ARITHMETIC AND SAVINGS.¹

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The elements of arithmetic are so simple, the axioms relative to savings are so trite that it would seem idle to attempt to say anything worth while about either. Yet observation shows that most of us fall far short of the ideal in the handling of our financial affairs. Our theories are indeed correct enough; it is practice wherein we fail. The thesis of this paper is that a means may be found to enable us more fully to bring our practice up to theory through an adaptation of business arithmetic.

Our old friend Micawber was strong in his knowledge of the theory. "Annual income twenty pounds, annual expenditure nineteen nineteen-six, result happiness. Annual income twenty pounds, annual expenditure twenty aught and six, result misery."

If the man from Mars should visit us he would find that on the whole there was apportioned to each of us a share of the social income roughly approximating our contribution thereto. He would be likely therefore to infer that every man would regulate his consumption in accordance with his means, would foresee the future and provide out of his current earnings for that future, but he would be egregiously mistaken. The number of people who intelligently direct their financial affairs is so small that we are warranted in the conclusion that, as a people, we are shiftless and improvident. The fault lies rather in a lack of thought than in a want of knowledge; but we are willing to do almost anything rather than think, and so our money affairs drive us. On the side of income we are apt to strain every effort, to think and to strive; to progress in our callings and professions. But on the side of expenditure we drift along into self-indulgences, and blind ourselves to the need of provision for the future; in a word, we refuse to give constructive thought to the subject.

We can afford something more than mere subsistence day by day. There is therefore a surplus, however small, to be apportioned in accordance with the best interests of the individual; and to do this aright is, or should be, his problem. He is likely, however, to remain oblivious of the longer views of life. These latter should remind him that the earnings of a lifetime must meet

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the expenses of a lifetime. The income received in time of health must cover days of sickness; that during the strength of youth he must also care for old age and decay. Most of us harbor a sufficient pride if we can boast that we keep out of debt, if we do not spend more than the day's income; and therefore the slightest misfortune is likely to find us unprepared and without protection. Then we bewail the ways of an inscrutable Providence instead of putting the blame where it belongs, upon ourselves. We quote the maxim, "Save the pennies and the pounds will take care of themselves," and then feel contempt for the effort necessary to avoid the useless expenditure of small amounts.

Where should one look today for carefulness in trifling expenditure, say that of a five-cent piece? Not among the poor, not among those of us in moderate circumstances; we should probably feel above bothering with anything so small. Such care would be found in the great corporation which, without sentiment but with a sure business instinct, turns its face against waste. As individuals we spend on impulse, thoughtlessly. We think we have done well if we have withheld from a particular expenditure long enough to say to ourselves, "Do I want this article more than I want its cost?" when the question really is, "Is the expenditure a proper one, *all things considered?*" We say, "I think I am entitled to this luxury," when in fact we may have already spent all and more than all, that could fairly be apportioned to luxuries.

In seeking a remedy, we naturally cannot expect to provide some panacea which would remove at once and forever all our financial ills. Real misfortunes will arise from time to time to plague and vex us. But we can and ought to expect ourselves to use some judgment in this important department of our lives; and to use judgment we must know the facts, and the latter must be recorded and presented in an intelligible form, simplifying complex details so that they may be fully grasped and their significance appreciated. And this involves the keeping of accurate accounts of income and expenditure, all items being properly stated, balances being struck at short intervals and expenditures tabulated for the purpose of study and criticism. Without desiring to claim too much, it is evident that such accounting would put one a long step forward on the road of obtaining control of his affairs, of eliminating useless expense, of handling his income with that care which its importance demands.

Look at the great corporations and observe how carefully they

aim to keep account of every item relating to their affairs. Plainly enough no business can be successful unless its operations are governed by a wise intelligence, and this intelligence must make itself acquainted with the facts and conditions just as they are, and hence there must be kept painstaking records showing every detail.

And what is necessary for a large business enterprise is relatively so for a small one, for a household, for an individual. Efficiency in the material affairs of the household or the individual, requires that, at the conclusion of the year after making all allowance for loss and depreciation, a real net profit will remain to be saved and carried forward to the next period.

Among the men who do look carefully after this in their business, how many there are who neglect it in their private affairs? They seem to think that because business is the place to earn and save money and home the place to spend it, nothing business-like should be expected in the home, especially nothing so tiring and irksome as keeping accounts.

Many men take some amount of care in their expenditure; they even allow themselves to be irritated over the size of the family bills at home; from time to time they warn themselves and their families that this sort of thing must stop. But they are shiftless, they do not bother to regulate their private and home expenditure in a systematic way, they refuse to face the facts.

And so, among us all, whatever our activities or the extent of our incomes or possessions, there is this need for the organization of expenditure and for keeping records and accounts, that we may know where we stand and in what direction we are moving. We could hardly keep a record of income and outgo without being impressed with the need of net income, without being reminded that our present income is secure while that of the future is uncertain; that our earning capacity is now intact, but we cannot be sure that will be the case tomorrow. With these considerations constantly suggested to one's mind, it is evident that such accounting would tend to make one put his principles into practice.

The character of the accounts to be kept is very simple, requiring no more than the mere elements of arithmetic. The accounts should always be accurate, should include all items, should be balanced, and the different categories of expense should be classified. This may sound formidable and complicated; but it is not so; it is more or less of a bother; it is rather irksome; it is easier to begin than to keep up; but if one will do it and persist in it,

it may become a valuable habit. As a habit to be acquired it should be begun if possible in childhood. In the schoolroom, if even a few in a class will gain a facility in this practical application of arithmetic and acquire the habit of keeping their own personal accounts, though it may be nickels and dimes at the start, a great good will be gained.

Now what shall we do with our savings when we have accumulated them? In what shall we invest? To this question there is no general answer, but there are certain principles of investment which may be deduced from experience.

First. Before making investments, strictly so-called, one should provide for regular foreseen future contingencies. Suitable insurance against death, fire and accident should be the first care.

Second. The main quality to be sought in an investment is security, and to this everything else should, as far as need be, be sacrificed. To keep one's property safe for his future benefit is indeed the underlying purpose of an investment.

Third. One should therefore avoid any attempt to make money through investments. The main purpose being to protect the principal unimpaired, any income that may be derived is just so much to the good; attempting to increase the profits beyond what is normal for safe investments leads to speculation; indulgence in speculation makes the loss of the principal probable and in the long run almost certain.

Fourth. Safety demands, not merely that the amount invested shall be ultimately repaid, but that it shall possess a satisfactory degree of convertibility. If as an individual I lend money to be returned in ten years, I have made a contract extending beyond the reasonable limit of human foresight. How do I know what needs may arise within ten years? Even in life insurance—essentially a long-time contract—provision is now made whereby the insured may withdraw some part of his payments in the shape of a loan on his policy.

When some one brings us a glowing opportunity for an investment, we may ask ourselves, "Is it a scheme to make money? Is it safe? When may I expect returns? Is it a speculation?" Opportunities of the "glowing" kind are generally open to criticism along some one or more of these lines. If, however, it seems conservative and convertible enough, we should then avoid putting in an amount that would be large for the individual. Still more should we avoid the foolish temptation that sometimes comes to one of borrowing money to

invest. This is such a stupid thing to do, that one wonders that so many people commit the blunder. A person may borrow money to carry on his business or to build his house or for some temporary need. But if we understand investment aright, that it is not a scheme for making money, but merely one for getting a safe return on saved funds, it will be seen how absurd it is to involve one's self in the hazard of borrowing money in order to invest more largely than one's own funds would warrant.

Moderate returns are inseparable from safety. The prevailing interest rates on safe investments may be $3\frac{1}{2}$ per cent or 4 per cent or 5 per cent; but whatever it is, no sound investment at the time can pay more. If it does promise to do so, it is either because it is making a promise that will not be kept, or because the higher return is of the nature of an insurance premium on some known or unknown hazard. In the present condition of the money market safe investments will pay say 5 per cent. If an opportunity is offered one which will give him 6 per cent or 7 per cent or higher, he should scrutinize it carefully and obtain expert advice before parting with his funds. And that brings us to another principle. While a person must in the last analysis use his own judgment, he should not depend entirely upon that judgment. Here it may be said that it is easy to commit a blunder in the direction of assuming one's self to be sufficiently informed, when in fact he knows practically nothing of the matter. Professional and other non-business people seem to be particularly prone to this error; they often think themselves informed because the advertisement says so, and still more do they feel confidence if some friend has told them about it.

The fact really is that good faith seems to be less scarce than good judgment. People engaged in selling investments, often feel a very imperfect sense of responsibility in recommending them. In fact, it is generally safe to mistrust investments that are offered to one. The best and most conservative opportunities do not approach one in this way, their net return being too small to bear the expense of salesmanship.

A legitimate prospect of a good investment does not need to be hawked about looking for small amounts of individual funds. There is nearly always capital to be had from wealthy investors, men who are experienced and shrewd, looking constantly for a safe outlet for the use of their funds. Theirs is the regular supply of capital for legitimate enterprises, because such men are

in a position to measure the degree of risk and to fortify themselves against it.

One's own judgment is an insufficient guide in passing upon the merit of the representations so made in order to sell securities. We should take no chances. The country is full of those who have earned through hard work and saved through great sacrifice and then have lost their means through poor investments. We all know such cases. Most of us have had such experiences. Let us be satisfied with a small return so long as we have reason to know that our capital is absolutely safe.

If a man is to be prosperous he will save out of the stream of his income something to protect the future of himself and his family. The few have always realized the importance of accumulating. More and more will it be necessary that this knowledge and the consequent responsibility should be brought home to all. It is not to be expected that every one can become an expert on investments any more than on questions of law, but any man, whoever he may be, whatever his calling or responsibilities, ought to know enough about law to realize when it is expedient for him to call in a lawyer, and sufficient investment theory to know when to consult an expert.

How much of all this may be taught the young? I do not know. But it would seem that the basic principles of saving, accounting and investment might be codified and simplified and taught to boys and girls before they leave school; that is to say, before they pass beyond the influence of public instruction.

If the coming generations are to be guarded against the inheritance of our shiftlessness, if they are to be taught the importance of correct practice in their material affairs as a basis for the higher things of life, and if proper habits are to be acquired, it will be while they are young and continue subject to the influence of parents and teachers. But after all the main deficiency is not concerning principles and theories, but concerning practice, and so it seems to me that the most lasting good is to be expected from training, from actual practice along lines of approved theory, of which the effort to give the children definite work in accounting as an exercise in arithmetic, is an excellent example.