another.

Let us consider the case of a doctor in a provincial town who is making an annual income of about L800 a year, living on L600 of it and saving L200. Instead of spending this quarter of his income on immediate enjoyments, such as wine and cigars, and journeys to London, he invests it in different parts of the world through the mechanism of international finance, because he has been attracted by the advantages of a system of investment which was fashionable some years ago, which worked by what was called Geographical Distribution.

[2] This meant to say that the investors who practised it put their money into as many different countries as possible, so that the risk of loss owing to climatic or other disturbances might be spread as widely as possible. So here we have this quiet country doctor spreading all over the world the money that he gets for dosing and poulticing and dieting his patients, stimulating industry in many climates and bringing some part of its proceeds to be added to his store. Let us see how the process works.

First of all he has a bank, into which he pays day by day the fees that he receives in coin or notes and the cheques that he gets, each half year, from those of his patients who have an account with him. As long as his money is in the bank, the bank has the use of it, and not much of it is likely to go abroad. For the banks use most of the funds entrusted to them in investments in home securities, or in loans and advances to home customers. Part of them they use in buying bills of exchange drawn on London houses by merchants and financiers all over the world, so that even when he pays money into his bank it is possible that our doctor is already forming part of the machinery of international finance and involving us in the need for an explanation of one of its mysteries.

A bill of exchange is an order to pay. When a merchant in Argentina sells wheat to an English buyer, he draws a bill on the buyer (or some bank or firm in England whom the buyer instructs him to draw on), saying, "Pay to me" (or anybody else whom he may name) "the sum of so many pounds." This bill, if it is drawn on a firm or company of well known standing, the seller of the wheat can immediately dispose of, and so has got payment for his goods. Usually the bill is made payable two or three, or sometimes six months after sight, that is after it has been received by the firm on which it is drawn, and "accepted" by it, that is signed across the front to show that the firm drawn on will pay the bill when it falls due.

These bills of exchange, when thus accepted, are promises to pay entered into by firms of first-rate standing, and are held as investments by English banks. Bills of exchange are also drawn on English houses to finance trade transactions between foreign countries, and also as a means of borrowing money from England. When they are drawn on behalf of English customers, the credit given is given at home, but as it is (almost always) given in connection with international trade, the transaction may be considered as part of international finance.

When they are drawn on behalf of foreign countries, trading with other foreigners, or using the credit to lend to other foreigners, the connection with international finance is obvious. They are readily taken all over the world, because all over the world there are people who have payments to make to England owing to the wide distribution of our trade, and it has long been England's boast that bills of exchange drawn on London firms are the currency of international commerce and finance.

Some people tell us that this commanding position of the English bill in the world's markets is in danger of being lost owing to the present war: in the first place because America is gaining wealth rapidly, while we are shooting away our savings, and also because the Germans will make every endeavour to free themselves from dependence on English credit for the conduct of their trade.

Certainly this danger is a real one, but it does not follow that we shall not be able to meet it and defeat it. If the war teaches us to work hard and consume little, so that when peace comes we shall have a great volume of goods to export, there is no reason why the bill on London should not retain much if not all of its old prestige and supremacy in the marts of the world. For we must always remember that finance is only the handmaid of industry. She is often a pert handmaid who steals her mistress's clothes and tries to flaunt before the world as the mistress, and so she sometimes imposes on many people who ought to know better, who think that finance is an all-powerful influence.

Finance is a mighty influence, but it is a mere piece of machinery which assists, quickens, and lives on production. The men who make and grow things, and carry them from the place where they are made and grown to the place where they are wanted, these are the men who furnish the raw material of finance, without which it would have to shut up its shop.