THE ANNALS

OF THE

AMERICAN ACADEMY

OF

POLITICAL AND SOCIAL SCIENCE

ISSUED BI-MONTHLY

VOL. XXX

JULY—DECEMBER, 1907

PHILADELPHIA
AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE
1907

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AMERICAN COLONIAL POLICY AND ADMINISTRATION

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American Academy of Political and Social Science

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VOL. XXX, No. 1 JULY, 1907

EDITOR: EMORY R. JOHNSON

ASSOCIATE EDITORS: L. S. ROWE, SAMUEL MCCUNE LINDSAY, CARL KELSEY, JAMES T. YOUNG, CHESTER LLOYD JONES, WARD W. PIERSON.

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PHILADELPHIA

American Academy of Political and Social Science

36th and Woodland Avenue

1907

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PART ONE

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THE DEVELOPMENT OF A COLONIAL POLICY FOR THE UNITED STATES

By Hon. Albert J. Beveridge,
United States Senator from Indiana.

Administration is the principle upon which our colonial policy should proceed for a century to come. Wherever we have departed from the idea of administration as such, we have made an error which natural conditions will gradually compel us to correct. Not sudden "self-government" for peoples who have not yet learned the alphabet of liberty; not territorial independence for islands whose ignorant, suspicious and primitive inhabitants, left to themselves, would prey upon one another until they become the inevitable spoil of other powers; not the flimsy application of abstract governmental theories possible only to the most advanced races and which, applied to undeveloped peoples, work out grotesque and fatal results —not anything but the discharge of our great national trust and greater national duty to our wards by common-sense methods will achieve the welfare of our colonies and bring us success in the civilizing work to which we are called. And common sense in the management of our dependencies means practical administration of government until our wards are trained in continuous industry, in orderly liberty and in that reserve and steadiness of character through which alone self-government is possible.

Such administration of government is nature's method for the spread of civilization. Throughout all history administering peoples have appeared. Always these peoples have been the most advanced peoples of their time. These advanced peoples have extended their customs and their culture by the administration of government to less developed peoples. Thus, in the process of the centuries, these backward peoples have evolved those qualities of mind and character and that mode of living called civilization. This is true of the ancient nations—witness the effect of Latin administration, harsh and even cruel as it was, upon the ultimate development and destiny of Gaul and Teuton. It is true of modern

nations—witness the miracle that England has wrought all over the world—a miracle which, upon the page of ultimate history, will be England's chiefest glory. And now this same duty that has come to every people who have reached our present state of enlightenment and power must be performed by the American people in Nature's way, and not in the fantastic manner of sincere but dreaming theorists, on the one hand, or insincere and shallow politicians on the other.

The art of colonial government is not new—it is as old as chronicle itself. When they had reached that period of growth which may be called their national manhood, nearly every people have undergone territorial expansion and extended their rule over the inhabitants of alien lands; and they did not withdraw this rule till their strength began to decline. And when that decadence came, the seeds of civilization planted by their administration of colonies remained, sprouted, grew and finally bore beneficent fruit. In this, as in nearly everything else, the experience of nations duplicates the experience of individual men. No greater truth was ever uttered than this profound sentence of Olive Schreiner—"The eternal analogy holds." Apply this to the lives of men and nations. The child is instructed and guided; little by little he evolves independent powers; then achieves his manhood and performs his life-work, which work is measured precisely by his vigor, his courage and his moral ideals; and finally as age approaches, as the blood cools and heart-beats grow fainter, he gradually stops his activities, reefs the sails of his enterprise, and makes for the harbor of quiet and repose.

This period of colonial administration has been reached by the American nation. That period was inevitable. The Spanish War was only its opportunity. Our rapidly-increasing power determined it; our commercial needs determined it; more than either, geography determined it; and, most of all, our duty to the world as one of its civilizing powers determined it. It was inevitable that, in the end, American control should extend over Cuba, San Domingo, and Porto Rico. It was inevitable that Hawaii—the halfway house of the Pacific—should become American—witness Humboldt's prophecy concerning the Pacific. And Hawaii once American, it was inevitable that further expansion over the

western seas should occur—for it is the genius of our race not to stop forever at any halfway house. The people of our blood never pause midway in the syllogism of events, but go on to its conclusion. And so in our present and future colonial expansion, we shall only be working out the logic of history.

Another thing: none of our possessions will ever be given up until our power has begun to wane, and the days of our decline have fallen upon us. "What we have we hold," is the motto of our blood. Show me an instance where England has set up her permanent dominion over an inferior people which she has withdrawn; an instance where Germany has done the like and withdrawn; an instance where we Americans have done the like and withdrawn. It is not in our blood to retreat from duty.

Cuba is no example; for the Platt amendment established there the most perfect suzerainty in the world, and Cuba was under potential American authority every moment that politicians, for stump speech purposes, were declaiming about our withdrawal and apostrophizing "Cuba Libre." Hawaii is no example, for the dishonorable mistake of withdrawing from those islands has been repaired. No American public man has ever survived resistance to American territorial expansion. No American political party has ever successfully opposed it. The proudest monuments of many of our greatest statesmen have been their championship of this expanding instinct of our blood.

In final history, Jefferson will be remembered chiefly for his Louisiana Purchase, which is now the geographical heart of the Republic. Polk and Taylor would already be forgotten but for the war with Mexico and the imperial dominion our victory gave us. Seward, splendid as his public services were and exalted as his statesmanship was, would be little known to the masses to-day but for his acquisition of Alaska; and McKinley's name would in the record of a century hence have received no more than commonplace mention but for the Spanish conflict, and the bringing of the islands of the sea beneath the folds of our flag.

None of this is accident. There is reason and purpose in it all—that reason and purpose which we who are its present instruments do not comprehend, but which the historic observer of the future will see as clearly as we to-day see the same reason and purpose

in the history of other peoples now far enough in the past to give us perspective and proportion. If any one cherishes the delusion that American government will ever be withdrawn from our possessions, let him consult the religious conviction of this Christian people. Let him find what the American pulpit thinks of such a surrender to non-Christian powers of our duty and opportunity in the Orient. Let him school himself in the missionary spirit of the American masses. Let him learn the views of the millions of young American men and women who weekly gather in Epworth League, Christian Endeavor, Knights of Columbus, and a score of other like societies all over the Republic, concerning the withdrawal of the American flag, and all it means from the Philippines, Hawaii, Porto Rico, or any other spot over which it floats or will hereafter be raised. Let him, above all, consider history, and study our racial instinct. No! our flag will not be lowered anywhere. Our duty of administration of orderly government to weaker peoples will not be abandoned. Where we are we stay. And where nature and events in the future shall direct us to go, there we will go.

This fundamental fact settled, what of the development of our colonial policy? The ruling principle along which that policy must be evolved was clear from the first. I repeat it is the principle of administration. From this principle we have departed somewhat —departed because of the supposed exigencies of party politics; because of the foolish attempts to apply a self-government, which we ourselves have taken a thousand years to work out, to a people that are centuries behind us in development; because of the ignorance of some of our public men, the impatience of others, with the vast but simple duties which our colonial task presents. We have been "playing politics" in the government of dependencies. To these causes are due every departure from the natural principle of administration. And it is from these departures that all our future difficulties will flow.

We have extended "self-government," so-called, too rapidly in the Philippines. This is admitted by the Philippine Commission itself. In the commission's last report the commission says:

> Undoubtedly, if there has been an error it has not been in the direction of restriction, or rather in the granting of perhaps a larger measure of self-

government than a people absolutely untrained in the exercise of any of the functions of government were prepared for.

The "election" of chiefs of municipalities by the people with power to raise and distribute taxes has too often resulted, according to Mr. Alleyne Ireland, in a diversion of funds from proper purposes and the prostitution of the local police to be the body servants of municipal officers. The "election" of provincial governors was a similar error—both were done too hastily and too soon. The diffusion of power, from the very beginning, in the government of a people so simple was a basic error—we should have waited a couple of decades at least, for in the life of a people a decade is but an hour. This is the unanimous verdict of all careful scientific students who have gone over the ground; and many such have deeply studied the question on the spot. This, too, is the unbroken experience of every nation which has made a success of colonial government. This will delay our ultimate success, but will not prevent it. Another like and larger error will delay it still more; but will not ultimately prevent it. That error is the granting of a native legislature to the Philippine Islands decades before the people were prepared for it. At the very moment when suffrage is being restricted in certain sections of our nation itself, we are bestowing it on Filipinos who have no preparation for or understanding of it.

Earnest attempts were made to create this legislature five years ago. I earnestly opposed it in committee, and with the assistance of Senator Allison, of Iowa, and Senator McComas, of Maryland, two members of the Philippine committee, and under the guidance of that ablest constructive statesman of the last half century, Orville H. Platt, of Connecticut, was able to delay it, until the present time, by the device of requiring a census. Many sincere men thought a legislature wise; others, equally sincere, believed it the performance of our duty to American ideals; but most considered this grave business solely from the view-point of "campaign politics." Men totally ignorant of conditions, and caring absolutely nothing for a statesman-like solution of this great problem were anxious to go to the country and make stump speeches about our grant of self-government to the Filipinos; and similar men in other parties were anxious to make similar stump speeches about our "failure to grant self-government to the Filipinos."

It was clear at that time, as it will be demonstrated in the near future, that a Philippine legislature, elected by a people who have not yet acquired the first elements of orderly industry; ninety-eight per cent of whom cannot read or write any language; the immense majority of whom speak different tongues; and all of whom are easily swayed by brilliant and selfish demagogues, of whom there are many in the archipelago—it was clear five years ago as it will be demonstrated five years from now, that such a legislature will be a hindrance to Philippine progress and the culture spot of dissension and trouble. Not only that, but such a legislature will be the magnet that will draw foreign intrigue to the Philippines, to the recurring embarrassment of the American people. Nothing will be easier, more natural, more inevitable than that unfriendly powers will have their agents in such a legislature. I earnestly hope events may prove that I am wrong about this, and no one will rejoice so much as I if the future shows that I am wrong.

There can be no immediate correction of these mistakes. Events, which are as certain to arrive as the future itself, must and will swing us back to the true policy of colonial administration. Meantime patience and firmness are our words of wisdom. That simple administration is the true principle of colonial policy is proved not only by the universal experience of other nations, but by our own as well. It is a broad statement, but absolutely true, that, with one exception, no such cleansing, uplifting, civilizaing work was ever done by any people for another as the American people did for the Cubans under the administration of Leonard Wood; the only record of equal brilliancy is that made by Lord Cromer in Egypt. Practicing simple administration—the power concentrated in the hands of one man *who was responsible to the American people*—General Wood achieved in his regeneration of Cuba what doubters declared to be impossible. We wrought more for the actual liberty of the Cuban people in three years than any similar people ever accomplished by themselves, under any form of foreign government, in half a century.

But what American administration did for Cuba the Cubans themselves destroyed in a time so brief that it seems but a moment as history runs. What American administration builded in a day, the Cubans themselves demolished in a day. If it be said that Span-

ish administration along similar lines failed in both Cuba and the Philippines, and that, therefore, the principle is disproved, the answer is that the Spaniards are no longer a successful administrative race as the English are, or the Germans, or as the American people are coming to be. We have developed and are developing the ablest administrators of all time. Witness those amazing and honest managements of some of our mighty corporations and of some of the continental railroads. Witness the executive ability displayed in our whole business world where the men employed in single giant enterprises and the families dependent upon those men are sufficient in numbers to constitute a government. That this administrative ability which our industrial civilization is developing, is equally able in colonial fields is proved by Winthrop in Porto Rico, by Wood in Cuba, by Taft in the Philippines. Had the management of Philippine affairs been placed exclusively in the hands of that great man, unvexed by the little tricks of partisan politics, his splendid success would have been even greater than it was.

Speaking on the subject of our colonial policy in the Philippines in the Senate of the United States, on January 9, 1900, I said:

> Our government must be simple and strong. Simple and strong! The meaning of those two words must be written in every line of Philippine legislation, realized in every act of Philippine administration. A Philippine office in our Department of State; an American Governor-General in Manila with power to meet daily emergencies; possibly an advisory council with no power except that of discussing measures with the Governor-General, which council would be the germ of future legislatures, a school in practical government; American Lieutenant-Governors in each province, with like councils about them; if possible an American resident in each district, and a like council grouped about him, frequent and unannounced visits of provincial governors to the districts of their province; periodical reports to the Governor-General; an American Board of Visitation to make semi-annual trips through the archipelago, without power of suggestion or interference to officials or people, but only to report and recommend to the Philippine office of our State Department; a Philippine civil service with promotion for efficiency; the establishment of import duties on a revenue basis, with such discrimination in favor of American imports as will prevent the cheaper goods of other nations from destroying American trade; a complete reform of local taxation on a just and scientific basis; the minting of abundant money for Philippine and Oriental use; the granting of franchises and concessions upon the theory of developing the resources of the archipelago; the formation of a system of public schools everywhere with compulsory attendance

rigidly enforced; the establishment of the English language throughout the islands, teaching it exclusively in the schools and using it, through interpreters, exclusively in the courts; a simple civil code and a still simpler criminal code, and both common to all the islands except Sulu, Mindanao and Paluan; American judges for all but the smallest offenses, gradual, slow and careful introduction of the best Filipinos into the working machinery of the government; no promise whatever of the franchise until the people have been prepared for it; all this backed by the necessary force to execute it; this outline of government, the situation demands as soon as tranquillity is established. Until then military government is advisable.

We cannot adopt the Dutch method in Java, nor the English method in the Malay states, because both of these systems rest on and operate through the existing governments of hereditary princes, with Dutch or English presidents as advisers. But in the Philippines there are no such hereditary rulers, no such established governments. There is no native machinery of administration except that of the villages. The people have been deprived of the advantages of hereditary native princes, and yet not instructed in any form of regular, just and orderly government.

Neither is a protectorate practicable. If a protectorate leaves the natives to their own methods more than would our direct administration of their government, it would permit the very evils which it is our duty to prevent. If, on the other hand, under a protectorate, we interfere to prevent those evils, we govern as much as if we directly administer the government, but without system or constructive purpose. In either alternative we incur the responsibility of directly governing them ourselves, without any of the benefits to us, to them or to the archipelago,which our direct administration of government throughout the islands would secure.

Even the elemental plan I have outlined will fail in the hands of any but ideal administrators. Spain did not utterly fail in devising—many of her plans were excellent; she failed in administering. Her officials, as a class, were corrupt, indolent, cruel, immoral. They were selected to please a faction in Spain, to placate members of the Cortes, to bribe those whom the government feared. They were seldom selected for their fitness. They were the spawn of government favor and government fear, and therefore of government iniquity.

The men we send to administer civilized government in the Philippines must be themselves the highest examples of our civilization. I use the word examples, for examples, they must be in that word's most absolute sense. They must be men of the world and of affairs, students of their fellow-men, not theorists nor dreamers. They must be brave men, physically as well as morally. They must be as incorruptible as honor, as stainless as purity, men whom no force can frighten, no influence coerce, no money buy. Such men come high even here in America. But they must be had. Better pure military occupation for years, than government by any other quality of administration.

Better abandon this priceless possession, admit ourselves incompetent

to do our part in the world-redeeming work of our imperial race; better now haul down the flag of arduous deeds for civilization and run up the flag of reaction and decay than to apply academic notions of self-government to these children, or attempt their government by any but the most perfect administrators our country can produce. I assert that such administrators can be found.

I repeat that our government and our administrators must be examples. You cannot teach the Filipino by precept. An object lesson is the only lesson he comprehends. He has no conception of pure, orderly, equal, impartial government, under equal laws, justly administered; because he has never seen such a government. He must be shown the simplest results of good government by actual example, in order that he may begin to understand its most elementary principles.

This was said after a most painstaking examination of the situation in nearly all of the larger islands, and after studious investigation of the experience of all other colonial governments. The seven years that have passed since then have confirmed me in these views. That we have the power under the constitution to govern in this way is no longer questioned. The words of the constitution

> The congress shall have power to make all needful rules and regulations, respecting the territory belonging to the United States

confers this power. The decisions of the supreme court in the Insular Cases so declare; and finally we have actually exercised this power. The question of our power to govern exactly as we please "territory belonging to the United States," to use the exact words of the constitution, is no longer open.

In that same speech I also said:

> *It would be better to abandon this combined garden and Gibraltar of the Pacific,* and count our blood and treasure already spent a profitable loss, *than to apply any academic arrangement of self-government to these children.* They are not capable of self-government. How could they be? They are not of a self-governing race. They are Orientals, Malays, instructed by Spaniards in the latter's worst estate.

And I say the same thing now. But if these errors, if errors they prove to be, are committed, events alone can correct them, and events will correct them. We will never abandon our opportunity and duty at the gates of the Orient.

But we need not make further mistakes. The keynote of our practical policy from now on should be the development of industrial conditions. It is a fact upon which every student of colonial government is agreed that a people's economic welfare and industrial and financial independence is the bedrock upon which all progress toward self-government must be builded. In our passion for schoolhouse education we have neglected this great truth. The Filipinos, like all backward peoples, need to be taught orderly, continuous labor before everything else. Even as a preparation for self-government they need good roads more than they need schoolhouses—since it is an historic truism that political progress is based on industrial progress. They need easy and convenient highways over which to communicate with one another, and get the products of their toil to market. They need to be taught the practical benefits of law and order. More money hereafter should be spent on roads and harbors and instruction in modern methods of industry than in an education which unfits so backward a people for actual labor in fields and shops, and equips them only with ambition and ability to be nothing more than mediocre clerks in cities.

The report of the Secretary of Commerce and Police of the Philippine Commission for 1905 says:

> It is regrettable that since the American occupation the roads have been gradually falling into disrepair. This is due, it is believed, to the fact that the municipalities have not yet awakened to the responsibility which attaches to them of the maintenance of the roads within their own jurisdiction. Under the American idea of government the maintenance of roads is primarily a municipal affair, varied by a few county and state roads and almost no national roads. In the Philippines these duties have lain with the presidents of the towns, but it is only fair to say that the municipal and provincial receipts applicable to the maintenance of public ways have not been sufficient to maintain good roads, and in fact are very much under the amount necessary to rebuild roads in bad condition, much less to construct new ones.

Of course the application of the American township idea of road construction to a country like the Philippines and a people like the Filipinos, is absurd. It would be comic if it were not serious.

The Philippine Commission most properly recommends an

enlargement of the amount of land which any one man or corporation may hold to at least twenty-five thousand acres of land. This is absolutely right and is the minimum—fifty thousand acres would be far better. As it is now, no man or corporation can hold or operate more than five thousand acres of land. This and other like evils of the land laws which we have provided for the Philippines were the result of "practical politics," on the one hand, and abstract theory, on the other hand. More than anything else, the Philippines and every similar country need capital and labor. It is impossible for capital to operate small bodies of land profitably in such a country, and therefore capital has refused to invest in the Philippines.

Philippine products must be admitted to this country free of duty. The commission has urged this in every report and Mr. Taft has never ceased demanding it. President Roosevelt has repeatedly asked congress to do this act of simple justice and common sense. We have not done it because the beet sugar interests in two or three states, and tobacco interests in two or three other states have been powerful enough to prevent it. They have prevented it because of a fear that Philippine sugar and tobacco might some time in the distant future hurt their business, for we now import much the larger part of our sugar and tobacco, and of course, if we import them in any event, it is clear that the sugar and tobacco interests cannot be injured at the present time by the free admission of Philippine sugar and tobacco.

Thus the mere fear of some remote future injury was used by politicians, who wished to show their sugar and tobacco constituents that they were "protecting" them, to prevent an act of great national statesmanship and pressing national justice. If our markets were open for Philippine products, we would be buying from our dependencies a part of what we are now buying from foreign countries. The prosperity of our wards would enable them to increase their purchases in all American markets many hundredfold and their gratitude for this justice would create a spirit in the islands that would be more helpful to our administration of government there than regiments and batteries. All of our dependencies should be thoroughly fortified. Future historians will find it difficult to explain why we, the richest and most practical people, failed to

secure our own possessions against possible attack. It would be done, of course, but for the exigencies of partisan politics which seeks to find an "issue" in every possible direction and which does not hesitate to sacrifice great national interests to immediate party success.

We must look upon these matters in a broad, rational, practical way. Already we have begun to do this. Our provision for the building of railroads in the Philippines is a splendid example of the spirit and purpose which must hereafter control in our colonial statesmanship. An even greater one is the law passed last session providing for a Philippine Agricultural Bank, modeled after the Egyptian Agricultural Bank. The most fascinating page of financial history is that of the career of the Agricultural Bank of Egypt. What it has done for the farming people of that ancient land is almost beyond belief. The Philippine Agricultural Bank will do the same thing for the Philippine farmer.

These two sane measures mark a return to that real statesmanship which was illustrated by Wood's work in Cuba, and Taft's work, when unhindered, in the Philippines. Better still, they illustrate the beginning of a new kind of public man in American public life.

After all, the success of our colonial policy depends upon a new kind of American public man. The time has come when the office of senator or congressman must be filled by informed, courageous, upright and trained legislators who study and solve, with a broad national wisdom, the big problems now increasingly confronting us. The senator or congressman who spends his time distributing patronage, fixing up postoffice deals, arranging political combinations, all for the purpose of his own official perpetuation must go out of American public life. Most men who were raised under the old methods of American politics, whether those men be young in years or aged, and no matter how ably they served in bygone days, are useless in solving these new problems. If such men are old they look upon all new problems which had not appeared when they were in their prime, as no problems at all, and consider them with impatience or refuse to consider them entirely. If such men are still young in years, they have not been trained to careful study or any study of real problems, have not been accus-

tomed to thinking out public questions from the viewpoint of the nation, but only from the viewpoint of the effect which their position upon those questions will have upon their own careers.

The kind of American public man who is now beginning to dominate American affairs is the exact reverse of this. The American public man of the future will be a student of national affairs and of world affairs and will have the student's patience. He will be as practical as a business man and have the business man's gift for the concrete. He will be unselfishly conscientious, never fearing or even considering what the effect his stand upon any public question may have upon his own political career, but considering only the effect which his solution of that question will have upon the Republic and the world. This means of course that the American public man from this day must be not only able and learned, but also as fearless as conscience and as pure as he is fearless. As fast as this quality in public men replaces ignorance, selfishness and narrow views, our colonial policy will develop evenly and wisely and America's work in uplifting the people who have been given into our keeping will be increasingly successful.

SOME DIFFICULTIES IN COLONIAL GOVERNMENT ENCOUNTERED BY GREAT BRITAIN AND HOW THEY HAVE BEEN MET

By The Right Honorable James Bryce,
Ambassador from Great Britain to the United States.

Ladies and Gentlemen: I thank you very much for the cordial reception you have been kind enough to give me. I also thank Mr. Smith for the very friendly words which he has been good enough to say regarding me.

I deem it a great honor to be asked to speak to you, but I also feel, on this occasion, no small measure of distrust and timidity because, in the first place, I did not come prepared to address such a meeting as this. This hall reminds me of one of our great meetings in England on the eve of a general election. When I was invited to offer some introductory remarks on the subject of colonial policy, I imagined to myself a small room, with about twenty-five to thirty gentlemen, mostly elderly gentlemen, and mostly with spectacles, ex-officials and professors in the college, and I thought that we were going to have a little quiet discussion about colonial administration, which I was expected to introduce by saying a few words. I assure you that, although I feel honored by seeing such an audience as this, I am sorry that I have brought nothing worthy of so large a gathering, and when I give you the few trite remarks I have to make, you will understand that I put them together in my own mind for an audience very different from this.

I have another reason for being a little unquiet. I have read a headline in regard to some remarks I offered yesterday at a dinner, suggesting that I expressed doubts whether the Declaration of Independence was a wise act. Ladies and gentlemen—heaven forbid that I should express a doubt or any opinion at all, on that subject! I cannot conceive any question less profitable to discuss at this present day. What I did do was to invite the guests at that dinner to follow me into a speculation as to what would have happened if the Declaration had not been signed, also a speculative question, but possessing some interest.

Now, ladies and gentlemen, when I come to this subject which brings us together this evening, let me first say that I have no right whatever to offer any opinon upon American policy. I am not here to do anything of that kind. I am only here at the request of the directors of this learned body to kick the ball off by making a few remarks on the colonial experience which we in Great Britain have had. We have now had a pretty long experience. It began, curiously enough, three hundred years ago this year—it began with the settlement of Jamestown in Virginia. Well, part of that earlier experience of ours was not altogether fortunate. I am not going to go into painful details of the mistakes which were made, and the results which followed those mistakes. I will only ask you to believe that certain events which happened at this time led us to believe that we were capable of sometimes erring in our colonial policy. Like sensible men, we drew upon our experience, and when we had a new set of colonies we began upon new and better principles.

Our colonies are now in two classes, those called the self-governing and those called the Crown colonies. The self-governing colonies are those which contain a European population which allows of self-government. We have two groups—the North American group, the Australian group (which consists of the states of the Commonwealth of Australia), the detached colony of New Zealand, the detached colony of Newfoundland, and the South African group, not federated, consisting of Cape Colony and the Transvaal (to which it is proposed to add the Orange River territory). These are all democratic states. We have given every one a legislature. That legislature has complete power of passing statutes which govern the colonies. Each has a responsible government, consisting of a body of ministers who hold office at the pleasure of the legislature, according to what we call the responsible cabinet system, and by whom the government is conducted. The governor is sent by the Crown, but he is only a formal representative of the Crown, and the responsibility rests with the responsible minister who works with the legislature. We allow the most complete freedom to these colonial legislatures. Although we retain, in theory, the power of vetoing their legislation, in practice we scarcely ever do so, and when we do, it is only in those extremely

few cases in which some law passed by the colony may conflict with the interests of some other part of the British empire, or where it would conflict with some international obligation undertaken by treaty. In all such cases, of course, we could not allow the single colony to break an obligation incurred on behalf of the whole empire by the general imperial parliament. We find this system of self-governing colonies to work, on the whole, very smoothly indeed.

The colonies pass the legislation which they find best for their local condition. They do not interfere with us and we do not interfere with them. In practice, very little friction occurs, and we attribute the success of this system to the completeness with which we have carried out our principle of allowing the local legislature to manage all the local concerns. We have gone so far in our belief in the value of self-government, that in the last few months we have given a local legislature and a local responsible ministry to the Transvaal, which was at war with Great Britain only a few years ago, and the prime minister of that colony has now come to England with the prime ministers of the other colonies, in order to deliberate there with the London colonial office upon affairs relating to the general welfare of the British empire.

It is suggested that in some respects we might make a more close connection with the colonies. It has been suggested that there might be a council which would make arrangements for the common imperial defense by land and sea, and for contributions for that purpose. Those are questions which we are considering in conjunction with the colonies, but it is no part of our intention to press any such scheme as that upon the colonies. Whatever is done must be done by and with the free consent and approval of the colonies. It is a great proof of the value of the principles of liberty and local self-government, to which we in England and to which the British population of the whole empire attach so much importance, that under this system the colonies have become more and more attached to the mother country, and the mother country has become more and more interested in the colonies. There never was a time when all the British colonies were more devoted in heart and mind to the interests of the whole British people, and

when we had stronger prospects that these sentiments of affection would continue to unite these scattered lands.

The other set of colonies consists of those which we call Crown colonies. They exist in countries where the natives, not of European origin, form the bulk of the population, and where we deem that this native population is not qualified by its racial characteristics and by its state of education and enlightenment to work self-governing institutions. The largest instance—we do not call it a colony, but its government is practically government of that character—is the Empire of India, with hundreds of millions of people, which is administered as a great separate dependency. In addition we have a large number of other colonies scattered over the world, some in West Africa, in South Africa, and in East Africa; some in the Indian Archipelago, some in the West Indies, some in the Pacific Ocean, and some in the Indian Ocean. It would take too long to name them all. The distinctive feature of nearly all these colonies (I do not say of all, for there are few exceptions) is that in them the great majority of the population is not deemed to be fit to govern itself by a legislature and a responsible ministry. These colonies are governed in different ways. Some of them have a council composed partly of elected, partly of nominated, members; some have a council entirely composed of nominated members; some have a smaller council, in which there are a few nominees, who along with the executive officers surround the governor. The arrangements are in each case made with regard to the proportion of persons inhabiting the colony who are of European birth, or with regard to the number of well-educated natives who are fit to be trusted with the election of members to the council. Where there is such a population the council is largely elective. Where there is not, the council is nominated. We believe these councils valuable because they furnish an organ through which local opinion is able to express itself; but still it is generally true that the governing power in these Crown colonies rests with the governor, and he himself is under the orders of the Colonial Office, and the Colonial Office is responsible to the British Parliament, so that if any grievance arises in the colony which the governor on the spot does not redress, it is open to the person who considers himself aggrieved to forward a memorial to

the Colonial Office, which will investigate it, and if the Colonial Office does not give to the aggrieved person what he considers to be satisfaction, then he can communicate with some member of the House of Commons, and get the question raised there. Accordingly, the fact that the governor exercises wide power in these colonies does not make him irresponsible, or deprive a colonial subject of liberties, because he has the power at any time to make complaint to the Colonial Office or to Parliament.

The principles which we have applied in the government of these colonies can be stated to you only in the briefest way. It would take much too long to explain them fully in so large a meeting as this. I will, however, enumerate some of the most important. One of these principles is that we give to every British subject, wherever he lives, whatever his education, or color, or religion—we give him absolutely equal civil rights. (Applause.) He is just as much under the protection of the law as a native-born Englishman in England. He has the same right to go into the courts and insist on any claim he makes being heard. He has the right of *habeas corpus*, and all the other civil rights guaranteed by our constitution. Those are given to every subject of the Crown. It is an interesting fact that any British subject can be placed by the Crown in any post of the public service. Any native of India may be elected to the House of Commons, and might be sent by the Crown to the House of Lords. We have had two instances of natives of India elected as members of the House of Commons by London constituencies. They sat there and took part in debates just the same as any other members. You know that with us a man may be elected to a seat in the House of Commons entirely irrespective of the place where he lives. A Hindoo from Patna, a Dyah from the jungles of Borneo might be elected to sit in the House of Commons. The large majority of members do not live in the constituencies they represent. Imagine any native of India with exceptional intellectual powers—suppose him to come to England and be elected to the House of Commons, and suppose him to distinguish himself there, and to become the leader of one of the great English parties—he might legally become Prime Minister of England, and thus the most important subject in the British Empire. So far as the law

goes, we debar no one, no matter what his race or religion, from the highest post to which his talents can raise him.

We, also, ladies and gentlemen, make no difference in any of our colonies as regards religion. At one time some little pressure was exerted to favor Christianity, but such a line of policy was abandoned. It was perceived that it is not by force that Christianity ought to be spread, and it was felt to be a breach of the principle of absolute religious equality. To bring pressure to bear on the part of the government in its support would not really benefit religion. Accordingly, we observe a strict religious neutrality, and do not interfere in any way with the exercise of any native religion, so long as the practices of that religion are not inconsistent with humanity and the fundamental principles of morality. Of course, when that is the case it becomes necessary to interfere. In India, for instance, there was a custom that the Hindoo widow should burn herself upon the funeral pyre of her husband. This was very common and though not absolutely dictated by the doctrine, it was considered a highly meritorious act, and the English, when they first went to India, were usually told that the widows themselves liked it. That argument, however, did not prevent our putting an end to it, and this practice of suttee has been entirely forbidden in India. We do not even allow it in any of the states under our protection, and the enlightened intelligence of the Hindoos has long approved of its being stopped.

We have also preserved everywhere the native laws. Of course, we enforce no native law or custom obviously opposed to reason and justice, but otherwise we uphold and maintain the native system. It is deemed to be only fair to the natives that they should be allowed to observe the legal customs they prefer, so the Hindoo and the Mohammedan laws of inheritance are allowed to subsist, and you have the spectacle of the British Privy Council, which is the Supreme Court of Appeal for India and the Colonies, hearing and deciding questions upon Hindoo and Mohammedan law, in which the sentences of the Koran and the dicta contained in the Institutes of Manu are cited to an English court. The practice of recognizing the native customs and usages in the colonies and in India has been found to give contentment and satisfaction, and I think has been justified by its results.

One of the chief difficulties which English administrators have experienced has been the protection of the natives. When a European goes out as a trader he is liable to be tempted, abusing his superior strength and intelligence, to deal harshly or unfairly with the natives, and, therefore, it is held to be a primary duty of all colonial officials to give all protection and security to the natives. Everyone who represents the British government is bound to see that the rights of natives are scrupulously safeguarded, and that nothing is done to injure them or wound their feelings. That is sometimes pretty hard to secure, because sometimes when a European, though not naturally an unkindly man, finds himself in the midst of a weaker population, he is likely to take advantage of his strength, but we have regarded it as our duty, since Providence has placed us in control of these nations, to see that the natives are justly treated.

We levy no tribute upon the colonies. Their revenues are applied entirely to the support of the colonial administration and public works. It is a long time since any income was received from India.

People enter the colonial service by examination as to fitness. No one is appointed or dismissed on political grounds. (Applause.) Promotion in the service itself is given upon the ground of ability and proved diligence in the discharge of duty. The only exceptions to that rule are to be found in some of the higher posts. The Governor-General of India and the Governors of Madras and Bombay are selected from home, and very often eminent men who have distinguished themselves in home politics are appointed to these posts. Sometimes, to very important posts, such as the governorship of Australia, someone is sent out from home who is not part of the colonial service, but those are the exceptions. On the whole, we get a very good class of men. Of course, in the Crown colonies and India the great bulk of the administration is carried on by the natives. Only the highest posts are reserved for Europeans.

I think I have now enumerated the main principles by which our colonial policy is governed. It remains only to say that although we do encounter difficulties; although, of course, the conditions of race which exist do sometimes give rise to disturbances

and troubles (we sometimes find it pretty hard to keep peace between Hindoos and Musselmans); though difficulties of this kind must continually occur where we have to deal with half-civilized or savage populations, still, on the whole, under this system, the outlines of which I have endeavored to draw, the prosperity of most of the Crown colonies and the tranquillity of all has been steadily increasing. Order has been established, and to-day the law is obeyed and tranquillity reigns in most of these colonies, even where the inhabitants are uncivilized. I remember with how much astonishment I found, in traveling through India, that I was able to go alone, unaccompanied by any European, through forests, over mountains, and along the borders of independent states, absolutely unguarded. When, on starting, I asked a friend whether it was necessary to take firearms with me, I was told that it was unnecessary, that the prestige of the British name would carry me safely through any journey, however long the journey, which I might take, and however wild the country. That is the best testimony to the perfect order which has been established in India. The same is true of nearly all of the Crown colonies. When, from time to time, a disturbance arises, the system of police we have established is so efficient that we can quickly suppress a riot or sedition. The government has done its best to develop the resources of the colonies, to spread education, and to accustom the native peoples to the habits of civilization. Civilization has no doubt two sides, and there are, unfortunately, certain evils which accompany the benefits civilization carries with it. That, I fear, it is impossible to avoid entirely, but, still, when we look at the general results, we are able, after the century and a half during which we have been holding these countries and endeavoring to administer them, to feel that great steps forward have been taken, and that the condition of the subject races is, on the whole, far better now, and contains far more of promise for the future than it has at any previous period of our history.

PART TWO

Industrial and Financial Problems in the Dependencies of the United States

BANKING, CURRENCY AND FINANCE IN THE PHILIPPINE ISLANDS

BY HONORABLE HENRY C. IDE,

Ex-Governor-General of the Philippine Islands.

THE AGRICULTURAL BANK FOR THE PHILIPPINE ISLANDS

BY PROFESSOR J. W. JENKS,

Cornell University, Ithaca, N. Y.

THE PHILIPPINE POSTAL SAVINGS BANK

BY PROFESSOR E. W. KEMMERER,

Cornell University, Ithaca, N. Y.

RAILROADS IN THE PHILIPPINE ISLANDS

BY CAPTAIN FRANK McINTYRE,

Bureau of Insular Affairs, Washington, D. C.

BANKING, CURRENCY AND FINANCE IN THE PHILIPPINE ISLANDS

By Hon. Henry C. Ide,
Ex-Governor-General of the Philippine Islands.

When the United States government forces first occupied Manila, in August, 1898, and before that time, under the Spanish régime, the banking facilities of the islands were all furnished by three banks, the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia and China, and El Banco Espanol-Filipino, the two former being English corporations of large resources, having branches in nearly all the important cities in the Orient, and the latter an institution incorporated under the laws of the Philippines and by special grant from the crown of Spain, and owned largely by the Catholic church authorities. The paid-in capital of the Hongkong and Shanghai Banking Corporation is ten million dollars (Hongkong or British dollars, of the value of approximately fifty cents more or less, varying with the price of silver) and a reserve or surplus of ten million more. The Chartered Bank of India, Australia and China has a paid-up capital of £800,000, and a surplus of £975,000. The Spanish-Filipino Bank, or Banco Espanol-Filipino, has a paid-up capital of 1,500,000 pesos, or $750,000 of our money. These banks had branches at Iloilo and Cebu in the southern islands. There were no other banks in existence in any part of the islands to supply the needs of the eight million inhabitants, unless the Monte de Piedad be so-called, an institution founded largely for the charitable purpose of making small loans to poor people at low rates of interest, secured by the pledge of jewelry, household articles and apparel delivered into the possession of the institution, or, to a small extent, by real estate mortgages. This institution is still in existence, and is performing a most useful function. Its loans amount, on an average, to about 900,000 pesos. It has been conducted in a conservative manner and its losses have been few. It is mainly under the control of the Catholic church authorities,

as was practically all charitable, benevolent and educational work under the old régime, when church and state were united.

As long as the currency of the country consisted almost wholly of silver coins, as was the case until 1904, as will be hereinafter stated, a very considerable portion of the earnings of the banks came from exchange in the narrow sense of buying and selling silver coins, the prices varying with the condition of the market from day to day. The principal earnings, however, arose largely from exchange in the broader sense, that is, in the buying and selling exchange on the foreign markets of the world, and through them were financed largely the payments for all commodities imported into and exported from the islands.

Neither of the English banks was chartered by the government of the islands or by the crown of Spain, but did business in the islands by permission, and of course had no power to issue circulating notes or paper money. The Spanish-Filipino bank, however, had by its charter power to issue circulating notes to the amount of three times its paid-up capital, without security other than that of the assets of the bank; but very rigid government supervision was provided for in its charter, the governor-general having most important powers of intervention in, and control over, the management, and of dictation of its policy. The government had the right to borrow money from it to large amounts at low rates of interest. It was, in a large sense, a government institution, although the shares were owned by private individuals or by church authorities. The Spanish law, incorporated in the charter of this bank, gave to it the exclusive right of issuing paper money. That special privilege expires on the first day of January, 1928.

On August 31, 1900, the amount of banknotes issued by it under its charter, and outstanding, was 2,750,750 pesos. It was the opinion of the Philippine Commission that this was an excessive amount of paper money to be issued without special security, by an institution having but 1,500,000 pesos paid-up capital, and the bank officials were urged to reduce their circulation to the amount of their paid-up capital. On October 15, 1901, the circulation had been reduced to substantially 2,100,000 pesos. A new internal revenue law came into force in the Philippine Islands on the first day of August, 1904, which imposed a tax of one-twelfth of one per cent per month on the

average amount of circulation issued by any bank, and an additional tax of one per cent per month upon the average amount of such circulation issued beyond the amount of the paid-in capital of the bank. The effect of this taxation was to impose upon the privilege of circulation which the Spanish-Filipino Bank had, the moderate tax of one per cent per year, except as to such proportion thereof as should be in excess of the paid-up capital, and upon that excess a practically prohibitory tax of one per cent a month. The authority to impose such practically prohibitory taxation seems clearly to have been established by decisions of the United States Supreme Court, wherein similar burdensome taxation imposed by congress upon all note circulation issued by other than national banks resulted in the complete elimination of all the circulating notes that theretofore had been issued by banks chartered under the authority of the several states. The Spanish-Filipino Bank has contended, and still contends that this legislation impaired its charter rights, and was practically a confiscation of a valuable privilege; but the legislation seems to have been enacted in the interests of safe banking, and to have been abundantly justified by the decisions of the Supreme Court of the United States. The question at issue has not been brought to any legal determination in the courts of the Philippine Islands.

It is very manifest that neither a million and a half, nor four million and a half pesos, which the Spanish-Filipino Bank claims the right to issue, would furnish any adequate circulating medium for a population of nearly 8,000,000 people. A considerable measure of relief has been obtained by the issue of silver certificates by the insular government, based upon silver pesos deposited in the treasury to the full amount of the certificates issued. These certificates have now been issued, and are in circulation to the extent of 16,015,-708 pesos, as will be hereinafter stated in connection with the subject of currency. The Spanish-Filipino Bank also claims that the issue of these silver certificates is a violation of its exclusive charter rights to issue circulating paper money in the islands; but the insular government acted upon the theory that, while the charter of the Spanish-Filipino Bank is to be respected under the Treaty of Paris, and its right to exist as an entity could not be denied or destroyed, yet that a function pertaining so nearly to the fundamental powers

of the government as the furnishing of a circulating medium for the inhabitants could not be deemed to have been protected or denied to the new sovereignty by the Treaty of Paris, nor could the United States government be deemed obliged to leave the people over whom it had assumed sovereignty without an adequate circulating medium in the form of paper money. The certificates, however, were not made legal tender, and probably are neither money nor circulating notes in the strict sense of those terms, although practically they perform the functions of money. This question has been the subject of much discussion between the bank authorities and the insular government, and is in process of adjustment by way of negotiation and compromise.

Subsequent to American occupancy two large American institutions opened branches in Manila, the Guaranty Trust Company of New York, and the International Banking Corporation, chartered under the laws of the State of Connecticut. These two institutions had not only to compete with one another, but also with the well-established institutions above referred to, who had an extensive clientage and a thorough knowledge of the methods of Oriental banking. It was subsequently deemed advisable by the managers of the Guaranty Trust Company to withdraw from the islands and transfer its business there to the International Banking Corporation, which was done, and the latter is now the only large American bank doing business there. It has obtained a large patronage, and at least its fair share of the current business.

One small bank called "The American Bank," was established in Manila after the American occupancy, but the capital was very small and it soon came to grief. Its cashier has been prosecuted for embezzling a large portion of its assets. A small bank in one of the provinces was also established by Americans and Filipinos, but it also soon came to grief and went into liquidation, but the depositors were paid in full.

None of the banks doing business in the Philippine Islands, aside from the Spanish-Filipino Bank, make loans upon real estate. That class of business will doubtless be done by agricultural banks authorized to be established by a recent act of congress. The existing banks pay interest on fixed deposits, the highest rate being four per cent on deposits that cannot be withdrawn for a year,

and lower rates for shorter periods. These institutions, having offices in but three cities of the islands, afford but little facility for security of savings. This want will doubtless be supplied by the operations of the postal savings bank law, which has been recently enacted.

Banks with small capital cannot hope to compete successfully in the business of foreign exchange. The shipment of native products and the importation of foreign commodities are upon a large scale, and dealers must solicit the aid of capital in large amounts. The large bank, moreover, has advantages in the character of its management, the greater experience of its officers, and in the power to command the aid of other great banking institutions of the world. It is possible that small banks in the interior might meet local needs and be useful to the communities in which they should be located, but the great mass of the people are poor, and can furnish but little to such banks in the way of deposits, and the basis of credits is so uncertain that capital has not sought this field. But with the introduction of the new railroads now in the process of construction, and the general revival of business which is slowly, but actually, progressing, there will probably be a greater demand for capital and banking facilities than the existing institutions can supply.

The magnitude of the banking business done in the islands can, in part, be judged from the following tabulations:

Deposits in the several banks on the 31st of December, 1906, including their branches, were as follows:

	Pesos.
Chartered Bank of India, Australia and China	3,473,372.07
Hongkong and Shanghai Banking Corporation	4,770,418.05
International Banking Corporation	3,570,494.60
Banco Espanol-Filipino	2,345,573.38
Total	14,159,858.10

The loans, discounts and overdrafts of the same banks on the same date were as follows:

	Pesos.
Chartered Bank of India, Australia and China	1,869,543.57
Hongkong and Shanghai Banking Corporation	6,862,613.48
International Banking Corporation	3,119,225.89
Banco Espanol-Filipino	3,420,223.40
Total	15,271,606.34

The national bank laws of the United States have not been extended to the Philippine Islands, so that it is not now possible there to establish United States national banks.

The currency problem was a most difficult one. Aside from the small amount of paper money issued by the Spanish-Filipino Bank, and a limited amount of United States currency which was in circulation, the money of the country in 1900 consisted of Mexican pesos or dollars, Spanish-Filipino pesos, subsidiary silver fractional Spanish, and Spanish-Filipino, Japanese, Chinese and other foreign coins, and a most insufficient supply of minor coins of copper and other metals. The handling of money of this character was in itself a great handicap upon commerce. The monthly salary of the governor-general weighed as much as a barrel of flour. The transportation of immense boxes of coin to remote parts of the islands for the purchase of commodities by exporting houses, or for the payment of salaries of officials and employees, was attended with great risk, not only from robbers and thieves, but from transportation on small boats, in crossing streams and in landing from vessels. The fluctuations in value were constant and attended with great pecuniary hazard, particularly when silver was falling in price. Wholesalers sold their goods mainly upon credit, necessarily payable in local currency. Before payments became due the fall in the price of silver was liable to be sufficient to wipe out a profit of 25 per cent or more. At times during the American occupancy an American dollar would purchase less than two dollars of local currency, while at other times it would purchase $2.66, and between these two extremes the shifting was uncertain but ever present. The problem might have been solved by making United States currency the only money of the country; but experience shows that such a change in a primitive country has always been attended by a great rise in the price of commodities and labor. The natives are quite sure to demand, if they are to receive American money, as many dollars for their commodities or labor as they had before received of Mexican dollars, the two being of nearly the same size and intrinsic value. Besides that, native transactions are, many of them, on so small a scale that a currency based more nearly on the intrinsic value of silver than on an artificial or token value is better suited to their wants. The plan finally determined upon was the coinage

of a new currency with a gold standard, so that the value of the coins in commerce should be entirely independent of the intrinsic value of the silver contained therein. The standard or unit was made a gold coin of the value of fifty cents, United States currency, called a peso. The coinage consisted of silver coins of that value and denomination, and convenient subsidiary coins of the same proportionate weight and fineness as the pesos, and minor coins of baser metals. A gold standard fund was provided to maintain the parity between the new currency and gold. This fund consisted of the seigniorage resulting from the recoinage of old coins or silver purchased and coined, and from profits resulting from the sale of exchange in Manila on New York, or in New York on Manila, out of the gold standard fund, and of money borrowed on one-year certificates for the purpose of obtaining funds to purchase the needed silver. These certificates bore interest at four per cent and were issued to the amount of 6,000,000 dollars in all. As each series of certificates matured it was paid off and a new series issued, if necessary. The amount outstanding now is 1,000,000 dollars, which will undoubtedly be paid off at maturity on September 1, 1907, without the issuance of a new series. These certificates were given great advantages by way of exemption from taxation in the United States and the Philippines, and by being made available as security for United States deposits in national banks, and consequently were sold at such premiums, and the proceeds of their sale were deposited at such rates of interest, that the money borrowed upon them cost the insular government nothing, but was an absolute source of profit.

The parity between the silver peso and the gold peso was maintained, and the currency kept equal in volume to the demands of trade, by special provisions. First, the sale of drafts on that portion of the gold standard fund deposited in the United States at a premium of three-fourths of one per cent for demand drafts and 1⅛ per cent for telegraphic transfers, and by like sales in the United States on the insular treasury at Manila, the premium charged being subject to temporary increase or decrease, as conditions might require. Second, by the exchange at par of United States currency for Philippine currency and the reverse. Third, by the exchange of Philippine currency for United States gold

coin or gold bars with a charge only sufficient to cover the expenses of transporting gold coin from New York to Manila. Fourth, by the temporary withdrawal from circulation of Philippine currency exchanged and deposited in the treasury. Fifth, by the temporary withdrawal of United States paper currency, gold coin and gold bars received at the insular treasury in exchange for insular currency, until the same should be called out in response to the presentation of Philippine currency, or until an insufficiency of Philippine currency should make necessary an increased coinage. This system of maintenance of the gold standard and of the parity might require large shipments of money from Manila to New York, or the reverse, according to the demands for exchange. This difficulty, however, was obviated by an arrangement with the treasury of the United States, such that the actual transfer of money has in most cases been avoided. The Treasurer of the United States necessarily disburses large sums in the islands for the payment of expenses incident to the maintenance of the United States army there. In case the insular funds in New York need replenishment by reason of an excess of exchange sold against them, the Treasurer of the United States, upon request, deposits in New York, to the credit of the insular treasury, the million dollars, more or less, that may be needed to maintain a sufficient sum in the New York depository, and the insular treasury, which is a United States depository in the Philippines, at the same time passes to the credit of the United States government at Manila the million dollars, more or less, that it has received in New York to its credit. Most of the disbursements of army paymasters in the Philippines are made in Philippine currency, the United States currency standing to the credit of army disbursing officers there being actually paid to them in Philippine currency at the ratio of two for one. This system, with practically no expense, has given to the islands an absolutely uniform and stable currency based upon the gold standard, has put an end to the gambling in silver, before so universally prevalent, and has placed business, governmental and commercial, upon a substantial basis.

The elimination of the old currency presented a specially difficult problem. It permeated the most remote portions of the archipelago, and some means must be devised to get rid of it. This was es-

pecially difficult with a falling market price of silver, because it was much more profitable to pay for commodities and labor in the cheap currency than in the dearer one. The large sums that were required to be sent out of the islands for a time in payment for rice imported, aided the process of elimination, as immense amounts of Mexican pesos were sent out of the country for this purpose, the return coming in the form of rice. The Mexican pesos had a perfectly good market at Hongkong and all along the coast of China, and there was no hardship in driving them out of the country. The Spanish-Filipino pesos and minor coins, of which there were about 16,000,000 pesos in circulation, were more difficult to deal with. They had no market in China, and contained from ten to twelve per cent less silver in value than the Mexican pesos. They had circulated side by side on a parity with the Mexicans, and it was deemed unjust to deal with them on any different basis. The government therefore redeemed them both for a considerable time at ratios based substantially upon the intrinsic value of the Mexican dollar. It gave notice that after a fixed date the Mexican dollars would no longer be receivable by the government, nor after a certain date would the Spanish-Filipino coins be so receivable. Ample time was given for everyone to shape himself to meet the contingencies, but it became apparent that the temptation to pay for all commodities and labor in the cheap currency was such that stringent measures would be necessary to eliminate the old. The theory of the legislation that was enacted to accomplish that result was that the use of the old currency must be made so unprofitable that it could no longer continue to serve as coin in the islands. Its life must be made a burden. Taxation was imposed upon deposits of the old currency so heavy as to compel all the banks to co-operate in its elimination. Heavy license fees were imposed upon all who wished to deal in the old currency for any purpose, except exporting or gathering it in for sale to the government. The result was that the natives refused to take the old currency on any terms, and it took its natural course of export in the case of the Mexicans and payment into the treasury in the case of the Spanish-Filipino coins. Very little hardship resulted; the whole process was completed within about a year and a half, but by such gradual steps that business adjusted itself to the new conditions without difficulty.

One feature of the new currency system was the issuance of silver certificates by the treasurer, for Philippine pesos deposited in the treasury. These certificates are of denominations of 2, 5, 10, 20, 50, 100 and 500 pesos. They have proven to be very popular, and have gone into every part of the archipelago, constantly increasing in amount from month to month so that on February 28, 1907, there were in circulation 16,015,708 pesos of such certificates. The total amount of new coinage is 33,745,501.80 pesos. It should be added that during the past two years the rise in the price of silver has been such that the Philippine peso has become worth for bullion or for export more than its face value. It is undoubtedly true that the peso, as originally coined, did not allow a sufficient margin by way of seigniorage to be safe in the face of a long-continued rise in the value of silver. Congress has authorized a recoinage on a basis such that the new peso will contain a materially less amount of silver and a greater one of alloy than the old. The rise in value of the silver involved in the Philippine coins has been such that the government will derive a profit of six million dollars, gold, more or less, from the recoinage. The process of recoinage is now going on.

This paper is already of such a length that the financial conditions of the Philippine government must be dealt with most briefly. From the beginning of the American occupancy the insular government has been self-sustaining. This statement, of course, does not include the expenses of the government of the United States in maintaining its army and navy, portions of which have been stationed in the Philippine Islands and in Philippine waters. The support of every department of the insular government, including the maintenance of schools, scientific institutions, the construction of roads, bridges and public buildings, the preservation of good order by means of a constabulary force of five or six thousand men, and of all other activities of the government, has been met from insular revenues. At the close of the fiscal year 1906 there were in the treasury $1,286,134.19 gold, available for appropriation after all the obligations and expenses of the year had been met. The fiscal year 1907 will probably show an additional surplus from its operations of $1,500,000.

The bonded indebtedness of the government, aside from the

certificates of indebtedness relating to the gold standard fund, which will be paid off, as above stated, out of the gold standard fund, on the first of next September, consists of $7,000,000 in bonds issued to purchase friar lands, to settle agrarian disputes, and $3,500,000 public improvement bonds. The friar lands bonds have the lands and their income which were purchased with the proceeds as a trust fund for their payment. All of the bonds above mentioned (made payable in 30 years, but redeemable in 10) bear four per cent interest. They were sold on such favorable terms, and under such conditions that the money was obtained nearly upon a three per cent basis. They will be treated as ten-year bonds, which is the proper method, and will, at the expiration of that period, be paid from the sinking funds and by the issue of new bonds. The credit of the islands is of the highest. It is believed that no bonds, aside from those of the United States government itself, have been sold in the last few years on more favorable terms than those of the Philippine Islands.

THE AGRICULTURAL BANK FOR THE PHILIPPINE ISLANDS

By Jeremiah W. Jenks, Ph.D., LL.D.,
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It has been said that I am to speak on the agricultural bank in the Philippines. I think the title would have been more accurately stated if it had been given as the agricultural loan bank, because it is not the intention, as you will see in a moment or two, to make the agricultural loan the basis in any way of the currency system in the islands, as was the plan in the early days in New England. The legislation in regard to this bank is simply to provide an institution which shall furnish loans to the farmers, principally the small farmers, on the security of their lands, crops, and possibly, at times, of their farm animals.

It is worth while to note briefly some of the reasons why it is desirable to establish the agricultural bank at this time. In the first place the Filipinos want the bank. We have thought it desirable to do what we could to satisfy first the real needs, and beyond that the rational wants of the Filipinos. There can be no doubt that there is no other single favor which the Filipinos, in all parts of the island, have so constantly asked for from the Philippine Commission and from our government here, as the establishment of an agricultural bank. In a good many cases, I think, the native Filipinos who have asked for the bank have felt the want rather than the need, because they did not exactly understand what they were asking for. I do not doubt that a number of the more ignorant ones have felt that if the government would establish an agricultural bank, they might go to it as an unlimited source of supply for money whenever desired, and some of them have thought that it would not be necessary to make any particular sacrifices to pay that money back again. Nevertheless, when the government makes the provision for that bank, it does so with the full intention that the person who borrows the money will pay it back with reasonable interest.

A second reason is that the business conditions in the islands are

not good, although they promise to be better. As we know, any country which has been devastated by war must suffer from that devastation for a number of years, and while the immediate effects of war have been largely removed, some remain. The conditions, while better than they were, are in many places worse than under the Spanish occupation, but that condition of affairs is rapidly passing away. Again, as you know, there has been in the islands for the past few years, and the danger is not yet past, a plague from which perhaps nine-tenths of the cattle and horses, which are the only draft-animals in the islands, have died. When a farmer wishes to till his land, if his animals are gone, he is in a serious plight; so it is advisable that some means be furnished the Filipino by which he can buy cattle. The United States did appropriate $3,000,000 which could be used for meeting the more pressing needs of the islanders along that line. More is needed, to be secured in the usual way by individual credit. Again, there have been plagues of locusts; there have been tornadoes; and for various other reasons the agricultural conditions have not been good of late years, so that if any means can be found whereby the native Filipinos, who are these landowners, can secure small loans to meet the pressing needs of seed, tools and draft animals, it will be likely to improve conditions very decidedly.

Again, as Governor Ide has already indicated, there are no means at the present time to provide these things. Of the four larger banks two are forbidden to loan money on land. The other two could make such loans, but being occupied in the exchange business, they are not likely to find it profitable enough to organize branches for making petty loans to the agriculturists here and there throughout the islands. It would not pay them, and they will not do it. An investigation made into that question showed that the present agricultural loans aggregated only some $400,000 and most of those were made to the larger landowners, so it is necessary to provide some means, such as an agricultural bank. The large banks do not care to make loans to small landowners. We do not perhaps appreciate how small the land holdings are, because they are not to be compared with our land holdings at all. It should be borne in mind that the Filipino farmers to a considerable extent own their land. Their system is not a tenant system. More than 80 per cent of the

farms are worked by their owners; but when it comes to speaking of the size of the farms, only 1.3 per cent had as much as 75 acres, so there are almost no large farms. Less than 5 per cent have 25 acres. More than 88 per cent—nearly 90 per cent—have less than 12¼ acres, and as high as 21.7 per cent of the entire number of farms in the island are only 194 feet square. I am not very good at guessing at distances, but I should say that more than 20 per cent of the farms are not more than four times the size of this room. That is not a very large farm; in consequence, when it comes to providing the owners of those farms with loans, it takes a special banking organization to look after the special needs of each individual landholder, however small that landholder may be.

Another pressing need is a lower rate of interest. Where people want loans very badly, and are willing to pay high rates for them, usually somebody will be found to give them credit. The Chinese merchants and other people, who have some surplus capital that they can loan from time to time, and who are willing to take what they can get for it, now make loans. In this way the Filipino agriculturists have been able to borrow; but they have paid from 10 per cent to 100 per cent interest. The investigation made about two years ago through the provincial treasurer of the islands showed that the usual rate of interest, if you can speak of such a thing as a usual rate, was about 2 per cent a month. That is, the people were paying, in round numbers, 25 per cent interest on the money they borrowed. This makes it clear that the government should be able to furnish small cultivators with money, so that they can pay off the usurers and in that way succeed in securing money at reasonable rates.

There is not very much of the experience of other countries that is similar to this situation. But we were fortunate in finding in Egypt a system of agricultural loans in a country where the conditions are in many ways quite similar to those in the Philippine Islands, where the system has been very successful. Of course there are agricultural banks in many countries, but in almost all cases these banks are on a co-operative system, among people who are themselves intelligent enough to manage their own banks, like the building and loan associations, or else they are in countries where capital is not so scarce as it has been in the Philippine

Islands, so that the experience of most countries would not serve as models for a system in the Philippine Islands. On the other hand, in Egypt, a country which has been very poor, a country greatly in debt, the inhabitants of which have the reputation of being thriftless, the conditions are such that it may stand as a possible model for us. A word or two, then, in regard to the conditions in Egypt, and the nature of the agricultural bank there. The system of agricultural loans in Egypt is not very old. It has been running only since the middle 90's, but with conditions as they are it has been apparent to many people that Egypt might serve as a model. In consequence Dr. Kemmerer, the adviser of the Philippine government on monetary affairs, was requested to look into the system, visit Egypt and make a detailed report. It is largely as a result of his report that we have been able to work out a system which will probably be successful.

In 1894, Lord Cromer, the English consul general and diplomatic agent of England, who has been, of course, the real ruler of the country, tried to get capitalists interested in agricultural loans. He failed in that. Then the government started its plan in a tentative way, first loaning seed, then small sums of money, where it could be carefully watched, and thus the system gradually spread. It was found that the Egyptians, who had been said to be so thriftless, careless and improvident, were willing to pay back their loans, so the system grew rapidly. In the year 1898 there was something like $37,000 loaned. The next year the plan had been so successful that about $150,000 was loaned, and in 1900, $700,000. After this experiment, the government persuaded the National Bank of Egypt to take over the business of loaning, and later, in 1902, the Agricultural Bank of Egypt was founded, with a capital of $12,500,000, which was rapidly increased to $35,000,000, and it is now proposed to increase it to $50,000,000. Loans, up to the present time, have amounted in round numbers to $50,000,000. Out of this $50,000,000 of loans which have been made, not one dollar has been lost. That seems to show two things: first that the native Egyptians are not so careless and thriftless as was thought before, and second, that the management of the bank itself has been extremely skilful and careful. Out of the entire amount loaned, only small sums have had to be collected under pressure; only one was not paid by the

borrower, and that one was paid by one of the officials who had given credit unwarrantably.

As to the people who invested in the bank, how did they come out? The bank has paid good dividends, 4, 6, 7½ per cent on the common stock, besides laying aside something for surplus, so that at the present time the common stock of the company is selling at about 100 per cent above its face value. The rate of interest, owing to the fact that the loans had to be made in small sums, was first placed at 10 per cent. Afterward, when the system was firmly established—when the new bank was formed—it was found that they could make the rate 9 per cent, and recently the rate has been lowered to 8 per cent.

It is proposed, in the Philippine Islands, to establish a bank along the same lines. The success of Egypt has been most surprising, not only from the banker's point of view, but also in the effect the bank has had in the country itself. The people have learned regular business habits from just treatment in their dealings with the bank.

A loan is not made to an Egyptian to use as he pleases. When he applies for a loan he is asked how he wants to use his money. Does he want to buy seed, farm cattle, or tools? He is requested to give the reason for his loan and then he is compelled to live up to his agreement. If it is found by the bank that he is making a wrong use of the money—if he says he will buy tools and spends the money on a wedding—the bank at once interferes. The loan immediately becomes due, and is collected by legal means. By lending money to the farmers for a certain object, and then compelling them to live up to their agreements, the operations of the bank have been conducted without loss.

These loans are made payable in annual instalments. In order to save the bank from expense, and ultimately to lower the rate of interest, it has been thought desirable for the government tax collectors to do part of the work of collecting these loans and interest. As the collectors visit the small farmer to collect taxes, they present the bill for the interest and the part of the loan which is due. If the borrower fails to pay it, the government does not itself make collection by legal process. When this is necessary, it is done by the bank. That is extremely desirable, because it is the collection

by legal process which would be likely to make the farmers oppose the government.

That is the general plan in Egypt, and that plan will probably be followed out in the main in the Philippines. Some of the conditions are not quite so favorable in the Philippines as they are in Egypt. In the first place, in the Nile Valley the people do not depend upon the rain-fall at all. They are perfectly sure of a crop. Once I was standing at a railway station near Cairo with the American consul-general. I noticed a cloud and said, "It looks as if there were going to be a shower." The consul-general looked at me for a moment and replied, "The sky frequently looks that way. The last shower we had was seventeen years ago last April. Don't be worried." It never rains in Egypt, but there is always plenty of water because the government by its irrigation system so regulates the water supply that they are sure of a crop. That is not true of the Philippines; we must therefore figure on occasional partial failures of crops. Second, the Philippines are not so compact as Egypt. The arable land of Egypt is all along the Nile Valley, and it is comparatively easy to get from one part to another. Again, I think the people of Egypt are somewhat more homogeneous than those of the Philippines. I am inclined to think that the Filipinos are intellectually more able than the Egyptians, but I do not think that they are so easily led, nor that they will be so ready to take the advice of the government as are the Egyptians. I think therefore that the characteristics of the Filipinos would make the conditions not quite so favorable as those in Egypt. Nevertheless, the conditions in the Philippines are good enough, so that there is not only a reasonable prospect of success, but so that, if the bank is handled intelligently, success is practically certain. First there must be an honest, capable administration. If the bank does not send the best men to look into conditions and administer the business, firmly and faithfully, with reference to the feelings and welfare of the people, and intelligently with reference to the conditions under which loans are made, the bank will fail, but if that *is* done the bank will succeed.

A word or two with reference to the provisions of the new law. It provides that loans shall be made preferably to the small farmer. Only a relatively small proportion of the capital, say 25 per cent

presumably, will be put out in large loans to the rich farmers. Of course there are some who need to buy modern American machinery that ought to have large loans, and such loans will probably be made at times, but only on the consent of the minister of finance and justice. The preference is to be given to the small landholder.

Again, in order to induce capital to go into the islands and take up the banking business (because, as you know, capital is shy of going so far from home), the government is prepared to guarantee an interest of 4 per cent on the capital that is actually issued by the bank. The Philippine Commission has power to determine what the amount shall be; but the risk to the Philippine government can never, in any one year, be more than $200,000 (400,000 pesos), and in the present financial condition of the islands that could be taken care of very easily, should it be necessary; but from the experience in Egypt, it is not likely that any guarantee will be called for at all. Again, there will be careful supervision by the government itself. Presumably we shall allow our tax collectors also to assist in the collection of these loans, unless it comes to a collection by legal process. Then it will be done by the bank officials doubtless, and not by the government.

As yet the capital has not been secured for this bank. Capitalists have not agreed to undertake it, but presumably the capital will be obtained on conditions which will be satisfactory. In my judgment it will be a safe and profitable investment, and a measure of untold value to the islands themselves.

A good deal is said with reference to the action of the United States in not providing for the free admission of Philippine products to the United States, but after all, the question of tariff is not the most important. The greatest single thing, probably, which could be done to improve the conditions in the Philippine Islands has been done in making arrangements for the establishment of this agricultural bank, from both the economic and the political point of view. We want to satisfy the demands of the Filipinos themselves. In addition to that, there is no possiblity of conflict between the interests of the United States and those of this agricultural bank in the Philippine Islands; so that there ought to be no opposition whatever to its work.

THE PHILIPPINE POSTAL SAVINGS BANK

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In undertaking a sketch of the Philippine Postal Bank, three general questions present themselves: (1) What were the conditions leading to the bank's establishment? (2) What are its characteristic features? (3) How has it so far succeeded? We will briefly consider these questions in their order.

It would be superfluous to attempt to explain to the members and friends of this society the importance of the saving habit in the building of character, and in the inculcation of those basic virtues of providence, thrift and self-control, which are among the foundation stones of popular self-government. It is because these virtues find expression in the saving habit, and are in turn developed by that habit, that the late Francis A. Walker could say with truth that, "Nations are progressive in proportion as they possess the power to save."

No one acquainted with the Filipino people need be told that they are deficient in frugality and thrift—virtues in which their neighbors, the Chinese, excel. Whether the Filipino's improvidence is due to his Malay stock which is proverbial throughout the Orient for thriftlessness, to the tropical climate in which he lives, or to the insecurity of property during the Spanish régime, and the absence of facilities for the safe-keeping of money, need not concern us here; the fact remains, that, allowing for many noteworthy exceptions, the Filipinos as a people have never developed the saving habit, and are deficient in foresight, the capacity to anticipate the future, in thrift, the capacity to labor for the future, and in self-control, the capacity to deny themselves the pleasures of the present for the more enduring ones of the future.

If the Filipino people have never developed the habit of saving, nor the virtues which that habit exemplifies and inculcates, the question arises: How can they be encouraged to save, to forego the momentary pleasures of the cock-pit, the gambling table, of

cheap jewelry, and of the holidays without number, for the more substantial advantages arising from an accumulated reserve? It is evident that we cannot force the Filipino to save against his will, and that we cannot expect suddenly to transform him by any device of law, or education, into a frugal and thrifty Anglo-Saxon. We can do something, however. We can teach the younger generation, through the public schools, the importance of saving, we can provide throughout the islands, for the benefit of those who are inclined to save, convenient places for the deposit of small sums, and can make the depositors absolutely secure in the possessions of their savings.

In a country where there are no banks outside the three principal cities, where there are but five cities containing more than ten thousand population, and where three-fifths of the civilized population live in barrios of less than one thousand inhabitants,[1] there is only one way to bring savings bank facilities within the reach of the people, and that is by the establishment of a postal savings bank. This fact impressed itself upon Secretary Taft when he was Governor of the Philippines, and in the summer of 1903 he directed the writer to prepare a report on the advisability of establishing such an institution. The report was duly prepared and submitted to the Philippine Commission early the following year. It recommended the establishment of a Philippine postal savings bank, and was accompanied by a draft postal savings bank bill. This bill was passed with a few alterations by the Philippine Commission on May 24, 1906, and is the basis of the present Philippine Postal Savings Bank.[2]

The general plan of the bank[3] is similar to that followed in many of the British colonies. It is a highly centralized institution, the head office is a division of the bureau of posts in Manila. All records of the bank are kept in this office, and through it all deposits and withdrawals must pass. This high degree of centralization, and the division of the postal savings banks of the islands into three classes, of which I shall speak presently, were rendered necessary largely in the interest of the safe handling of the savings

[1]Philippine Census, 1903, II, 38.

[2]The Philippine Postal Savings Bank act is numbered 1493, and is published in the Philippine Official Gazette, IV (June 20, 1906), pp. 409-412.

[3]For a more detailed outline of the plan see Kemmerer, "The Philippine Postal Savings Bank," in Review of Reviews, XXXIV (1906), 468-470.

bank funds. It would be obviously impracticable to impose any great money responsibility upon the 500 or more native postmasters scattered in the rural communities throughout the islands. The bank's centralization makes it possible, moreover, to permit any depositor to make deposits and withdrawals through any postal savings bank. This is an important advantage to soldiers, members of the Philippine constabulary, and others whose duties compel them to lead a more or less nomadic life.

Postal savings banks are divided into banks of the first, second and third class respectively. The director of posts determines to which class each bank shall belong. There are no limitations as to the size of deposits and withdrawals that may be made at banks of the first class. Banks of the second class are not allowed to receive any single deposit of over one hundred pesos—a peso is equivalent to $0.50—nor to permit withdrawals of more than two hundred pesos a month. Banks of the third class can only receive deposits by means of postal savings bank stamps. No single deposit of over twenty-five pesos in stamps can be received by a postal savings bank of the third class, and no depositor is permitted to withdraw through a postal savings bank of the third class over fifty pesos at one time.

The minimum deposit authorized at any postal savings bank is one peso. The clerical expenses connected with the receiving and entering up of a deposit make it inexpedient to receive sums of less than that amount. A peso, however, is a considerable sum of money to a large number of the Filipinos whom the bank is intended to benefit, and more particularly to the children in the schools. In order to provide an attractive method of meeting the needs of children and of others wishing to make petty savings, the system of postal savings bank stamps which has proven so successful in England, India and elsewhere, has been adopted. Attractive postal savings bank stamps in denominations of five, ten, and twenty centavos are for sale at every postal savings bank in the islands. Folding cards with spaces on which to paste these stamps are distributed free of charge, and cards on which a peso's worth of stamps has been placed are received on deposit as the equivalent of money, at all postal savings banks.

The law provides that interest at two and one-half per cent

per annum shall be allowed on deposits "until practical experience shall demonstrate that a higher rate can safely be guaranteed." There is no limit to the amount that a person may have on deposit in the bank. It is provided, however, following the practice in Italy, that, "money to the credit of any depositor in excess of one thousand pesos shall not bear interest." The interest bearing minimum and the authorized maxima of deposits and withdrawals are doubled in the case of accounts of charitable and benevolent societies. The object of permitting deposits above the usual minimum of other countries, without interest, was two-fold. It was believed that such a privilege would benefit many well-to-do people who were not within the reach of other banks, or who, for one reason or another, distrusted them, by providing them with an absolutely safe place for the deposit of their larger savings. It would, in other words, provide an excellent and safe substitute for the practice of hoarding. In the second place it was evident that the bank by obtaining interest on the investment of such deposits, on which it paid no interest, would be in a better position to meet its running expenses, and might in time be enabled thereby to increase its rate of interest payable on the deposits of the poorer people for whose benefit the bank of course primarily exists.

The duty of investing postal savings bank funds is entrusted to a board known as the postal savings bank investment board, which is "composed of the secretary of commerce and police, the secretary of finance and justice, the director of posts, the insular treasurer, and a business man . . . appointed by the governor-general. Four classes of investments are permitted. They are: (1) United States bonds. (2) Bonds of the Philippine insular government, of the City of Manila and of certain other municipalities in the islands. (3) "Interest-bearing deposits, under proper security, in any bank situated in the United States or in the Philippine Islands having an unimpaired paid-up capital equivalent to one million five hundred thousand pesos," and (4) stocks of any such bank doing business in the Philippine Islands. No other kinds of investment are permitted. Absolute safety rather than large earnings is the dominant consideration in the investment of Philippine postal savings bank funds. Such are the broad outlines of the Philippine postal savings bank.

How has the bank so far succeeded? No adequate answer to

this question is yet possible. Few offices of the bank have yet been put in operation, and those few have been doing business only a short time. The postal savings bank stamps did not arrive in the islands until the fore part of February, and no reports have yet been received as to the way in which the Filipinos are taking to them.

The following facts, based upon the monthly reports of the chief of the postal savings bank division, as printed in the Manila daily papers, will give some idea of the progress of the bank during the first few months. The act creating the bank was passed on May 24, 1906, and shortly afterwards Mr. Ben F. Wright, formerly bank examiner for the islands, was appointed chief of the postal savings bank division in the bureau of posts, and assigned the work of organizing the bank, under the supervision of the director of posts.

On October 1 a postal savings bank was opened in the Manila post-office, and other banks were thereafter opened as rapidly as possible in the money-order post-offices of the islands. By November 30 there were nine banks open to the public,[4] and by the end of December the number reporting had increased to twenty-nine,[5] and on January 31 of this year there were sixty-two banks in operation.[6] During the month of October 214 accounts were opened at the Manila bank, and deposits aggregating 76,000 pesos were made. Of the 214 depositors 73 per cent were Americans and 14 per cent were Filipinos.[7] During the month of November the amount on deposit in the postal savings banks increased 69 per cent, and the number of depositors increased from 214 to 368. Of this number 78 per cent were Americans, and 12 per cent were Filipinos. During the month of December,[8] the last month for which figures are available, the amount on deposit increased to 185,000 pesos, an increase for the month of about 44 per cent, while the number of depositors increased to 621, an increase of 69 per cent. Of these 621 depositors 500, or 82 per cent, were Americans, and 90, or 14 per cent, were Filipinos.

With reference to the classes of people making deposits, the

[4]Manila Times, December 21, 1906.
[5]Manila Cablenews, February 3, 1907.
[6]Manila Times, December 21, 1906.
[7]Manila Times, November 12, 1906.
[8]Manila Cablenews, February 3, 1907.

following particulars are of interest: Five hundred and fifty-six were male, sixty-three were female, and two were charitable societies. The principal occupations, represented, in the order of their numerical importance, were: (1) clerks, (2) artisans, (3) professional classes, (4) laborers, (5) soldiers and sailors, and (6) policemen. Eighteen depositors were children under fifteen years of age, and eight were students. There was not a depositor belonging to the agricultural classes who constitute the principal element in the Philippine population.[9] The absence of agriculturists is doubtless to be explained in part by the fact that all of the banks in operation at the close of the year were in towns of some size, and that the banks had not yet been well advertised in the smaller barrios. Stated in round numbers, the average amount to the credit of a depositor was 298 pesos, the average size of deposits made in December was 140 pesos, and the average size of withdrawals was 106 pesos. There were forty-one accounts above the interest-bearing maximum of 1,000 pesos, including two above 5,000 pesos. One hundred and seventy-eight accounts were below 50 pesos, and 165 were between 100 pesos and 300 pesos.[10]

The figures show that the bank has made rapid progress during the first few months, and give earnest of great future usefulness. The benefits of the bank so far, however, appear to have accrued principally to Americans and Europeans. It was expected that Filipinos would become depositors of the bank only very slowly, and the results so far bear out this expectation. The Filipinos, comprising over 99 per cent of the civilized population of the islands, constituted but 14 per cent of the depositors of the postal savings bank at the end of the year, after the bank had been in operation three months; while Americans, comprising less than one-third of 1 per cent of the population, constituted 82 per cent of the depositors. In other words relative to population in the islands, there were about 1,700 American depositors to one Filipino depositor. Relative to population in Manila, there were 260 American depositors to one Filipino depositor. At the end of October Filipinos constituted 14 per cent of the total number of depositors; at the end of November the percentage was 12, and at the end of December it was again 14. There was, accordingly, from the beginning down to De-

[9]Manila Cablenews, February 3, 1907.
[10]Manila Cablenews, February 3, 1907.

cember 31 no appreciable increase in the proportion of Filipino depositors. Such comparisons must of course, not be given too much weight. In the interpretation of these figures large allowance must be made for the short time during which the banks have been in operation, for the Filipino's distrust, his lack of familiarity with such institutions, and for the fact that the banks to which our information refers are in towns of considerable size, in which the percentage of American population is much larger than it is for the country as a whole. After due allowance, however, is made for all these considerations, I think we must conclude that the little evidence so far available tends to substantiate the Filipino's reputation for improvidence, and to show the need in the Philippines of such an educational institution as the Philippine postal savings bank. The facts certainly justify the conclusion that the Philippine government should institute at once, through the officers of the bank and through the teachers and superintendents of the public schools, a vigorous educational campaign in the interest of teaching the saving habit to the rising generation of Filipinos. For, until the Filipino has learned the lessons of providence, thrift and self-control, which the saving habit exemplifies and inculcates, he cannot expect any high degree of either economic or political independence.

RAILROADS IN THE PHILIPPINE ISLANDS.

By Captain Frank McIntyre,
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The question of the construction of railroads in the Philippine Islands was first taken up by the Spanish government about 1870. On August 6, 1875, was published a royal order governing the granting of concessions to construct and operate railways in the Philippine Islands, and in 1876, there was published in Manila a report on the general plan of railways for the island of Luzon by Eduardo Lopez Navarro, an engineer of the department of public works. This plan was submitted to the home government in Spain, and on August 9, 1876, a royal decree was published, giving the character of roads that must be built in the islands. The matter then seems to have been held in abeyance until 1883, when a royal decree of May 11 was published, announcing the routes for railway lines which were approved by the government as of general service in the island of Luzon. The lines thus approved were in accordance with the plan of Lopez Navarro, and were as follows:

Lines of the north:
- From Manila to Dagupan by way of Tarlac.
- From Dagupan to Laoag by way of the coast.
- From San Fernando to Iba by way of Subic.
- From Bigaa to Tuguegarao by way of Baliuag and Cabanatuan.

Lines of the south:
- From Manila to Taal by way of Calamba, to Albay by way of Santa Cruz and Nueva Caceres.

Lopez Navarro in his report had divided these lines into two classes, as follows: First, those which would be at once profitable from an exclusively commercial standpoint, and in this class he included the line from Manila to Dagupan with a branch line to Cabanatuan, and from Manila to Taal, with a branch line from Calamba to Santa Cruz; and second, those where the returns would, during the first years, barely cover running expenses, under which

he classified the line from Dagupan to Laoag, Santa Cruz to Albay, San Fernando to Iba, and Cabanatuan to Tuguegarao.

It should be observed that the author of this plan was of the opinion that the system in its entirety could be completed at an average cost of $27,000 per kilometer, and would pay a dividend on the total capital invested of 8 per cent. The matter, however, was not taken up seriously until several years later, when, following the plan proposed by Lopez Navarro, a concession for the road in the island of Luzon, which he regarded as most necessary, was advertised for sale, bids to be opened in Madrid and in Manila. After two unsuccessful efforts to sell the franchise, on the 14th day of October, 1886, the proposition of the representative of an English corporation to take over this concession was accepted. The road, the construction of which was thus undertaken, was from the City of Manila northward to Dagupan, a distance of 120 miles. This road was opened for operation in 1892.

By the terms of the concession the concessionaire was guaranteed annual net earnings of 8 per cent on the capital to be employed, which was fixed at $5,553,700 Mexican. The net earnings were fixed arbitrarily at one-half of the gross earnings. When half the gross earnings exceeded 8 per cent. of the fixed capital, it was provided that the excess should be divided equally between the concessionaire and the Spanish government. The concession was for the period of ninety-nine years, at the expiration of which the Spanish government was to come into possession of the line, rolling stock and appurtenances of the road. For the ten years preceding the termination of the concession the government was entitled to retain the net proceeds of the railroad and employ them in maintaining it if the company did not fulfil the obligation of properly maintaining the road.

It is interesting to note that under this concession for several years the Spanish government was required to pay varying amounts to the concessionaire in accordance with terms of the concession; that in fact in the first quarter of the year 1898, for the first time, the net proceeds of the road exceeded the 8 per cent of the guaranty. Between 1892 and 1898 the government paid to the concessionaire in round numbers $600,000 Mexican, but in the first quarter of 1898, received $3,110 as its participation in the excess of net profits over the

guaranteed income. In 1905, on the other hand, the last year of which we have accurate information, the gross earnings of this line were $847,410, United States currency, the net earnings being about 16 per cent on the cost of road. This would have given to the government, under the Spanish charter, a profit on the road for that year of approximately $100,000 gold. This, however, has ceased to be a matter of more than curious interest, because the United States government refused to acknowledge as binding on itself the liabilities imposed on the government by the Spanish charter, and has felt equally that it could claim the emoluments due to the government under the terms of the charter. The solution of the very difficult question arising from this refusal of the United States government to accept as binding on it the Spanish charter is clearly set forth in the annual report of the Secretary of War for the past year.

In the first few years of American occupation of the Philippine Islands, the attention of the authorities was naturally directed to other and more pressing matters; but no sooner had peace been established in the islands than the importance of creating, among other methods of transportation, a system of railroads for the islands was fully recognized. It was also fully understood, especially in the light of the experience of the Spanish government, that without some governmental encouragement or guaranty, it would be impossible to induce responsible people to enter upon the construction of railroads in the Philippine Islands.

The organic act creating the present Philippine government, approved July 1, 1902, authorized that government to grant perpetual franchises for operations of railroads and other works of public utility and service (Sec. 74, Act of July 1, 1902). In accordance with this act the Philippine Commission, with the approval of the Secretary of War, in 1902 and 1903 granted perpetual franchises to the existing railway company to construct four branches, one to Cabanatuan, 55 miles in length; one to Antipolo, 24 miles in length and two short, unimportant branches. The franchises provided for payment of 1½ per cent of gross earnings in lieu of taxes for a period of thirty years.

This, then, was the condition of the Philippine Islands as to railroads when, in February, 1905, Congress passed an act which authorized the Philippine government to aid the construction of

railroads by guaranteeing interest not exceeding four per cent for thirty years on bonds, the proceeds of which should be used to build railroads under franchises granted by the Philippine government.

At the time of the passage of this act, 120 miles of railroad —the Manila and Dagupan line—was being operated under the Spanish franchise heretofore referred to, and 85 miles was being operated, or was under construction, by the same railroad company under the franchises granted by the Philippine Commission. The act of February, 1905, gave the opportunity for assistance to railroad construction which the Philippine Commission had long desired.

After the passage of this act it was necessary to determine the lines of railroad which it was most necessary to have constructed. In determining this it was necessary to consider the amount of contingent liability which the Philippine government could readily assume and the railroads which commercially were most desired, as well as those which would be of the greatest benefit in opening up sections of the islands which were susceptible of development.

It was determined to offer concessions for three lines in northern Luzon, one from Dagupan to Laoag, 168 miles in length; another from Dagupan by way of Tuguegarao to Aparri, 260 miles in length, and the third from San Fabian to Baguio, 55 miles in length; two important lines in southern Luzon, one being from Manila to Laguna, Tayabas and Batangas, 130 miles in length, and the other through the provinces of Ambos Camarines and Albay, 100 miles in length.

It is important to notice in this connection that these roads were practically the same as those selected by the Spanish engineer, Lopez Navarro, in 1876, the principal differences being that in the second of the lines above mentioned in northern Luzon he proposed to have its northern terminus at Tuguegarao instead of going to Aparri on the north coast, and that instead of the line from San Fabian to Baguio he had proposed a line from San Fernando by way of Subic to Iba, in the Province of Zambales. The condition which had made the line to Baguio important, that is, the selection of that place as the summer capital of the Philippines, was not existent when Lopez Navarro made his report. The lines in south-

ern Luzon differed in no material respect from the lines proposed by him.

It was determined further to offer five lines on as many different islands of the Visayan group. These lines had apparently never been contemplated in the time of the Spanish government of the Philippines. The lines selected in the Visayas were, first, on the island of Panay from Iloilo, the capital of the Province of Iloilo, to the towns of Capiz and Batan on the north coast, a distance of approximately ninety-five miles; second, a line on the island of Negros, from the harbor of Escalante on the northeast coast to Himamailan on the west coast, approximately 108 miles; third, a line on the island of Cebu from the City of Cebu to Danao on the east coast, and south from Cebu to Argao, on the same coast, with the option of a line across the island from Carcar or Sibonga to the west coast, and thence along the coast between Dumanjug and Barili, a distance of approximately 80 miles. The distances are given from preliminary surveys and vary somewhat from the distances given in the invitation for proposals. Lines were also proposed on the islands of Leyte and Samar for 55 and 50 miles, respectively.

Having determined the lines which it was desired, if possible, to have constructed, it was decided that, while not required by law, it was best to invite public competition in the letting of the franchises. In preparing the invitation for bids it was necessary to so arrange the conditions of the bid as to be fair to the then existing railway, and at the same time fair to any new corporation that desired to construct railways in the Philippine Islands. This, it is thought, was satisfactorily arranged and the published invitation has never been criticised in this respect.

The existing railways were 3 feet 6 inch gauge, and while all American experience pointed to the advantage of having the new lines of the standard gauge of 4 feet 8 inches, especially if they were to be built by American companies, yet fairness to the existing roads required that this matter of gauge should be optional as between these two gauges, and it was so made in the invitation for bids, the preference being given after exhaustive examination and consideration of local conditions to the narrower of the two gauges.

The next important consideration in the invitation was to make the bidding as fair as possible between small corporations who

might desire to build one or more of the lines, and larger corporations who might desire to take over the whole railway proposition. This was done by requiring that proposals or bids should be made in respect of either:

(1) The railway system as an entirety.

(2) The lines in northern Luzon, inclusive and collectively.

(3) Any other lines singly or collectively.

The next important question was to determine the bases of competition, and it was provided as follows:

> The successful bidder or bidders for the proposed concessionary contract or grant will be selected by the Philippine government after a consideration of the following points of competition as disclosed in the written bids:
>
> (*a*) The lines of railway above mentioned and the mileage thereof which the bidder will so construct, equip, maintain, and operate without any guaranty.
>
> (*b*) The rate of interest to be guaranteed on the bonds, which rate may not exceed 4 per cent, the bidder to state what, if any, less rate he will accept.
>
> (*c*) The duration of such guaranty, which may not exceed thirty years, the bidder to state what time, if any, less than thirty years he will accept as the duration of the guaranty.
>
> (*d*) What percentage less than 95 per cent of the cost of construction, as defined in paragraph XI, the bidder will accept as the amount for which such first lien interest guaranteed bonds shall be issued in accordance with paragraph XII.
>
> (*e*) Alternative proposals involving all, either or any combination of the foregoing points of competition.
>
> (*f*) The Philippine government in determining the proper grantee to whom to award the concession will exercise its discretion to secure a grantee capable of fulfilling the conditions and requirements of the concessionary contract or grant. To aid in the selection each bidder must state what organization and facilities he commands for undertaking the work, what forces will be employed in making the final location, and how soon and in what manner the work of construction will be prosecuted thereunder, and with what organization and credit or means of credit he intends to maintain and operate the system or lines.

In addition to these points it was necessary to prescribe in the invitation for bids the conditions which would govern the construction; the privileges, in addition to that of free entry of material as provided in the law of Congress, which might be given to the constructing company by the Philippine Commission; requirements with reference to telegraph and telephone systems along the line of

railway; requirements as to taxes; and what should be included in the cost of construction against which bonds guaranteed by the Philippine government were to issue. These matters were all considered by the War Department, in correspondence with the Philippine Commission and also with others having a public interest in the matter, and possible intending bidders and railway experts in the United States. The invitation is too extensive to be given within the limits of this paper, but can be found in full, as can also the laws subsequently enacted by the Philippine Commission granting the concessions, in the report of the Secretary of War for the year just ended. This invitation for bids was issued by the Secretary of War under date of June 12, 1905.

It had developed prior to the issue of the invitation that while there would be in probability some serious bids, American capital in general was far from enthusiastic over a railway proposition so remote from its ordinary fields of investment as the Philippine Islands; nor was the guaranty for thirty years of 4 per cent on the cost of construction, the maximum authorized under the law, a great temptation.

The bids were opened on the fifteenth of December, but it is necessary to consider but two of the three bids received. The first bid was made by a syndicate composed of William Salomon and Company, the International Banking Corporation, Heidelbach, Ickelheimer and Company, Cornelius Vanderbilt, Charles M. Swift, H. R. Wilson, and J. G. White and Company, and was for the three lines heretofore described in the islands of Cebu, Panay and Negros. This bid called for practically the maximum guaranty, both as to amount and as to time, which the Philippine government was authorized to make under the law.

The second bid was from Speyer and Company, in their own behalf, and that of the existing railway company in the island of Luzon, and was for the two lines in the south of Luzon, heretofore described, and for certain branches of their existing railway in the north of Luzon, but did not include the line from San Fabian to Baguio or from Dagupan to Laoag, nor the northern line extending down the Cagayan Valley to Aparri. Speyer and Company's bid called for no guaranty on the part of the government.

Both of these bids failed to comply with the requirements of

the invitation in the matter of time for the completion of the work, and in certain other details. The bids were accordingly rejected and an amended invitation issued calling for bids to be opened January 20, 1906. On opening the bids on that date it was found that the syndicate referred to first had again bid for the three lines in Negros, Panay and Cebu. This bid complied with all the conditions of the invitation as amended, and was accepted. Under the terms of the proposal the Philippine government was required to guarantee interest at 4 per cent for thirty years on bonds equal in par value to 95 per cent of the cost of construction of these lines. It is estimated that the total cost of the 283 miles of railway, including original equipment, will be in the neighborhood of $12,000,000.

The second bid, as in the preceding opening, was from Speyer and Company, and consisted of two parts. One was for the construction of the line from Dagupan north to Laoag, approximately 168 miles, and called for the full authorized guaranty for the maximum term authorized by law. The second part of the bid was for branches from the existing lines of the Manila Railway Company to Cavite and Naic, 29 miles; from San Fernando to Floridablanca, 14 miles; from Dau to San Pedro Magalang, 9 miles; from San Miguel to La Paz, 10 miles; from Moncada to Humingan, 24 miles; a branch from Maraquina, on the Manila-Antipolo line, then under construction, to Montalban, an estimated distance of 8 miles; and for the two lines, slightly modified as to some details, advertised for the south of Luzon, and for a line from Dagupan to Camp No. 1 on the road to Baguio, distance of about 25 miles.

As the conditions stated in the proposal of Speyer and Company were in several respects unsatisfactory, the matter was taken up with that company, through their legal representative, Mr. John G. Milburn, and after some discussion the terms of the proposal were so modified as to meet the objections of the Secretary of War and of the Philippine Commission. The first part of the Speyer and Company bid was withdrawn at the request of the Philippine Commission, which felt that, having agreed to the contingent liability for the lines in the Visayan islands, they would prefer to proceed with the construction and operation of these roads before making a further guaranty under the authority of the act of Congress. Instead, therefore, of undertaking, as proposed, the construction of

the road from Dagupan to Laoag under the guaranty, the concessionaire agreed to construct a line from Dagupan to San Fernando, a distance of approximately 35 miles without guaranty. The bid of Speyer and Company, as finally accepted, proposed to build in the island of Luzon approximately 426 miles of road without guaranty on the part of the government.

In accordance with the terms of the act of Congress authorizing the Philippine government to assist in the construction of these roads, the syndicate whose bid for the Visayan railroads had been accepted, was organized as a corporation under the laws of the State of Connecticut, under the name of The Philippine Railway Company, and on May 28, 1906, the Philippine government formally passed an act granting the Philippine Railway Company a concession in accordance with the terms of the accepted proposal for those lines. Similarly a corporation to take over the concession bid for by Speyer and Company was organized under the laws of the State of New Jersey, under the name of The Manila Railroad Company, and on July 7, 1906, the Philippine Commission passed an act granting to that company a concession in accordance with the terms of the accepted proposal of Speyer and Company.

The concessions having been granted, little time was lost in beginning the actual work of construction, and there is every indication that the work will be entirely completed on all the roads now authorized within four years. The Philippine Railway Company, in the month of February, had 4,000 men working on the island of Cebu and 1,500 on the island of Panay. The first twenty miles of the road in Cebu will probably be completed and open for operation in the month of June. The government is represented in the construction of these roads by an expert railroad engineer sent from the United States. He passes on all questions relating to the class of construction, and questions relating to the cost of construction of those roads in which the government guarantees the interest on bonds.

Summarizing—when we took over the Philippine Islands there was a single line of road 120 miles in length from Manila to Dagupan. The population tributary to this road was 700,000. The net income of this road in 1905 was approximately 16 per cent of the fixed cost of construction. In 1902 and 1903 franchises were

granted by the Philippine government for the construction of eighty-five miles of additional railway by this company. These lines are now completed and in successful operation. Under the act of February, 1905, a concession was ganted for the construction of 426 additional miles in the island of Luzon without guaranty of any kind on the part of the Philippine government. These lines, in general, pass through country as thickly populated as the territory of the old Manila-Dagupan Railway, and these in the south of Luzon through territory which is perhaps more productive. Under the same act concessions were granted for 283 miles in the islands of Panay, Negros, and Cebu, with the government guaranty of 4 per cent interest for thirty years on bonds covering the cost of construction.

We now have, then, in the Philippine Islands 205 miles of railroad in actual operation, and 709 miles under construction, a total of 914 miles. This does not seem a large thing for a territory occupied by nearly eight millions of people, and there is no doubt that after those lines now under construction are in operation, the mileage will be materially increased.

To appreciate, however, all that has been accomplished in this matter, it must be understood that all this work has been undertaken in a period of great commercial depression in the Philippine Islands; they have been undertaken without any promise that the country through which they go will be exploited in any way. The labor in the Philippines is, and will continue to be, that of the people of the islands themselves. The importation of Chinese laborers, and in fact the immigration of Chinese, is restricted by the same laws that govern in the United States. The land laws of the Philippine Islands are perhaps the most restrictive on earth. Every effort on the part of the government has been made to enable the Filipino to take up the public lands to the exclusion of every one else, and the laws are such as to practically prohibit any one but a Filipino from taking up or developing public lands. Aside from the Filipino, no one but an American citizen can take up public land in the Philippines, or in fact purchase such lands, and the individual is limited to 16 hectares (approximately 40 acres) and a corporation to 1,024 hectares, or approximately 2,500 acres, which amounts are so small as to practically discourage any effort at exploitation on the part of Americans.

PART THREE

Educational Problems in the Dependencies

AN EDUCATIONAL POLICY FOR SPANISH-AMERICAN CIVILIZATION

BY PROFESSOR MARTIN G. BRUMBAUGH,

SUPERINTENDENT OF SCHOOLS, PHILADELPHIA.

EDUCATION AND SOCIAL PROGRESS IN THE PHILIPPINES

BY HONORABLE DAVID P. BARROWS,

DIRECTOR OF EDUCATION, PHILIPPINE ISLANDS.

THE POSITION AND WORK OF THE ROMAN CATHOLIC CHURCH IN THE PHILIPPINES

BY THOMAS B. LAWLER, A.M.,

NEW YORK CITY.

AN EDUCATIONAL POLICY FOR SPANISH-AMERICAN CIVILIZATION

By Professor Martin G. Brumbaugh,
Superintendent of Schools, Philadelphia, and former Commissioner of Education for Porto Rico.

The problem of education for Spanish-America is, first of all, a problem of language. Many people in these countries have a high culture in symbols unfamiliar to the English race. The first business of the American republic, in its attempt to universalize its educational ideals in America, is to give these Spanish-speaking races the symbols of the English language in which to express the knowledge and the culture which they already possess. To this end and for this purpose only a large element of concrete treatment must necessarily enter into the beginnings of any educational policy intended for these people. The purpose of the concrete phase is to give an objective association for the new symbols and thus aid in the rapid acquisition of the English language. The schools should have kindergartens underlying them and manual training departments throughout their grades.

Another matter not to be overlooked is that, while these people are acquiring thus the symbols of a new language, they must not be allowed to neglect the perfecting of their thought in the symbols of their native tongue. It is my contention that children in school will learn two languages in the formative years as rapidly as they will learn one, and each will be the better learned by reason of the mastery of the other. This was demonstrated over and over again in our experience in Porto Rico, and it would be a great injustice to the Spanish-American civilization to undertake to remove the language of their native country, so rich in literature, so glorious in history. But if the trend of life, social, economic and political, is to be from the north to the south in our American continents, they must acquire two languages and we with them must be students of a bi-lingual civilization. A man is as many times a man as he has languages in which to think and with which to express his thought.

Another matter of vital importance arises from the fact that Latin-America has two entirely separate types of people. The highly cultivated cosmopolitan culture of the one group is in striking contrast to the almost absolute lack of knowledge and culture on the part of the major group—the peon. The result of these two diverse groups is that there is no essential democracy of thought such as is common and vital to the American republic. Any educational policy, therefore, that seeks to put the fundamental spirit of democracy into the Latin-American civilization must break the distinctions that prevail between these classes and build up everywhere, out of this larger group, individuals who shall constitute an intermediate civilization running through all the gamut of development from the humblest to the most cultured. Experience has led me to believe that here is the vital secret of the educational propaganda that must eventually prevail. Schools must be established everywhere for all the population. Out of this upper group, finely trained men and women must come to meet with the best of the other group to teach the masses of the children of the illiterate. And so, intermingling as teacher and taught, there will arise inevitably, as the spirit of the school, a democracy of substantial citizenship to whom the franchise may safely be entrusted and from whom, possessed as they are with the fundamental virtues of the race, will come reinforcement and strength to all social, economic and civic advance.

Another principle which must not be overlooked in any attempt to formulate a school policy for the American republic with reference to its neighbors, is the matter of securing an efficient and effective teaching body for the schools. Wide observation and study confirm the judgment that no people has ever risen to commanding influence who did not breed its leaders out of its own life. No amount of imported teaching power can permanently serve the highest interests of a people. The teacher from the United States may for a season, and should, set models of educational method and organization throughout these countries, but their presence should be distinctly understood as a temporary relation to the educational policy of these countries. Normal schools should be established. The most highly cultivated and the most energetic young men and women of these respective countries should be gathered into these

great normal schools and trained in the fine art of teaching the human soul to grow harmoniously.

Japan wisely brought from Europe and America a group of teachers to inspire and to guide and to formulate an educational policy for the empire; but when the Japanese teacher had been trained, and Japanese leadership had been bred, the visitor there from other countries was politely invited to return, and the nation to-day gloriously carries on its reorganized system under native leadership and home-bred teaching.

It is necessary also to remember in this connection that in a community where there is a practical absence of intermediate groups of life, the teacher is likely to be regarded from the wrong social point of view, and such has been the case, at least in some of the South American countries. I am told by the director-general of the higher schools of the Argentine that when, in 1869, Sarmiento de Gamboa assumed the leadership of that mighty people, he discovered among other things the low social estate of the teacher and set himself deliberately to the task of making the teacher, with the priest of the church, a moral as well as an intellectual and social force in the state; and this, I take it, is the need in any policy that is to bring permanent development to this people.

Waiving for the moment the relative significance of the various forces that build on the side of the real qualities of the soul, I am constrained to say that the materials contained in the curriculum of the schools of Spanish-America should be in the elementary grades the materials of the child's environment and in the higher grades the materials that bind together the great countries north and south, the brotherhood of states west of the Atlantic sea.

It seems also a wise provision to arrange for the education of representative groups of teachers from all these various countries in the best schools of the United States, in order that these young teachers may be able to carry back into their life-work the actual processes of education as they are unfolded here in our system of American thought. The coming of these teachers will also give to our people a better insight into the needs and into the conditions attending the development of an educational system throughout Latin-America.

It is my opinion that there should be established somewhere

midway between South and North America (and at the present time undoubtedly in the island of Porto Rico) a great insular school; its faculty made up from the United States and from the South American countries, with its pupils coming from all over the Latin civilization. This school would be a clearing-house of ideas and a central point from which should emanate the finest formulation and expression of the best thought of the trained and experienced minds of the continents. It has long been my feeling that the great institutions of learning in America should in some way combine, and for the sake of the service which they can render to mankind, maintain such an institution of learning. In no other one specific way could these higher institutions of American thought extend their usefulness and endear themselves to the whole American people, and I confidently urge this upon their immediate attention.

Finally, no teacher should go to any new country, with whose social, intellectual and religious ideals he is unfamiliar, without carrying into the work the lofty spirit of a true missionary, which is the spirit of service for others. The teachers who pass to the South, carrying the banners of American thought, must carry in their hearts a warm sympathy and an abiding faith in the goodness of men and in the universal advance of the whole people through education. Unless this spirit dominates the whole enterprise, it is doomed from its beginning.

EDUCATION AND SOCIAL PROGRESS IN THE PHILIPPINES

By Hon. David P. Barrows,
Director of Education for the Philippine Islands.

A little more than six years have elapsed since the establishment in the Philippines by the American government of a bureau of education and since the organization there of public instruction. In this interval public instruction has had a prominence seldom accorded it elsewhere. On it the government has largely relied for obtaining a successful issue for its policy in the Philippines, and of all the efforts put forth by the American government public instruction seems to have most fully won the support of the Filipino people; nor has the experiment so far failed to justify the confidence originally accorded to it, and the past twelve months have seen a greater public outlay and a larger measure of support from both insular and local branches of the government than have ever before been witnessed. This open reliance of the American government, almost from the beginning, upon public instruction accords with a confidence generally felt in America that through the public schools comes the most effective solution of social problems.

In the Philippines the fundamental aim of the school system is to effect a social transformation of the people, and the system can only be understood in the light of the social conditions which prevail. Out of a total population of less than eight million souls, as determined by the census of 1903, about seven million are Christianized peoples. While they occupy only about half the geographical area of the archipelago, this area comprises most of the available seacoast, the fertile plains and the cultivated river valleys. While this population differs in respect to language, and to a less degree in point of character, from island to island, nevertheless, it was all converted to Christianty at the same time—about three

centuries ago—and it was all subjected to a long period of identical administrative and civilizing influences, so that the culture and social conditions of the people are nearly everywhere virtually the same. One who has lived in a town in the northern part of the island of Luzon might visit a town hundreds of miles to the south on the islands of Bohol, or Mindanao, and recognize at once that the surroundings, the life and problems of the people were the same.

Throughout these islands the unit of administration under the Spanish régime was the pueblo or township. There were about 1,160 of these in existence at the end of the Spanish rule, and perhaps I can in no way give a truer impression of the life and surroundings of the Filipino than to describe a typical one. The jurisdiction of the town I have in mind embraces a territory of about thirty square miles. For about three miles its territory lies along a beautiful strip of shore and sea. Every mile or so there is a fishing hamlet, a cluster of nipa-thatched, pile-built houses, set back among cocoanut palms and acacias, while the beach of yellow coral sand is covered with long fishing boats and with nets spread to dry. The "center of the town" is about a mile back from the coast, on the banks of a small river, up which good-sized trading praus can get at high tide. Like all Filipino towns, it is built about a public square or plaza. On one side is the magnificent church, whose high belfry and iron roof are discernible for many miles around above the palms and mango trees. Another side of the plaza is occupied by the Tribunal or Presidencia, where the public officers—president, treasurer, secretary, justice of the peace and municipal police have their headquarters. The rest of the space about the plaza is occupied by stores kept by Filipinos, Chinese and occasionally by foreigners, and either facing the plaza or on the streets in the immediate vicinity are perhaps a dozen handsome, well-built houses, the lower floors usually of stone, the upper of wood, where live the few wealthy and literate families of the town. These families own extensive rice haciendas in the pueblo, have large numbers of dependent tenants and are interested in a number of profitable commercial undertakings. The head of one of these families is a physician; two others studied in Spain and have traveled in Europe. Most of them have received at least a fair Spanish education. If you enter the homes you will find

beautifully polished floors of hardwood, expensive furniture, mirrors, pianos and harps; you will meet with charming entertainment, bright conversation, with a warm-hearted, sincere welcome. This class of people is existent in practically every town, although their condition would not always be as favorable as that which I have just described. They represent the highest social class among the Filipino people. This is the class locally known as the "gente ilustrada" as distinguished from the "gente baja," or the poorer and illiterate class, and in the proportion between these two social divisions, the gente ilustrada is but a very small fraction. Out of the 26,000 people who live in the pueblo which I have described, only about a dozen families belong to the gente ilustrada and the balance are weak and illiterate peasants, whose life and character we must now consider.

Scattered over most of the jurisdiction of the town there are hamlets called barrios. In the town which we have been describing, four are on the coast and are fishing barrios, and one is on a small island off shore; eleven are in the plain or valley and three or four are far back in the hills—little settlements considerably removed from the life and influence of the town. Despite the fact that this poorer population is Christian (and this is a most important fact), their material condition and surroundings differ little from that of their ancestors when the Spanish conquered the islands. Their houses are small, insufficient shacks of palm leaves and bamboo; their food a diet of rice with an inadequate amount of fish. Such knowledge of the outside world as reaches them comes in a most distorted and misleading guise and simply serves to delude and misguide a people whose ignorance and credulity are almost unbelievable. There are a small number of carpenters, smiths and masons among them, these industries usually being localized in certain barrios, but the great majority of the population who are not fishermen are agriculturists. In some provinces, notably on the Ilokano coast of northern Luzon, many of these peasants own their little farms, which average altogether about eight or nine acres, and form a class of what we would call peasant proprietors, but the great bulk of the islanders are not so fortunate, their relation to the soil being simply that of tenant. The owner of the estate on which they have most of them lived from infancy,

stands in a peculiar relation to these people. The foundation of this relationship is purely economic, and yet the influence extends to every side of their life. The owner is the "amo," or master; they are his "dependientes," or dependents. Most of them are in a position of bonded indebtedness to the amo, an obligation which is never repudiated, and which descends from father to child. The debtor himself may not know the origin of the obligation, and being quite ignorant of mathematical calculation he is always uncertain as to its amount, nor does he know how it increases or might be decreased. If trouble comes or death, sickness or destitution, it is to his amo that he appeals for relief, with the result of still further increasing his obligations. This dependiente has nothing laid by for the future; he has not even a granary nor facilities for hoarding enough food to carry him from one harvest to the next. As the interval between harvests draws to a close the price of rice invariably rises and must be obtained on credit and by hypothecation of the future crop.

Over and above the economic control the amo sways the action and attitude of his dependientes. In the time of revolution they obeyed implicitly his direction to commit acts of violence. If the amo joins the present secession from the Catholic Church, known as the Aglipayano schism, the dependientes become Aglipayanos also. This local or petty despotism is known in the Philippines as "caciquismo."

It will be seen how important in its influence on the efforts of our government such a social condition as this is. Moreover, the relationship between master and dependent is primarily a commercial one. It is not mitigated and softened by the kindliness, the loyalty and responsibility for the welfare of the weaker which are felt in old aristocratic systems; it is hard, selfish, grasping commercial exploitation. This condition of things is not primarily due to Spanish rule, it is characteristic of Malayan society. The poor Malayan instinctively dreads and submits to the power of the stronger, especially where that power is of a material kind, and the Spanish system in its very efforts to advance the population, did much to aggravate these social distinctions.

About 1835 the Philippines were open to foreign trade. An almost unbroken period of development and prosperity, during

which the population rapidly increased, followed and was only broken by revolution. But with the exception of the Spaniards, Chinese and foreigners, the only class of Filipinos who profited by this economic prosperity, was the small upper class. When the Spanish government organized public schools, the instruction, though widely distributed, was adequate only for a small number, and thus the upper class alone benefited while the great mass of the population remained in benighted ignorance as before.

This social condition being understood, public instruction in the Philippines was organized with the conscious purpose of transforming the condition and position of the gente baja. Our aim is to destroy caciquismo and to replace the dependent class with a body of independent peasantry, owning their own homes, able to read and write, and thereby gain access to independent sources of information, able to perform simple calculations, keep their own accounts and consequently to rise out of their condition of indebtedness, and inspired if possible with a new spirit of self-respect, a new consciousness of personal dignity and civil rights. For the accomplishment of this end our inheritance from the Spanish régime was small; a considerable number of school houses, planted in the centers of population in the towns survived the destruction of war and have been of great service. There was a body of Filipino teachers conversant with the Spanish language, some of whom after receiving English instruction, have become admirable members of the teaching force, but most of them were too old too conservative and incompetent to be of use and were gradually dispensed with. The result was that there is no historic connection between the schools under the Spanish system and those under the American government, and while most of the institutions prevailing in the Philippines are built upon Spanish foundations, this is not true of the schools. They are distinctively a new product, and while differing radically in essentials from what obtains in the United States, they are undoubtedly the most distinctively American institution which has been transplanted to Philippine soil.

Added to other difficulties there was the question of language, and this was resolved by making all instruction in all public schools, English. I cannot enter upon any general discussion of the advisability of this decision at the present time. I can only enume-

rate some of the reasons why it was done. If there had been one common Malayan language spoken by all the seven million inhabitants, undoubtedly this language would have been chosen as the language of instruction, but there are at least eight distinctive languages widely spoken by the Christian peoples. Spanish had been decreed in earlier years the language of instruction for the archipelago, but its general use had never been attained, and the people speaking Spanish were limited to the small and wealthy class of each town. English, moreover, is already the language of general intercourse in all parts of the far East. From Japan to Australia and to India one must speak English if he is to travel, engage in business or read the journals in which the great bulk of current thought is expressed. More than this the desire of the Filipinos for the English language was, at the time the decision was made, strongly felt and earnestly plead for.

The problem before the bureau of education a few years ago, then, was about as follows: to organize a system of public primary instruction, not for the selected few, but for the entire juvenile population of the islands, and this meant the placing of a school within the reach of every barrio, and within the jurisdiction of the towns, which I have described, there are about 12,000 barrios. It meant training a corps of native teachers capable of giving this instruction, and training them in a foreign language with which none had any acquaintance. It meant finding the money to build several thousand school houses, pay the teachers, purchase the furniture, books and other educational equipment. Such things as schools will not run themselves, especially in the Philippines, even after once being organized. The most difficult part of the whole problem was to develop an administrative machinery capable of holding the work up to the standard which it was necessary to attain, and of doing this intelligently, systematically and continuously. More than this universal primary instruction being provided for, it was necessary to have in mind the needs of higher instruction and the training of young men for industrial efficiency, the development of both men and women as leaders among their own people, and in the requisite professions. More than this, this task had to be undertaken at a time when the islands were embarrassed by the results of war, and still, to a large extent, in a state of

rebellion; when hostility and distrust existed on the part of the governed for the governors, and when cholera, smallpox and other epidemic diseases were rife, and had demoralized the people, and when times were hard and money extremely scarce, even for the necessities of life. This is how the problem looked no longer than three years and a half ago.

It was necessary in the first place to have a plan, and this plan must be not perhaps the best theoretically, but one which could be carried out and which could be realized not in some distant year, but within a comparatively brief time. The necessity of bringing this general primary instruction within the reach of the entire population and doing it promptly was imperative. Under this necessity we threw precedents entirely aside and broke new ground. There were, and are, in the Philippines about 1,200,000 children between the ages of six and fifteen. These are the years between which theoretically a child should be in school, but it was manifestly far beyond our resources to organize and give instruction to 1,200,000 children. There were, four years ago, only about 100,000 children attending schools, and hardly enough teachers, buildings, and equipment to give instruction to this number. Consequently, a far more modest effort than the usual eight years of primary instruction had to be made. It was felt that three years was the minimum of instruction which a child should receive, and it was felt also that if he got this much and got it during the most receptive years of his childhood, his illiteracy would be broken and the foundation would be laid for a new sort of life for him, and a new social order for the archipelago. Consequently, a primary course of three years' instruction was organized, embracing three years of English, two years of elementary arithmetic and one year of geography. Our calculation showed us that our course of study narrowed to these limits, there were about 400,000 children awaiting our instruction—or, expressed differently, if we could secure and maintain constant attendance at school of 400,000 children, we would be able to give these three years' instruction to all. The years of a child's life when it was best to give him the instruction, we believed to be from nine or ten to twelve or thirteen years. It was apparent, however, that if this work was to be done, it had to be done, despite the difficulty of language, by native teachers. Not less than 6,000 teachers

would be required, and the force of American teachers in the islands was less than one-sixth of this number. American teachers had then been in the islands about two years, and considerable progress with a limited number of students had already been made. A radical change in the work of the American teacher was accordingly decided upon. About four hundred men were selected and designated as district supervising teachers. Each province was divided into districts embracing sometimes one, and more often two, three or four towns. An American teacher was made responsible for the organization and for the school-work within each district. His tasks were, as representative of the bureau of education, to secure the funds for building and opening barrio schools, to organize these schools and get them going, to select from his own classes the brightest and most available young people, set them at work as primary teachers, and secure from municipal funds, under the approval of his superintendent, money to pay them salaries. A campaign of education, moreover, had to be conducted; schools in the barrios and schools for the humble, unenlightened peasantry were a new conception, and it was essential to have the support of the municipal authorities and of the people themselves. Thus the work was outlined in the fall of 1903, and was pushed with the utmost zeal, courage and intelligence by superintendents and supervising teachers. In hundreds of cases the peoples of the barrios were interested to put up school buildings on the promise that when such buildings were completed a teacher would be furnished and instruction opened. Hundreds of such humble institutions began to appear in all parts of the islands. School attendance began rapidly to multiply. In the month of September, 1903, the enrolment amounted to about 182,000 pupils; at the close of the school year in the following March the figure had risen to 227,600. Shortly after the opening of the next school year in April, 1904, the enrolment had become 264,000. From this it went to 300,000, and while attendance was irregular the school year 1904-05 showed a total enrolment for the year of nearly half a million pupils, while in the school year 1905-06 an actual monthly attendance of 375,554 pupils was maintained.

Our first purpose, then, of getting into schools the one-third of the 1,200,000 children between the ages of six and fifteen years,

or all children between nine and twelve has been attained and the significance of this result is apparent, when I add that if we can maintain this result for six or seven more years, even though the extent of our efforts does not increase from the present standard, the result will be that there will be no illiterate young people in the Philippine Islands. The entire new generation will have received a minimum of three years of English instruction.

Brief as this course of instruction is, we are giving it to the population in the belief that it will make the future countryman a better farmer than his father has been, more anxious to own his farm, better able to learn and appreciate improved methods of farming and to husband his resources, to adopt a better standard of life, to build a better and more durable house than the nipa structure in which the great mass of the people live, to calculate the value of his crop when he has harvested it and to secure a fair price for it where he now is defrauded, to compute his liabilities, and so gradually get out of the condition of bonded indebtedness in which to-day, as we have seen, the mass of the population is sunken.

Brief as this instruction is, under the existing laws of the islands, it will nevertheless enfranchise its possessor, giving him a vote in the government of his town and province, and qualifying him perhaps better than any class at the present time is qualified for the direction of local public affairs.

Having gotten our schools built, having gotten our 400,000 children into school, let us see what we did for teachers. The Filipino teacher seems to me the most hopeful and significant result of all we have tried to do. It was early apparent that the Filipino child could be easily instructed, that the power of acquisition was there, but the great question was, can the Filipino be made a teacher of his own people? Can he take the subject-matter of instruction with which he himself is only slightly familiar, and himself impart it to his younger associates? In this matter our liveliest hopes have been more than justified. For service in our schools we have been able to take the pick of the young and rising generation as tested in our schools; young men and women, sometimes from the well-to-do, but far more often from the humbler classes, but eager, intelligent, obedient, extremely teachable and

really gifted in their power to impart. Their instruction has had to proceed hand in hand with their work, and this has been accomplished in two ways—by a teachers' training class, conducted usually each afternoon by the supervising teacher in each district, and secondly, by the teachers' institute, held for a period of not less than four weeks in each province every year. The corps has been rapidly increased in size, and at the end of the last school year it numbered 6,224, made up of 4,395 municipal teachers, appointed by the superintendents and paid by the town revenues, 1,442 "aspirantes," or apprentice teachers, teaching for the time being without pay, but doing the regular work of a teacher, and receiving the same instruction; and a small number, 324, who are paid by the insular government. Of all the forces developing among the Filipino people themselves, the growth in influence and character of this corps of native teachers seems to me to contain most of promise. The islands may be abandoned to other hands; the barrios schools may close and our children scatter, but these thousands of Filipino teachers, both young men and women, in whom the development of character has kept pace with the progress of their enlightenment will be an influence, which, under all circumstances, will abide.

A word should be said also as to our difficulties in financing this educational scheme. Our money is derived from three governmental sources, all of them in the islands—the insular government represented by the Filipino Commission, supplies us with a little more than half of our income; the municipalities, through a system of land tax and appropriation from general funds, afford us not quite as much more, while the provincial governments have made small, but rapidly increasing appropriations on behalf of high schools. For the year that ended last June our resources from all of these sources amounted to $2,614,850. Especially as regards municipal school funds, great improvement has been achieved. This is due to the good business management of the school superintendents and the gradual increase of local revenues. In addition to the funds raised by taxation, there were voluntary gifts for school purposes, most of them going toward the erection of new school buildings, which aggregated in the school year 1905, the

sum of $161,409. Most of this money came from the pockets of the very poor people and was given cheerfully and gladly that their children might receive advantages which they, themselves, had been wholly denied.

Besides the system of the primary instruction, two other types of schools have been developed. One is the intermediate school which follows the primary school and offers a boy or girl three further years of instruction. This instruction embraces English, arithmetic, geography, a year of Philippine history and government, three years of science (studies of plants, animals and human physiology) and in addition to these academic branches, each boy in an intermediate school has three years of instruction in agriculture or in shop work, or divides his time between these two branches. It is our intention as soon as the instruction can be organized, to offer a third industrial subject which may be taken in place of agriculture or tool work, and which shall be the study of the fisheries of the archipelago.

The girls on the other hand receive three years of domestic science instruction, which embraces the care of the house, cleaning, sanitation, etc., cooking, and the care of the sick and of infants. Thus the intermediate school supplies the course of study whereby we hope directly to increase the industrial efficiency of the people and to raise the standard of living generally. Well-equipped wood and iron working shops with departments for mechanical drawing, have been established in practically every province and some of the best of our new buildings have been for work of this character, while a large proportion of our funds have gone into their equipment and maintenance. Contrary to general expectations, no branch of our work has met with greater popular support or more enthusiastic approval from the Filipino people.

The Filipino is a natural craftsman, has an artistic sense and true eye and hand and delicate touch; the use of the tool is to him a pleasure and an art. Some seventeen American women teachers were engaged almost exclusively last year in giving instruction in domestic science. The immense usefulness of such teaching, the social gains derived from it, were instantly perceived by the Filipino people, and perhaps this instruction is the most promising

of all in the prompt and beneficial effects which it seems likely to produce. Intermediate instruction is being given now in about one hundred and twenty towns of the archipelago.

In addition to these intermediate schools, however, a still more advanced type is being organized as rapidly as the children are prepared. This is the *high school,* which, like our other educational institutions, departs radically from the typical American high school, but to which young men and women are admitted upon completion of the intermediate course. On entering they elect to follow one of four special courses; a general course in literature, sciences and history, a course in teaching, a course in agriculture, or a course in commerce. A fifth course in elementary technology will be added as soon as the demand increases and our facilities are greater. One of these courses finished provides a total of ten years' schooling to the young man or woman, a very liberal education in view of the social conditions in the archipelago. Three courses, and eventually four, it is expected, will fit the young man or young woman not exactly for a professional life, but for a distinctly useful vocation. In practically every province a large tract of land, frequently embracing a good many acres, has been obtained as a site for these schools and 36 high school buildings, ranging in value from $10,000 to $40,000 have already been constructed.

A final word remains to be said about the system of administration. This, like every department of the Philippine government, is a departure from the American type. In our school work there is necessarily very little of local authority. Each province constitutes a school division and at the head of the school work is a superintendent, who is appointed and assigned to duty by the director of education. This superintendent is held responsible for every detail of work within his division. He appoints and dismisses the Filipino teachers and fixes their compensation. He controls, either directly or through the supervising teachers, all school funds raised within the province and is responsible for their correct expenditure. Until recently the school superintendent was, moreover, the third member—the other two being a governor and treasurer—of the governing body in each province, the provincial board. The system has the advantage and deficiencies of every bureaucratic

system. If the force is animated by a good purpose, extremely rapid results can be accomplished by having the work so closely organized and a more general high average is attainable than where local authority is recognized. On the other hand, constant tact must be used, local advice and co-operation must judiciously be sought and respected, or else the ends of our work will be defeated.

The force of Americans in the bureau of education numbers at the present time, besides the office and administrative corps, forty-five superintendents and some 820 American teachers. Of this number approximately 600 are men and 220 women. Four hundred of the men are supervising teachers, and the rest, men and women, are teachers in intermediate and high schools, including the special branches of agriculture, shop work, mechanical drawing and domestic science. These teachers come from the best homes of America, and for the most part have the best university preparation. They come from all parts of the country, but a very large proportion is from the west. They have youth, enthusiasm, strength and courage all on their side. They give with a sort of lavish willingness the best of their physical and spiritual powers. I believe them to be the most remarkable and efficient body of young people that were ever united together for a common purpose in a work of the kind I have been describing. Success is due to the intelligence, the faithfulness and loyalty of the large body of men and women who make up the corps. These qualities exist in the American teaching force in the Philippines to a very high degree. There have been times of discouragement, there have been periods of dissatisfaction, but through it all the great majority worked hard and unselfishly for the purpose in view, and time has gradually sifted and shaped this force until it represents a body for the most part of splendid material, wise, high-spirited, trained and gifted, who know the Philippine Islands and the Filipino people as no other body of white people will ever know them again, who understand their work more intelligently and more thoroughly, and love it better, than it is frequently given to men and women to attain. More nearly than it has ever been possible before, these teachers have realized an accord between themselves and the people for whom and among whom they are working. They have brought

that better understanding between the races (an end so devoutly hoped and sought for) at least within measurable reach of attainment. They have shown us how one race may guide and strengthen another without self-interest or the employment of any but the noblest means.

THE POSITION AND WORK OF THE ROMAN CATHOLIC CHURCH IN THE PHILIPPINES

By Thomas B. Lawler, A.M.,
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On a historic August morning in the year 1519 the church of Santa Maria de la Victoria in Seville, witnessed a ceremony that was not only of surpassing interest, but was destined to be of epoch-making importance. On that day the corregidor of Seville presented to Ferdinand Magellan the royal standard, and administered to him and to his companions the oath of fealty and obedience to the crown of Spain. This was the beginning of the great expedition of Magellan, than which probably nothing greater stands in the history of human endeavor. At the very dawn of the authentic history of the Philippines, therefore, the Catholic Church appears as a supporter of Magellan's great enterprise, and all the members of the expedition, including its great captain-general Magellan himself, were adherents of that Church.

On Sunday, April 7, 1521, after a voyage of endless hardship and suffering, Magellan cast anchor where, to-day, stands the flourishing City of Cebu, and the red and yellow flag of Spain was unfurled over the fair archipelago that she was destined to rule for almost four hundred years. It is a question whether Spain at this time fully appreciated the discovery of Magellan, as twenty years elapsed before any steps were taken toward the colonization of these islands. The expedition of Villalobos in 1542 ended in disaster, and once more two decades rolled by before the leader appeared who was destined to establish the rule of Spain on a lasting foundation. In 1571 the hour had come, for in that year the great Legaspi began the conquest of Luzon and laid the foundation of the capital of the islands—the City of Manila.

With Legaspi in his great enterprise were four members of the Order of St. Augustine, intrepid followers of the rule of the great bishop of Hippo. They were under the direction of Father Andres

de Urdaneta. As Legaspi and Urdaneta sailed across the bay of Manila that May morning in 1571, they saw at the mouth of the Pasig a native settlement. This settlement stood on the site of the present great City of Manila. The strategic value of the place appealed to the keen military mind of Legaspi and he decided to make it the seat of Spanish rule in the Oriental world. None the less did it appeal to Father Urdaneta as a valuable pivotal point whence he could bear to the native tribes the message of the Prince of Peace, and the truths of the gospel.

To-day on the Luneta in Manila stands a beautiful statue in memory of this auspicious moment. Legaspi, the soldier, sword in hand, and by his side Urdaneta, the missionary, with the cross raised on high, look out over the City of Manila and over the beautiful bay ending at the foot of the distant Mariveles Mountains. Before them waves in the gentle tropic breeze the Stars and Stripes, the flag of a nation that at the hour of their landing at this spot did not have within its confines even one solitary permanent settlement. Let us pause for a moment at that scene three hundred and thirty-six years ago, as Legaspi and Urdaneta draw toward that shore where the Pasig pours its flood of waters into the great bay of Manila. The task before Urdaneta might well have appalled the strongest crusader. Throughout the land before him were Malay tribes, steeped in the grossest ideas of a savage religion, and it required indeed an optimistic spirit to believe that the Malay stock would be amenable to the refining influences of the Christian faith.

Across the narrow sea to the west lay the great empire of China, with its hundreds of millions of inhabitants, paying tribute at the shrines of Buddha and receiving with reverence the ethical teachings of Confucius, while at intervals this land poured out a horde of blood-thirsty pirates to darken and devastate with fire and sword the lands around them. To the north were the Japanese preparing under the domination of the great General Hidoyeshi to annex Korea—a plan, it is interesting to note, not successfully carried out until a recent hour. In religious matters the Japanese were following in the footsteps of Gautama, the Buddha. To the south, the lands were filled with savages, who revelled in every form of idolatrous superstition and dark fetichism. What

a picture was this that met the mind's eye of the brave Augustinian on that eventful day! Did he falter? Not for an instant! Without a moment's delay he began the work of implanting civilization and Christianity. He and his co-workers preached the gospel, erected churches and hospitals, taught the peoples, and established centers whence civilization and religion might go out to the native tribes.

This expedition of Magellan and the religious auspices under which it sailed were part of the great exploring, missionary and crusading movement of the sixteenth century. This movement under the epoch-making activity of Spain, planted the cross in the isles of the Caribbean; under the lead of Columbus, in the highlands of Mexico, at the seat of the Aztec confederacy, under the intrepid Cortes; in the heart of the Peruvian Cordilleras under Pizarro, and in the Philippines under Urdaneta and his fellow-workers. I believe I am maintaining a safe historical position when I assert that it was not until within the past two decades that full justice has been done to the heroic endeavors of the Spanish conquistadores and missionaries. The work, for instance, of Bandelier and Bourne marks the dawn of a fairer day in historical criticism. With them as with Aeneas of old there is no distinction between Trojan and Tyrian.

While the Augustinians turned to what we may term parochial work, other Orders arrived to assist in the process of civilizing and converting to Christianity the native tribes. In 1577 arrived the followers of the gentle St. Francis of Assissi; the sons of Loyola—the Society of the Jesuits—came in 1581; six years later, in 1587, the Dominicans arrived and opened schools and colleges. As early as 1620, the foundations were laid of the University of Santo Thomas. This event happened only thirteen years after the first permanent English settlement in America at Jamestown. It preceded Harvard by sixteen years, and it was rounding out its one hundred and twentieth year when Benjamin Franklin founded the great University of Pennsylvania. The Resoletos arrived in 1606, the Lazarists in 1862 and the Benedictines in 1895. From Spain, too, came many secular priests to aid the religious orders, and far and wide the missionaries spread the truths of the Christian dispensation to the east and west from the confines of northern Luzon to the borders of Mindanao in the south.

It is not, of course, my purpose to give a history of the Church in the Philippines. The work begun by Urdaneta in 1571 waxed and grew strong with the ages. There, on the under side of the world, removed by thousands of miles from the homeland, far from the highways of men or the paths of vessels, the Spanish civilization was spread abroad, the natives were rescued from savagery and were taught the arts of peace and the truths of the gospel. So thoroughly was this work carried out that when the curtain rolled, so to speak, from before the Philippines in the last decade of the nineteenth century, the world saw this archipelago rising the sole Christian land in a sea of Oriental paganism. China, as four hundred years before, was still Buddhistic, Japan in the pride of a strong national life was establishing far and wide its native Shinto religion; the East Indians were still the slaves of fetichism, and storied India was still held fast in the iron caste system of Hindooism. In the Philippines alone of all Oriental peoples rose the spire of Christian churches, and from her hills alone reechoed the sweet song of the vesper bell. Surely we are glad to pay our little tribute of praise to the leaders that wrought such well-nigh miraculous results.

I am now led to the second part of my subject—the work of the Church in our Oriental possessions. That the mind of the East seeks the supernatural is manifest to the student of mental thought. This craving for the supernatural appears in every eastern land. We see it in Japan, where, on every hillside, at the entrance to any grove, one notes the torii that points to the humble Shinto shrine in the cool, sequestered glad within; we see China dotted with Buddhistic temples with their heaven-aspiring gables or see the stately pagodas, rising far and wide on hill and plain. In the Philippines, the people quickly threw off their ancient fetichism and embraced the Catholic faith. This faith animated to a wonderful extent the life of the people. They built churches and chapels; they received with fervor and zeal her sacraments.

In considering the social side we see that the state of the people was well-nigh patriarchal. In these islands nature poured her treasures with lavish hand. The Filipino needed not to enter the strenuous paths, nor did he. He heeded little the surging currents of the rest of the world as they ebbed to and fro. Hesiod or

Theocritus or Vergil could well have found here a new inspiration for songs of rural felicity.

De Comyn, who is acknowledged to be a disinterested writer, in his work entitled "State of the Philippine Islands" (p. 216), wrote a century and a half ago: "Let us visit the Philippine Islands and with astonishment shall we there behold extended ranges, studded with temples and spacious convents, the Divine worship celebrated with pomp and splendor; regularity in the streets and even luxury in the houses and dress; schools of the first rudiments in the towns, and the inhabitants well versed in the art of writing. We shall see there causeways raised, bridges of good architecture built, and in short, all the measures of good government and police, in the greatest part of the country carried into effect; yet the whole is due to the exertions, apostolic labors and pure patriotism of the ministers of religion. Let us travel over the provinces, and we shall see towns of five, ten and twenty thousand Indians peacefully governed by one weak old man, who with his doors open at all hours, sleeps quiet and serene in his dwelling, without any other magic or any other guards than the love and respect with which he has known how to inspire his flock."

Such is the picture drawn a century and a half ago by one who lived there for years, studied the land and the peoples. This was the result after two hundred years of the advent to these people of the Church with her message of Christianity to lift up their lives and hearts and hopes to communion with the Infinite. Few pleasures or diversions entered the life of the lowly Filipino in his humble barrio or village, and the message of the Church was a veritable Godsend. Around the church centered the life of the people. Each child celebrated the day of his patron saint rather than his natal day; the titular feast of the village church was marked by the gathering of the people from far and near. Round the church booths were erected where a miniature fair was established. For nine days religious devotions led the people to the altar where they listened to the gospel and partook of the sacraments; at birth and at marriage, in sickness and in death, they sought in the Church consolation and support and regeneration, and they did not seek in vain. Not only in spiritual, but in temporal or social things did the clergy minister to their needs. They opened schools and

founded hospitals. They taught the natives the elements of carpentry, of bridge building, of weaving, of pottery, of wood-carving. They learned the native dialects and wrote grammars and dictionaries, and preached to the people in the native tongues. They introduced the culture of rice, developed the cultivation of coffee and indigo, and brought from the new world cocoa and sugar cane. In a just measure they introduced the small holdings of land, and it is probably due to them that the system of foreign land-holding corporations did not secure the fields and establish a peasant serfdom.

Such was the condition of the islands when the clouds of war rolled across the scene in 1898. At this time it is estimated that there were about six and one-half millions of Christians. To minister to their religious needs there were about sixteen hundred and fifty priests, including both the religious orders and secular priests. In other words, there was throughout the archipelago one priest to every four thousand people, showing how active must have been the life of the pastor to minister to a flock of such dimensions and covering so wide an area.

When the smoke of battle at last cleared in 1901, and we looked on the Philippines in their lovely setting in the tropic seas, it was indeed a picture of desolation that often presented itself. War had spread through the archipelago and had left in its train the horrors that ever mark that demon of destruction. Speaking as I am of the religious condition of the islands at this time, we see churches ruined and the clergy swept from the altars by the onward rush of war. Very many of the clergy were driven into the large centers and the population was without ministrations or guidance. The flag of Spain had been lowered and a new era was already at hand. Other fields soon called the members of the Orders, who, in large numbers, left the islands, where, from their young manhood, they had worked among the people. Scarcely three hundred remained, one-fifth of the earlier number. Certainly the position of the Church was such that its upbuilding was a task that called for heroic effort, and that effort was soon forthcoming. The four vacant episcopal sees were soon filled by American bishops and recently another diocese has been filled by the consecration of a Filipino bishop, the first native priest probably ever raised in the islands to the episcopacy. The Church is re-

established and peace reigns under the flag that means equal rights and justice to all.

As a factor in the social as well as the religious life of the Filipinos the Church, therefore, holds a unique position. From this social viewpoint one of her contributions to the civilization of the Filipinos is the work of preparing the people for the maintenance of an orderly, progressive, and just rule. Her influence and contact, so omnipresent in every step of daily life must develop respect for constituted authority, for the rights of life and property, for the sanctity of the home with the resultant uplifting of the social fabric. This uplifting makes for the amelioration of the condition of the lowly, for brotherly sympathy of rich with poor, of the upper with the lower strata of society, so to speak. It will be most important in preparing the Filipinos for whatever measure of self-government the broad and kindly judgment of the American people shall decree. We certainly need every aid to carry out our good purpose and none will be more vital as a social factor than the Catholic Church and her institutions.

PART FOUR

Legal and Political Problems Affecting the Dependencies

THE FINANCIAL DIFFICULTIES OF SAN DOMINGO

BY PROFESSOR JACOB H. HOLLANDER,

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NATURALIZATION AND CITIZENSHIP IN THE INSULAR POSSESSIONS OF THE UNITED STATES

BY HON. PAUL CHARLTON,

BUREAU OF INSULAR AFFAIRS, WASHINGTON, D. C.

THE ADMINISTRATION OF A PHILIPPINE PROVINCE

BY HON. DANIEL FOLKMAR,

FORMER LIEUTENANT-GOVERNOR FOR BONTOC, P. I.

A BUREAU OF INFORMATION AND REPORT FOR THE INSULAR POSSESSIONS

BY HON. HERBERT PARSONS,

NEW YORK.

THE PROBLEM OF THE PHILIPPINES

BY LOUIS LIVINGSTON SEAMAN, LL.B.,

NEW YORK CITY.

THE FINANCIAL DIFFICULTIES OF SAN DOMINGO

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The growth of the debt of San Domingo has an intricate and involved history. If, however, attention be turned from the mass of complex details to the underlying forces which have reduced the republic to its condition of sodden bankruptcy, the whole matter becomes astonishingly simple.

As it now exists the debt of San Domingo is, essentially, the result of three elements, viz.: The periodic accumulation of current obligations in consequence of revolutionary disturbances and civil disorders; (2) the extravagant terms upon which such temporary loans have originally been obtained and have been subsequently funded; (3) the chronic default in the service of the debt, funded and floating, and the consequent rapid increase of principal.

It is possible to point out certain other occasions which have given rise to the contraction of indebtedness, such as the construction of the Puerto Plata Santiago Railroad, the erection of a few wharves and public buildings, the purchase of two unimportant gunboats, and the settlement of indemnity claims; but, all things considered, the number of these is few and their aggregate importance is relatively slight. In the three occasions for debt accumulation enumerated above—to a further consideration of which attention is now invited—the history of the Dominican debt is essentially comprised.

It is an obvious commonplace to speak of political instability as the keynote of the financial collapse of San Domingo. But this is, after all, the alpha and omega of the situation. In the brief intervals during which the country was not threatened by, or actually in the throes of, revolution, a disproportionate part of the public revenues were applied to the purchase of war supplies and the maintenance of a rag-tag soldiery, leaving other parts of the budget to accumulate in default. At other times the amounts so expended

virtually absorbed all available funds. Thus, in the fiscal years 1903 and 1904 "military and naval" expenditures formed 71.7 and 72.6 per cent, respectively, of the republic's ordinary disbursements.

It should be clearly understood at the outset that a Dominican "revolution" bears as little resemblance to what the American mind understands by the term as do the Dominican "generals" who figure therein correspond to the similarly named officers of our own military establishment. It is not in any sense a popular uprising, wherein a mass of people, inspired by love of country or liberty, seek to overthrow or reconstruct an existing government. The phrases "patria" and "libertad" figure abundantly in the pronunciamientos of every insurrectionist leader; but their significance is absolutely nothing more than as rhetorical expletives and claptrap equipment. A Dominican revolution might be briefly defined as the attempt of a bandit guerrilla to seize a custom house. In the background, acting as a moving force, will ordinarily be found a political malcontent, ambitious to overthrow the dictator president in power and to succeed in control, to his own profit. But the custom house and the insurgent chief are the real keys to the situation.

San Domingo, while nominally a republic, is even in constitutional form a highly decentralized government. For administrative purposes the country is divided into twelve provinces, each under a governor appointed by the president of the republic. Each governor is in command of the detachment of the national "army" stationed in that province and is also the head of a district provincial and, sometimes, indeed, of a municipal police. Theoretically the provincial administrations are organic parts of the central government. As a matter of fact, in consequence of the weakness of the central government and the difficulty of communication between the several parts of the country, each province has tended to become a virtually independent, semi-feudal principality. Appropriations for the expenses of the province are made nominally in the national budget; but, as a result of the chronic depletion of the national treasury and the almost entire dependence upon customs receipts, the expenses of the province were paid directly out of the proceeds of the custom houses located therein or adjacent thereto. Thus, the custom house of Monte Cristi paid the expenses of the Province of Monte Cristi; that of Puerto Plata, the expenses of Puerto Plata, Santiago and

Moca; that of Samana, the expenses of Samana, except the commune of Sanchez; that of Sanchez, the expenses of La Vega and Pacificador and the commune of Sanchez; that of Macoris, the expenses of Macoris and Seybo; that of Santo Domingo city, the expenses of Santo Domingo and the deficits in Azua and Barahona, the receipts from whose respective custom houses were ordinarily insufficient.

The strategic importance of a custom house in Dominican politics can now be better appreciated. So long as this prime source of public revenue continued in the hands of constituted authorities everything remained tranquil; the soldiers received their pay, the civil officials collected their salaries, and the governor garnered his perquisites. But the situation changed magically the moment control was lost of the custom house and the all-important source of public revenue cut off. The governor, if he were not already active in the insurrectionist cause, either fled in defeat or awaited overtures; the army deserted to a man to the new standard, and the civil service retired to cacao farming to wait until a new turn of the political whirligig invited emergence.

The natural history of a Dominican revolution was, therefore, something as follows: The machinery of the existing government, after running smoothly for a while, had begun to creak in consequence of clamorous creditors, disappointed office-seekers and personal grievances. Some political parasite or chronic malcontent—perhaps the last-ousted dictator-president of the republic—took the initiative. Occasionally, from his own private resources, much oftener through the speculative venture of a merchant lender, he secured money or credit, a part of which was immediately expended in the purchase and secret landing of fighting supplies. The particular province—if more than one, so much the better—where, in consequence of remoteness or personal unpopularity, dissatisfaction against the government seemed most likely, became the scene of conspiracy. If the governor of the province could be won over by promise or price, the revolution was forthwith an accomplished fact. If he remained unshaken in his loyalty the services were bought of one or more desperado chieftains—technically described as "generals," or, if more modest, as "chiefs"—with feudal-like bands of followers attached, to whom this guerrilla service was as regular a business as cacao or plantain cultivation was to the bulk of the

population. A period of fighting followed, the issue of which was determined by the seizure of the custom house. If the custom house could not be taken, the insurrectionist army melted away by desertion; the funds on hand were exhausted, and no further advances could be obtained. The "general," with a handful of devoted followers, escaped to the mountains to carry on a desultory fight until he was induced by guarantee of personal safety and a grant of an "asignacion" to lay down his arms and "come in." If, on the other hand, the custom house could be captured and held by the insurrectionists, the pockets of the bandit leaders were promptly filled by advances from local merchants until the fortnightly steamer arrived with its heavily dutiable cargo. The revolutionist army grew in number and in loyalty, and here again the revolution was well under way.

Now, all of this was the work of a handful of men, and practically of the same handful. It is a conservative estimate to say that no more than a dozen political agitators have been, at bottom, responsible for the score of revolutions, successful and unsuccessful, which have cursed San Domingo during the past ten years, and that no more than forty insurgent chiefs have executed them. Indeed, the entire initial strength of a successful insurgent force was never more than a hundred ragamuffins. They prevailed, even to the extent of overthrowing the existing government, exactly in the same way that a brace of train robbers can in broad daylight hold up a whole company, or a few desperadoes can raid an entire town.

The people of San Domingo were the victims, not the constituents of such "revolutions." The average Dominican, and especially he of the countryside, is a quiet, peace-loving, law-abiding, moderately hardworking peasant. In many particulars he is a typical West Indian, with his petty vices of cockfighting and rum drinking, inclining to be "married," but not "parsoned," living in a rough shack, rearing a numerous progeny, owning a few cattle, pigs and chickens, cultivating a little patch of communal-owned land planted in cacao, tobacco or plantain, and working no harder than he does because a too bounteous nature has made it unnecessary for him to do so. He is hospitable and well-intentioned, and under ordinary conditions it is safer for a traveler to ride by day or night alone and

unarmed through even the most remote parts of the country than it would be for him in many rural districts of the United States.

The Dominican is superior physically to the ordinary West Indian peon, for his country is richer and his relative numbers are fewer. Underfeeding and anemia have not devitalized him, and he possesses every capacity of becoming a decent and prosperous peasant. That he has been prevented from becoming so in the past is because of the supreme travesty upon government under which he has been plundered and pillaged. In times of peace he has been crushed by a system of taxation wherein property and incomes are exempt, and the necessary consumption of the poorest classes—flour, beans, codfish, cotton cloth and illuminating oil—are burdened at least 100 per cent, enhancing retail prices often to three times their normal level. He groans under an annual expenditure, central and local, of at least two and one-half million dollars, of which the largest part has gone in salaries to the "army" and to professional politicians and their parasites, and much of the remainder has been wasted or stolen; while roads, schools and public institutions have been neglected. If he were wronged there was no justice to be had. If he were sick or in want he suffered as the dogs of the town. If he were stricken or diseased he festered by the wayside. He lived under a despotism, and as absolutely a malevolent one as our day and generation are likely to witness.

All this is in the infrequent intervals of peace. When the country was threatened with insurrection or actually in the throes of revolution the condition of the ordinary Dominican became well-nigh intolerable. He or his sons or his laborers, if he had any, were likely to be drafted into the government army or kidnapped into an insurrectionist band, or blackmailed by the threat of such procedure. His horses, cattle, donkeys—even his goats and chickens—would be stolen or commandeered in return for "vales" or evidences of indebtedness, which were as worthless to him as the stones on the ground. His houses might be burned, his fruit trees stripped, his fields pillaged, and he left prostrate and terrorized. This was the visible mischief. But perhaps even more important was the further indirect hurt which every succeeding Dominican revolution brought in its train, from the accumulation of more debt, the imposition of heavier taxes, the alienation of valuable conces-

sions, and the complete demoralization of whatever degree of the government survives.

With the actual appearance of serious revolutionary uprisings the whole financial machinery of the republic—if a scanty hand-to-mouth procedure can be dignified by that name—invariably broke down, and a bitter struggle for bare financial existence took its place. One or more custom houses were ordinarily threatened or actually in the hands of revolutionists, and the customs revenues, insufficient at best, became thereafter hopelessly inadequate. Anything like additional taxation at such a juncture was a device so futile as not to be entertained by even the most desperately threatened administration. Moreover, the slightest delay in the payment of an already insubordinate "army" meant prompt desertion to the insurrectionist cause, and further enlistment of men and purchase of supplies were possible only upon the basis of ready funds actually in hand.

To a dictator-president thus beset, borrowing was not only the easiest, but the only possible course. His hands were never tied by constitutional procedure, taking the form of a recalcitrant national congress or an articulate public sentiment. Nor was his conscience troubled at the effect of such a policy upon the present well-being or the future resources of the country. His one concern was to keep himself in control and to destroy or placate the insurrectionists. Accordingly, he had instant recourse to the merchant lenders of the country, and, with supreme indifference as to the terms of the loan or the amount and character of the securities, borrowed up to the last dollar that could be coaxed or threatened.

It will thus be seen that this class of merchant bankers have played an important part in the history of the Dominican debt. Representatives flourished, and still exist, in Santo Domingo city, in Puerto Plata, in Santiago, and in every commercial center of the island, ordinarily combining export and import with retail trade, and gradually extending their activities to landowning and money-lending. Almost invariably of foreign origin, and carefully maintaining for greater security their foreign citizenship or some equivalent connection, this small, more or less intimately associated body, have in large degree influenced such limited economic development of San Domingo as has taken place, and at the present time virtually control its commercial contact with the outside world.

Individually considered, this body of merchant lenders run the full gamut from high-minded business men, sensible of the country's resources and its legitimate opportunities, seeking fairly to develop their own affairs and driven to other courses only in face of peril to person and property, all the way to merciless, blood-sucking money sharks, whose opportunity has been the country's prostration, who have exploited every crisis to the fullest, who have, in the hope of resultant gain, sometimes provoked and certainly often made possible insurrection when it did not otherwise exist, and who, while apparently taking the gambler's chance and demanding the gambler's odds, have been careful to use loaded dice and sure manipulation.

Upon the outbreak of a serious insurrection, the ordinary procedure for the dictator-president in power—assuming, as we safely may, a depleted treasury—was to seek from his most favorably disposed merchant lenders immediate funds to maintain his soldiery, to enlist reinforcements, and to secure necessary supplies. For such funds he gave either "vales" (transferable custom house receipts valid in payment of export or import dues) or "reconocimientos" (evidences of indebtedness of treasury due bills). Such securities bore interest at a specified rate per month, or included in their face value the capitalized amount of such interest, or, most frequently of all, did both.

A Dominican insurrection or "revolution" was rarely fought to a finish. A certain point in the struggle once attained, both parties turned instinctively to a settlement. This ordinarily took the form of extending guaranties of personal safety to the insurrectionists, of appointing their surviving leaders to public office, of rewarding their military service by outright payments or annual pensions ("asignaciones"), and of recognizing the validity of indemnity claims for injuries, fancied and real, suffered at the hands of insurrectionists or of government forces. If the insurrection had any validity, the government, weakened though triumphant, showed no disposition to haggle as to the amount or terms of such obligations. They related to a remote and imperfectly realized future, and the troubles immediately at hand were urgent and absorbing. The ship of state sailed on, in serene unconcern of the mass of swollen, fraudulent debt left in its wake.

Indeed, the very cost of the insurrection, as well as the expense

of suppressing or pacifying it, was commonly crystallized sooner or later into a government debt. The sinews of a Dominican revolution would naturally be supplied by the merchant bankers of San Domingo—sometimes animated by a laudable desire to rid the country of an intolerable tyranny; more often venturing the advance as a cold-blooded and deliberate speculation. If the insurrection were successful, such advances were always recognized and a handsome return accrued to the underwriters. Moreover, the newly constituted government was too weak, politically and financially, to repudiate the obligations issued by the administration just overthrown, especially if they had found their way, as they ordinarily would have done, into the hands of the very merchants from whom further advances must immediately be sought. If the insurrection were unsuccessful, the promissory papers issued by the defeated insurrectionists were carefully preserved by thrifty lenders until a new political crisis brought the unsuccessful aspirants again to the fore, when all past accounts were liquidated at extravagant rates.

Public borrowing by a country with the unsavory past and the uncertain political future of San Domingo must under all circumstances have been expensive. But the terms actually exacted and readily granted exceed all bounds, either of economic risk or of prudent financiering, and are as high a tribute to the rapacity of the lenders as to the mad recklessness of the borrower. This is as true of the funded as of the unfunded debt. As far back as 1869 the government contracted in the Hartmont loan to receive £320,000 in cash, and to repay an annuity of £58,900 for a term of twenty-five years, being £1,472,500 in all. In actual fact, bonds to the nominal value of £757,700 were emitted, and only £38,095 received by the Dominican treasury. In 1893 the government turned over to the San Domingo Improvement Company $1,250,000 of 4 per cent sixty-six-year gold bonds—being the entire issue of the fifth funded loan—in consideration of the payment by the company of internal debts aggregating $438,000 in gold. Similarly, in 1894, the sixth funded issue, being $1,250,000 4 per cent sixty-six-year bonds, was delivered en bloc to the San Domingo Improvement Company in return for the extinguishment of internal debts to the amount of $538,200 in gold. These transactions appear even more unfavorable to the Dominican Government when it is remembered that the floating debts thus discharged were already swollen by

excessive interest accumulation. In 1897 the French-Belgian bondholders consented to the conversion by the San Domingo Improvement Company, acting as the republic's fiscal agents, of their 4 per cent holdings into 2¾ per cent obligations. But the entire benefit that might have been expected to accrue from this operation was lost to the Dominican Government by the incomprehensible issue of an additional £600,000 of the new securities, out of which the government received a bare £50,000 ($250,000) in cash, and the remainder of which seems to have been absorbed in defraying the expenses and commissions incident to the conversion.

It is, however, when we turn from the funded to the unfunded debt that we come full face upon a high carnival of incredible usury and scandalous overcharge that differentiates itself only by slight distinction, if at all, from thievery and fraud.

Prior to 1888 we are told that the ordinary rate charged the government by the local "credit companies" for advances of current funds was 10 per cent a month. Under more favorable conditions the rate seems to have fallen to 5 per cent a month; but almost up to the present time the interest charge, commonly made by merchant lenders for advances to the government upon such reasonably safe security as transferable customs receipts, has been 2 per cent a month, compounded at brief intervals.

The rates paid for emergency loans, or for advances secured only by a pledge of public credit, must have been very much higher. The scanty treasury records throw little light upon the real character of such loans, and the obligations issued invariably mask the transactions by partially capitalizing the interest compensation in their face value. On June 30, 1897, a European firm made a contract loan of $100,000 (400,000 marks) to President Heureaux—nominally to meet an overdue coupon upon the bonded debt, but which, it is claimed, was never so applied—at the rate of 2 per cent a month. On October 12, 1903, the principal and arrears of interest of this claim amounted to $244,800. In 1897-1899, during the closing years of President Heureaux's administration, the Dominican comptroller's office or "contaduria" issued forty-six certificates of indebtedness in favor of Heureaux for funds alleged to have been advanced by him to the government. Of these, forty-one certificates of an aggregate value of $1,025,246.12 bore interest at the rate of 2 per cent a month. As liquidated on March 2, 1901, the interest charge,

which had throughout remained in arrears, had accumulated to $667,303.82, and at the present time it is estimated at $1,713,931.90.

These illustrations are fairly typical of the current loans of San Domingo during the entire period under consideration. Such transactions can only be understood in the light of a government borrower void of every regard for the country's present or future well-being and struggling desperately for mere existence, to whom a public obligation was as meaningless as the value denomination which it bore, and, on the other hand, of a series of merchant lenders, sometimes bullied and threatened, at other times voluntary and deliberate, in the main rapacious, unscrupulous, and identified with the welfare of the country only as exploiters and speculators.

Excessive interest rates, chronic default in interest payments, and entire neglect of amortization must necessarily result in the rapid growth of the principal of the debt. The accumulation and compounding of interest in default have figured in the nominal growth of the San Domingo debt to a degree probably not less important than the two factors already considered. Unpaid creditors have taken some measure of comfort in the frequent liquidation of arrears of interest, and the full recognition of the validity of all such accumulations has been the ordinary condition of further advances.

The entire issue of the Hartmont bonds of 1869 (£757,000) was emitted, fairly or fraudulently, between 1869 and 1888, in return for an advance of £38,095 to the Dominican Government. Of the principal of the 1888 loan, £50,922 was retained to pay current charges upon the funded debt, and of the 1890 loan, a further amount of £51,822 for the same purpose. Practically the entire principal of the three issues of French-American reclamation consols in 1893-1895, aggregating $4,250,000, and a further sum (£277,980) of the refunding 4 per cent bonds of 1897, were devoted to the discharge of current accounts, in which arrears of interest figured largely. Finally, of the 2¾ per cent gold obligations of 1897, the sum of £101,750 was required for the discharge of interest in arrears of the consolidated bonds of 1893. In general, it may be said that the funding of floating indebtedness and the conversion of old into new bond issues invariably involved the capitalizing of very considerable arrears of interest.

The accumulation of the unfunded debt forms an even more

extraordinary, though, unfortunately, a less accessible, history. Certain details of this have been given in connection with what has been stated of the excessive rates of interest upon current obligations, and a few further examples may be cited. Thus, a floating debt converted on June 7, 1902, into 3 per cent securities of the consolidated internal debt to the amount of $102,361.49 had its sole origin in a credit of $15,970.24 in February, 1889, and, therefore, includes interest accumulations to the amount of $86,391.25 for a term of thirteen years, or more than five times the principal sum. Two loans, to the aggregate amount of $369,732.37, bearing interest at the rate of 2 per cent a month, were made in 1896 to the "regie" and guaranteed by the Dominican Government. Redemption payments were made with more or less regularity until 1900; but despite this the present nominal amount of the claim is $812,505.79. The traveling expenses of a certain revolutionary propagandist in 1902-3 to the amount of $6,857 were acknowledged with a bonus of 100 per cent, apparently regarded as interest compensation. Transactions of this nature are unusual only with respect to publicity, and their essential character is typical of a large part of the Dominican unfunded debt.

NATURALIZATION AND CITIZENSHIP IN THE INSULAR POSSESSIONS OF THE UNITED STATES

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In order that the political status of the inhabitants of non-contiguous territory under the jurisdiction of the United States, known as its insular possessions, may be fully understood, it will be necessary to make a short historical summary of the origin, progress, and present political condition of the persons resident within the United States.

Prior to the proclamation of the Declaration of Independence, all persons resident within the thirteen original states were subjects of the king of Great Britain. Upon the proclamation of that wonderful document they at once changed their status from that of *subjects* to that of *citizens* of each of the respective states within which they resided.

That the Declaration, as a political document, was one of the most remarkable ever produced by man has never been controverted, but that it was charged with inaccuracies and platitudes is admitted by all students of history. That these were patent, not only before the ratification of the Constitution of the United States in 1787-88, but even in the short interval of one year between the Declaration and the adoption of the Articles of Confederation in 1777, is evidenced by the discussions in the Confederate congress, and the opposing views of the statesmen of that day in the Federalist, discussing, as those papers did, all their basic principles and all the important theories of government upon which the constitution was to be founded. Then came the Ordinances adopted by the Confederate congress in 1787 providing a system of regulations, and a form of government, for the enormous Northwest Territory acquired by cession from England, which were to be applicable also to the states or territories which might thereafter be erected therein. Then followed the ratification of the Constitution of the United States in 1787-88, and a comparison of the Declaration with that

document will show to every student the manner in which the experience of ten years had proven the programme of the Declaration to be both inadequate and impracticable, while the congressional discussions and papers in the Federalist had clarified nebulous ideas and enabled the formulation of political declarations into the Constitution of the United States, under which, with but few amendments, the United States of America has advanced from a feeble band of colonial settlers stretched along the Atlantic littoral, full of dissension among themselves, jealous of rights and privileges, uncertain as to what the future of the new nation should be, into a sovereignty stretching from the Atlantic to the Pacific, and beyond and around the world, until no longer can it be said of England alone that on *her* flag the sun never sets, and that *her* drum-beat *only* encircles the world.

The prosperity and progress of this Nation is unexampled in the history of the world. Never before in the knowledge of mankind has a nation grown to be so great on such firm foundation, with no trace of overweening aggrandizement of political power in any body of its inhabitants; with full and uninterrupted enjoyment of every civil and political right, with freedom of thought and expression in every private and public activity of man; with ample and continuous protection to life, liberty and property, and no governmental or legal restriction to "the Pursuit of Happiness" so dear to the fathers of our republic, and so diligently pursued by their descendants to this day.

Such solidity, such expansion, such progress and prosperity, such security, and such promise for the future have been and will be largely dependent upon the protection which the government and its laws throw around the political status of the persons who constitute its population. From the beginning of our history jealous care has been taken to grant liberal rights of citizenship to persons legally entitled thereto, and to guard with equal care the acquirement and exercise of such functions by persons disqualified, from any cause, to exercise the same without jeopardy to our system of government and to its administration.

Prior to the ratification of the Constitution of the United States, there existed within our borders two forms of citizenship: that of the States, and that under the Ordinances in the Northwest

Territory. Upon the ratification of the constitution there came into being a new form—Federal, American citizenship—a thing so prized by each one of us that no inducement would cause us to relinquish it, and yet so incorporeal, and playing so small a part in our lives, and so little affecting the exercise of our rights, that it is a surprise on examination to find how small a thing it really is.

No citizen of the United States, as such, exercises the right of suffrage. That is dependent entirely upon his residence in a State of the United States; no citizen of the United States, as such, has any important legal right, redress for which is not provided for and guaranteed under state laws, except the right to sue in federal courts; no direct taxation supports the government of the United States, and instances might be multiplied and distinctions drawn which would call even more forcibly to your attention the really small part this most prized attribute plays in the daily life of each of us.

You will all remember the magnetic and dramatic effect which one of the earlier declarations of citizenship produced. It was that of the Apostle Paul, who, when at Jerusalem, surrounded and attacked by a turbulent and hysterical mob, replied to the centurion who asked the cause of the disturbance: "Civis Romanus sum." He was a citizen of the imperial nation among a rabble of outlanders, dependents, subjects, in a land held under military occupation, and the magic of the power of imperial citizenship has never been more forcibly marked than in the effect this declaration made both upon the mob, the centurion and the governor. Thousands of miles from the central government, in the midst of a hostile population, a mere declaration of an humble subject was sufficient to secure him protection, consideration and redress. *That* quality of American citizenship exists as a *right* in each one of us to-day, and that right will be as fully protected under the United States as under the Rome of the Cæsars.

All persons resident in any sovereignty fall into one of three classes, showing their political status, as *"citizens," "nationals,"* and *"aliens."*

A *citizen* is one who, within a particular state, possesses full civil and political rights. Such *citizenship* may be qualified by the conditions of sex, age, and mentality, and under such qualifica-

tions may include or exclude, on the one hand civil, as on the other, political rights. It has been said, in relation to American citizenship, that each citizen possesses "a homeopathically diluted dose of sovereignty." However this may be, never under any form of government has a citizen exercised so freely and fully the rights of individual sovereignty as in these United States.

Next after citizens, in the exercise of political rights, come persons who may be designated as *"nationals."* These are persons who owe allegiance to the United States, and are entitled to its reciprocal protection in their lives, liberty, and property, but who exercise no other function of citizenship, and are debarred from doing so until they comply with the requirements of the laws, state or federal, which confer the same. It has been observed, by an able writer, in relation to the status of such persons: "That term *(subject),* however, is one which is foreign to our legal system and alien to our train of thought. The term 'national' fits the case more accurately, and bears with it no unpleasant inference of political inferiority or servitude to an individual."

In this class there remain only Indians in tribal relation, and inhabitants of non-contiguous territory under the jurisdiction of the United States; as inhabitants of the Philippines, Porto Rico and Guam; the third classification is *"aliens,"* who are persons owing allegiance to one sovereignty, but resident in another.

Citizenship in the United States can be acquired in but two ways. By *birth* under the jus sanguinis, and by *naturalization,* under the jus soli. Under the law, all persons born within the confines of continental United States are citizens thereof, and this is true though they be born of parents, such as Chinese, or other Orientals who, if born out of the United States, can never acquire citizenship therein.

Aliens who are white, or of African or mixed African and white blood may, under the laws of the United States (Rev. Stat. 2169), become full citizens upon compliance with the naturalization laws of the United States.

It will surprise some of you, no doubt, to learn that inhabitants of non-contiguous territory under the jurisdiction of the United States may, in like manner, under the Naturalization Act, become citizens of the United States.

In order to become a citizen, it is requisite that an alien, two years prior to his admission, should renounce his allegiance to the foreign prince or potentate, or government of which he has been theretofore a subject or citizen, and declare his desire to become a citizen of the United States, and his intention of permanent residence therein. At the expiration of at least five years' residence in the United States, upon proof by witnesses, before a proper court, of his compliance with the law, such alien is given papers which entitle him to exercise all the political and civil rights of citizenship.

Until the passage of the naturalization law approved June 29, 1906, it was impossible for an inhabitant of the insular possessions of the United States to become a full citizen thereof, for various reasons, among which were the following:

Under the Treaty of Paris, in its Article IX, provision was made for the retention, by those who desired it, of their Spanish citizenship, and it was declared that all persons who had not availed themselves of this permission should, after the expiration of a fixed period, be held to have transferred their allegiance from Spain to the United States.

The Supreme Court of the United States in the Insular Cases has decided that the Philippines and Porto Rico have not, since the cession by Spain, constituted *foreign* territory, and also that such possessions are not *domestic* territory. These decisions left the inhabitants of the islands in an unfortunate situation, being neither "fish, flesh nor devil;" they were literally "men without a country" in the large sense. True, they were residents of Porto Rico or the Philippines, as the case might be; and, under the terms of the Treaty of Paris, and the respective organic acts, Porto Rican and Philippine citizenship were created. But neither carries with it United States citizenship. Furthermore, no provision has ever been made, either under the treaty or under any act of congress, for the naturalization of aliens resident in insular territory, as citizens of such territory, although such relief has been frequently sought, and is urgently needed.

In the endeavor made by insular inhabitants to obtain Federal citizenship, it was found impossible to comply with the *Federal* requirement of renouncing allegiance, because the only allegiance they

owed to the United States. The new Federal naturalization laws require applicants to go before the designated courts in continental United States, but no courts with naturalization jurisdiction have been erected or authorized either in Porto Rico or the Philippines. The relief granted, under the new law, while only partial, is still a distinct advance, and is stated and conferred in section thirty of the naturalization law of June 29, 1906, as follows:

> That all the applicable provisions of the naturalization laws of the United States shall apply to and be held to authorize the admission to citizenship of all persons not citizens who owe permanent allegiance to the United States, and who may become residents of any state or organized territory of the United States, with the following modifications: The applicant shall not be required to renounce allegiance to any foreign sovereignty; he shall make his declaration of intention to become a citizen of the United States at least two years prior to his admission; and residence within the jurisdiction of the United States, owing such permanent allegiance, shall be regarded as residence within the United States within the meaning of the five years' residence clause of the existing law.

The practical result of this section is that an insular inhabitant, possessing the other qualifications of an alien, who has resided in any of the islands for a period of three years or more, may come to the United States, and by declaration that he desires to become a citizen of the United States, and to permanently reside within territory under its jurisdiction, may receive his *first papers,* and two years thereafter, upon proper proof to a court of requisite jurisdiction that he has complied with the provisions of the naturalization law, he may become a full citizen of the United States, and may thereafter choose his residence with the same freedom as any other citizen. This is somewhat less than the extension of the privilege desired by the insular inhabitants, and urged by those of us who are charged with the administration of their affairs, in that requisite jurisdiction is not conferred upon courts outside continental United States, but it is a distinct enlargement of political privilege, and a wise restriction upon its extension to peoples whose ability for self-government is still in the experimental stage.

In the history of our country, with relation to its various acquisitions of territory, *collective naturalization* had been granted to all inhabitants of ceded territory until the Spanish war. Such

was the case with the cessions of Louisiana, Florida, Texas and Alaska; in each of these cases the population was of a character and homogeneity which rendered it easily assimilable with the corpus of the population of the country. In like manner, though with differences that have created anomalies, on the annexation of Hawaii all persons who were citizens of the republic of Hawaii on the date of the formal transfer of sovereignty to the United States (August 12, 1898), were declared to be citizens of the United States and citizens of the Territory of Hawaii (Act of Congress, April 30, 1900, sec. 4). One of the anomalies consists in the fact that Chinese persons, born or naturalized in the Hawaiian Islands prior to the date of transfer, although excluded by the laws of the United States from citizenship, nevertheless, by this *collective naturalization,* have become full citizens of the United States.

There is ample precedent for the creation of the status of *"nationals,"* in the action of France in the case of Algiers, and other familiar instances, notably that of India, where the character of the population, being Oriental, is fundamentally different from that of the sovereignty acquiring the territory and therefore unassimilable with the general body of sovereign citizens. While allegiance has been exacted, and protection granted, and civil rights guaranteed, no political status has been conferred, and it has not been the subject of observation or criticism, either on the part of such peoples, or in any international tribunal, that under such circumstances *full* political rights have been denied.

As an experiment in altruism, unexampled in the world's history, stands the conduct of the United States toward its insular possessions and their inhabitants. No other nation has ever acquired territory separate from it, without both the intention and the practice of aggrandizement. The declaration of war with Spain in April, 1898, was dictated by the sole purpose of mitigating and rendering impossible the conditions of government prevalent in Cuba, which were shocking to the whole civilized world, and against which the United States, by propinquity and territorial interest, was the only sovereignty which could, unopposed and uncriticised by neutral powers, intervene to relieve. With the result of such intervention we are all familiar, and an experiment which promised at first to be confined locally to the territory and people almost

touching our southern boundary, by an unforeseen and inevitable sequence of events, has included the acquisition of territory and the allegiance of peoples as widely separated as the poles, and as different in racial characteristics, in degree of development, material pursuits, and divergence in form of government, as it is possible for peoples to be.

The capture of Cuba, and the ending of the war, were followed there by the creation of a government and the turning over of the country to its inhabitants, in a solvent and orderly condition; in the hope that the experience of the past, and proper appreciation of the motives of the United States, would render it unnecessary for this country to again intervene to save Cuba, not from foreign oppression, but from internecine destruction. That hope has not been fully justified, and we are again in Cuba.

Quite different is the situation with relation to Porto Rico. Within one year after the ratification of the Treaty of Paris, an organic act, containing a form of government and a bill of rights, was put in operation for Porto Rico. Porto Rican citizenship was conferred upon its inhabitants; courts, both federal and local, were established within it; a form of government, with legislative assemblies, and a lower house, elective by the people, was created; free trade with the United States was established, and our great markets were opened to the productions of that island. At one point the experiment went too far, as events have shown. Trial by jury was conferred upon a population that had hitherto been ruled, *not* by law, but by a man. This was going too far, as has been seen, when it became effective in a population elated by the rebound, and accustomed to a subject state; one which neither by education nor experience was qualified for the exercise of functions of citizenship. It required some demonstration to prove that all peoples do not possess the self-restraint and character of mind which enables them to judge between their fellowmen.

Repeated effort has been made by the Porto Ricans to obtain *collective naturalization* as citizens of the United States, but the congress, in its wise judgment, has been unwilling to extend this privilege until the people by their local conduct of affairs have shown themselves, both deserving and *capable* of its exercise.

With relation to the Philippines, affairs have been conducted

on somewhat different lines. The organic act of the Philippines, approved July 1, 1902, containing a bill of rights, created a form of government in a commission which possesses legislative powers; courts, local to the Philippines; provided sources of revenue by taxation and customs; and a representative assembly, at such time as a census, necessary to fix the status, qualifications and number of electors, should have been taken, and a condition of general tranquillity should have prevailed for a sufficient period to give assurance of its continuance. The pre-requisites as to a representative assembly have been complied with. An electoral law has been passed. Elections will be held during the coming summer, and a representative assembly, in its nature analogous to that of Porto Rico, and constituting a lower house, will be placed in operation in the autumn of this year. This will create in large measure autonomous government for these islands, and will confer rights of citizenship heretofore as undreamed of by the inhabitants of those islands, as our administration of its affairs—with wisdom, forbearance, justice and probity —has been beyond any hope, except that wild desire for change, engendered in the mind of the Filipino (without either solidity of purpose, or ability to maintain a settled government), which animated revolts against the Spanish sovereignty prior to our occupation.

Complete systems of free, primary, and secondary education are provided for the whole population of these islands. Chosen youths, several hundred in number, are being educated within continental United States, in a generous way, at the expense of the Philippine government. No portion of any charge for the maintenance of government or its activities falls upon any citizen of continental United States, but on the contrary, instead of giving the products of the Philippine Islands free and open entrance to the markets of the United States, as is the case with Porto Rico, or instead of imposing a differential of 20 per cent of the Dingley tariff, as is the case with Cuba, with which we have much less governmental concern, an impost of 75 per cent of the Dingley tariff is placed upon every product of the Philippine Islands landing at our ports. That this is unjust, that it retards the material progress of those islands, that such retardation hinders the commercial development, and, therefore, the civilization of the inhabitants, is a matter too

often proven, before congressional committees in endeavors to obtain relief, to need any argument here. The statement carries with it the conviction.

The result will be that, unless such relief is afforded to the Philippines, the inhabitants of Porto Rico will long be qualified and have granted to them full rights of citizenship of the United States, before the Filipinos, languishing under this discrimination, even with the benefits of education and an autonomous local government, will have qualified themselves, in their national character, for such privilege.

The persons most nearly concerned with their administration and development, the persons who have devoted years of their lives, with self-abnegation and at a sacrifice, to the betterment of this race; who have, by personal contact, by observation, by wise government, qualified themselves better than all others to rightly judge of Philippine affairs, have publicly stated, on repeated occasions, that, unless present conditions are ameliorated, generations may pass before the inhabitants of the Philippines will possess the attributes and the qualifications necessary to entitle them as a people to admission into full citizenship of the United States.

That the programme which has been adopted in the government of the insular possessions of the United States has received the approval of the majority of the American people, is certain. That, in the matter of citizenship, there has been no deliberate unjust discrimination against these peoples, is as certain. What they shall become, how they shall progress, how quickly they will be developed to a point where amalgamation with continental United States, in greater or less degree, will produce no national disturbance, rests not so much with the *executive* administration of their local affairs, as with the relief and assistance which only the congress of the United States can grant.

As a whole, and in conclusion, since the acquisition of this territory by the United States in 1898, every rational method for the qualification of the inhabitants for the exercise of a measure of political right has been steadfastly and consistently pursued. Ability for citizenship comes either by inherited trait or by education. These peoples had no qualification by inheritance, and the programme of education has extended over such a short period of

time, with so many limitations and interruptions, that unless we survey in detail the progress that has been made, the results desired would seem to be indefinitely deferred.

In the nine years of our occupation and ownership, stable governments have been erected; security has been conferred on life, liberty and property; freedom of speech, and open courts above reproach, exist everywhere; popular education, free as in the United States, is available to every inhabitant; local laws and customs have been adopted unmodified, except as inapplicable to our theory of government. The peoples have been freed from exaction and oppression, sanitation has greatly diminished mortality and disease; stable titles to lands can now be obtained in all our possessions. Scientific research and practical work on industrial and laboratory lines have opened possibilities of commercial activity and agricultural development before unsuspected, and if timely relief is afforded by congress, and with patient effort these people are led and encouraged by education and example in lines of integrity, and order, and industry, such progress will be made, in the experience of living man, as will remove all thought of their being a menace to our institutions, and will constitute them valuable accessories to our national development.

THE ADMINISTRATION OF A PHILIPPINE PROVINCE

By Hon. Daniel Folkmar,
Former Lieutenant-Governor for Bontoc Sub-Province, Philippine Islands.

In discussing this subject I shall speak mainly of unwritten administrative customs and practices in provincial governments. I shall hardly refer to laws, written rules and regulations enough to show their bearing upon the extra-legal. I shall describe what members of the Academy will not be able to read for themselves. I shall also speak mainly of the province I know best, Lepanto-Bontoc, although many of the details are characteristic of provincial government throughout the Philippines.

There are three kinds of provincial governments in the Philippines. Under the form of organization found in thirty-one of the thirty-eight provinces of the islands, the governor is elected and, therefore, of course is in nearly every case a Filipino. The provincial treasurer, a member of the provincial board, will soon be the only American representative in the provincial government proper. The third position on the board has recently been made elective, so that the majority will rapidly pass into Filipino hands.

Lepanto-Bontoc is one of the five provinces that are organized under a "Special Provincial Government Act" because they are found amongst less advanced populations. Lepanto-Bontoc is the northernmost province of Igorrotes. Here all the members of the provincial board are appointed. In Lepanto-Bontoc there is still, as under the old system, a supervisor, who is a member of the board.

The Moro province is adapted to the government of a wilder people, and is more independent in legislative and financial powers. I shall not take it into consideration in what follows. Neither can I give time to the consideration of the local municipal administration. This is where the highest degree of self-government in the Philippines is found.

The provincial government, standing between the municipal and insular governments, holds at present neither the place of our

southern county nor of our state. It belongs to a Spanish system rather than to the traditional American one. In other words, it is appropriate to a colonial form of government. The Philippine provincial government resembles that of an English crown colony, especially in provinces where the provincial board is appointive.

Where the governor is elected the government is still highly centralized. His election must be confirmed by the governor-general, and in many ways he is responsible to the central government. The majority of the provincial board in which he sits have been until recently appointed from Manila and were, therefore, Americans. The insular and not the provincial government has control for the most part of the finances; as regards the police, the governor's power is but slight. The constabulary force of the province is under an American officer, who is or may be the most influential representative of the insular government in the province and a decided check upon the governor.

In this respect there is a decided difference between the Spanish and the American form of provincial government, especially in the less advanced provinces. There is a complete separation of the political and the military functions. The governor is not a *Comandante* of a *Gobierno Politico-militar.*

There is also naturally a more complete separation of legislative and judicial functions from the executive, in accordance with American ideas. Much, however, has been borrowed from the Spaniards not, perhaps, because of a settled conviction that their way was theoretically the best, but because it was easier to operate administrative machinery already set up and with which the natives were familiar. More and more, however, one hears the expression in the Philippines, "The Spaniards were not all wrong," or, "They knew how to do some things better than we."

In order to understand all the administrative functions that are exercised within the limits of a province, we need to recognize certain purely insular officials. First, and in the most complete sense insular, is the constabulary officer already mentioned. It is not necessary to dwell long upon the work of the constabulary. In the nature of the case, as an insular force, the functions of its commanding officer are not always in harmony with those of the provincial government, and especially of a native governor. Friction often exists, and jealously, if not more serious trouble.

Making all allowance for unjustified criticisms upon the constabulary that might arise in such circumstances, it is still a matter of history that the commission has found it necessary to correct serious abuses within this body. They have been largely chargeable, however, not to the American officer, but to the native recruit. When Igorrote soldiers under an Igorrote or even an Ilocano sergeant patrol the country, or when they are sent out to make an arrest or to gather food supplies near at home, it is not surprising if they take food at times without pay or through extortion, secure it at unfair rates, if they are not guilty of more serious crimes against persons or property. A partial remedy of this condition has been found in appointing more American officers and dividing the constabulary of the province into smaller groups for closer supervision.

Other powers that reside in the insular and municipal governments rather than in the provincial are the judicial, and, for the most part, the legislative. Only in provinces of the Lepanto-Bontoc type are the provincial officials *ex-officio* justices of the peace. This function takes a large portion of the governor's time, especially in Bontoc sub-province where the lieutenant-governor is the only justice of the peace.

It must be said that in this sub-province, at least, the hearing of civil cases is not well provided for. The lieutenant-governor has no jurisdiction over the greater portion of cases that arise, namely those involving real estate. These generally relate to rice paddies, worth only from five to twenty-five dollars apiece, too small in value to warrant the time and expense involved in taking the cases beyond the limits of the sub-province to a court of first instance. The lieutenant-governor has, as his only recourse, to persuade parties, when he may, to accept him as arbitrator in their cases, or to refer them back to the primitive system of the Igorrote village council.

The most important legislative functions of the provincial board are those relating to finance. But financial legislation is for the greater part reserved to the insular commission. Provinces have been rather zealous in making appropriations for provincial high schools, in sympathy with the general enthusiasm which now prevails in educational matters from the insular government down

to the municipality. They are much more slack in constructing and repairing roads and public buildings.

Filipinos are not nearly so willing as Americans to work out their road tax or to pay it. The opposition is so great that the government has quite generally suspended this tax, as has also been the case with that on real estate. Local finances, as is well known, are in a bad way. One result has been the necessity of cutting down an already insufficient force of employees and replacing higher American officials by Filipinos more rapidly than might otherwise be justifiable.

While the system of accounting in provincial affairs is under very minute regulations from Manila, it appears much better safeguarded on paper than it is in reality. When great numbers of receipts, vouchers and other papers are to be signed by illiterate Igorrotes, who cannot understand the papers if read to them—and they are usually not read—the habit is easily formed of making things look right on paper rather than of making the paper correspond to inconvenient details. In some places the old Spanish custom persists of making payments to the headmen rather than individuals of a community for road work and other services. This is only one of the many opportunities offered a corrupt presidente to take a "rake-off." As regards the latter custom, however, improvement is rapidly being made.

In all administrative affairs, financial or otherwise, the higher officials are introducing more and more strictness as rapidly as can be expected in the development of a new form of government. On the whole, American honesty has made a deep impression upon the native official mind, and this in spite of many sad lapses in our ranks, perhaps an even deeper impression and a more salutary example because of the severe punishment inflicted upon American provincial treasurers by their own countrymen. In the Igorrote country at least one often hears a preference expressed for American rule as compared with that of the Spaniards or of the *Insurrectos.* It is largely for financial reasons. "Americans pay better for what they get," say the Igorrotes.

In one respect they themselves make it difficult for an American to live up to his principles. It has become ingrained into their minds that *regalos,* presents, must be given on every occasion to a visiting

American, especially to the higher officials. It would be decidedly impolitic to refuse these, for instance, when taking the first steps in the establishment of sympathetic relations with a new and semi-independent district. Yet the line must be drawn somewhere. It becomes a vicious habit if presents are accepted, even indirectly, from the parties to a law-suit. To the Igorrote mind it seems perfectly proper to expect to secure in this way more favorable consideration.

Passing to the division superintendent of schools and the teachers located within the province. They are insular or municipal employees rather than provincial, although the members of the provincial board have considerable to do with the keeping up of the schools. Indirectly, at least, the board will see to it that municipal councils make the necessary appropriations for this purpose. The governor in provinces of the Lepanto-Bontoc type has generally acted as division superintendent and in some cases has directed the municipal police to assist in getting children out to school. Although there is no compulsory education law in the islands, there is to an extent a sort of local option tacitly allowed in compelling at least a certain attendance.

Without going into details one may say that other laws which have given provincial authorities especial difficulty in enforcement, are those requiring the branding and registration of large animals, especially in Igorrote districts; wide tires on cart wheels; vaccination and other sanitary measures—although in general a large degree of success has attended the work of the health inspectors in the provinces; and laws against the cutting of timber upon public lands, and providing for the registration of lands, the acquiring of homestead rather than squatter rights.

There are several extra-legal activities of importance in which provincial officials have often been greatly interested, but in which success is mediocre. One is the encouragement of agriculture. Certain American governors, and notably Spanish governors, have secured by administrative order and persistent attention a large amount of coffee planting, for instance, in Igorrote districts. In Bontoc these plantations have nearly all been destroyed, the trees cut down, because during other administrations no care was exercised in the matter. This is only one example of the difficulty of getting

permanent improvement in a local government which is not responsible to the people unless the central government makes corresponding provision among the duties of the office.

The government of the sub-province of Bontoc may finally be spoken of as the most primitive in form, just as its people, the northern Igorrotes, are the most primitive in culture, of any in the islands. Three years ago there was no organized municipality in this sub-province nor were taxes of any kind assessed. The government was entirely supported from outside sources. Outside of the general civil and criminal codes, there was very little law that directly applied to the affairs of the sub-province. The lieutenant-governor had practically the entire government within his own hands, subject to a remote responsibility. He was told in so many words on entering upon his office that he would "have a free hand." The main law that controlled his administration over Bontoc Igorrote affairs was contained in one sentence of the law authorizing him "to appoint officers for their settlements, to fix the designations and badges of office of such officers, and to prescribe their powers and duties."

The provincial governor visited him perhaps two or three times a year, and the supervisor somewhat more often to look after roads; but the lieutenant-governor procured the labor, the supplies of food, the "cargador" service, and the like, from the natives. Recently, since the organization of a few municipalities, the treasurer and his deputies assist in the collection of taxes and the provincial board approves ordinances, but the lieutenant-governor still appoints the officials in unorganized settlements. In Bontoc sub-province, he is the only justice of the peace.

All that followed from the fundamental law of the sub-province was unwritten custom, borrowed in part from the Spanish system which preceded, but in large part originating as the need arose. The lieutenant-governor appointed presidentes and vice-presidentes in each of the fifty or sixty small towns of the sub-province, preserving for the most part their ancient forms of communal government. Usually he appointed officers who were nominated or chosen by the elders and the chief families of the community. In addition to their certificate of appointment they were given, as badges of office, what they prized more highly, a cane and a bright-colored coat.

These town officials, although unpaid, proved to be most efficient helpers of the government in getting many extra-legal duties performed by their townspeople. Something like the Spanish system of required service and tribute was continued, with the important difference that everyone received a fair price. Igorrotes seem perfectly satisfied with the simple proposition that every town must do its fair share of what is to be done. Accounts were kept, not with individuals, but with towns, on the basis of their population or rather the number of their houses. Each town during the year was to furnish a certain amount of work on the roads, and in other public improvements, as well as of lumber, of rice, of other supplies, and of *cargador* service, that is, of carriers for travelers and supplies. As yet there were no horses and hardly even bridle trails for this purpose.

A little later two of the most advanced groups of towns were organized into "townships" or municipalities. Bontoc township was given a different government from any other in the Philippines, its chief peculiarity being that there were thirteen presidentes instead of one. The lieutenant-governor acted in the place of presidente for the district. It was found impossible to secure the natives' acceptance of an ordinary district presidente, who would necessarily be a resident of one of the towns of the township, because his town and the rest had been but recently head-hunting enemies one of another. The form of government as finally approved in Manila also conferred upon the lieutenant-governor instead of upon the council of presidentes the law-making power. The council is in reality advisory and administrative in function.

In practice the most of the time of a lieutenant-governor is spent in his judicial capacity, in supervising the local administration of municipalities and unorganized settlements, in an effort to stop head-cutting, and in the conduct of a bureau of labor and supplies as just described. He is recognized as a father of the people in a very real sense. He may even occupy a place in their primitive religion, something which is simply unintelligible to the outsider.

Such an extremely patriarchal system, so unlike the institutions of America, has, one is tempted to say, but one effective guarantee of good government. That is, character. The possibilities of such a system for good or evil are immense. The insular government

is far away, and cannot keep constant watch over the work of the lieutenant-governor. It cannot, either, be properly held responsible for all that he does. It cannot know, at least before the occurrence. For there are times when the man on the spot has dared, instead of shifting the responsibility upon the government, to figuratively "cut the wires," if one may use a phrase which was current in the early days in Samar. Perhaps unconsciously the commission stands towards its agent who is on the outposts, as some foreign colonial governments are said to do, in an attitude where it can reap the advantages of his successes, but disown his mistakes.

To sum up, in the Igorrote country, as in the Moro province, is seen what may be called a tendency towards a more paternal if not a military form of government. In the great majority of the provinces, however, those of more advanced peoples, the tendency is towards greater freedom. Rapidly the highest officers have been turned over from American to native hands, and the Filipino is enjoying an opportunity to train himself in the administration of provincial affairs, such as he never had under Spanish rule.

All is in line with President Roosevelt's principle, "A government by Filipinos aided by Americans," and with the phrase attributed to Governor Taft, "The Philippines for the Filipinos."

A BUREAU OF INFORMATION AND REPORT FOR THE INSULAR POSSESSIONS

By Hon. Herbert Parsons,
Member of Congress from New York.

By law there is not, but there should be, a bureau of information and report for all our insular possessions. The bureau of insular affairs of the War Department, so ably presided over by General Clarence R. Edwards, assisted by Captain Frank McIntyre, is a bureau of information and report for the Philippine Islands. It handles their interests here, makes their necessary financial arrangements, compiles statistics in regard to them, cares for their students who are being educated in this country, and looks after the purchases that must be made here. It has divisions of correspondence, records, compilation of statistics, accounting, and purchasing and disbursing. He who would get assured facts in regard to any matter in the Philippines can ascertain them from this bureau; from it he can learn the progress made on the new railroads in the Philippines; the prospects of capital being invested in the agricultural bank in the Philippines; conditions in regard to banking, currency and finance, the amount of seigniorage, and what is being done with it; of the education system and its extent, and of the Roman Catholic Church in the islands, and the schismatic church. Upon inquiry he can ascertain within a few days the number of depositors and amount of deposits in the postal savings bank. The member of congress finds that bureau devoted to the interests of the Philippines, actuated by one motive alone—that of the Philippines for the Filipinos.

Thus a great service to this, the home country, and of potent usefulness to the Philippines is the bureau of insular affairs.

How fare our other insular possessions? Have Porto Rico, Hawaii, Guam, Tutuila and the Midway Islands a similar entity in Washington to inform the country and the legislators of their needs and prospects, and push for and secure the legislation and appropriations they require? No, they have not. They are orphans

without any sympathetic bureau to assist them and their representatives. No one of these other possessions has by legislation, directly or indirectly, any relation to the bureau of insular affairs. The governor of Porto Rico reports to our Secretary of State, the attorney general of Porto Rico reports to our Attorney General, the treasurer and auditor to our Secretary of the Treasury, the commissioner of the interior to our Secretary of the Interior, and the commissioner of education to our Commissioner of Education. The governor of Hawaii reports to our Secretary of the Interior. The officers in charge of Guam, Tutuila and the Midway Islands are not by law required to make any reports at all.

This parentless condition is a handicap on proper legislation. A year ago Governor Winthrop, of Porto Rico, was anxious that the Porto Rican government should be given power to deal with its water-front, so that the dock facilities of San Juan could be increased. I needed information and sought for some government bureau or official in Washington who would have knowledge of the legal and practical situation sought to be remedied. There was none to be found. It was necessary for Governor Winthrop himself to come here to explain the condition and the need, and push the legislation. The commissioner from Porto Rico was, of course, of assistance, as he is and always will be. But the representatives from our possessions coming here in a legislative capacity, cannot be expected to bring with them, at their own expense, bureaus of statistics and information, and furnish inquirers the facilities which the bureau of insular affairs affords in the case of the Philippines. They can agitate, but for facts and for sympathetic advice and aid, they too, need a department or bureau of the government, just as legislators interested in the Indians need the Indian bureau for information and assistance.

I understand that the commercial interests of Hawaii have been considerably handicapped by her helpless condition, and that the rapacity of our other governmental departments, desirable though it may be, has been such that they have acquired most of the available water-front there simply because there has been no bureau here to look after the interests of the islands and upon which the authorities and merchants of Hawaii could call to speak in their behalf. Who knows aught about Guam, Tutuila or the Midway Islands?

And yet if we are to possess them we have the sacred duty of providing them the best of what they need in various ways.

In practice these possessions do appeal to the bureau of insular affairs, and so kind-hearted are its officials that they do lend assistance. On the other hand, they are fearful lest their interest unrequired by law, be mistaken for a desire to aggrandize their own importance.

One of our officials most experienced in government in the insular possessions, mindful of the unhappy condition of Porto Rico in this regard, called my attention to the situation and sent me a bill, which I introduced at the recent session of congress. The official was Assistant Secretary of the Treasury Beekman Winthrop, until recently governor of Porto Rico. The bill was entitled, "A bill to secure a better system of report and accountability by the government of the Insular Possessions of the United States," it reads as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That all reports now required by law to be made by the executive officers and other officials of the governments of Porto Rico and Hawaii, respectively, to a departmental executive officer at Washington, and copies of all reports now required by law to be made by the aforesaid executive officers and officials to the President, shall hereafter be transmitted, through the bureau of insular affairs, to the Secretary of War, who is hereby empowered to require such additional reports from the officers and officials named as he may deem necessary.

Sec. 2. That the officers in charge of the administration of affairs in Guam, Tutuila, and the Midway Islands, respectively, shall hereafter make report through the bureau of insular affairs to the Secretary of War, who is hereby empowered to require such additional reports from the officers named as he may deem necessary.

President Roosevelt recommended it in substance in his message of December 11, 1906, on Porto Rico, using the following language:

All the insular governments should be placed in one bureau, either in the Department of War or the Department of State. It is a mistake not so to arrange our handling of these islands at Washington as to be able to take advantage of the experience gained in one when dealing with the problems that from time to time arise in another.

Governor Winthrop said of it:

Such a measure would be helpful in providing an office which could furnish information without delay to officials and others interested in the

affairs of Porto Rico, Hawaii, etc., and would also afford the officials of one of our insular possessions a better opportunity to benefit by the experience gained in the others. By this means, also, a uniform policy of administration would be insured, the value of which, of course, cannot be overestimated.

The bill had the sympathetic approval of Secretary Root, Secretary Taft, the Honorable Tulio Larrinaga, Resident Commissioner from Porto Rico, and Congressman Hamilton, the chairman of the House Committee on Territories. It was favorably reported by the Committee on Insular Affairs of the House of Representatives, but at so late a date in the session that it was impossible to procure its passage unless there was to be no opposition. Investigation showed that there would be opposition.

Two objections were suggested. One was against such a bureau in the War Department. To some this might appear a valid objection, on the ground that to keep it there marked our policy towards our dependencies as military. But consideration will show that this argument has no substance. The reason for the bureau's development as a bureau of the War Department was a natural one. Our first occupation of these dependencies was a military occupation. The administration of civil affairs within them was necessarily at first a military administration. These dependencies were tropical. They brought up a variety of questions unsolved by any of the departments, divisions or bureaus of the government. There was no governmental subdivision to which they would naturally go for solution. The military having the responsibility, it came as a matter of course that in the War Department, a body of experts should be developed to handle the questions as to detail and originality. This does not mean that the experts were military men. Most of them were not. But it was in the very nature of things that the bureau of insular affairs grew as a bureau of the War Department. This tendency was not a new one. If I am correctly informed, the growth of the colonial office in England happened in much the same way, and that office there was originally a branch of the British War Office. It is not necessary that the bureau should be a bureau of the War Department but, in present conditions, it is desirable that it should be, so that it can have the advantage of the wide experience, great energy and sympathetic

attitude of such men as Secretary Taft, General Edwards and Captain McIntyre. It is a transferable entity and its location is a matter of practical convenience.

The other objection was that it involved a policy of centralization, would lead to a bureaucracy of colonialdom, and would tend to retain these possessions in a dependent and colonial position instead of relieving us of responsibility for them. That such governmental arrangement has ever been the cause of colonial government, few will believe. It has not prevented England from giving self-government to many of her colonies. On the contrary, it has helped to make England a benefactor in government, in many regions of the earth, and to develop a colonial officialdom of the highest personnel.

Although the bureau of insular affairs is by law limited to the affairs of the Philippine Islands, it has as a practical matter been called upon for service in Santo Domingo and in Cuba. The success that we are attaining in Santo Domingo and in Cuba, is due in no small part to the fact that we have a bureau of insular affairs with an experienced personnel. Governor Magoon, the governor of Cuba, was for many years the law officer of the bureau. The men who will assist him in taking the census of Cuba that will be preparatory to the Cuban elections will be men from the bureau of insular affairs. The men who were sent to Santo Domingo to administer its customs were men from the bureau of insular affairs, familiar with the work to be done because in the early days of the bureau's organization the customs of Cuba, Porto Rico and the Philippines were its principal work. Relieved of the affairs of Cuba on May 20, 1902, it has, not by law but by arrangement, had to do with them since September 29, 1906. On May 1, 1900, its duties in regard to Porto Rico ceased, but this year we find the governor of Porto Rico urging that it be made to take them up again. If there are any disadvantages by way of centralization in such a bureau of information and report, they are altogether outweighed by the advantages to us and to our possessions. For many years France maintained a policy of assimilation in French colonization. The various departments of the government had their colonial branches. This was encouraged by the colonial members of the home legislature. It increased their prominence

and afforded them political profit by way of patronage and strategic position. The general interest of the colonies, however, was not aided by this policy. The inefficiency of the arrangement led the French government in later years to provide a separate ministry for the colonies, and thus to curtail the policy of assimilation.

We have seen how naturally the bureau of insular affairs grew up as a bureau of the War Department, and how, while the military were still in control, it was a bureau of insular affairs for all our insular possessions. When it came to legislation and theorizing, other arrangements seemed possible and even logical. The bureau of insular affairs was deprived of responsibility or power in regard to Porto Rico, and Porto Rico's various department heads were, by legislation, made to report to various department heads here. This was a pretty theory, like the French theory of assimilation. It offended, however, against two principles that apply to the inner workings of government and was an instance of how theory must give way to experience as a truer guide. In the first place, such assimilation and such distribution of the interests of Porto Rico amongst the various departments of the federal government necessarily presumed that the departments would be familiar with the questions that arose. But they were not. There is a waste in acquainting the necessary number of officials in each department with the questions and conditions in dependencies. And to deal with a matter in far-away Porto Rico or Hawaii as against a matter in one of our own states or territories, whose conditions are so much better known, is to deal with the latter first, and with the former last, putting off the affairs of the far-away ones until the convenient season which never comes. The questions and conditions in the far-away possessions must in the end be solved by the officials there. What is needed here, is a bureau of information and energizing force. The other principle which was offended is the one that what is everybody's business is nobody's business, and that unless you place the responsibility and interest in a particular department of the government, which will see to it that needed legislation and appropriations are obtained, little or nothing will be done.

The ways in which a bureau of information and report can be of service to our possesions and to us, are illustrated by the value

of the bureau of insular affairs to the Philippines. That bureau has, in the first place, created a body of men familiar with conditions there, with the problems that confront us and, to a certain extent, the solutions offered in similar dependencies of other countries. It has provided a place where the legislator can go for accurate information. It has established in the general government a responsible subdivision to which the governments of dependencies must report, a bureau which, by its very being, places a duty of report and accountability upon the governments of dependencies, and is notice to them that there are experts here who will scrutinize the actions of the officials in the colonial possessions. Lastly, and as it seems to me most importantly, it has created a means through which those dependencies may have their wants in the home government and in the home land looked after. In an earlier part of my remarks, I have instanced the aid the present bureau has been to the Philippines in matters affecting them, that are not connected with legislation. Porto Rico needed such aid in making helpful financial arrangements. As to legislation, outsiders do not realize to what an extent legislation is special, and is the result of urging, by special interests, financial, philanthropic, and personal. Certain matters come up by way of routine; some come up by way of orginality on the part of the legislator, but most come up as the result of pressure from the outside. One of the strongest kinds of pressure is that from philanthropists, and from enthusiasts. A bureau of insular affairs is, as you may judge from the bureau of insular affairs for the Philippines, a bureau that would develop enthusiasts, whose enthusiasm would lead them to agitate and educate until the just wishes of those whose responsibilities they bore were met. We have fortunately provided for delegates to congress from Hawaii, Porto Rico and the Philippines. But we need more than them. We need, to inform us, aid them, and energize us, a permanent bureau of information and report which, with the representatives from the localities, will form a body that will care for the interests of our possessions as the agents-general of the self-governing colonies and the crown agents of the crown colonies do in England.

THE PROBLEM OF THE PHILIPPINES

By Louis Livingston Seaman, M.D., A.B., LL.B.,
New York City.

As colonizers, in the practical acceptation of the word, Americans are not and never can be successful, because of their too idealistic aspirations. Despite the general belief that the acquisition of the almighty dollar is the height of our ambition, the aims of all American military expeditions, throughout our entire history, have been absolutely altrustic—always for the elevation of the downtrodden or the relief of the victims of former tyranny. We have constantly endeavored to create self-respecting, self-supporting citizens, capable of appreciating liberty, and of intelligently exercising that greatest of all blessings, self-government.

Can history furnish a parallel to America's disinterested emancipation of Cuba from Spain, undertaking a war with a power once so great that it dominated the world, shedding the blood of its freeborn citizens, and expending a round billion from its treasury with unexampled prodigality. Then, after stamping out tyranny, the conquest was completed and the island was put in sanitary condition, and transferred to a liberated people, giving them their lands, their cities and their homes, together with a promise of protection from other powers through the Monroe doctrine, without saddling the country with a financial claim of indemnity for one single cent. Would this have been the policy of the other great colonizing countries of the world? The recent example of the so-called "Powers" in Africa does not tend to prove it. Since the wonderful discoveries of Livingston, which imparted so great a stimulus to the possibilities of that country, there has been going on in that vast domain, a carnival of territorial lust unprecedented in history. It culminated about twenty years ago in the so-called partitioning of the continent by the powers, who, in their division of the spoils, followed, like the robbers of feudal times,

> The good old rule, the simple plan,
> That they should take who have the power,
> And they should keep who can.

And what has been done there in the name of civilization to justify this wholesale loot, this robbery of a continent? Very little, beyond the systematized collection of taxes so onerous as practically to reduce the natives to abject servitude. No consideration was paid to the natural geographic lines of the continent, its mountains or rivers, its tribes, its commerce, or its potentialities; and in this monstrous bargain, the rights of the natives received no more consideration than did those of the monkey.

A similar spoliation, on a somewhat smaller scale, would have occurred with the Middle Kingdom after the Boxer war, had not the diplomacy of Europe been defeated. The allied armies of eight nations were there waiting, watching each other like hungry buzzards, for the final dissolution of the sick man of the far East, when, they thought, another opportunity would offer for a renewal of their feasting on the carcass, and for an extension of their territorial spheres. But the ringing policy of John Hay, demanding the preservation of the entity of China, and the maintenance of the policy of the open door, won, and the people of that unhappy land were rescued from the fate of the helpless and almost hopeless African of to-day. And let it never be forgotten, they were rescued by America.

On the occasion of the second and recent outbreak in Cuba, when internal dissensions disturbed the peace and order of that country, and made an army of intervention necessary, did America take advantage of the opportunity to seize that gem of the Antilles to make it tributary to its treasury?

And the Philippines, did we seek them for territorial aggrandizement? God forbid! They fell to us as the unexpected, but legitimate result of war, and by treaty, paid for with clean American gold. Twice I have visited these islands, once as an active participant in the wretched war that began in 1898, and which is likely to continue intermittingly for centuries if the testimony of almost every army officer who has served there can be accepted, or if we remain there for so long. But since our occupation, has the real motive of America been selfish?

Of the hundreds of millions sunk in that land of treachery and savagery, it is doubtful whether America will ever reap the benefit of so much as the price of the homeward passage for its army. Was it a stepping-stone for the trade of the Orient that we

retained possession? The oldest and most respected American merchant in China, one who has spent forty years in the Orient, and has represented his government in various important capacities, said to me while discussing this point:

"As well might America regard the Bermudas or the Canary Isles as stepping-stones for the English, French, or German trade of Europe, as to acquire the Philippines for the advancement of trade in the East. Instead of a help they are a direct menace, requiring protection and causing international jealousies; and in case of war would be a constant source of gravest danger because of their great distance from our base."

Is it for gold that our thousand school teachers are now drawing salaries to educate these semi-savage, deceitful Malays, tainted with Spanish cross, who for centuries will be unable to eradicate the treacherous and cowardly instincts of their race? "By the same path must ye walk" is true to-day as it was two thousand years ago. The continuity of history cannot be broken; a people cannot break with its past; immemorial heredity must be remembered. To suppose that from the low-bred Filipino there could be evolved in a single generation one worthy or competent to exercise self-government, is to defy every law of anthropology and natural selection, and to indulge in the wildest optimism. Is it possible to believe that such a creature—the natural product of his tropical environment—whose evolution has taken ages for the development of the instincts of cunning and treachery, and of the characteristics and qualities that have enabled him to preserve his existence in the land of the tiger and the viper—could be suddenly translated into a self-govering citizen? The Anglo-Saxon of temperate clime has required many centuries of natural selection to evolve from his savagery. As the cave-man, he too was full of ferocity, guarding his home and his family and his life. Evolving from the dark ages through feudal days, assisted by the teaching and traditions of the Church, the example of Greece and Rome, and the Free Cities of Europe, profiting by the lessons of the Reformation, the influence of the thought of great leaders like Erasmus, Luther, Gustavus Adolphus, by long wars for the vindication of right, by Magna Charta, the printing press, the drama, the French Revolution, and our own revolution; through all these things he gradually developed from ignorance and superstition into a thinking, self-governing

man. But this development required a thousand years—the golden thousand since creation—to free him from his ignorance and mortal serfdom, and to prepare him to rule himself. Is the African or Malay savage so infinitely the intellectual superior of the Caucasian, that he can emerge from his savagery into this sphere of civilization, and attain this rich inheritance in a single decade? Is this self-governing ability (which is not yet over-developed among us—as the resident of any great American city must confess), to be hypodermically injected in concentrated essence into the ignorant, treacherous, low-bred Filipino, by bullets, or prayer-books, or school-houses, in a generation, to qualify him for beneficent assimilation? The suggestion is preposterous.

I believe the most practical solution of the Philippine problem—if the American people are foolish enough to continue their extravagant experiment there, or if we are not relieved of the responsibility of the islands by neutralizing them, or through some foreign complication—is to allow them to follow the course of natural selection through the importation of the Chinaman. His exclusion from these islands was a diplomatic blunder, comparable only with the treatment of the Oriental on our Pacific coast at the instigation of the sandlot orators, charlatan politicians, and the yellow journalism of California. When I was last in the Philippines, there were somewhat over one hundred thousand Chinese there, who formed by far the most industrious class of the inhabitants. The Chinese Mestizo (half Chinese and half Filipino) is acknowledged to be superior to the Eurasian, or Mestizo of Oriental cross—Japanese, Hindoo, or Bornese. Many of them were wealthy bankers or merchants. Others were engaged as compradors or clerks, banking houses employing them almost to the exclusion of all other nationalities on account of their quick wit, sterling honesty, industry, and individual merit. As in the Hawaiian Islands, they formed the most valuable element of the population. The Chinese Hawaiian half-caste is the keenest business man, and the most industrious citizen to be found in those islands. The exclusion of the Chinese laborer in that land will do inestimable damage in retarding industrial and commercial development. Despite his fanaticism when directed by ignorant rulers, he has shown his superiority over other Orientals in his untiring industry, his domesticity, and his honesty. In the large foreign houses, or business houses of China and Japan,

he was the trusted employee in places requiring responsibility. When put in competition with the Bornese, the Filipino, the Cingalese, the Hawaiian, the Japanese or the Indian, he invariably wins, as may be seen by his rise from poverty to wealth and influence in the cities of Singapore, Calcutta, Sandakan, Manila, Honolulu, or Yokohoma. It is time America recognized that, in the great race of civilization, and the greater race for the survival of the fittest, the nation that has preserved the integrity of its government for over six thousand years, that has witnessed the rise and fall of the civilizations of Chaldea, Egypt, Greece, and Rome, that can claim the discovery of the compass, of gunpowder, the game of chess, and the printing press, and that gave birth to that great philosopher who, five hundred years before the coming of Christ, propounded and exemplified the doctrine, do not do unto others what you would not have others do unto you, is more to be respected for its virtues than feared for its vices. The presence of the Chinaman in the Philippines—with the substitution of its characteristics of honesty, domesticity and industry, for the dishonesty, laziness and treachery of the Filipinos,—will do more to promote the industrial development and the civilization of these islands than any other factor, and the sooner America appreciates this fact and acts upon it, the more prompt will be her relief from her present embarrassing position.

Uncle Sam has paid, and is paying dearly, for his experiment and the privilege of protecting the trade of his distant possessions for the benefit of England, Germany, and Japan. Some day he will tire of the constant drain on his treasury and his army, and remove these islands from the arena of politics, and the natural law of evolution will prevail—and many there are who will welcome the coming of that day.

When these facts are remembered, the world will be justified in its characterization of our Oriental development. Foreigners are watching the progress of our colonial experiment there with keenest interest. And I believe, unless our policy is changed, it will prove a lamentable failure and, therefore, establish a disastrous precedent for the attempted elevation of the blacks. This will be the more unfortunate, because the experiment radically differs from all others, in that its aims are purely altruistic.

PART FIVE

Appendix

ELEVENTH ANNUAL MEETING

OF THE

American Academy of Political and Social Science

Philadelphia, April 19 and 20, 1907.

The Annual Meeting covered four consecutive sessions, held in the afternoons and evenings of April 19th and 20th, in the Witherspoon Hall, with the exception of the second session on the evening of Friday, April 19, at which the addresses of welcome to Ambassador Bryce and the annual address by Senator Beveridge were given, and the Horticultural Hall, crowded to its utmost capacity of 1,500 or more, was used.

The leading papers of all the sessions are printed in full in the THE ANNALS of the Academy for July, 1907. The thanks of the members of the Academy are due to the committee on program; the local reception committee, of which Mr. Joseph Wharton was chairman; to the standing committee on Reception Meetings, of which Mrs. Charles Custis Harrison is chairman; to the Manufacturers' Club of Philadelphia, which extended to the members and visiting guests all the privileges of its handsome club house; to Provost and Mrs. Charles Custis Harrison, who extended the hospitality of their home to the speakers on the program, and to Hon. William H. Taft, Secretary of War, and General Clarence R. Edwards, Chief of the Bureau of Insular Affairs, who, next to President Roosevelt, took a keen personal interest in the meeting, and at his suggestion rendered valuable aid to the committee on program.

The following is the text of the briefer addresses of Hon. Charles Emory Smith, who introduced the British Ambassador, Right Hon. James Bryce, as the permanent honorary chairman of the Annual Meeting, and conveyed to him the greetings of the Academy; of Professor James T. Young and Professor Carl Kelsey, who each presided at one of the sessions of the Annual Meeting; of the acting president of the Academy, Professor Samuel McCune Lindsay, and of Hon. E. W. Lord, Assistant Commissioner of Education for Porto Rico, who was in attendance, and at the request of Professor Lindsay, former Commissioner of Education in Porto Rico, took part in the session and added an informal statement to the discussion of the educational program, giving some account of his Porto Rican work:

Professor James T. Young.

Ladies and Gentlemen: The colonial problems now confronting the United States are totally different from those which we expected in 1898. At that time our attention was concentrated upon the political salvation of the island peoples. The addresses of the commanding officers of our armies to the people of the islands dwell upon political liberty. The documents which have come down to us from the Philippine Republic of Aguinaldo and Mabino are concerned with the rights of self-government. The presidential campaigns in the United States, so far as they touch upon colonial questions, have been discussions of our Declaration of Independence as applied to the tropics. The anti-imperialistic propaganda which rose, subsided and disappeared within five short years from the close of the Spanish War, has left us with nothing but a few pamphlets on the right of all peoples to govern themselves. Even the annual messages of our Presidents have at times treated the Philippine and Porto Rican problems of the day primarily as political questions, that is, as problems of suffrage, of colonial independence or local self-government.

The distinctly political view of the situation has now passed away and on the occasion of this, the Eleventh Annual Meeting of the Academy, we are concerned most of all with the *economic and social* reconstruction of the dependencies. To preach political rights as the solution to our colonial problems would now be a mockery. So long as we have only a tithe of the magnificent mineral and agricultural resources of our island dependencies developed to their proper capacity, so long as there exists but a fraction of the necessary means of communication which should be established, and the whole system of industrial and technical education is still in its infancy, just so long must the American colonial policy be primarily one of economic construction and development. To speak plainly, we must first of all uncork the bottled-up resources of the islands. We must sweep away, root and branch, the obstacles to the natural development of these great productive sections of the national domain. We must teach their peoples how to produce and sell those things which the world needs. For by so doing we shall develop in them that economic self-respect and that spirit of social progress which are the foundation of all political liberty. There is no reason why a man should vote before he can earn his living. Is it otherwise with a nation? The present problems of the American dependencies are therefore at bottom economic and social in character. And so it has come to pass that we Americans went into the Spanish tropics as the political champions of oppressed peoples, with the Declaration of Independence in one hand, the United States Constitution in the other and something of a halo round our heads, but we have folded up the Declaration for possible future use and laid aside our halo to settle down to the business task of building railroads, introducing law and order, putting up telegraph poles, settling people on the farms, studying the possibilities of the soil, developing new crops, digging harbors, paving streets, suppressing disease and building school houses. We went to the tropics to preach political liberty and we have remained to work.

When, therefore, the Annual Meeting Committee prepared the program

for these sessions it was arranged to bring before you for discussion, not the old threshed-over political issues of 1900, but the live, active, stimulating work of the present time,—the work which is making our dependencies.

Hon. Charles Emory Smith.

Ladies and Gentlemen: This is the second session of the Eleventh Annual Meeting of the American Academy of Political Science. The general topic of discussion at this meeting is the American Colonial Policy, and that is the particular topic of this evening. The American people did not designedly enter upon the colonial system. Without any ambition in that direction, without premeditation, we suddenly found ourselves face to face with the fact almost before we knew it. Without any preconceived purpose on our part the Spanish War placed us in possession of Porto Rico and the Philippines. These acquisitions were the legacy of the stand we took for humanity. They could not be incorporated into our political system of states. They had to be treated as dependencies, and so the colonial annex to our political structure becomes inevitable.

We did not seek it, but we need not regret it. Frequent expansion has been the distinguishing feature of American growth. Our development has been equally marked by internal upbuilding and by external enlargement. Our earlier expansions were contiguous. We had to span the continent and fill the space between the seas. We had to have the wide continental base for a great power. Our later expansions have been over the sea, and they have been as opportune and as logical in their time as the others were in theirs. In former days we needed room; now we need commerce. Then we wanted land for breadth and growth; now we want the sea and sea footholds for the open-door to markets.

Our colonial development and our world-influence have come together. I do not say that one was the cause of the other, but they sprang from the same origin. I know it has been said on the platform of this Academy, which is a free platform, that the United States became a world-power as soon as it entered the family of nations. That delusion flatters American vanity, but it is shattered by historical verity. It is quite true that the United States extended its arm out into the world in the early days. It is true that Decatur and Bainbridge chased the Barbary pirates to their lair, and that their daring exploits in the Mediterranean shed new luster on the American flag. It is true that Captain Ingraham took Martin Koszta, as an adopted American citizen, from the deck of an Austrian frigate. But these acts, and acts like them, were simply the assertion and protection of American rights. They were not the participation of the United States in world affairs.

The first real participation of the United States in the great arena of world affairs was at the time of the Chinese embroglio in 1900, and we were able to go into China because we had already gone into the Philippines. We were there by right, and we were there with force, because we had troops nearby. The whole development which led up to this demonstration was a logical movement. We had to have world-interests before we could be a world-power. We had to be a world-power before we could sit at the world's

council table, and we had to sit at the world's council table before we could become in part (let us say it very modestly) the world's peacemaker. We were already dominating the affairs of the western world, because we were the great western power, and before we could exercise a voice in the East we had to be an eastern power.

Had there been, before that time, a Russo-Japanese War, before whose awful destruction the world stood aghast, we should not have seen the commissioners of the warring powers sent to meet on American soil, under the influence of a masterful American President, who, from his point of vantage, and with the disinterestedness of the United States behind him, skilfully and successfully led the way to the restoration of peace. In those days the diplomatic mission to Washington was regarded generally by the powers as an inferior post instead of being treated, as it now is, as the most dignified, honorable and important of positions, to which Great Britain, in recognition of its high rank, sends as her representative one of her most brilliant scholars, and one of her ablest statesmen. That government could have made no appointment so acceptable to the American people. It could have made none which carried so fine a tribute to the American nation. It could have made none so peculiarly significant of the friendly sentiment, the intelligent understanding, and the sympathetic goodwill which prevail between these two countries. That distinguished representative is the ambassador not merely to the American government, but to the American people in the large sense, and it has been gratifying to us to observe how clearly and distinctly and successfully he has recognized that mission. Great Britain is the foremost of colonial powers, and it is signally fit and fortunate that at this session, devoted to the discussion of colonial questions, we should be honored by his presence. It is my privilege and honor to convey to him the greetings of the Academy and of this great assemblage. We shall listen to his words of wisdom and information on this subject with profound gratification, and I have great pleasure in presenting to you, as permanent honorary chairman of this meeting, his excellency the Right Honorable James Bryce, British Ambassador to the United States.

Professor Carl Kelsey.

Ladies and Gentlemen: To secure effective administration is relatively easy; to bring about the development of a people, accompanied as it must be by the changing of old customs and ideas, is very difficult. Is it not ludicrous to extol the success of Taft in Cuba, for example, then to complain that in less than two years the system has gone to pieces? I apprehend that before we are done with our island possessions we shall learn several lessons in social progress.

The developments of the last half century have brought us face to face with great groups of race problems. In Porto Rico, Alaska, Hawaii, the Philippines we must deal with groups who, like the Germans of old, "differ among themselves in language, institutions and laws." We have rather vain-gloriously started out to "Americanize" these peoples—whatever that may be. Few people doubt the possibility of advance for any group, but whether such

advance will lead to the adoption of our peculiar ideas and institutions is at least open to discussion.

England has given India a good administration, but the English were, perhaps, never more hated than they are to-day by the natives. We must recall that we are professedly seeking not the utmost development of the Philippines, but of the Filipino. The success of such friendly aid in the case of the Maori in New Zealand, the Zulus and Caffirs of South Africa, not to mention the Caribs of the West Indies, the Kanakas of Hawaii, or the Indians of North America, should not make us too sanguine—even those specially imported Africans still constitute a problem at our very doors whose solution is far from being one of administrative methods.

In a word, the growth of a civilization must be from within—not imposed from without. It may be stimulated, helped, fostered, but not imposed. We must be agents of discontent if progress is to come. These changes will cause great problems which in their turn may destroy the whole process.

If we can approach our task in the islands in this spirit we may well hope to be instrumental in producing good results. We must get rid of the shallow optimism, however, which discounts the peculiar history and environment of these subject peoples, and prepare for a long and often unsuccessful campaign.

Mr. E. W. Lord.

Ladies and Gentlemen: I am glad to have the opportunity to speak for a few moments in regard to Porto Rico, largely because this afternoon's program seems to be devoted so entirely to the Philippines that I fear that the smaller and nearer island may be entirely forgotten. Perhaps we may rely upon the rule that the attraction varies inversely with the square of the distance. If that is true, our interest in Porto Rico may not be less than our interest in the Philippines, for it is certainly much nearer, and that may serve to attract us the more to its problems. A great many people are not aware that Porto Rico is not a part of the Philippines; every week mail comes to us addressed, "San Juan, Porto Rico, Philippine Islands." I received a letter one or two weeks ago from the editor of one of the most prominent literary journals of the United States, so addressed.

I am going to speak to you briefly and prosily for a few moments on the public school system of Porto Rico. First, then, as to the system which we used to have. You are undoubtedly familiar with the fact that under the Spanish administration very little attention was given to educational work. There were no schoolhouses in Porto Rico. There was just one house in the island which was used exclusively for school purposes, and that was a dwelling house which had been given by a lady to the public schools of her town. The Spanish custom was to employ a teacher and pay him, besides his salary, a certain sum which he should use to hire a house, and then he would gather pupils around him for such instruction as he saw fit to give them. It was a very excellent way to provide the teacher with a house for himself, his family and his friends. In our opinion it was not a very satisfactory system for the pupil, and as soon as possible we began to get some buildings. The first work

which came to the American administration was to provide buildings; at first this was largely done by hiring dwelling houses, but as soon as possible we began to build, and to-day, in almost every town, we have at least one substantial brick or stone building of from four to eight rooms, and several small one-room buildings, and the number of buildings is increasing very rapidly.

We have organized now a system of schools very similar to that prevailing in the United States. We have, in our graded schools, eight grades. We have three high schools, and I may say that the San Juan High School sends pupils, on certificate, to all the leading American colleges. We have a normal school, which is a department of the University of Porto Rico, which is not yet the Spanish-American center of culture of which Dr. Brumbaugh spoke in his address yesterday, but it may provide the foundation for such an institution if that shall ever be formed. At the present time there is no attempt to give anything higher than a high school education. Our teachers are both American and Porto Rican. Very many of the remarks which Dr. Barrows has made this afternoon in regard to the work in the Philippines apply with equal truth to Porto Rico. We realize that the Porto Rican teacher is the one upon whom we must rely for final salvation. We have a much smaller number than in the Philippines, of course. At the present time we are employing about 1,200 teachers—1,000 native and 200 Americans. I can speak in the highest terms of our American teachers as Dr. Barrows can of his. Our American teachers are hard-working, earnest missionaries of education, and the results of their work are increasingly evident. Some of them have had to put up with rather hard conditions. In the early days they went to strange places, knowing nothing of the Spanish language, among people who knew nothing of their language, and they sometimes found it hard to find places where they could live comfortably.

There are about 60,000 scholars in our schools at the present time. That is not the whole number of children of school age. There are not less than 300,000 of school age, but that is counting from the very lowest, 5, to the highest, 17 or 18 years of age, and of course we could not expect, in any case, to provide school accommodations for all of them, old and young, alike. No school system in the world makes such provision. We estimate that we have, at the present time, accommodations for about sixty per cent of those who really ought to be in school. We are increasing the number provided for slowly. The local legislature is doing everything in its power to add to the number of schools. They have increased the appropriation from year to year; I do not remember what the first appropriation was—I believe it was about $300,000 for common school salaries; this year it was made $500,000. That was for common schools alone, and in addition there are various high schools, agricultural schools, and various other special lines of work.

We have a large proportion of white pupils in our schools—at least three whites to one colored—that is, according to the records. Sometimes if you go into a school and look around it is hard to tell where the whites are, or to tell the difference between the white and the colored, for it is often very hard to tell whether a pupil is white or colored. We are obliged to record the number

of colored and white teachers, and so have our superintendents include that data in their reports. Once a teacher who had been reported as white one month was reported as colored the next. We found it necessary to issue a rule that any teachers who wished to change color should do so only during the summer vacation. One of the superintendents hit back at us with a suggestion that, to avoid further difficulty and embarrassment, we have a color chart provided for all degrees of color from white to black, so that he might report "Shade No. 1" or "Tint No. 17."

The great work which we are trying to do in Porto Rico is to Americanize the island. We did not at the outset make English the language of the schools, because Spanish was universally spoken. We have, however, changed very gradually from Spanish to English, until, at the present time, in all graded schools, practically every grade above the first is taught entirely in English, either by a Porto Rican or an American teacher, or by both alternating. The system which we are endeavoring to follow from this time on is that the first grade shall be taught in Spanish, because many children go through the first grade and never go beyond that. It is better for these children to get all the instruction they can in the Spanish language. In the second grade all work is put into English. It is then carried on up through the eight grades. We find that the children quickly acquire English, and long before they reach the eighth grade they are using it fluently and easily. That is one of the greatest elements in the Americanization of the people. A large number of Porto Rican students go to the United States to study. The government maintains forty-five students here, and statistics show that yearly 450 more are here on their own resources. It is true, as Dr. Brumbaugh suggested yesterday, that many of these are in inferior schools. That is a matter which we have been unable to avoid, but even so I cannot feel that that time is wasted. They are learning something of American life—they are learning to be proud of the American name, and when they go back to Porto Rico they will spread American ideals.

Two or three little events have occurred in the last few weeks which show the trend toward Americanism. One of these, of which I wish to speak, is one which I consider especially significant. I attended, only a week before I left the island, the Insular Interscholastic Athletic Games, held at San Juan, in which athletes from the schools of several different towns met for interscholastic sports. From the outset it was evident that the team of the San Juan High School was in the best condition, and was best trained, and would probably win the prizes, but the teams from the Ponce High School and from the Insular Normal School did not stop work when they realized that fact. They kept right on to the end. They struggled for every inch, and although the San Juan team won, the others stood well. Those of you who are familiar with the Latin-American character know that that is a new development. The typical Latin-American will withdraw from a losing game, and I feel that we see in the results of these athletic games, more than in almost anything else I could tell you, the influence of American ideas. They are going to struggle—they are going to win.

Professor Samuel McCune Lindsay.

Ladies and Gentlemen, Fellow Members of the Academy: With the session to-night we close our Eleventh Annual Meeting. Before presenting the topic of the evening and introducing the speakers (which is the only excuse, I think, for a presiding officer), I would like to say a word about our program at this year's session. I feel that a word of acknowledgment is due to the Secretary of War, Hon. William H. Taft, who has taken a very keen interest in this program from the very beginning of its inception, who has co-operated with the officers of the Academy in arranging for the program, and who would have been here and have spoken himself had that been possible in addition to his many public duties, which, unfortunately for us, have just included a visit to Cuba, Porto Rico and the Isthmus, from which he returns to-day or to-morrow. He has already sent his regrets, which are more than reciprocated by us, that he is unable to get back in time to be present at this annual meeting.

I would also like to add a word of acknowledgment of the services rendered by General Clarence R. Edwards, the Chief of the Insular Bureau, who has also co-operated in every way with the program committee in arranging for the program, which I think has proven a most interesting one, in the discussion of a topic that is most vital.

I suppose that no logical order of addresses is possible in a program of this kind. We have attempted to discuss a few (and only a few) of the problems that present themselves in our own colonial experience. The special topic for the session this evening has to do with the legal and political problems affecting our dependencies. The difficulties of colonial government which have been pictured so vividly in the writings of many eminent Englishmen, and concerning which we have so illuminating an example in the history of England,—the difficulties which have been met fairly and in harmony with the traditions of Anglo-Saxon civilization, in ways pointed out by Mr. Bryce last night, are nowhere greater than they are when it comes to the legal and political problems involved in the relations of two peoples of different historical civilizations, perhaps of different races, and perhaps speaking different languages.

Legal and political institutions are the natural development of economic, social and racial conditions. It would therefore seem plain to any one that to transplant institutions that harmonize with any given experience, or with any particular historical experience, is almost an impossibility; and yet it is that very impossibility which any nation undertakes that begins colonization. It is that very impossibility that the pioneer and perhaps the greatest nation in colonization the world has ever known—the British Empire—has undertaken (as Mr. Bryce pointed out to us last night) in the establishment of law and order, and in the establishment of that respect for authority upon which Mr. Bryce laid so much emphasis as one of Great Britain's greatest achievements in the matter of colonial government.

Great Britain was unavoidably transplanting institutions that corresponded to and grew up, I may say, out of a certain historical experience of the peo-

ple who inhabit the British Isles, and transplanting them to a country where that experience did not exist. I shall not attempt to anticipate what may be said in the papers and addresses that will be presented here to-night. To illustrate in one respect the nature of the legal and political problems we now have under discussion, I may cite the question of citizenship, a question that already has played a very important part in the development of our relations with the Island of Porto Rico.

I have listened to some of the most impassioned oratory from the native Porto Ricans—Porto Ricans of great intelligence and intellectual power—who have asked for American citizenship and have said frankly, when it was pointed out to them, that to obtain American citizenship would entail a very great pecuniary sacrifice on their part as a people, that they cared not what the cost might be. Sentiment was dearer to them than any mere advantage of revenue or of a mercenary and commercial character. They desired American citizenship at any price. Many of our own people have frequently asked the question, Why should they not have American citizenship conferred upon them at once, or at least upon those of such intelligence and education as is now required of the foreigner who may become naturalized. Not a very high educational requirement, to be sure, but with some such simple requirement as that, why not? And, of course, the perfectly obvious answer from those who have had to do with the administration of the legal machinery of government in an island like Porto Rico, is that citizenship means a certain relation to fundamental law and fundamental custom, and that American citizenship in this sense does not exactly fit the situation as yet in Porto Rico. It is not because there is any lack of desire on the part of American officials, or on the part of the American government, or on the part of that which is greater than either of these—the American people—to give to the people of Porto Rico anything that we can give that may be to their advantage, but because we hesitate to give them something that does not correspond to their own experience or to their own historical development. For these reasons alone many Americans think that it is best to wait awhile until with the progress of the institutional growth and development coming very largely through education, the Porto Rican people are in a position to understand, safeguard and use the privileges of citizenship as we enjoy them here.

I have referred to the question of citizenship in Porto Rico simply as an illustration of some of the difficulties that arise from differences in institutions, that are due to differences in racial, institutional and political history. It is impossible to bridge them over in a day. We must not be impatient for too rapid results in the adaptation of our institutional life to the widely different historical background in the countries we try to colonize. Such adaptation, if possible at all, constitutes one of the very gravest problems in colonial life, and the temporary adjustment of these difficulties constitutes one of the greatest administrative problems.

It is to some of these problems that we are to address ourselves to-night. The first speaker on the program is one who needs no introduction to the members of the Academy, one who is known widely in the university and

academic circles of this country for his scholarship, who is known, also, perhaps still more widely for his signal services to our government as treasurer of Porto Rico and as special agent of our government in certain very complicated relations with San Domingo. While the topic which he will present may not seem to have a logical place upon a program dealing chiefly with our own dependencies because San Domingo is in no sense a dependency of the United States, the question which he has consented to discuss is one of unusual and vital interest to us. Its existence indicates a certain extension of American influence to say the least, and it represents also our dealing with a country that has come into somewhat closer relations to us by reason of its geographical location as well as its political and social condition. I take pleasure in presenting to you, as the first speaker of the evening, Professor Hollander, of Johns Hopkins University, who will speak to us upon "The Recent Conventions between the United States and the Dominican Republic."

The other speakers of the evening program of April 20 were subsequently presented by Professor Lindsay and included Mr. Paul Charlton, Major Seaman and Hon. Herbert Parsons.

PART SIX

Book Department

BOOK DEPARTMENT

NOTES.

Agger, E. E. *The Budget in the American Commonwealth.* Pp. 218. New York: Columbia University Press, 1907.

Avebury, The Right Hon. Lord. *On Municipal and National Trading.* Pp. 176. Price, $1.00 net. London: Macmillan & Co., 1907.

Lord Avebury has given, in this well-typed book, a summary of the arguments on municipal ownership or municipal trading, as it is called in England. One chapter is devoted to the national ownership of railways.

The keynote to the volume is expressed in the first chapter: "That governments and municipalities should, as far as possible, abstain from entering into business was an axiom amongst economists when I was young. I am confident that those best qualified to judge are still of the same opinion." The reasons urged against municipal trading are: First, cities have enough duties at present without adding business responsibilities. Second, the increase in municipal trading has involved an immense increase in municipal debts. English cities in this respect are much more heavily involved than American or German municipalities. Third, it will involve cities in labor disputes, as more and more workmen are employed, who desire to raise their wages. Fourth, initiative and economy will be lacking, and as a result, the city will lose money, or the service will cost more. Fifth, municipal ownership checks private initiative and progress. Water may perhaps be furnished by the city, where companies do not furnish a pure supply, but gas, electricity, street railways and other forms of business enterprises, involving questions of profit and loss, should be left to private initiative.

It occurs to the American reader that it would be of value to know (1) what amount of this large new debt referred to has been incurred for legitimate municipal works—parks, bridges, streets, perhaps bath houses, etc.; (2) how much of it for gas, electric lights, water and street railways—the "natural monopolies" over which the present fight in the United States is waging; and (3) what proportion has been expended for municipal slaughter-houses, tenements, pawnbrokers' shops, clothing stores, brick-making, and other lines instanced in Lord Avebury's summary, which do not interest Americans, as there is no disposition to municipalize the latter in the United States. Is the increase in British municipal debts due to too large an expenditure for proper city functions, or to an extension into further lines of activity, and if the latter, on what lines? A definite answer to these questions will help materially in determining what bearing the increase of the debts of English cities has on American experience in municipal ownership.

Barker, J. E. *The Rise and Decline of the Netherlands.* Pp. xiv, 478. Price, $3.50. New York: E. P. Dutton & Co., 1906.

"Dutch history is most important to Anglo-Saxons—existing histories are unsatisfactory—Motley's history—aim and scope of the work." This is the author's summary of his first chapter. There is no preface. On turning to the text the first words that meet us are those of the familiar old saw, "Experience is the mother of wisdom, and remembrance is the mother of experience, therefore the wise King Solomon," etc. This and two quotations from Ecclesiastes on the first half page are sufficient in themselves to reveal the nature of the work. By the historian it can be safely passed over. Even for the general reader of moderate historical training it will be of little value. "Motley," says Mr. Barker, "gives us a drama, not a history; therefore Motley's History teaches but little to those statesmen, politicians and business men who are anxious to study the practical lessons of history, and to learn statesmanship and political economy in the highest sense at the hand of historical facts." The so-called scientific history of recent years the author classes with the pyramids, useful not for their beauty or utility, but as quarries.

His own work will readily escape this danger, in spite of the fact that the reader is told repeatedly that very many works, "in all, perhaps two thousand, have been consulted," "all the best Dutch, French, German, English, Italian, Spanish and American authors who have written on Dutch affairs," so many that all the material "might have sufficed for a detailed history which in bulk would have rivaled the very largest histories published in this country." But in spite of all this the monumental work of Blok seems to have escaped him altogether, even though an excellent translation in English by Miss Ruth Putnam exists. Even for such as write history from the self-assumed higher ground, and who, like our author, believe with Dionysius, that history ought to be "philosophy teaching by example" the painstaking care and thought of the scientific historian is of value.

Having allowed Mr. Barker to say this much for himself it is perhaps unnecessary to enter into a discussion of the contents of the volume, or the detail of the treatment, which begins with a discussion of the economic conditions underlying the rise of the Netherlands at the close of the Middle Ages and which ends with a chapter on the causes underlying the decline in the seventeenth century.

Bisland, Elizabeth. *The Life and Letters of Lafcadio Hearn.* Two vols. Pp. viii, 1035. Price, $6.00. Boston: Houghton, Mifflin & Co., 1906. Reserved for later notice.

Blackmar, F. W. *Economics.* Pp. 546. Price, $1.40. New York: Macmillan Co., 1907.

One of the things that has been particularly needed in elementary economics is a text book that combines with accuracy and scientific knowledge a simple and forceful statement of the problems involved. Almost every writer who has attempted to write a book on elementary economics has used

his text book to advance some new economic theory instead of making it a plain statement of the general accepted theory. No matter how expert a man may be, his attempts at stating new thoughts will always develop complications more or less difficult of expression, and the elementary student is left to wander through a maze of new phrases and crudely expressed ideas, before which even the initiated often stand appalled.

Another difficulty which the ordinary text book has presented has been its expensiveness. A two dollar price is sufficient to exclude the book from many institutions. In preparing his book on economics, the author has obviated both of these general criticisms by stating his problems in a clear and interesting manner, and by placing on the market a text book which is both elementary enough and cheap enough to be accessible to average beginners.

Brooks, H. K. *Brooks' Foreign Exchange Text Book.* Pp. 239. Price, $2.25 cloth, $2.75 leather. Chicago: H. K. Brooks, 1906.

Mr. Brooks is eminently qualified to discuss the subject undertaken in this new compendium. For many years the manager of the financial department of the American Express Company at Chicago, he has an experience in the operations of foreign exchange equaled by few other authorities in the United States. The present work is an abbreviation of a more pretentious volume and is intended to place before the student the elements of the subject rather than to present an exhaustive treatise. Besides the field of "foreign exchange" strictly considered it presents chapters on the moneys of all the countries of the world and gives numerous suggestions as to the best way to convert money of one country into that of another by the observance of the peculiar local customs. It is not intended as a reference book for the expert, but as a guide for the student and the average citizen. This purpose it admirably fulfils, setting forth the facts so simply and clearly that persons not familiar with the details of exchange may readily grasp the principles discussed.

Burbank, Luther. *The Training of the Human Plant.* Pp. 99. Price, 60 cents. New York: The Century Co., 1907.

The author has made a world-wide reputation as a grower of plants. So far as known he has had no experience in training children. The resultant volume is as trivial and disappointing as one could expect. So far as there is a theme it is that if he could control the great mixing of races now taking place in America he could do wonders. This may be true, but it is not to the point. The volume is to be commended to those in charge of old-fashioned Sunday school libraries.

Bureau of American Ethnology. Handbook of American Indians. Bulletin 30. Part I, A-M. Pp. ix, 972. Washington: The Government Printing Office, 1907.

It is not too much to say that this is one of the most important publications ever issued by the bureau. Mr. F. W. Hodge and the others who have prepared the handbook for the press deserve great credit. In substance it is an

encyclopaedia of all matters having to do with the Indians. When the second volume is issued students of Indian affairs will be able, for the first time, to get accurate information in condensed and accessible form.

von Chlumecky, Leopold. *Osterrich-Ungarn und Italien.* Pp. 247. Price, 4.50 m. Leipzig: Franz Deuticke, 1907.

How keenly the international rivalry in Austria and Italy is felt in the former country is evidenced by the fact that the first edition of this book was exhausted in less than three weeks.

The author issues a call to all patriotic Austrians and Hungarians to devote their energies to the extension of Austrian influence in the Balkans rather than to their petty feuds at home. Now, he says, is the time to oppose the ambitions of Greater Italy, bent upon the domination of the Adriatic; to wait will inevitably mean the closing of Austria's front door to the commercial world. Italy is bending her energies to create strong commercial relations with the near East. Banks, roads, loans to commercial houses, and heavy subsidies to the Puglia steamship lines are binding the commercial interests of the Balkan states to Italy and preparing the way to the realization of her dream of political control. Some statistics of truly startling character are given to show the extent to which the Italian plans have been successful. If Austria does not wish to see herself supplanted she must fulfil her mission by assuming such a dominant position that one day she may be able "to stand at the death bed of the sick man, not as one who waits for a parting of his possessions," but as his heir. Hand in hand the members of the dual monarchy must resist the "Italian dream of exclusive control of the Adriatic."

The style of the book is polemic, and numerous allowances must be made for the strong prejudices of the author—prejudices which he makes no effort to conceal. The facts and quotations presented give a vivid picture of the international rivalries they discuss.

Cornford, F. M. *Thucydides Mythistoricus.* Pp. xvi, 252. Price, $3.00. London: Edward Arnold, 1907.

Mr. Cornford has written a book that is easy, even fascinating reading. It did not need his words of acknowledgment to let us into the secret of Dr. Verrall's influence upon his ideas and methods. There is the same evidence of careful work and profound meditation; there is an approach to Dr. Verrall's characteristic brilliancy of presentation; but there is left in the end the same impression of special pleading.

That Thucydides held views, natural in his day, as to special providences, has long been acknowledged. That he does not hold ideas as to law and causation, such as commend themselves to Mr. Cornford, was to be expected; this means nothing more than that he was born centuries before the development of economic science and the promulgation of the Darwinian hypothesis. But that he had no conception at all of law in human history, few that have read him will be ready to believe. On the contrary, as Professor Shorey showed in an elaborate article several years ago, Thucydides did hold a theory

as to the laws governing human history, and this theory is writ large in his pages. True, it is psychological, as Mr. Cornford asserts but what of that? No other theory was then possible; there were no data then at hand to support, much less establish any other. It was therefore, the only scientific theory for him to adopt. That in writing an exclusively political and military history Thucydides should look for causes (not merely pretexts) in the political sphere, is surely not strange. There were such causes, and he has, many believe, put his finger on them. There are also deep seated and economic causes; no one doubts it. But they were deep seated, and no one in that day saw them or could see them; we can see them or divine them; but economic science has meanwhile been developed.

Some facts Mr. Cornford overlooked that are of importance to a right estimate of Thucydides are:

1. At the outbreak of the war he was forty years old or thereabouts; he was therefore no child, and surely he was no fool.

2. He was rich and highly connected. Cimon, long Pericles's political rival, was his relative; he had the entrée to all the best society in and out of court and government circles.

3. He was a politician. Once at least he was on the board of generals, by election, not by allotment; he was, therefore, no stranger either to the politics or the administration of the day.

4. He was a business man. He held a lease of important gold workings in Thrace and was a man of influence in that region, which was commercially of great value to Athens. Moreover, as general, he was sent there for this very reason.

That the artistic element crosses the historic in his work, more than a modern would allow it to do, is true. But it does so throughout and from the first, and moreover, it only affects his method of presentation, not the essential subject matter, not yet his theory of the war or of history in general.

Davenport, Frances G. *The Economic Development of a Norfolk Manor, 1086-1565.* Pp. x, 105, cii. Price, $3.00. Cambridge: University Press, 1906.

Although original material for the study of medieval economic conditions is nowhere abundant, England, in this respect, is richer by far than any other European country. Beginning with the unique record known as Domesday Book, a truly remarkable amount of detailed information has come down to us and is now, for the most part, suitably housed in London. The above monograph is an excellent demonstration of the value of such material to the student of history and economics. The author has endeavored to give us a detailed statistical account of a single Norfolk manor during 479 years of its history. The *termini a quo* and *ad quem* are respectively the great Domesday Survey of 1086 and a Survey of Forncett, the manor in question, drawn up in 1565. On the basis of these two records, the first chapter presents a picture of the land and the people of Forncett. For the intervening period a great variety of documents, largely manorial, are drawn upon. These are listed

in Appendix I, and the most useful of them are printed in a number of additional appendices which constitute a valuable adjunct to the monograph. Although Forncett is comparatively rich in material, there are some unfortunate gaps. Thus the period 1307-1376 is left almost entirely dark. Consequently we cannot see at close range the workings of the Black Death and the first Statutes of Laborers. On the whole, however, there is abundant matter to furnish concrete illustrations of the fundamental economic changes during the Middle Ages, such as the gradual commutation of bodily service and dues in kind into money payments, the development of the system of leases, the growth of inclosures, and the gradual disappearance of serfdom. The value of such a study consists mainly in the possibility of throwing new light on questions which have hitherto been dealt with too summarily; its limitations lie in the fact that it may not be typical. Hence many more manors should be studied in the same way and it is to be hoped that this book will be an incentive to that end.

Davis, H. O. *One Thousand Pointers for Stock Raisers.* Pp. 548. Chicago: Davis Stock Food Co., 1906.

Davis, Michael M. *Gabriel Tarde: An Essay in Sociological Theory.* Pp. 117. Price, $1.00. New York: Columbia University Press, 1906.

In view of the fascination inherent in Tarde's discussion of imitation, and the great literary skill shown in its presentation, as well as the many excellent public services rendered by him, it has occasioned some surprise that his theories have aroused so little careful and critical consideration. Dr. Davis had therefore an excellent opportunity to review Tarde's accomplishments, and the result is very creditable. After reviewing and summarizing Tarde's positions the author introduces some evidence to show that Tarde only partly understood the rôle of imitation and has consequently over-estimated it. The criticism is well taken. So, too, is the criticism based upon Tarde's neglect or ignorance of the work of others which might have saved some missteps. The author gives him great credit for original and suggestive discussions. Students of social theory will find this monograph of interest and value. Dr. Davis is to be congratulated upon his successful work as shown by this his doctor's thesis.

Dorsey, A. *The Pawnee Mythology.* Part I. Pp. 546. Price, $2.00. Washington: The Carnegie Institution, 1906.

This volume continues the series of excellent studies of the Caddoan stock made by the author since 1903, at first under the Field Columbian Museum of Chicago, latterly under the Carnegie Institution. One hundred and forty-eight tales are included in this collection. In bringing this volume to the attention of our readers THE ANNALS would again express its appreciation of the value of the work being done by the author and others in preserving this genuinely native American folklore.

Dudley, E. S. *Military Law and the Procedure of Courts-Martial.* Pp. viii, 650. Price, $2.50. New York: John Wiley & Sons, 1907.

This is a manual of the military law of the United States in a form at once complete and compact. The author is professor of law at the United States Military Academy at West Point, and is therefore especially qualified to treat the subject chosen. The text is supported by exhaustive references to cases reported, to the army regulations, articles of war and revised statutes, as well as the manual for courts-martial and other official sources of the military law of the United States. A valuable appendix contains a number of important military documents pertaining to the conduct of trials in the field and similar subjects. The analysis of the subject matter treated is critical without being dry, and a wealth of illustrations helps to make the reader appreciative that he is dealing with a living subject.

Not the least valuable feature of the work is the excellent index covering 108 pages. This work has been so thoroughly done that the treatment of any phase of the field of military law can be found at a glance. The volume, as a whole, is a most convenient summary, and is written in a style which makes the subject intelligible not merely to scholastic circles, but to the general reading public as well.

Duplessix, E. *La Loi des Nations.* Pp. 234. Price, 7 fr. Paris: Larose et L. Tenin, 1906.

This work was awarded the first prize in the contest opened by the International Bureau of Peace, in 1905-06, for the best work on arbitration and the organization of a complete system of international justice. The treatise is written in the belief that most international conflicts arise from the fact that there is no clearly defined law regulating their relations. Arbitration is only a makeshift so long as there is no definite body of law upon which to base the decisions of the arbitral courts. These courts should, it is contended, be of a permanent character. An outline of a plan of procedure to accomplish these objects is given which is clear and simple but which of course, cannot claim to be exhaustive. The book is well arranged and full of suggestive ideas.

Ein Land der Zukunft. Pp. 274. Price, 5m. München: J. Creger, 1907. Reserved for later notice.

Finot, Jean. *Race Prejudice.* Pp. xvi, 320. Price $3.00. New York: E. P. Dutton & Co., 1907.

This is a translation by Florence Wade-Evans of a very valuable French book. The English title is perhaps open to criticism. Prejudice is the same as the word used in the original, but the meaning is somewhat different. The author is really discussing the hypothesis of race, the assumption that races are superior and inferior, not the concrete ways in which that assumption finds expression.

The author is definitely attacking the thesis that there are important physical and mental differences between races. He knows all the evidence heretofore presented in defense of this position, and he brings into great

prominence the divergencies and contradictions of its defenders. Possibly at times he overstates their difficulties. On the whole it is coming to be admitted by the most careful students that the old popular explanations need revising. The author concludes that neither by length nor shape of head, nor by stature, nor by color even is superiority of one stock over another to be shown. He does not hesitate to assert that the negro groups, now generally considered at the bottom of the human ladder, are proving, whenever the opportunity is furnished, that the same ability is theirs which has marked other races. Altogether the volume is a most stimulating and suggestive analysis of race differences and deserves wide use in this country where race problems are becoming so acute.

The question: "Are these peoples condemned to remain eternally inferior to others?" is answered with an emphatic negative. The science of inequality is emphatically a science of white people.

The general thesis of the writer is sound. Some of the individual illustrations and bits of evidence are probably overdrawn or not understood. His discussion of the situation of the negro in the United States is scarcely fair.

Fleming, W. L. *Documentary History of Reconstruction.* Vol II. Pp. xiv, 480. Price, $5.00. Cleveland: The Arthur H. Clark Co., 1907.

With this volume Professor Fleming completes his study of reconstruction. Over 330 documents are in part reproduced. There are five illustrations, including a portrait of one of the early South Carolina legislatures. The plan of the volume corresponds to that of the first. The aim is to show by quotations just what the different groups of those concerned thought and did.

The volume begins with Chapter VII, The Union League of America. Nineteen pages are devoted to this. "The league is important as the first of the great negro secret societies and was a model for most of them. These societies are a most important, and, on the whole, useful factor in negro life to-day."

Carpetbaggers and Negro Rule is the title of the eighth chapter, which covers 132 pages. The thoroughness of the author's classification is well shown by this chapter which includes these sections: (1) The New Ruling Class and their Administration (20 pages); (2) Frauds, Taxation and Expenditure (14 pages); (3) The Reconstruction Militia (8 pages); (4) Political Methods of Reconstruction (12 pages); (5) State and National Politics (9 pages); (6) Federal Control in State Affairs (39 pages); (7) The Washington Administration and the Dual Governments, Louisiana and Arkansas (24 pages). The carpetbagger and his friends are considered "weak and corrupt rulers."

Fifty pages are given to the educational problems. "The problems with which reconstruction began are, on the whole, unsolved except in so far as Armstrong and Washington have solved them." Forty-four pages are devoted to the reconstruction in the churches. The subject of Chapter XI (62 pages) is Social and Industrial Conditions, while Chapter XII (48 pages) discusses the Ku Klux Klan, and the closing chapter (78 pages) The Undoing of Reconstruction. Of these latter subjects the author says: "One of the most po-

tent causes of irritation between the races was the constant discussion, mainly for political purposes, of the question of social rights for the negroes." "The lynching habits of to-day are due largely to conditions, social and legal, growing out of reconstruction." "Theoretically the races are now equal before the suffrage laws, though most of the blacks are shut out." The political power has been changed from the black to the white counties.

This brief summary of the topics and the methods of the author but illustrates the scope of the work. The verdict is that Dr. Fleming has produced a very fair and candid work which will be of great help to all who wish to get a first hand idea of the great and enduring problems arising out of the Civil War and subsequent conditions.

Forbes-Lindsay, C. H. *Panama.* Pp. 368. Price, $1.00. Philadelphia: J. C. Winston Co., 1906.

Ever since Balboa discovered the Pacific men have been endeavoring to find a way of transporting sea-going vessels across the Isthmus of Panama. It is the story of these endeavors with a brief description of the country that the author undertakes in the above work. The material, as one gathers from the preface, is collected chiefly from government reports, and the book is largely an abstract of these reports and the opinions of distinguished engineers. It is in perfect accord with the policy of the present administration and gives a good idea of the work which has already been accomplished toward the completion of the canal up to the adoption of the plan for the eighty-five foot level.

Garcia, Juan Augustin. *Memorias de un Sacristan.* Buenos Aires: Coni Hermanos, 1906.

All factors of a transplanted civilization are modified by the conditions and peoples encountered in new surroundings. Even religion is molded in details by the country in which it is established. The truth of these statements, especially as regards Christianity in the eighteenth century in the Argentine, is the theme of this series of word pictures presented half in the form of a story, half in the form of testimony of contemporaneous observers. To English speaking peoples the eighteenth-century Argentine is a closed book. In this small volume are described numerous characteristic features of that society far away in time and distance. The modification of the attitude of the priests by the character of the people among whom they lived, the curious Indian and negro evil spirits, belief in which grafted itself upon the church, the negro slave market, the dissensions of the religious orders and many other distinctive features of the colonial life—especially on its religious side, are vividly presented. The book suffers as well as gains from the manner of presentation, for though "based on original and authentic documents" its first object is evidently to entertain rather than instruct, and the reader cannot but wish that the author would put in authoritative form the facts presented here to appeal to the public at large.

Gorst, J. E. *Children of the Nation.* Pp. x, 297. Price, $2.50. New York: E. P. Dutton & Co., 1907.

Reserved for later notice.

Gourdin, Andre. *La Politique Française en Maroc.* Pp. 274. Price, 6 fr. Paris: Arthur Rousseau, 1906.

This book is published to present a comprehensive and impartial view of the conflicting interests in Moroccan politics. Nevertheless the reader cannot remain unconscious that a Frenchman is writing, and that behind his desire to give impartial treatment to all, there is a decided hope that France will be able to achieve her ambition to dominate all the important trade routes leading to the south across the Sahara.

An extended historical summary prefaces the treatment of the present-day situation, tracing the relation of Morocco to Europe from the beginning of modern history. The description of the efforts to eliminate the opposition of other European powers to the predominance of French interests at the court of the Sultan is especially well done. During the early period England, jealous of her control of the Mediterranean by the fortress of Gibraltar, stood staunchly for the policy of maintaining the *status quo.* With 1901-02, however, a change came. France agreed to give England a free hand in Egypt in exchange for freedom from English interference in the West. Spain followed the lead of England in removing her objections and Italy exchanged her interests for the recognition of predominance in Tripoli.

Then came the complaint of Germany against her isolation from the agreement which, by its various branches, had now become European. At first, the author intimates, Germany wished to get France to guarantee her a free hand in the Balkan provinces when Austrian affairs should come in question, then the attempt was made to break France away from the English interests. Failing in these ambitions, the Empire, at the conference at Algeciras yielded without opposition on all points but the bank and the policing of the coast towns. On these points a compromise was accepted which was really only designed as one to save German pride. The outcome the author regards as a triumph for France on all important points. It must be admitted that the latter portions of the book present only facts familiar to everyone who followed the controversy in the newspapers. To-day the book is, however, an excellent summary of the foreign relations of Morocco despite its Fench tinge.

Gulick, L. H. *The Efficient Life.* Pp. 195. Price, $1.20. New York: Doubleday, Page & Co., 1907.

The part that health plays in making it possible to live the efficient life is the theme of Dr. Gulick's book.

This book is almost unique among books on health in that it gives practical suggestions to the busy man as to how to "run his physical machinery." It recognizes fully the difficulties of the hard-pressed city man: that oftentimes he has not the time for any slow cure, but must get the immediate result that a stimulant or a drug will give. While admitting that "there are times when a treacherous ally is better than none," Dr. Gulick points out that the stimulant and the drug are but makeshifts and must be counteracted by a period of rest and a physician's examination and advice.

The author points out that a disease of one function may be caused by unsuspected disturbance in some entirely unrelated portion of the body. For instance, indigestion is frequently caused by some unsuspected disorder of the eye. He dwells on the great strain put upon the eye by the modern man, and suggests that if one must utilize time on the cars or on the trains for reading, he select some book which requires much thinking and little reading.

Each chapter deals with one point and one only and presses this home; all chapters point to the conclusion that to play the game efficiently, one must be a good engineer of his physical machinery.

The experience of a practical man of affairs as well as physician recorded in The Efficient Life recommends the book to business men and women as a health hand-book which will relieve rather than add burdens to the pressure of life and which will make efficiency in work easier and work itself more efficient.

Hamilton, A. *Afghanistan.* Pp. xxi, 562. Price, $5.00. New York: Chas. Scribner's Sons, Importers, 1906.
Reserved for later notice.

Hamilton, C. H. *A Treatise on the Law of Taxation by Special Assessments.* Pp. lxxv, 937. Price, $7.50. Chicago: George I. Jones, 1907.
Reserved for later notice.

Hamlin, C. S. *Interstate Commerce Acts Indexed and Digested.* Pp. 480. Price, $3.50. Boston: Little, Brown & Co., 1907.
This work contains the text of the important laws of the United States relating to railroads, shippers, etc., as officially printed by the Interstate Commerce Commission, including the original Interstate Commerce Act of February 4, 1887, and amendments, and the Act of June 29, 1906; the acts in relation to testimony before the commission; the acts concerning immunity of witnesses; the Act to Expedite Hearings; the so-called Elkins Act as amended; the Act of August 7, 1888, as to Government-aided railroad and telegraph lines; the Safety Appliance Acts, the Resolutions concerning Investigation of block signal systems, interlocking signals, examination of railroad discriminations and monopolies in coal and oil; the Act of June 1, 1898, as to arbitration between carriers and their employees; the Sherman Anti-Trust Act; the unrepealed provisions of the Wilson Tariff Act as to trusts in import trade; the Act of June 11, 1906, relating to the liability of railroads to their employees, and others. To these are added a consolidated index of the principal words and phrases used in the above Acts, a concise digest of the laws, and citations of all uses of the same words and phrases in the different Acts. Changes in earlier laws are indicated on the margin of the text. The work is intended for the use of lawyers, railroad officials, shippers and commercial bodies.

Heath, H. L. *The Infant, the Parent, and the State.* Pp. 187. Price, 3s. 6d. London: P. S. King & Son, 1907.
This is one of a number of recently published English books, dealing with the growing social problem of infant mortality. It is comparatively easy

reading, although sufficiently concise to emphasize properly the magnitude of the question. Statistics are sparingly but effectively employed, and the chief causes of the present conditions are distinctly set forth. One noteworthy feature is the contrast shown between the influence of natural and artificial food upon the lives of babies. Attention is paid to the methods of infant feeding, and an extended discussion of the milk supply is included, the importance of which can hardly be exaggerated. The chapters on "Parentage" are timely ones, and portray the pressing need of greater parental responsibility. This factor is both social and individual.

The author gives an account of the existing agencies for saving infant lives and indicates others required if the problem is to be solved. Criticisms of present methods are likewise offered and many valuable suggestions are made. The illegitimate infant receives a short treatment in a final chapter. The book deserves wide reading and can be made useful in educating public opinion to a better realization of the gravity of this problem.

Hinckley, F. E. *American Consular Jurisdiction in the Orient.* Pp. xx, 283. Price, $3.50. Washington: W. H. Lowdermilk & Co., 1906.

This is the most scholarly and exhaustive treatise that has yet appeared on the extraterritorial jurisdiction enjoyed by American consuls in the East. An introductory chapter gives a brief historical resumé of extraterritorial rights in the Orient showing that extraterritoriality was not formerly as now considered a derogation on the sovereignty of the granting state but a development of the common idea that law applied to persons rather than territory. Another interesting fact brought out is that reciprocal grants of extraterritorial rights are not unknown between Oriental powers and even between an Oriental and a Christian power, witness the treaties between Spain and Tripoli, of 1782 and 1840, and the treaty between Great Britain and Turkey regarding Malta (1809).

With the exception of this introductory chapter the volume is devoted exclusively to grants of extraterritorial power to the United States. The thorough character of the treatment given can best be indicated by the chapter headings which are: The United States Oriental Treaties; Acts of Congress Establishing the System of Consular Courts; Legal rights under the Jurisdiction Nationality, The Rule of Domicile, Marriage, Inheritance, Persons Accused of Crime, Missionaries, Real Property, Taxation, Commercial Privileges; The International Tribunals of Egypt, Mixed Cases in China; The Foreign Municipalities of Shanghai; Grounds for Relinquishing Jurisdiction. An appendix gives various documents connected with the subjects treated. The style in which the book is written is clear, the statement exact. The exhaustive footnotes place the source material easily at the service of one who wishes to consult the original authorities.

Holt, B. W. (Editor). *The Gold Supply and Prosperity.* Pp. xv, 261. Price, $1.00. New York: The Moody Corporation, 1907.

An able introduction and conclusion by the author, with a symposium of twenty-two papers by leading authorities on various phases of the gold supply question, makes up an interesting and attractive book.

In summing up the statements in the various papers of this symposium the following points are brought out: First, that for many years the output of gold will increase rapidly; second, that therefore, a depreciation in the value of gold will inevitably result. This depreciation, with its accompanying rise in prices will result in rising interest rates. Rising prices and wages mean dwindling profits and trouble for the manufacturer; and even then, wages will not rise as fast as profits, and this will lead to dissatisfaction and unrest among the wage-earners. The long period of rising prices is therefore sure to be a period of "unrest, discontent, agitation, strikes, riots, rebellions and wars." In the words of the *Wall Street Journal:* "No other economic force is at present in operation in the world of more stupendous power than that of gold production."

Like several books which have appeared during the past few years, the author takes one item, in this case the gold supply, and attempts to show that "all the ills that flesh is heir to" arise from this one cause. Such an attitude is sometimes described as faddism and sometimes as fanaticism, but, regardless of which term is used, it is not the part of wisdom to state that all of our problems can be traced to such an artificial thing as the gold supply. On the whole, however, the book is well written, and represents a valuable compilation of knowledge in this field.

Homans, James E. *Self-Propelled Vehicles.* Pp. vii, 598. Price, $2.00. New York: Theodore Audel & Co., 1907.

Mr. Homan's work on the automobile has proven so useful that an annual edition has become necessary. The revision for 1907 is up-to-date in every particular. Like its predecessors it contains in chapter one a brief history of self-propelled road vehicles, the rest of the volume is devoted to a very complete description of the leading types of gasoline, electric and steam motors and of the vehicles propelled by such motors. There are 400 well-executed illustrations. The volume is a useful handbook for the owner of an automobile, and is also calculated for use as a manual for class instruction.

Hord, J. S. *Internal Taxation in the Philippines.* Pp. 45. Price, 50 cents. Baltimore: Johns Hopkins Press, 1907.

Houthuysen, C. L. *Het Agrarisch Vraagstuk in Nederlandsch-Indie.* Pp. 206. Antwerp: F. Janssens-authonis, 1906.

Industries a Domicile en Belgique, Les. Vol. VIII, 658. Brussels: J. Lebègue & Cie, 1907.

The subject matter of this volume relates to Belgian industries in which home work predominates. Different manufactures, such as those of chairs, women's garments, ropes, etc., are treated separately in the form of monographs. The principal points discussed are the economic and commercial organization of the industries in question, wages and labor conditions, and the status of legislation in respect to these industries.

Jameson, L. F. (Editor). *Original Narratives of Early American History.* Three vols. Price, $3.00 each. New York: Chas. Scribner's Sons.

See "Book Reviews."

Johnston, Alexander. *American Political History, 1763-1876.* Part II, The Slavery Controversy, Civil War and Reconstruction, 1820-1876. Pp. vi, 598. Price, $2.00. New York: G. P. Putnam's Sons.

This volume elicits the same commendation that the first volume secured. There is the same admirable sanity, solidity, and fine scholarship displayed in all of Professer Johnston's short studies that here make up the several chapters. This volume relates chiefly to the predominant theme of our national politics between 1820 and 1876, viz: slavery and its treatment. Eight chapters deal with the major questions in controversy before the Civil War. Chapter IX, of 100 pages, presents succinctly the history, issues and leaders of the political parties from 1824-1861. Four chapters give us the chief events and issues of the Rebellion. In two chapters we have Reconstruction and its perplexities acutely and compactly discussed. Two chapters on The Electoral College and its History and Political Parties after 1861 close the volume.

Each chapter concludes with a bibliography more or less extensive, originally prepared by Professor Johnston and supplemented by Professor Woodburn.

The editor's method of citation and cross reference cannot be commended either for lucidity or serviceableness. He reproduces in the main the method used by Professor Johnston in Lalor's Cyclopedia which therein was workable but in this volume is not.

These criticisms aside, Professor Woodburn has done students and public alike a substantial service by bringing together these illuminating discussions by a profound student of our nation's history and institutions. Professor Johnston's acuteness in discerning the vital and fundamental facts in the currents of our political life, his remarkable industry, accuracy and thoroughgoing research constantly impress one. Since his untimely death in 1889 American students have eagerly delved without limit and without stint and published voluminously, but few have disturbed his findings or conclusions.

Kobatsch, Rudolf. *Internationale Wirtschaftspolitik.* Pp. xxv, 473. Price, 12 marks. Vienna: Manzsche, 1907.

International traffic constantly increases both in its compass and contents. New states and new products constantly enter into this traffic. An ever-increasing number of members of the separate economic systems of the world become personally and materially involved in this world-traffic. This naturally suggests the query whether the policy which seeks to master this gigantic traffic must blindly change and fluctuate from extreme hostility to the entrance of foreign citizens, ships and wares to the other extreme of full freedom and international brotherhood, for which study the role which capital plays in international traffic has as yet been only slightly observed and frequently misjudged. The literature upon these respective questions, although rich in compass, offers rarely the desired information, and frequently represents the party views of particular groups of persons interested in international traffic.

In view of this scientifically unsatisfactory condition it appeared worthy of research to test whether there is any method with the help of which the

whole international traffic and its policy can be scientifically grounded and in a satisfactory way cleared up. Although the valuable services, which the branches of the inductive method, particularly statistics, and also the older deductive method have rendered, must be recognized, yet it appears that one can attain a scientific command of this mighty object of investigation only with the help of the method of historical development. On the basis of this procedure is examined the differentiation of the national economic systems, the rise and establishment of particular kinds of international traffic, as also the general development of laws for its management.

The book supports the hypothesis that the causes of conflicts in the course of development of international traffic are constantly at work and becoming more numerous and mighty, but at the same time the consciousness of the community of interest is growing stronger. The author believes that the victory of the pacific over the polemic principle in international economic policy may be confidently prophesied. In order to present the problems of international economic policy to the best advantage the proposition is advanced that international economic policy must be elevated to the rank of an independent science with its own instructors, seminaries, adjuncts, etc., as only in this way will it be possible to study and clarify all the details and controversies involved.

Konkle, B. A. *The Life of Chief Justice Ellis Lewis, 1798-1871.* Pp. 285. Price, $3.50. Philadelphia: Campion & Co., 1907.

This is the third biography of eminent Pennsylvanians written by Mr. Konkle. Ellis Lewis was one of the leaders of the Democratic party, and the author's main purpose in writing his biography is to present the counterpart of the Whig and Republican movements which constitutes the main theme of the author's life of Thomas Williams.

Mr. Konkle traces the political career of Lewis in chronological order. During all his life he supported the Democratic party in state and nation. On national issues, he began with the support of Jackson's administration and ended with the defense of the Kansas and Nebraska act. In state affairs, he was in sympathy with the movement for the extension of the elective principle adopted by the Constitutional Convention of 1837 and the extension of the same principle to the selection of judges in 1851.

In the absence of any general political history of Pennsylvania, biographies like these meet a distinct need, and Mr. Konkle's legal training, his knowledge of Pennsylvania leaders and characteristics qualify him to supply this need. It is, therefore, to be regretted that a work of much promise and great possibilities is marred by many defects. The author's genealogical knowledge has led him to introduce biographical sketches and unessential details of contemporary Pennsylvanians into the body of the text with the slightest excuse. As a result, his style is diffuse. A typical illustration is found on page fifty-five. After making mention of the political leadership of Dr. Michael Leib and William Duane, the author adds: "Allied with these had been Alexander Dallas, of Philadelphia, 1759-1817, and his son, George Mifflin Dallas, 1792-1864, the former of whom had been a most distinguished cabinet

officer, while the latter was at this very date deputy attorney-general for Philadelphia, and his brother-in-law, William Wilkins, 1779-1865, was the president judge of the 'Old Fifth District of Pittsburg.'" In case this detail is really to the point, several sentences should be used to express it. The reader is wearied by the continual insertion of the date of birth and death especially when, as is often the case, this insertion conveys a wrong impression. Whenever the author passes from the analysis of complex political situations to the narration of simple events his style is clear. The print and illustrations are excellent. The index is good.

Lee, John. *Religious Liberty in South America.* Pp. xiii, 255. Price, $1.25. Cincinnati: Jennings and Graham, 1907.

This volume contains an account of the movement initiated by the Methodist ministers of Chicago, in 1894, against religious intolerance and the persecution of Protestants in the Republics of Peru, Ecuador and Bolivia.

Two things were attempted by this committee. First, 'To secure liberty of worship." The constitutions of these three republics were similar in the statement that the religion of the state should be Roman Catholic, and all other beliefs should be excluded. Instances are cited, showing the punishments and other indignities suffered by the Protestants. The clergy have opposed every step of the civil authorities toward religious toleration. Second, "To legalize marriages among the non-Roman Catholic populations of these republics." Laws and cases are reviewed to sustain the contention that a legal marriage between two Protestants in either of these countries is impossible; that no Protestant clergyman is allowed to perform the ceremony, and that children born after Protestant marriages are considered illegitimate and cannot inherit property.

Through the persistent efforts of this committee, the recognition and registration of Protestant marriages were secured in Peru. They also secured a modification of the laws discriminating against Protestants in Ecuador and Bolivia. This was accomplished by obtaining opinions from public leaders—American and Foreign, Protestant and Catholic, and through the interest taken by the Catholic, Protestant and secular press. These communications and articles, together with the correspondence with the state department of the United States are included in the work and commented upon.

The volume points out flagrant conditions and aims to create a sentiment against existing religious intolerance. It is of special interest to students of religious, social and political conditions, and from either of these standpoints is scientific.

Lemaire, R. *Les Origines du Style en Brabant.* Pp. 312. Brussels: Vromaut et Cie., 1906.

Morgan, L. H. *Ancient Society.* Pp. viii, 570. Price, $1.50. Chicago: Charles H. Kerr & Co., 1907.

This is a reprint for popular use of the well-known book issued twenty years ago but which still has value for the student of social development.

Moses, B. *The Government of the United States.* Pp. 424. New York: D. Appleton & Co., 1907.

This is a sketch of the organization and general methods of working of the United States Government. The subject matter rather outruns the title, as all grades of government, and not the national alone, are covered. The text is well divided into topics averaging a page in length, each of which is followed by a short list of topics and references. At the end of each chapter a larger bibliography is added to aid in advanced study. The style of the work is pleasing and there is no unnecessary padding.

Muensterberg, G. *Amerikanisches Armenwesen.* Pp. 120. Price, 2.40m. Leipzig: Duncker und Humblot, 1906.

The attention of social workers should be called to this very excellent description of American charities and charitable problems. Readers of "Charities" have noted during the last few months several articles on this topic by Dr. Muensterberg. These are included with much more material in the present pamphlet. Dr. Muensterberg, the well-known head of the Public Poor Relief System of Berlin, visited the United States in 1904, made some personal observations in the eastern half of the country, and collected a great mass of written material. He has attempted to interpret American problems to the Germans. He has succeeded unusually well in catching the essence of these problems, and in portraying the spirit in which they are being met. The topics specifically discussed, aside from his general impressions, are immigration, public poor relief, the organization of charities, public supervision of charitable effort, child saving, juvenile courts and settlements. The pamphlet is to be commended to those who wish to see ourselves as others see us.

Newman, George. *Infant Mortality a Social Problem.* Pp. 356. Price, $2.50. New York: E. P. Dutton & Co., 1907.

The problem of infant mortality is one of rapidly increasing importance, and its social, no less than its medical, phase is obtaining due recognition. A distinct advance has been made when an entire volume can be devoted to a treatment of this subject. The author—an English physician—writes concerning the conditions in England as he finds them. His familiarity with his theme is unquestionable, and the volume of facts and statistics that he has arranged and co-ordinated is a proof of painstaking effort.

In his discussions, he covers the entire gamut of causes and remedies, suggesting what is most important and essential to the problem. He points to the unwelcome fact that the infant death rate has remained stationary for half a century, although science and medicine have meanwhile witnessed most wonderful triumphs. The author emphasizes two dominating causes: The first involves questions of domestic hygiene, ignorance of household management, filth and poor preparation of food; the second concerns the feeding of infants, in which the amazing ignorance of mothers is a chief cause of the waste of child life.

Preventive methods are treated under three heads—the mother, the child,

and the environment. One of the first requirements, if the evil is to be remedied, is to "obtain a higher standard of physical motherhood." The wide differences between rural and urban death rates from immaturity attest to the baneful influences upon the mother of the many bad social conditions of city life. Furthermore, the education of the mother in infant management and domestic economy is an invaluable training. Industrial employment of women is harmful largely on account of the absence from home which is occasioned, the direct effects of which are scarcely noticeable. Protection and artificial feeding of infants is discussed, and the pernicious effect of the latter is clearly indicated. The function of the milk depot as a factor in saving children, its working and proper management are given attention, and some of the beneficent results which have been achieved are recorded. The author contends for an increased control over the milk supply, since otherwise the efficiency of preventive methods is measurably nullified.

It is earnestly hoped that books of this character will succeed in stimulating American public opinion to a similar recognition of our own menacing problem of infant mortality, and to more resolute attempts to mitigate existing conditions here, which, as far as recorded facts enable us to ascertain, disclose a picture even darker than that of England. Hence the greater need of profiting from the works and conclusions of writers on this subject.

Pierson, Ward W. *Civics of Pennsylvania.* Pp. 180. Boston: Ginn & Co., 1906.

The brief review which Mr. Pierson has here given us of the frame of government of Pennsylvania is comprehensive and instructive. In a volume of a little more than a hundred pages, exclusive of the constitution of the state, there are summarized the main facts of the legislative, judicial and administrative functions of the Keystone state.

A brief history of the early development of the proprietary government, and local government in the province, prefaces the main topic which is the present organization of the commonwealth. The outline of the administrative departments, and the various executive boards and commissions, is clean and well arranged; the discussion of the legislature and its proceedings particularly concrete. The courts receive due attention in Chapter VI. The county and the township as governmental units have a chapter each, as well as municipalities, whose consideration is necessarily brief in a work of this size. Education, suffrage, elections and taxation are the subjects of the concluding chapters. At the end of each chapter, questions on the text add to the usefulness of the book.

Pond, Oscar Lewis. *Municipal Control of Public Utilities.* Pp. 115. Price, $1.00. New York: Columbia University Press, 1906.

"A study of the attitude of our courts toward an increase of the sphere of municipal activity" is the sub-title of this latest addition to the literature on municipal ownership. Legal rather than economic in its discussion, it is rather more interesting to the student and general reader than most purely legal treatises.

From the cases cited, Mr. Pond concludes that: 1. There is no constitutional objection to the grant by the legislature of wide powers to cities to own and manage public utilities and the term "municipal purpose" has been most broadly construed. 2. The power to furnish water, gas, etc., for the private use of its citizens is implied from the power to furnish such utilities for use upon its streets, in the absence of express legislative authority. 3. The courts have refused to make any distinction, as regards the principle of no taxation or alienation of city property, between that used for these so-called commercial purposes and that used for so-called governmental purposes. 4. Franchise grants to private corporations have been construed as not giving *exclusive* rights, unless expressly stated in the charter of the company. 5. The legislature may grant the right to cities to fix maximum rates for gas, electric light, etc.; but in the absence of legislative authorization a city has no such right, unless expressly stated in the franchise at the time of the grant.

The general conclusion reached, from the authorities and cases cited, is that "the attitude of our courts favors a decided increase in the sphere of municipal activity."

Reid, W. *The Greatest Fact in Modern History.* Pp. 40. Price, 75 cents. New York: Thos. Y. Crowell & Co., 1907.

Revenue and Taxation of the State of California, Report of the Commission on. Pp. 296. Sacramento: State Printing Office, 1906.

This report includes a thorough treatment of the subject of taxation of railroads not only by California but by the other states of the Union. The report is an extremely valuable document that must be appreciated not only by government officials but by all students of economics, and particularly of transportation.

Réville, A. G., and A. *Emancipation of the Mediæval Towns.* Pp. 71. New York: Henry Holt & Co., 1907.

Snider, G. E. *The Taxation of the Gross Receipts of Railways in Wisconsin.* Pp. 138. Price, $1.00. New York: American Economic Association, 1906.

This monograph, the plan of which is to be commended, contains a very interesting discussion of the difficulties inherent in the stocks and bonds method of valuing railroads for purposes of taxation. The main thesis of the study is that the gross receipts tax is the superior tax for railroads, and that the rejection of that tax, for the *ad valorem* system in Wisconsin was a mistake. It can hardly be said that the author establishes fully either part of this thesis. His insistence upon the superiority of the gross receipts tax is left unsupported by any outline of a model gross receipts tax law, except that in the appendix he gives without comment the bill proposed by the Wisconsin Tax Commission in 1901. His denunciation of the Wisconsin *ad valorem* system is based on comparisons that are hardly fair and takes no account of the political regeneration that has brought Wisconsin into prominence in recent years nor of the trend of taxation development in the Badger State.

One of the chief arguments advanced by the author for the gross earnings tax rests upon the assumption that railroad taxation must be administered by a more or less corrupt or inefficient body of officers. This is a good general argument, but it is far from being a strong argument as applied to Wisconsin, where the work of taxing the railroads is in the hands of men who make a business, not of politics, but of taxation.

The monograph under review does not, possibly because of space limitations, discuss the two lines of taxation development in Wisconsin which are inseparable from a full consideration of the abandonment in that state of the gross receipts tax. This development has been toward the application of the *ad valorem* tax system to all public service corporations and toward a centralized control of all taxation in the state, which control, if carried to its logical limit of extension will result in the assessment of all property by expert assessors appointed under civil service rules and dependent for continuance in office not on political patronage, but on honest and efficient service. At least until the *ad valorem* system has had a fair trial under the new Wisconsin conditions, the reviewer must defer acquiescence in the conclusion reached in Dr. Snider's very painstaking, and in many respects excellent study, that Wisconsin made a mistake in abandoning the gross receipts tax on railroads for the *ad valorem* system.

Starke, J. *Alcohol: The Sanction for its Use.* Translated from the German. Pp. xx, 317. New York: G. P. Putnam's Sons, 1907.

Recent physiologists have reversed the old conclusions in regard to alcohol and contend that it has certain food values. This volume, however, is a thorough-going apology for its extensive use. It bears the earmarks of prejudice and is written in popular style in order to influence public opinion more effectively. The author is apparently quite unmindful of the social consequences of intemperence, nor is he much concerned about them. At best the liquor problem still remains unsolved, and in America, at least, the book, if widely read, could not fail to exercise a pernicious influence, and to promote alcoholism. The bias of the author detracts much from the value of the book.

Thomas, N. W. *Kinship Organizations and Group Marriages in Australia.* Pp. xiv, 163. Price, $2.00. Cambridge: University Press. Putnam's Sons, American Representatives, 1906.

This interesting monograph belongs to the Cambridge Archaeological and Ethnological Series. It is an endeavor to summarize what is actually known and understood as to the Australian systems and to point out the obscure points which need further investigation. It will be of assistance to all who are studying the history of the development of the family.

Tout, T. F. *An Advanced History of Great Britain.* Pp. xlii, 755. Price, $1.50. New York: Longmans, Green & Co., 1906.

This is the final book of the series of volumes written on the "Concentric System," treating the history of England. It is written on the lines of the old style history, and is therefore a chronicle rather than the story of the life

development of a people. Campaigns and royal genealogies, quarrels and intrigues form the bulk of the volume to the exclusion of many important developments in economic, social and literary life which, though no definite dates can be assigned them, are after all essential parts of English history. The bibliographies given are altogether too short and unsatisfactory for an advanced history. In this respect the book leaves much to be desired. As a chronicle of events the work is well done. Numerous maps, plans and tables aid the reader in following the movements described.

Trine, Ralph Waldo. *In the Fire of the Heart.* Pp. 336. Price, $1.00. New York: McClure, Phillips & Co., 1906.

With a strong moral undertone, the book presents rather strikingly a number of the vital facts of our modern industrial system and the problems resulting from it. The first chapter, which is entitled, "With the People; a Revelation," presents in an unusual and striking form a number of the analogies and contrasts of our social conditions. Much of the material is from secondary sources, but it is put together and supplemented in a manner worthy of commendation. The author looks at and deals with questions from a thoroughly national standpoint, placing the welfare of the whole above that of any part, and attempting to show that we can only be prosperous and great so long as we are good and just.

The remedy is dealt with at length. First, "it is through the principle of direct legislation, by means of the initiative and referendum, that we can get the machinery of the government back into our hands and establish a truly representative system of government among us." After showing by careful argument the value of direct legislation, the author, in the next chapter, treats this as but a superfluous thing. Underneath it all, if we are to succeed and be truly great, there must be a stratum of truth and justice, and to this end he suggests that we follow Mayor Jones, of Toledo, and base the conduct of our lives, as well as the conduct of our government and business on the golden rule.

Vay de Vaya and Luskod, Count. *Empires and Emperors.* Pp. xxxii, 390. Price, $4.00. New York: E. P. Dutton & Co., 1906.

This book is based upon the author's diary of travel. He sets out from St. Petersburg, after a personal interview with the Czar, by the Siberian railway to those countries bordering on the Yellow Sea. His mission was to study the various lines of work of the Catholic Church amongst various races. The record of these investigations is made elsewhere; of the present volume he says that his intention "was simply to note what was striking at the moment and what impressed me most vividly."

His narrative is interesting and easy reading but almost free from lengthy discussion of the many problems which the Far East presents.

The author speaks of his "passionate interest in human nature;" this is evidenced to the reader by the fact that one feels actually introduced to the many eminent personages he describes. History, folklore and commercial life in the different countries visited are set down; objects of art are described

and commented upon. The author's own impressions are vivid, enabling him to create local atmosphere for the reader.

It is doubtful if this book adds much to the collected information concerning the manner of life and conditions in the Far East; it may be an old story, but it is told by one who has seen much and felt keenly.

Weale, B. L. P. *The Truce in the East and its Aftermath.* Pp. xv, 647. Price, $3.50. New York: Macmillan Co., 1907.

See "Book Reviews."

Wrixon, H. *The Pattern Nation.* Pp. 172. Price, 3 s. London and New York: Macmillan Co., 1906.

When one picks up this book the first question that occurs is, What and where is the Pattern Nation? On laying it down the same question recurs, still unanswered. Another question is, Might not the book have been condensed, without any loss, into a magazine article of not more than fifteen or twenty pages?

There are passages in the book which seem to indicate that the author considers the semi-socialistic state as being the Pattern Nation, but this is not altogether clear. Neither is it clear that the term "Pattern Nation" is used in derision of the socialistic state, though it is clear that the author believes that complete socialism will prove a failure, if ever attempted. Complete socialism, he says, is based on "the old principles by which despotism has been supported, and under which it used to be maintained that liberty is not the chief design of good government, but the right management and well being of the people is; and that the claims of personal freedom must give way to the great primary purpose of human life" (page 18). The most noteworthy failure to realize this primary purpose is the lack of equality of social condition as a concomitant of political equality (page 57). But this very equality, once secured, will condemn the system, for, though free from most of the hard things in the struggle for existence, the government workman must always remain a workman (page 157). Again, self interest is, always has been, and always will be, the mainspring of human nature. If "the time ever does come when men will rise superior to self, the socialist system might be tolerable; but then men could be safely left to the free system" (page 70). And when it comes to a choice between freedom and socialism, they will choose freedom (page 168).

The author makes no real answer to the contention of the socialist that the freedom the workman enjoys to-day is a mere mockery, that the vast majority are now chained to a dead level by the present industrial system, and that pocketpicking is already "general and respectable by law," and is practiced by the few upon the many. Under socialism, they hold, even at the worst, the few would merely be deprived of their excessive and undue privileges.

REVIEWS

Allen, William H. *Efficient Democracy.* Pp. x, 346. Price, $1.50. New York: Dodd, Mead & Co., 1907.

Along with all energetic workers for the betterment of human conditions the author has often discovered his way blocked by an incapable man holding his position because he was considered good. Against such men Dr. Allen uses his weapons to good effect. Negative goodness is greatly overvalued. "To be efficient is more difficult than to be good. Efficiency plus average goodness will accomplish more for human progress and human happiness than goodness minus efficiency. Efficiency develops goodness as time clock and cash register develop habits of punctuality and honesty." "Not long since charity work was relegated to good souls, as was nursing." "We have now pretty generally gone over to the point of view that training, fitness, capacity to perform, are indispensable and by no means co-existent with desire to do, or with mere goodness." From the standpoint of effect this first chapter on "The Goodness Fallacy" is one of the best in the volume.

In the following chapters Dr. Allen is really making a strong plea for the proper recognition of the use and value of statistics. Perhaps no one has done this better. The discussion has particular value because the illustrations are drawn from actual cases encountered by the author. The chapter headings show the topics: Statistics Ostracised, The Business Doctor; then a series of chapters on Efficiency in Schools, Charitable Work, Preventing Crime, Religious Work, Government, Making Bequests. In these chapters there is little to comfort the person satisfied with existing institutions and their results. In brilliant fashion Dr. Allen shows their shortcomings and imperfections. Anyone seeking positive suggestions as to methods of bettering social work will find them in abundance.

The only chapter which seems weak and out of place is the last, which bears the title "A Chapter of False Syntax," though the page heading, "Odds and Ends," seems more appropriate. It is a brief dictionary of social terms. The book would be stronger were this chapter omitted.

A book of this sort is a constant appeal to the intellect and judgment of the reader. At times he is enthusiastic when the author accepts his views, at times mad because his hobbies are attacked, at other times he wonders whether the evidence at hand justifies the position taken. His interest, however, is constant. Yet the author's thesis is simple. He is simply challenging the easy-going satisfaction with things as they are. He asks whether our social institutions are really accomplishing what they might. Do we know? If not, can we find out? How? The result is a most valuable presentation of the proper use and value of statistics.

In brief Dr. Allen has produced a very fresh and invigorating volume to be read with profit by every social worker. If taken in too large doses the constant emphasis put on efficiency is likely to become a bit monotonous. Take this volume with you on your vacation trip this summer. A chapter will interest and arouse a large group when even the popular novel falls flat.

Carl Kelsey.

University of Pennsylvania.

Ashley, Percy. *Local and Central Government.* Pp. xi, 396. Price, $3.00. New York: E. P. Dutton & Co., 1906.

The merit of Professor Ashley's book consists in presenting a large mass of valuable information in a form available both for the reading public and for college classes in administration. The author would probably not claim for the work any considerable amount of original investigation, but the secondary authorities have been in the main judiciously selected.

The work is really a text in administration, and, as such, suggests comparison with Goodnow's Comparative Administrative Law. As in Goodnow, discussion is confined to England, France, Germany and the United States. Ashley's interest, however, centers in the actual working of administrative machinery; legal discussion is brought in always as throwing light upon some practical problem. This fact makes the book extremely valuable for reference, and its style, if not always fascinating, is sufficiently attractive to reach a comparatively large class of readers. The main thesis—the contrast between the legislative control over local units in England and America, and the administrative control on the continent—is carried through the book with admirable clearness.

Scope and arrangement are perhaps best indicated by headings of chapters. Following an introduction in which the above-mentioned contrast in legal relations is briefly explained, are three chapters upon local administration, in England, France and Prussia. The first division of the work ends with a chapter on the government of American cities. The next three chapters, five, six and seven, constitute a second division. They treat, respectively, the history of local administration in England since the reform bill of 1832, local administration in France since the Revolution, and in Prussia, since the beginning of Stein's reforms in 1806. In the third division, chapters eight to twelve, inclusive, the following topics are discussed: Administrative Law,—Local Authorities and the Legislature,—The Administrative Control of Local Authorities,—The Control of Local Finances,—The Courts of Justice and Local Administration. The literary effect of the work is successful; the elementary exposition is not unduly encumbered, and the chapters dealing with history and with legal relations are given a perfectly definite purpose.

There is, even for a work of this kind, too large a number of technical inaccuracies. Mention is made for instance, in a quotation, of the eleven hundred wards of Philadelphia (p. 198)—the unqualified statement is made that a five-sixths vote is necessary to over-rule the veto of the mayor of New York (p. 199) whereas that majority is necessary only in certain cases. The placing of New York and Chicago in the class of cities whose mayors enjoy only a two-years' term (p. 199), was perhaps correct at the time it was written. Anyone who remembers the jar caused by the misuse of English in foreign texts will regret Professor Ashley's lack of care in the use of foreign terms. The French "juridiction" appears as "jurisdiction," (p. 298), the German umlaut is very frequently omitted (pp. 163, 182, 183, 303), com-

pounds are not correctly divided (p. 163)—all of which betrays a lack of careful proofreading.

American readers will probably feel a lack of proportion in the use of some of the material bearing on recent municipal development in the United States. The effect of the discussion of French local administration is to emphasize to quite an unusual extent the weak side of the prefect's position (pp. 79-83). On the other hand, the statement that the Council of State is the "center of the whole administrative system of France" (p. 74), though in a sense literally true, needs more specific qualification than it receives. These are, however, minor faults, which need but slightly militate against the usefulness of a highly convenient volume.

Willard E. Hotchkiss.

Northwestern University.

Bosanquet, Helen. *The Family.* Pp. 344. Price, $2.75. New York: Macmillan Co., 1906.

This book is intended as a tribute to one of the most important institutions in human society. The author has done a valuable work in bringing together the results of the most careful investigators into the early history of the institution as well as a study of the modern family. The author believes if the family should ever disappear with the sweeping away of private property that "it will be in no sense a gradual development from the past, but it will be a catastrophe in the moral world." However, while holding firmly to this conviction, she is in sympathy with modern progress. The institution of the family is compatible with, and necessary to secure the best individual development, together with the proper realization of the individual and the welfare of the community.

The history of the family includes a discussion of the patriarchal family and its decay, the pre-historic family accepting Westermarck's conclusions, and a chapter on the family in relation to industry, showing the influence of economic conditions upon its form. We are especially indebted to the author for her study of the modern family, because she makes some valuable contributions. Having found that the possession of land is one of the strongest influences in preserving the unity and continuance of the family, the author looks for some other industrial basis in the modern community. However, in place of industrial co-operation, as in farming communities, she finds among wage earners *economic* co-operation, which consists in contributions towards the maintenance of family by all the wage earners. Also, among all classes, the author finds a family tradition in "trades," forming a basis for binding the generations together. The principal motive arousing the average man to the exertion of his full degree of efficiency is the family; it is the only way of ensuring that one generation will exert itself in the interest of the next. The family finally controls the forces that influence the quality and quantity of population. Here the author makes the point that quantity is only excessive when defective, and, therefore, it is not a question of limitation but of regulation.

The relation of the constituent parts of a family treats of the modifications in the authority of the father as head of the family; the importance of women as spenders, the widening of their opportunities outside of the home with a realization that work must and will be curtailed to meet the needs of a young family.

EMILY FOGG MEADE.

Philadelphia.

Chadwick, F. E. *Causes of the Civil War, 1859-1861* (The American Nation: A History, vol. 19). Pp. xiv, 372. Price, $2.00 net. New York: Harper & Bros., 1906.

A better title for this volume would have been Preliminaries of the Civil War. The period assigned to Admiral Chadwick covers less than three years—1859 to 1861. Of course he has found it impossible to say much about causes within this limit, so in many instances he traces tendencies much further back, some even to the beginning of the Union. In nineteen brief chapters the author treats of the social and economic situation in the South, 1850 to 1860, Calhoun's influence on political polices, the John Brown raid, the debates in congress, the presidential election and the resulting secession, attempts at compromise, and the attitude of Buchanan and Lincoln toward secession with special reference to the state of the forts in the South. This period has already been developed by Mr. Rhodes, consequently any later treatment inevitably suggests comparison, and while the comparison shows some points of superiority in the present work, on the whole it must be said that it does not supersede the work of Mr. Rhodes. There are some distinctly original features about the work and some that are not.

One cause for unfavorable criticism is the frequent occurrence of contradictory conclusions. This is to be noticed especially in connection with the treatment of the subjects of slavery, anti-slavery sentiment in the South, the necessity for war, the possibilities of the success of the South, etc. This defect may be due to the necessity of condensation and to the author's habit of making rather sweeping statements of opinion. Another objection to the present work is the ready acceptance by the author of the threadbare traditions about the political and social oligarchy of the South, the Biblical argument for slavery, the renewal of the slave-trade, the expansion of slavery into the western territories, etc. The use of tradition, like the fault referred to above, does not seem to be an integral part of the work, but rather something inserted in order not to omit reference to those classical opinions. The point of view of the writer and the method of the work do not call for it.

The author's point of view is rather unusual. It is neither Northern nor Southern; it is purely a twentieth century military attitude. Hence, the failure to understand the hesitation of Buchanan or the delay of Lincoln, the grievances of the South, the rejection of compromise by Republicans, the indecision of Anderson at Sumter, etc. Secession is mentioned as "the con-

stitutional right of secession." In general there is on theoretical questions a disposition to judge 1850 to 1860 by the accepted theories of 1906.

But aside from these faults the book has many merits. It is written in a clear and lively style—it is the most readable account of the period with which the reviewer is acquainted; there is no better treatment of that tangled business of Buchanan, Seward and Lincoln from November, 1860, to April, 1861; the problem of the southern forts is well stated, and the entire military and naval situation is handled in a masterly way; the sketch of slavery conditions is, except for the slight injection of tradition, very good, for it is based on the sound common-sense use of some good authorities. The faults of the work are not vital, not an integral part of it. A little red ink or blue pencil, would have done much good and would have left the entire work in much better shape.

WALTER L. FLEMING.

West Virginia University.

Fisher, Irving. *The Nature of Capital and Income.* Pp. xxi, 427. Price, $3.00. New York: The Macmillan Company, 1906.

Professor Fisher accurately characterizes his work as "a sort of philosophy of economic accounting." It is a minute and painstaking analysis of the concepts of capital and income and of those relations between them which may be profitably discussed without trenching on the central problem of distribution. The book is divided into an introduction and four parts, as follows: Introduction, Fundamental Concepts (chapters on "Wealth," "Property" and "Utility"); Part I. Capital (three chapters); Part II. Income (four chapters), and Part III. Capital and Income (six chapters). Part IV contains a "Summary of Part III by Means of Diagrams," a "General Summary," and a "Summary of Definitions," and affords final proof, if proof were needed, of the author's determination to spare no effort that may increase the accuracy and precision of his terminology or the clearness of his exposition. The book concludes with a series of appendices, largely mathematical, which further attest the thoroughness of the author's work.

It is one result of the striving after precision of statement and clearness that distinguishes the book, that the principles for which the author contends—overlooking the interesting, valuable and often original and ingenious applications of accounting to the relations between capital and income—may be restated in a few words. Starting out by defining wealth as all material objects owned by human beings—including human beings themselves—and property as rights to the chance of future services of wealth, he insists that the true concept of capital is the total stock or fund of wealth existing at an instant of time, and that the true concept of income is the flow of services from wealth during a particular period of time. The justification of these concepts, criticism of rival concepts, and explanation of the way in which capital and income as here defined are to be treated in the bookkeeping of the economist occupy most of the chapters in Parts I and II. The guiding principle of Part III is that the value of all wealth grows out of the

services which it renders or is capable of rendering to man. Thus the value relation between capital and income runs from income to capital rather than from capital to income. The application of this principle to the valuation of different forms of wealth, whose future incomes are assumed to be known, and when the rate of interest varies in arbitrarily assumed ways constitutes the subject-matter of this part, which concludes appropriately with a discussion of the influence of the element of risk on valuations. As a contribution to economic accounting, this part is the most important portion of the book. Economists may differ from the author as to whether subjective cost plays such a subordinate rôle in the valuation process as he all along assumes, but there can be no difference of opinion as to the value and suggestiveness of his treatment of the relation between capital and income from this one point of view. Some of his conclusions may require restatement when brought into relation with a complete theory of distribution, but as a contribution to one portion of such a theory they are of permanent value.

The contentions of the writer which will arouse the liveliest opposition are those identifying capital with all wealth, and confining income to the flow of services from wealth. To many, if not most, economists the proposed definition of capital will seem too broad, including as it does workers themselves, land, and consumers' goods, side by side with the producers' goods, the products of past production, of the classical definition; while the definition of income will seem too narrow, since it makes no provision for additions to capital out of income. The brief space accorded to a book review will not permit a consideration of the merits of these objections, but some of the criticisms which Professor Fisher directs at rival conceptions of capital and income cannot be passed over in silence.

Economists who still adhere to the time-honored distinction between land and capital will find his discussion of this question far from satisfying. The author appears to believe that he has disposed of it by asserting (note, p. 56) that "the fancied distinction between land and capital . . . . is based on a confusion between *quantity* and *value* of wealth." This confusion has doubtless existed in the minds of some economists, but after the exhaustive examination to which the problem has been subjected in recent years, it can hardly persist in those of many. Yet the contrast between land and capital is still made prominent in the thinking of some of the ablest economists of the present day. Are these writers so dominated by tradition that they cannot see what Professor Fisher sees so clearly, or are they conscious of practical grounds for adhering to the distinction which he, in his zeal for the simplification of economic concepts, overlooks? A review is not the place in which to attempt to answer this question, but it may be suggested that it cannot be decided conclusively except in connection with an adequate treatment of the dynamics of distribution.

Even more serious are the doubts that arise as to the expediency of limiting the concept of income to the flow of services from wealth. That we need a phrase to describe this flow of services during a given unit of time

will not be questioned. Other writers, thinking of it in a different terminology, have characterized this "stream of utilities" as the "immediate income." But will it serve a useful purpose to limit income to this, and this alone? From the point of view of distribution—as heretofore conceived—the initial contrast is between the wealth already in existence and the product created during a productive period. A part of the latter merely replaces wealth destroyed in connection with the productive process. What is left, the "net product," is the new wealth added to that already in existence and to be distributed in some way among those who have taken part in production. Economists who have been in the habit of attaching the term income to the money equivalent of this new wealth and of distinguishing this as "money income," from the "real income" or other wealth for which it is exchanged, will hardly give up the practice, because the elements on which the money income rests, commodities and personal services, are "incongruous." Commodities and services are also incongruous among themselves. They are made congruous only by being expressed in their value equivalents in some common medium or through the contributions which they make to the stream of consciousness of the consumer. By emphasizing the thought that it is not commodities but commodity-services which constitute true income, Professor Fisher adds to the clearness and accuracy of our nomenclature, but are commodity-services any more comparable with personal services than commodities themselves except through their value equivalents or through their contributions to the psychic income?

But the author's principal objection to the older concept of "real income" is that it includes savings or additions to capital along with services. This "fallacy" (p. 254) he condemns in Chapters VII and XIV on the ground that it involves double-counting and a confusion of income with capital. That it *may* lead to double counting no one will deny, but that it does so in the case of the economist cited as the horrible example in this connection, Mr. Cannan, does not appear to be established by the passage quoted from that acute writer (p. 248). Mr. Cannan's offense against logic consists in counting savings as a part of income in the year in which they are accumulated, and interest on these savings as income in subsequent years (p. 108). To show the "nature of the fallacy" committed, the author cites the purchase of an automobile and the inaccuracy of crediting the automobile to income when it is purchased and its subsequent uses to income in subsequent years. Quite accurately he insists that the anticipated uses of the automobile are all that give value to the automobile, and that the same thing is counted twice if all the value and the value of *all* the uses are both described as income. Quite inaccurately, however, he identifies the interest of Mr. Cannan's statement with *all* the uses of a durable form of wealth, like an automobile. Mr. Cannan's assumption and the assumption of every careful writer who includes savings or additions to capital in income and interest on this added capital in subsequent years in income is that *the fund of capital is maintained intact.* It is perfectly true that the present value of the fund of capital is due to the income that is expected to accrue

from it in the future. It is also true, however, that normally capital affords a net income or interest over and above the cost of its own replacement, and no double counting results from counting the capital as income as it is saved and the interest on that capital as additonal income as it arises. Concretely a man who invests $100 of his income to-day in a four per cent bond at par may be said to have taken his real income in that form instead of in the form of immediate gratifications. To include the four dollars interest which he receives next year is not double counting. On the contrary, not to include it would be to deprive him of the very advantages he expected to derive from saving his $100 instead of spending it. It is hardly necessary to point out that the defect in the automobile illustration is that it ignores the distinction between gross yield and net return, or interest. Among the uses of the automobile, some, and these the greater number, should be credited to a replacement fund. The others are the true interest on the investment, and should be credited to income in the year in which they are enjoyed.

If I am not mistaken in my reading of the text, the same oversight which leads Professor Fisher to take Mr. Cannan to task for a fault of which he seems to me quite innocent, leads him into positive and serious error in his discussion of the taxation of appreciating real estate (p. 254). But space will not permit an elaboration of the point. Professor Fisher concludes his discussion (p. 255) by reaffirming the old adage that "you cannot eat your cake and have it too." The point he seems to me to miss is that in the case assumed by Mr. Cannan you do not "eat your cake." It is because you "have it" and continue to "have it" that you have also the interest which it affords. Of course the presence or absence of double counting in the older conception of "real income" is no conclusive argument either for or against it. Here again the final answer must hinge on the use that can be made of this concept or of Professor Fisher's in a complete theory of distribution.

The accusation that including savings in income confuses income with capital is more serious, but is this confusion the fault of the definition or does it merely reflect the intimate relation between income and capital in our actual economic life? The latter seems to me to be the case, and I feel some doubt as to the fruitfulness of a definition which divorces capital from income as completely as does that proposed by Professor Fisher. Certainly it runs counter to some of the notions about income that have become firmly entrenched in our common speech as illustrated by the phrases "capitalizing income," "living beyond one's income," etc.

In conclusion, it must be said that while Professor Fisher presents his arguments in defense of his conceptions of capital and income with force as well as with confidence, it is doubtful whether they will carry conviction to any mind not already prejudiced in their favor. This is because the rival conceptions which the author combats have performed and still perform useful functions in the explanations of the problems of distribution which commend themselves to other economists. Not until Professor Fisher has shown that his conceptions are equally fruitful as tools of economic analysis,

and that with their aid clearer and more consistent explanations of economic phenomena than those now current can be attained, will his definitions be accepted. He is too good an economist not to be impatient to subject his conceptions to this final test. In this treatise they have rendered good service on the skirmish line. Let us hope that the time may not be long delayed when they will be brought to bear on the central citadel of the problem of distribution in a second volume on Capital and Income in which all will be explained which is here taken for granted.

HENRY R. SEAGER.

Columbia University.

Forbes-Lindsay, C. H. *America's Insular Possessions.* Two volumes. Pp. 560 and 566. Price, $10.00. Philadelphia: The John C. Winston Company, 1906.

These two volumes, handsomely bound, and copiously illustrated by well-selected photographic reproductions of unusual clearness and interest, contain a number of dissertations in the general style and form of Stoddard's Lectures. They offer, concerning each of the American possessions treated, a little history usually referring to the romantic period, a little physical geography, a little anthropology, a little politics, and a little of anything and everything. If they were furnished with maps, they would constitute a useful guide-book. If they had been based a little more on personal observations they would have been good books of travels. As they stand, they are a useful work of reference for the reader who has never visited the islands and who has not read their history, nor studied their present conditions in the current reports. To bring together in so small a compass so much that is likely to interest the "general reader," and at the same time to commit so few and so relatively insignificant errors is an achievement. If the scholar in anthropology, the historian or the expert on modern colonial administration is not aroused to enthusiasm by the book, it is his fault perhaps in knowing too much, rather than that of the work before us.

It is, in a way, characteristic of the work that its title is "America's Insular Possessions," although the volumes include a story of Panama; that the preface says "the following pages treat of the American possessions abroad;" although no word is said of Alaska. The title, the preface and the contents are no more contradictory than many of the subsequent statements. The pages of text which intersperse the excellent photographs, are drawn from readily available sources, with only the scantiest and most meager of unidentifiable references. The contradictions and many repetitions arise from using these different sources without reconciling them. The covers are richly emblazoned with coats of arms which the contents do not describe nor identify and which will not be readily recognized save by one erudite in heraldry. The generally excellent pictures are not always true to their legends. For example, the picture in Volume II, p. 110, of the alleged "head hunter" an "Igorot chieftain (sic) of Neuva Vizcaya" is full of incongruities. Since when have the Igorots had chieftains? Again at p. 126

some Amoy coolies are labeled Chinese Mestizos. But possibly these are errors which will trouble only the ethnologist. An occasional slip in translations as when "del Excmo. Ayuntamiento de Manila" is rendered "his (sic) excellency, the *ayuntamiento*" (p. 115) betrays an ignorance of the elementary ideas of Spanish administration.

Despite these minor defects and the brevity and "scrappy" character of the descriptions, the work will be of value and of interest to those who have no time or inclination to plow through the larger literature and study the reports now so abundant relating to our possessions *ultramar*. It will be well nigh indispensable to those newspapers, magazines and journals which require a ready source for illustrations and sketches of our colonial possessions. But so brief, encyclopedic and from the scholar's point of view obscurely condensed are the descriptions that no detailed review is possible. Discussion of views presented, when the "views" are primarily bald statement of facts, well-known and universally admitted, is impossible. Hence this review can do no better than conclude with a general summary of the contents. Beginning with an historical essay on the Great Antilles, the work then treats of Porto Rico, Guam (a somewhat far cry from the former), Hawaii, and Panama. The second volume takes up the Philippines.

So far as opinions on the current problems of the great questions of colonial administration are given at all, the work "stands pat" with the present American administration.

With all its possible weaknesses and omissions, from the point of view of historical, economic and sociological science, the work is nevertheless the most comprehensive general treatise on some of our outlying possessions in relatively small space and for the "general reader" that exists in the English language.

Carl C. Plehn.

University of California.

Hobhouse, L. T. *Morals in Evolution.* Two Vols. I, pp. xviii, 375; II, vii, 294. New York: Henry Holt & Co., 1906.

These volumes are " a study in comparative ethics." Indeed the reader's first question is: Why is not the title "The Evolution of Ethics," for this is just the subject discussed. The next thing to impress the reviewer is the coincidence that two such comprehensive studies in this field should appear so closely together. The other is Westermarck's "Origin and Development of Moral Ideas," reviewed in the November, 1906 number of The Annals. The points of approach are different, and in a measure the aims are different, but of necessity both works must cover the same ground in part. Dr. Westermarck's book appeared too late to be of service to the author, but it compelled him to insert a defense of his position relative to the punishment of crime, for his attitude squarely opposes the vindictive element supported by Westermarck.

The plan of the author is simple. He is seeking to describe as ac-

curately as is possible with extant information the ethical development of the human race. This means that he must depend upon the statements of others. Suffice it to say that he has gone over an immense literature; that his quotations are apt and accurate; his interpretations in the main sound. Careless statements are not common. Naturally some slips are inevitable, and the author has not escaped, as for example when, on page 53 (Vol. I), in speaking of the Indians, he says: "The clan occupies a single long house," he can refer only to the Iroquois, for elsewhere the "Long House" was unknown. Again, a larger knowledge of the facts would have modified the statement on page 328 (Vol. I): "Unfortunately, the legacy of slavery remains in the Southern States, taking, on the one hand, the form of the most horrible personal cruelties which disgrace any nation claiming to be civilized, and on the other hand the efforts to re-introduce slavery by a side wind through the corrupt use of the criminal law;" or, again, "that the color line is the last ditch of group morality." Such blemishes are relatively unimportant, however. The author is to be highly complimented for the general excellence of his work.

The topics discussed in the first volume are, "The Forms of Social Organization," "Law and Justice," "Marriage and the Position of Women," "Women in the Civilized World," "The Relations between Communities," "Class Relations: Property and Poverty." The general thesis of Mr. Hobhouse is that at first all morality is group morality, the individual counting for little and having little initiative. Class differences arise very early. The growth of authority is hostile to individual freedom. Ethical and religious progress counterbalances this ultimately. The group morality presses more and more heavily for many stages, but finally " the modern state comes to rest more and more on the rights and duties, the obligations and responsibilites that we include under the ethical and legal conception of personality." The development is thus a realization of humanity.

In the second volume are treated the subjective phases of the subject; the development of thought. An able summary is given of the different systems of religious thought from ancient to modern times. The last three chapters deal with the development of ethics under the heads, "Philosophic Ethics," "Modern Ethics," and "The Line of Ethical Development."

The author is far from being a materialist; indeed he stands much nearer the other extreme. Physical factors may condition moral progress, but do not cause it, for moral reforms are brought about by moral forces. By slow stages the mind has advanced and formulated its thought to aid in social evolution. Society roughly reflects the development of the conceptions. Progress depends on nothing automatic, but on an increasing domination by the mind. Mr. Hobhouse is friendly to religion, but he thinks of ethics as something surpassing any existing religious system. His representation of theological conceptions is accurate, but critical, and the adherent of any given system will scarce be satisfied with the author's refusal to consider it as final.

The volumes are valuable not merely as expositions of the practices and

ethical theories of a vast number of human races, but for their clear declarations of the influence of the world of mind—the spiritual—over the world of matter. They are to be commended to every careful student of human thought.

CARL KELSEY.

University of Pennsylvania.

Hosmer, J. K. *The Appeal to Arms, 1861-1863* (The American Nation: A History. Volume 20). Pp. xvi, 354. Price, $2.00. New York: Harper & Brothers, 1906.

The purpose of this volume, so the editor states in the introduction, is to furnish a civil and military history of the Civil War, which shall be at once "brief, compact and impartial." The volume opens with a short discussion of the resources of both sides, which is followed by a series of brief sketches of the leaders, federal and confederate. Next, the author takes up the military side of the Civil War, campaign by campaign, from Manassas to Gettysburg. Very little attention is paid to other than military affairs. There is one chapter on emancipation, and another—the last one—on foreign affairs. Scattered throughout the text are found pages or paragraphs here and there about social, economic and political affairs, though generally these are neglected. It is possible, however, that the author intends to treat them in his second volume.

As a military history, the work is very good. The style is clear and non-technical, and is easily understood. Since the author deals only with essentials, the reader is not lost in a multitude of details about minor movements and matters of controversy. The author indulges in few sweeping judgments; in this respect the work is much superior to the previous volume by Admiral Chadwick. Dr. Hosmer has an eye to the picturesque whether in man or events, and usually makes the most of what he sees of this kind.

A point which the author rightly insists upon is that the great leaders of both sides had to learn how to fight, that all of them did some poor "'prentice work." This fact is often forgotten in judging the early mistakes of the great commanders. The author is fair and judicial in his estimates of the leaders on both sides, whether successful or unsuccessful. In a discussion about the value of a West Point training, he decides that it had some value, though evidently, in his view, not a great deal. On the southern side he says that Forrest was the only conspicuous leader who came from civil life. He had "some of the qualities of a great commander." No ex-Confederate could describe better the military career of Lee or of Jackson. The author's criticism of Lee's mistakes is the most convincing that the reviewer remembers ever to have read.

Some points deserve slight criticism. The author does not seem to have a very clear understanding of internal conditions in the South. This leads him to believe in the theory about the dictatorship of Davis (p. 250), the efficiency of the conscription laws (p. 174), and in general, causes him to accept

at their face value the laws and regulations of the Confederacy. A careful study of internal conditions in the South will not justify such an acceptance. He seems to accept the tradition about a closed aristocracy in the South (p. 7). Some objection might reasonably be made to the comparison between Stonewall Jackson and John Brown, and the "craziness" of Jackson is entirely too much insisted upon. Dr. Hosmer served in the war as a soldier, and to him the Confederates were rebels and the war a rebellion, not a civil war, and on technical matters this is still his view. This conviction results in no biased statement of facts, but it does result sometimes in a one-sided attitude towards certain events. For instance, throughout the work he insists upon the fact that the Confederates sequestered the property of northern enemies, and treats the policy of confiscation rather mildly as one of retaliation. Also the demand of the Confederacy that all its people take one side or the other is called a persecution of the Unionists, while nothing is said of similar treatment of Confederate sympathizers in the North. This view leads the author, when speaking of Robert E. Lee, to say that he "forfeited his allegiance," "sacrificed his loyalty." However, these opinions as to the fundamental nature of the contest do not effect treatment of the period in any other way.

W. L. Fleming.

West Virginia University.

Jameson, J. Franklin (General Editor). *Original Narratives of Early American History.* Vol. I, Olson, Julius E., and Bourne, Edward Gaylord (Editors). The Northmen, Columbus, and Cabot, 985-1503, Pp. xv, 443. Vol. II, Hodge, Frederick W., and Lewis, Theodore E. (Editors). Spanish Explorers in the Southern United States, 1528-1543. Pp. xv, 411, Vol. III, Burrage, Henry S. (Editor). Early English and French Voyages, 1534-1608. Pp. xxii, 451. Price, $3.00 per volume. New York: Charles Scribner's Sons, 1906-07.

These volumes are the first of a series planned and reproduced under the auspices of the American Historical Association. The purpose of the series, as stated by Dr. Jameson in his general preface, is to render accessible to individual readers, libraries, schools and colleges a comprehensive and well-rounded collection of those classical narratives on which the early history of the United States is founded. The justification for such an undertaking is obvious. The scarcity of the early imprints of these pioneer narrations, or the expensive character of many of the limited editions of reprints, has rendered it impossible for the ordinary library to possess an adequate collection of the great narrative sources of American history. This series aims "to restore to their rightful position" these authorities, by issuing their narratives in a convenient and inexpensive form. The plan contemplates the publication of whole works or distinct parts of works, and hence differs from the volumes of extracts from the sources already available, which have been compiled chiefly for class use.

The three volumes already published reveal the success with which the

plans of the general editor are being carried out. The initial volume comprises in its first seventy-five pages the Vinland narrations as given in the *Saga of Eric the Red* and in the *Flat Island Book,* edited by Professor Olson. This is followed by the accounts of the four voyages of Columbus, concluding with a few documents relating to the Cabot voyages, all edited by Professor Bourne.

The second volume includes the contemporary accounts of the three most important Spanish explorations in the region now comprised in the southern part of the United States. These are Cabeza de Vaca's narrative of his remarkable wanderings, the account of the expedition of Hernando de Soto by the Gentleman of Elvas, and Pedo de Castañeda's narrative of the expedition of Coronado. Apart from the requirements of the series there was not the same necessity for the issuing of this particular volume as for the other two, as two of these narratives already have been published in handy and inexpensive form under the competent editorship of Messrs. Bourne and Winship respectively. In fact in the case of the expedition of De Soto, owing probably to the limited size of the volume, the present work is not as comprehensive, as it does not include either the narrative of De Biedma or Ranjel.

The third volume contains the three relations of Jacques Cartier and fourteen narratives of English seamen, chiefly during the reign of Queen Elizabeth. This volume is especially timely, in view of the present interest in the commemoration of the three hundreth anniversary of the settlement at Jamestown, as it includes the accounts of the most important voyages which prepared the way for the first permanent English colony. These narratives also disclose the ruling motives which actuated Englishmen in their efforts to colonize the new world.

The texts selected are the best, and the several special editors secured are men especially qualified for their particular work. Their task has been to supply introductions presenting briefly the author's career and opportunities, the place and value of his work in the literature of its class with comments upon previous editions, and a short list of authorities; in addition, to furnish annotations of a scholarly but simple character, sufficient to explain or to correct statements in the text.

If the remaining volumes are edited with a similar degree of skill and intelligence as these under review, the series will prove to be a most admirable one and will be recognized as a standard collection of source publications. We believe that the hope of the general editor that these volumes "will be widely useful in making more real and more vivid the apprehension of early American history" will be realized.

HERMAN V. AMES.

University of Pennsylvania.

Parsons, Elsie Clews. *"The Family."* Pp. xxv, 389. Price, $3.00. New York: G P. Putnam's Sons, 1906.

It is rather a singular commentary upon our times that a serious and able study of one of the most fundamental institutions in human society should have been so widely condemned, and its author abused and villified by many most prominent in the ministry and other professions. All of this came about because some one saw fit to publish a few sentences, taken from the context, which gave people the impression that the volume now under review was an attack upon the system of monogamy, and an appeal for sexual license. It is all the more disheartening to realize that at the time of this furore very few of those who participated in it could have read the book they so roundly condemned. On the other hand there must be hundreds of people who felt that they had received a gold brick when they found out the sort of book they had really purchased. All of this is deeply unfortunate, for Mrs. Parsons has given us the best book yet prepared for the student, whether in school or at home.

There are two methods of studying social institutions. The first is to take those to which one is accustomed, as the normal or perhaps even the final, and to condemn all deviations therefrom. The second is to study the different types of institutions appearing in various places on the earth, and to see why they have taken their peculiar forms, and to discuss their relative success. The first method is very commonly followed. It is easy and self-complimentary, and, moreover, present institutions have back of them legal and religious sanction. Mrs. Parsons, however, has wisely chosen the second course. Her method on any given subject is illustrated by, let us say, Lecture XIII, The Patriarchate. Eight pages are given to general discussion. This is followed by note A, a bibliography (one and a half pages); note B, quotations from various authors (two pages); note C, suggestions for individual study on relative topics; note D, descriptions of the patriarchate amongst various peoples, consisting largely of quotations (seventeen pages). It will thus be seen that the book is designed specifically for the student.

The volume begins with an introductory chapter, followed by fifteen lectures, all of them treated in much the same fashion as the one mentioned above. The mere title of these lectures will sufficiently indicate their subject matter. The Meaning of the Family in Evolution (five pages); The Duration of Parental Care among Mankind (seventeen pages); Social Factors in Birth and Child Death Rates (fifteen pages); Parental Power (twenty-nine pages); Home Education and Stages of Parenthood (twenty-one pages); Sexual Relations Exclusive of Marriage (twenty-four pages); The Form and Duration of Marriage (twenty-three pages); Sexual Choice (twenty-eight pages); Betrothal and Marriage Ceremonial, and Relations between Husband and Wife exclusive of Economic Relations (thirty-one pages); Economic Relations between Husband and Wife (twenty-five pages); The Reckoning of Descent and Kinship (eighteen pages); Kinship Groups—The Primitive Simple Family—The Compound Family—The Matriarchate (twenty-nine pages); The Patriarchate (twenty-nine pages); The Modern Simple Family

(twelve pages); Ethical Conditions (eighteen pages). The volume is concluded by translations of a questionnaire of Dr. Post's and the index.

It will thus be seen that with the exception of the last single short chapter we have a descriptive account of the family institution amongst various human races. No one therefore who has carefully read this book can take an exception to the standpoint of Mrs. Parsons on moral grounds. Mrs. Parsons believes that "as a matter of fact, truly monogamous relations seem to be those most conducive to emotional and intellectual development and to health, so that, quite apart from the question of prostitution, promiscuity is not desirable or even tolerable." She has been considering in the context immediately preceding this the evils of prostitution and the dual standards of sexual morality. In view of the evils she has been discussing she merely raises the question whether it might not be better to arrange more definitely than we now do by our haphazard system, for some sort of a marriage established with the view to permanency, but which, under certain conditions, might be terminated without incurring the censure of the public, if the marriage were unsuccessful and there were no children. Whether the author really advocates this, or whether one agrees with her if she does are matters of unimportance. The family is a human institution, under human control, and any suggestion from a serious student looking toward the removal of present evils, and a substitution of a better scheme is a matter of careful consideration, and not for indiscriminate condemnation of the one who makes it.

To all those who have occasion to study the family this scholarly, modest and able treatment is to be commended. The volume should have wide use in college and university class rooms, and of that larger group of students in various associations outside.

CARL KELSEY.

University of Pennsylvania.

Prentice, E. P. *The Federal Power over Carriers and Corporations.* Pp. xi, 244. Price, $1.50. New York: Macmillan Co., 1907.

This scholarly work covers a large and important subject with most commendable conciseness. Two of the eight chapters are notably strong, Chapter III on Gibbons *vs.* Ogden, and Chapter VII on the Anti-Trust Act. The discussion of Gibbons *vs.* Ogden brings out very clearly the precise scope and limits of Justice Marshall's famous decision. The treatment of the anti-trust law, although comprehensive, is less satisfactory.

The volume as a whole consists of an argument against the extension of the powers of the national government. From time to time throughout the book the author calls attention to the dangerous breadth being given by the federal courts to the national government. The author thinks great care should be taken to develop the powers and functions of the states. In the closing paragraph of the book he states:

"It is of great importance in all these matters, and particularly at the present time in commercial affairs, that state jurisdiction be not superseded,

but that the federal constitution be construed, as it has been, so as to prevent restrictions upon intercourse among the states; at the same time that each state is left free, so far as possible, to follow its own courses in the coming development."

The general nature of the author's arguments regarding the extension of federal power is indicated by the fact that he doubts the constitutionality of the regulation of interstate railroad rates by congress. The author's view is that the supreme court, in denying to the states the power to regulate interstate rates should, for the same reason, have denied their power to the federal government (page 136).

Mr. Prentice's views on the "trust" question are interesting, to say the least. He evidently regards the problem of monopoly and the "trust" question as relatively unimportant. He states:

"Individuals are now, as they have been, equal before the law. Competition is what it has been. There is no relaxation in the rules which forbid restraint of trade. Every person may engage in trade as he desires, and compete as he can. That his ability is limited only by his capacity, and by the extent of his resources, shows his complete freedom to overcome the competition of those who are weaker, and his danger before those who are stronger. It is mere confusion to define restraints of trade in terms of power, as the inability to compete successfully, or to attempt to apply the law which forbids restraints so as, if possible, to destroy by this provision the inequalities which other provisions create. . . . . The methods of competition are the same, however, whether conducted by small or great. The question is not of methods, but of the power of competition. When a dealer of large means, able to take advantage of economics which a great business makes possible, and having also the further advantage of a wide market, competes with a dealer of small means dependent upon comparatively expensive methods and a limited market, the small competitor reaches the end of its resources first. This cannot be changed by statutes regulating competition."

The above quotation indicates the character of the author's analysis of the "trust" question. There is nothing in the book regarding the flagrant violations of law by the Standard Oil Company and other trusts, nothing as to discriminations and as to the destructive warfare of the powerful against the weak by legal and illegal methods.

Viewing the "trust" problem as the author does, it is not surprising that he believes "That state jurisdiction is adequate to reach the commercial conditions from which has arisen the current demand for trust legislation, is shown by the fact that these conditions have been brought about by recent modification of state laws." Mr. Prentice's analysis of the "trust" problem leads him to conclude that "The supreme court, in construing the statute which is based upon the power of Congress to maintain intercourse among the states, has gone to the verge of federal jurisdiction. An extension of present doctrines could be made only by sacrifice of state authority for efficient local government, and—a matter of still greater importance—by overturning long-established principles of constitutional law" (page 211).

Mr. Prentice's argument regarding the federal power leads him naturally to conclude that federal incorporation of companies doing an interstate business would be unconstitutional and would work dangerous limitations upon the powers of the states. His views regarding federal licenses are equally strong, although he does not argue the constitutional questions involved in federal incorporation of licenses.

The foregoing criticisms indicate that Mr. Prentice's excellent work has serious limitations which are doubtless the result of his close identity with certain large corporations whose activities may be more or less affected by the enforcement of the anti-trust act.

EMORY R. JOHNSON

University of Pennsylvania.

Price, William Hyde. *The English Patents of Monopoly.* Harvard Economic Studies. Pp. xii, 261. Price, $1.50. Boston: Houghton, Mifflin & Co., 1906.

This is a subject that has waited surprisingly long for a monographist. Of equal interest to the student of both constitutional and economic history, falling within one of those periods on which the eyes of men have been directed with especial attention, giving occasion for more than one serious crisis in the reigns of the last of the Tudors and the first of the Stuarts, the system of patents of monopoly in the sixteenth and seventeenth centuries has been described previously only by the writers of the general narrative or economic history of England. It is not so much a matter of surprise therefore that a substantial volume, the first in the series of "Harvard Economic Studies," should be devoted to this subject as that it has not been separately treated before.

Mr. Price has devoted three chapters, about one quarter of his book, to the history of the system of monopolies, their origin, the opposition to them and their abolition and regulation. Twelve more chapters, something more than another quarter of the book are given to the industrial history of as many different classes of manufacturing or mining occupations under the régime of monopoly; and the remaining half of the book to a number of original documents and to bibliographical material. The system as a whole is thus described as an historical episode, examples of the policy analyzed with a view to economic criticism of the results, and the principal contemporary proofs and exemplifications given. The author identifies the régime of monopoly, in this sense, with the period from 1550 to 1640, practically the reigns of Elizabeth, James I and Charles I. During this time industrial, financial and political conditions all favored monopolies protected by the crown, and the book is practically a study of the results of crown grants and support of these monopolies.

The contemporary sources here printed or reprinted are interesting and useful, well-chosen and well-grouped, giving to the subject a reality and

comprehensibility that could hardly be gained except by having these significant documents thus selected and placed in juxtaposition. The bibliography also is obviously the result of familiarity with the subject, and good judgment and skill in selection. The narrative of the industrial experiences of the various patentees is also well told, though the contentious object of proving the disadvantages of a régime of government encouragement is rather unnecessarily obtruded. It might be as well to let the reader draw his own conclusions from the writer's plain unvarnished tale, the former being presumably as well qualified as the author to come to a decision, if only the latter will give him all the facts of the case. Nevertheless the history of the attempts to develop silver, lead, copper and zinc mines; to manufacture wire, glass, soap and starch; to mine and purify iron, alum and salt; to dress and dye cloth, are all interesting and suggestive. A characteristic phenomenon is the presence of foreigners in almost all these projects. It would seem that scarcely a single step in advance in industrial matters was taken without the initiative or the help of the foreign inventor or expert.

The six great steps in the "political" history of the régime of monopolies, as Mr. Price calls it, in contradistinction to the "industrial" history are the introduction of the custom of making such grants during the reign of Elizabeth, the promise of the queen in 1601 to allow the legality of all monopolies to be decided by the common-law courts, the decision against most of them by the court of King's Bench in 1603, the parliamentary statute still further limiting them in 1624, their recrudescence under Charles I, and the final definite action against them by the Long Parliament in 1640-41. This part of the work is apparently intended to be introductory to the more purely economic portion, rather than an adequate study in itself, and it might readily have been carried to much greater length without going outside its subject. Many forms of monopoly are here grouped together, though they come from quite different origins. Those which could claim a justification on the ground of introducing a new industry into the community are quietly appropriated by the author as the principal subject of interest, and as the typical monopolies, although much of the history of the movement belongs rather to other classes than to these. Altogether, this work, although of much interest and great value by no means exhausts the subject of patents of monopoly, as a matter of investigation and discussion.

E. P. Cheyney.

University of Pennsylvania.

Weale, B. L. P. *The Truce in the East and its Aftermath.* Pp. xv, 647. Price, $3.50. New York: Macmillan Co., 1907.

Mr Weale's book brings no reassurance to those who doubt the value of the treaty of Portsmouth. The outlook is gloomy for many reasons. Not the least of these is the present attitude of Japan. Mr. Weale fears that now Japan has been placed in so advantageous a position that she will bend all her efforts to obtaining exclusive privileges to the abandonment of the "open

door." The action of the government in Korea in taking over numerous branches of industry formerly in private hands shows that by indirection Japan may accomplish what she has bound herself not to do directly. This course the author holds is symptomatic of the whole Japanese official attitude of mind at present.

The arrogant attitude of the government is the more surprising, the author insists, because of the conditions under which peace was made. Russia, he asserts, was never in a better position to oppose Japanese advance than just at the end of the war. Possessed as she is now of the grain fields of Manchuria, still controlling six-sevenths of the province and two-thirds of the railway mileage, she is in a position which will strengthen rather than weaken her military position. It will be a surprise to many of the author's readers to have him assert, in addition to all this, that the loss of Port Arthur, "the leased territory which never did her any good" (p. 419), and the Liotung peninsula as a whole, is a positive advantage. Vladivostoc will be built up by cutting off the development of the Japanese railways in Manchuria by enforcing prohibitory rates on through freight. It is curious to note that the author speaks of the "protecting ice" which cuts off the port for so large a part of the year as if it too were an advantage—a condition which, if it is ever an advantage, is certainly one existing in war time only and not contributing to the development of a commercial emporium. In the arrogance of Japan, who unmindful of the fact that her economic position guarantees her the ultimate preponderance in Chinese foreign trade, wishes to get a monopoly of that commerce, and in the fact that Russia, holding the agricultural resources and the railroads on the north, is still "unconvinced by the war," lie the seeds of a future conflict which may make the past one look like a border foray. The present Anglo-Japanese alliance which the author thinks a regrettable mistake in British foreign policy may delay the clash till 1915, but that will only mean that the combatants will then be better fitted for the struggle. The rôle the other great powers will play in the East is not a decisive one—at least it will not give the first impulse to the course of events. Germany, formerly anxious for partition, now apparently an advocate of the open door (p. 444), may be counted on to wait, but would enjoy fishing in troubled waters. The United States is hesitant, and France, unless unforeseen developments occur, will be satisfied to devote her attention to her Indo-Chinese holdings. The greatest source of trouble is then still the clash of interests between Japan and Russia. The conflict here is almost sure to break out again—unless there can be developed in the next decade a new China. In that lies the hope of lasting peace in the Orient. Above all things now is the time for fusing conflicting interests, for winning over the intelligent portion of the Chinese people (p. 408). Fortunately the government is beginning to show some realization of this fact. The rising feeling of nationality opposing foreign enterprise in public works, the educational revival, the army development, the campaign for restricting extraterritoriality, the appreciation of rail power, financial reforms and many other developments, show that China has already partly awakened to the disadvan-

tages of her position. Yet, though the author evidently ardently hopes this may be the solution of affairs in the East, there is throughout his chapters an attitude of doubt born of the numerous disappointed hopes with which every observer of the Orient is familiar.

The last one-third of the book is taken up with a very valuable set of appendices, giving the recent treaties concerning the Far East, statistics as to naval equipment, studies of the foreign trade of China, the trade regulations and an excellent large map. For the student of Eastern affairs these are invaluable.

The book is an admirable presentation of the impressions of one of the closest observers of Oriental politics. The reader to fully appreciate the work must already have a fair knowledge of the Eastern situation. With such a background he will find this volume though a little anti-Japanese in tone, still on the whole clear, judicial and full of convincing statements of fact.

CHESTER LLOYD JONES.

University of Pennsylvania.

Webb, Sidney, and Beatrice. *English Local Government from the Revolution to the Municipal Corporation Act: The Parish and the County.* Pp. xxv, 664. Price $4.00. New York: Longmans, Green & Co., 1906.

This is a work of the greatest value and importance. When it shall have been completed,—and the earnest, scholarly work of its authors and their power of systematic presentation gives every hope that it will be satisfactorily completed,—but few fields of institutional history and practice will be provided with so adequate and suggestive a body of fundamental knowledge as the field of English local government and administration. This substantial volume describes the organization and history of the parish and county respectively, during the period lying between 1688 and 1835.

The characteristics that strike one most are the extent of the sources used, the freedom of the authors from preconceived theories, and their capacity to form theories or original views as they examine and classify their material. In their general treatment of the history of the parish, for instance, they turn aside alike from the militant anti-clericalism of Toulmin-Smith, the high church ecclesiastical dogmatism, and the vague derivations of the parish vestry from the old English village community, and devote themselves to an objective discussion of the documentary evidence actually forthcoming for this period. Thus the organization of the parish, with its boundaries, officers and vestry emerges in a comparatively clear, if not always consistent or uniform shape. The authors find that there have been on the whole three general types of parish government; that in which the work of local government was carried on by voluntary meetings of the inhabitants, appointing committees and engaging paid officers, that in which the work was carried on by a small body of the more well-to-do inhabitants, taking the unpaid parish offices in turn by common consent, and thirdly, that in which a "close vestry"

has obtained legal powers of self-perpetuation and local government and taxation. It is to an analysis and estimation of the success of these forms, and to the changes in them in the early nineteenth century, that the first book is devoted; drawing its information from hundreds of local records, and from casual references in general literature, the statutes, and legal decisions.

The description and history of the county which the authors make the subject of their second book, we should have placed first. Its officers were superior to those of the parish, its organization was more uniform. The lord lieutenant and the sheriff, the high constables and the coroners, and above all the justices of the peace had clearly ascertainable, if enormously varied, duties. Far the largest variety and extent of these duties was imposed upon the justices of the peace, and almost an even half of this whole volume is naturally and properly devoted to a history of the organization, personality, character and activities of these "men of all work" of the central government so far as it interested itself in local affairs.

One of the most admirable and useful features of this book is the reference and bibliographical material placed in the foot-notes. Every significant statement is given its authority, and information as to the source material on the subject is scattered throughout the whole work. Altogether it may be said that every student of English local history or administration will now have to read this book with care, and every such student is to be congratulated on having such a key to his subject.

Edward P. Cheyney.

University of Pennsylvania.

BONDS AS INVESTMENT SECURITIES

THE ANNALS

OF THE

American Academy of Political and Social Science

ISSUED BI-MONTHLY

VOL. XXX, No. 2 SEPTEMBER, 1907

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PHILADELPHIA

AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE

36th and Woodland Avenue

1907

The ACADEMY *is under special obligations to* **Walter Henry Hull**, *Ph.D., of the University of Chicago, for his co-operation in editing this volume. The publication was undertaken at his suggestion, he decided upon the titles of the papers, and gave the* ACADEMY *the names of the most qualified authors. He, also, corresponded with the writers to secure their contributions.*

Although this volume is as large as it is practicable to make the publications of the ACADEMY, *there are many phases of the subject of bonds not discussed in this work. Possibly the topics omitted may be treated in a subsequent issue of the* ANNALS. *It is believed that the twenty papers here published constitute an instructive contribution to an important branch of applied economics.*

THE EDITOR.

THE PROPER BASIS OF BOND ACCOUNTS WHEN HELD FOR INVESTMENT

By Charles E. Sprague, Ph.D., New York,
President, Union Dime Savings Institution, and Author of "The Accountancy of Investment."

A bond is a complex promise to pay,

1. A certain sum of money at a future time; this is known as the principal, or par.

2. Certain smaller sums, proportionate to the principal, and at various earlier times, these are usually known as the interest, but as they do not necessarily correspond to the true rate of interest, it will be better to speak of them as the *coupons*.

The sale of a bond is the transfer of the right to receive these various sums at the stipulated times. They are never worth their face, or par, until these times arrive, but are always at discount. The principal is never worth its face until its maturity; the coupons are never worth their face until their maturities. Yet while both principal and coupons are always at a discount, the aggregate may easily be worth more than the principal alone; and it is the aggregate, principal and coupons, which is the subject of the bargain.

The purchaser, in fixing the price which he is willing to pay, is guided by several considerations:

1. The amount of the principal.
2. The amount of each coupon.
3. The length of time to which the principal is deferred.
4. The number of coupons.
5. The times of their payments.
6. The rate of interest which can be earned upon securities of a similar grade.

He discounts the principal and each coupon at compound interest at such rate and for the times which they respectivly[1] have to run and the sum of these partial present-worths is the value of the bond. If he can buy at a price below this value he will receive a

[1]The abbreviated spelling is followed in this paper at the special request of the author.—The Editor.

higher rate of interest than he anticipated; if he is required to pay more than this price, he refuses to buy.

As he cashes each coupon, he receives what he paid for it plus interest at the uniform rate; thenceforward he earns interest on a diminisht investment so far as coupons are concerned, but on an increast investment as to principal. If each coupon is less than the total earning during its period there is an increase in the total investment; if it is greater, there is a surplus which operates to reduce the investment or to amortize the premium.

We have then two fixt points in the history of the bond: the original cost or money invested, and the principal sum or par, or money to be received at maturity. Between these two points there is a gradual change; if bought below par, the bond must rise to par; if above, it must sink to par; these changes being the effect of interest earned and coupons paid. At any intermediate moment there is an *investment-value* which can be calculated, and which is just as true as the original cost and the par. In fact these latter are merely cases of investment-value; the investment-value at the date of purchase is cost; the investment-value at the date of maturity is par.

The gradual change in the investment is ignored by some investors, who either use the original cost all thru, or the par. In the former case they suppose that the investment value remains at its original figure until the very day of maturity and is instantly reduced to par, by a loss of all the premium or a sudden gain of the discount. Those who use par as the investment-value assume also that there is this sudden change of value but that it took place at the instant of purchase.

These treatments are manifestly fictitious and unreal and only resorted to because the labor of computing intermediate values is shunned. Experience would tell us, if theory did not, that there is no such violent change. In any complete system of bookkeeping (popularly called double entry) the accounts representing assets and those representing profits and losses are mutually dependent. You cannot arbitrarily change a value without affecting and distorting the general profit-and-loss account. A year's actual gain might be swept away, on paper, by the investment, perhaps a very advantageous one, in a security at a premium.

The disappearance of premium being regarded as a consump-

tion of capital, instead of a return requiring reinvestment, the entire coupon is looked upon as income and the impairment of capital becomes actual. In case of a sale, the true profit or loss is unknown, the proceeds being compared either with a value which has past into history or one which is yet to be realized—not with a value which is adjusted to the present. The error in these faulty methods of accountancy arises from the assumption that interest is only earned when specifically collected in cash—that the coupon is exactly the measure of the interest earned.

When the bond is at par this is true: the coupon and the interest are co-extensiv. But if there is any premium or discount we must disregard the distinction between principal and interest and consider that the original investment goes on increasing at compound interest, period by period, but diminisht by the coupons and the final redemption. In other words, we must think of the coupons and the principal as merely instalments, the periodic instalments and the final one, but all of the same nature.

A familiar instance of interest earnings not represented by specific cash payment but by accretion is the discount of a note. If a three-months' note for $1,000 is discounted at 6 per cent, the investment is $985, which by accretion becomes $1,000. Altho interest is not mentioned, the purchaser earns $15, or more than 6 per cent, on his investment of $985. If the note were payable three years from now instead of three months, he would expect to earn compound interest and would pay, perhaps, $837.48. His earnings on this investment, compounded semi-annually, would bring the investment up to $1,000 in three years. This note would be equivalent to a bond without coupons; no interest is stipulated for, but interest is actually earned. If coupons were added, the bond would simply be worth so much more, according to their value.

I therefore regard the cost and the par value, while correct at the beginning and at the end of the period of ownership, as entirely incorrect during the interim. The true standard is the present worth, compound-discounted, of all *recipiends*, or sums of cash to be received whether called coupons or principal.

These three values resemble three tenses in grammar: the cost is the past, what *was* paid; the par is future, what *will be* received; the investment value is the *present*. There is a fourth value, which may be considered as in the potential mood; what *might be* obtained

on sale, at the present time. This is the *market value* and is a matter of judgment, opinion and inference. Some bonds are bought and sold so frequently that there is a current quotation which is fairly reliable; other issues, in which dealings are rarer, are valued by analogy with those whose conditions are nearest like them.

It may be observed here that the market value depends *solely* on the rate of interest which prevails on the particular grade of security. This has sometimes been doubted; even the courts have sometimes assumed that there could be a depreciation, regardless of interest-rate, for the "badness" of the investment; or a premium paid, regardless of interest-rate, for the "excellence" of the security. It is necessary to analyze this view which I regard as essentially unsound.

No one buys a bond by reason of admiration, as he would buy a painting or a statue. He is dealing solely in earnings, that is to say, in interest. He is impelled by no other motiv than that of receiving his money back with the increment which shall accrue in the meantime. If an investment is offered him which is superlativly "good," but which returns only what he originally invested without any increment, he will certainly refuse it.

The rate of interest, however, is affected by the risk of loss. Every rate of interest may be regarded as composed of two parts: one, a compensation for the use of the capital; the other, a premium of insurance against chances of loss. Thus an interest-rate of 5 per cent per annum may be conceived as

3% riskless interest or compensation for use of capital;
+ 2% premium for insurance against loss.

Another and safer investment, where the chance of loss is twice as remote, would rate at 4 per cent:

3% riskless interest;
+ 1% premium of insurance.

The chance of loss may be very remote, it may be imaginary, but it is worth insuring against. Similarly, the chance of any one house being destroyed by fire is remote, but men willingly pay a part of the income of the house to secure themselves against it. The loss feared in the case of investment is not merely direct loss, or failure to return, but losses by delay, by difficulty of collection, by expense of litigation, by the very feeling of suspense which acts as a penalty. An opinion that the loss is possible is exactly as

potent as the reality, in producing a loading of the rate on account of risk-insurance, provided this opinion is sufficiently widespread.

A lowering of the grade of security means an increase of the insurance-premium and hence of the rate of interest. This may happen by deterioration of the physical property which underlies the investment, by bad management, by accidental loss of custom and in various ways, preventable or non-preventable.

The other element in the interest-rate, the value of the use of capital, also fluctuates, as in times of capital famin or capital glut, in new countries as against old countries, and it is difficult to decide how much of the rate is due to this source and how much to insurance. But taking the rate as a whole, the question is, does the price of a bond ever vary except thru the interest-rate?

We may test this by experiment. Taking some railroad company which has fallen into misfortune and whose 3½ per cent bonds, once at a premium, are now below par, so that their present market price is equivalent to discounting all the recipiends at 4.50. If this depreciation is not entirely a consequence of this high rate of discount, if there is an intrinsic depreciation, it must apply to all obligations of the road. But if the same road now puts out bonds bearing 5 per cent interest under the same mortgage it will invariably be found that these will sell at a premium, on approximately the same (4½) basis.

We may deduce the following conclusions:

1. There is no sanctity in par; it is merely a convenient round sum to be received in the future.

2. There is no necessary identity between the size of the coupons, or periodical instalments, and the rate of interest.

3. All the recipiends (coupons and par) must be sold below par; their aggregate may amount to more or less than par or to exactly par.

4. The rate of interest is affected by the degree of belief in the certainty and punctuality of the payments; and this rate determins the price.

It may further be stated that no investment is so insecure that, theoretically, it will not be discounted at *some* rate. A $1,000 bond secured by something which must be annihilated at the end of five years but bearing 30 per cent semi-annual coupons would doubt-

less find purchasers at better than $400 and would be an advantageous purchase.

The market value is of absolutely no importance to an investor who does not contemplate changing the investment but will hold it to maturity. The ups and downs of the market do not in the least affect the value to him; if he were to record these fluctuations it would be merely to substitute an undulating zig-zag for the natural and logical curve of the investment value, since in either case the point of final rest is par at maturity. Such a case is that of a trustee who, under the decisions of the courts of New York, is bound to keep his trust intact, carrying the investments at their investment value and re-investing all in excess.

But to the investor who has the privilege of selling and replacing his investments, acquaintance with market values is highly advantageous. It is his guide to the advisability of making such changes and of forecasting the future. It is his duty therefore to watch the fluctuations of the market and, in a perfectly legitimate way, seek to improve his income, without impairing the factor of safety. A large investor will not endeavor to have all his investments at the same grade; he will probably have at the same time some capital out at high rates and some at lower. The money at high rates is not quite so secure, not quite so available, and requires more effort for its collection. That at lower rates is nearer to absolute freedom from risk and from labor; it almost automatically collects its own income. On some of the high-interest investments the security may have improved in the course of time; the credit of the municipality or the revenue of the corporation may have so risen that the 4 per cent bond which was bought at par is now selling at a premium which, if a further investment were made, would yield only 3½ per cent. If the bond has still ten years to run, he may sell at a profit of 4 per cent and thus have $104 to re-invest in some other 4 per cent security.

Altho the market price is of great utility, I do not admit that it can be introduced into the accountancy of investment. It is not an act nor a fact of the business; it is a statement of what *might* be done. When the bond just mentioned has gone up to 104, the owner has not gained a penny. He merely has an opportunity presented; if he lets it pass, the opportunity has not had the slightest effect on his financial status.

Unless the accounts are kept on the investment-value basis, he cannot even tell whether a certain price would result in a loss or a gain. If his books are kept on the basis of par, every sale above par will appear as a gain, tho it may be a losing bargain; while a comparison with original cost will be equally delusiv.

Where liquidation, entire or partial, is a possible contingency, as in a savings bank or an insurance company, market values are an appropriate basis for an estimate of solvency. It must be remembered, however, that solvency for *going on* and solvency for *winding up* are different matters and that in a going concern, going insolvency is primarily to be considered.

My conclusions as to the proper basis of accountancy for an investor are as follows:

1. Neither original cost nor ultimate par is a proper permanent basis, but the bond should enter at cost, which is a fact, and should go out at par, which is another fact.

2. During the interim the reduction from cost to par should take place gradually by the processes of amortization and accumulation at the basis-rate of true interest.

3. Information should be obtained of the fluctuations in market value, but these should not be carried into the accounts as actualities.

4. A list of market values should accompany the balance sheet of any concern which may be subject to liquidation for the purpose of showing its ability to liquidate.

From the point of view of the banker, the dealer in bonds, which to him are primarily merchandise and only incidentally investment, the conditions of a bond purchase are somewhat different from those outlined above. The banker is entitled to get interest at a fair rate on his current investment, whether the rate secured by his customer is high or low.

This is one of the expenses of his business and the coupons are a help in reducing it. I am of the opinion that the proper method is to treat the bond or lot of bonds as a whole; to debit the account first with the cost, then with interest actually paid to carry it by means of loan capital; to debit also interest on the balance or margin being own-capital, at the rate which could have

been obtained by loaning it elsewhere. As the coupons mature, their amount is credited and the resulting balance, which is net cost, must be exceeded in the sale to produce any profit. This balance forms the principal of the charge for the next period, and thus the banker receives compound interest.

This procedure, tho apparently different, is precisely analagous to that of the investor. The accretion of interest is charged up and the coupon credited off in both cases. With the investor the rate of interest is predetermined at the time of purchase; with the banker the rate is an actuality, frequently paid in cash, but always referable to a fair standard.

THE VALUATION OF BONDS ON AN INCOME BASIS

By Charles E. Sprague, Ph.D., New York,
President, Union Dime Savings Institution, and Author of "Extended Bond Tables."

Effect of premium or discount upon income basis—Nominal and effectiv rates of interest—Arrangement of tables—Experimental test of correctness—Valuation by discounting—Use of logarithms—Formula for values—Extent and closeness of tabular values—Intermediate times—"Flat"; "and interest"—Intermediate incomes—Correction of approximates—The "⅛ rule"—Intermediate nominal rates—Quarterly bonds—Annual bonds—Optional date of redemption—Redemption above or below par—Serial bonds—Finding the basis—The sinking fund theory.

If a bond for $1,000 is purchased at par and the interest is $50 per annum, it is evident that the income-basis to the investor is 5 per cent exactly, irrespectiv[1] of when the bond matures. If, however, the price is in the slightest degree greater than par, the interest on the capital invested is at a less rate than 5 per cent. For example, if the price paid is $1,250, the income-basis cannot be more than 4 per cent, for $50 is only 4 per cent of the capital invested. But this is not all; besides the reduction of rate produced by increase of principal, there is another cause at work: the $250 premium will have vanisht by the date of maturity, for the obligor will only pay the $1,000. The $250 must be repaid from the interest, reducing the rate, or income basis, still more.

In the same way it may be shown that if *less* than par were invested, the income-basis, or effectiv rate, would be *greater* than the nominal or cash rate, for two reasons: first, because the principal is less, and therefore $50 is a higher percentage of it; second, because of the increment which will be realized as the bond rises to par at maturity.

Thus there may be two different rates of interest on a bond, the nominal rate and the effectiv rate: or the cash rate and the income-basis. When the bond is at a premium, the cash rate is the higher; when the bond is below par, the cash rate is lower.

[1]The abbreviated spelling is followed in this paper at the special request of the author.—The Editor.

The cash-rate is based on par, the income-basis on the amount of the investment at the time being.

Computations have been made of the price at which a bond should be bought to yield at a certain income-basis, the following facts being known: the nominal rate per annum, and how frequently payable; the effectiv rate of income-basis required; and the length of time the bond has to run. These results are publisht in tables which are usually founded on half-yearly payments of interest, that being the prevalent custom. They present the values either to the nearest cent on one hundred dollars or to the nearest cent on one million dollars, the latter serving for more exact calculations than the former and on greater amounts of principal.

Before treating of the method of computing these tables we will take a result as given by them and test the assertion that it does actually yield a certain income-basis.

A bond for $1,000,000, 5 per cent cash interest, payable semi-annually, one and a half years to run, income basis 4 per cent. We turn to the tables and find from the smaller tables that the value of $100 would be $101.44. The more extended tables give the value of $1,000,000 as $1,014,419.42. We have now to see whether the investor who pays that price does actually receive 4 per cent on his investment.

The successiv values as given by the tables are:

1½ years	$1,014,419.42
1 year	1,009,707.80
½ year	1,004,901.96
At maturity	1,000,000.00

These values are all susceptible of the same proof.

Commencing with	$1,014,419.42
the interest for 6 months at 4 per cent on the sum is..	$20,288.39
But the value of the coupon is	25,000.00
and there is an excess of	$4,711.61
This is not income at all, but a repayment of part of the premium	14,419.42
which is now reduced to	$9,707.81

This agrees with the result from the table except one cent, the result of neglected fractions of a cent.

Taking the value	$1,009,707.81
2 per cent interest of which is	$20,194.16
we subtract this from	25,000.00
and have an excess of	$4,805.84
which reduces the value of the bond to	1,004,901.97

which again agrees with the table within a cent.

Repeating the process	$20,098.04
from	25,000.00
	$4,901.96

This completely exhausts the premium by the process known as *Amortization.*

Had the original figures been extended to mills instead of cents the discrepancy of one cent would have disappeared.

Had the figures been taken from the shorter table, substantially the same result would have been attained.

	101.44	1½ years
2.03		
2.50		
——	.47	
	100.97	1 year
2.02		
2.50		
——	.48	
	100.49	½ year
2.01		
2.50		
——	.49	
	100.00	maturity

Any value given in any of the tables may be tested by this

process; taking the value for one half-year earlier and then amortizing down.

Thus the cash-interest is a constant percentage of par, while the income is a constant percentage of the diminishing principal actually remaining invested; such diminution or amortization being effected by using the excess of cash-interest over effectiv income.

Exactly the opposit course is taken in case of a bond below par; the difference between the nominal and the effectiv interest adds to the value and by accumulation brings it to par at maturity.

These tables might have been computed (with considerable labor) by simple arithmetic. It is only necessary to discount the total to be received, including the coupon.

Thus, the 5 per cent bond already mentioned calls for the payment

at maturity of	$1,025,000.00
Dividing this by 1.02, we have as the value six months earlier	1,004,901.96
Adding	25,000.00
	$1,029,901.96
and, again dividing by 1.02, we get	1,009,707.80
Again adding	25,000.00
	$1,034,707.80
divided by 1.02	1,014,419.42

These results again agree with those given in the tables. This discounting-method might be practically used for a few periods if the income rate is a very complicated one, not found in the tables, but it would be very tedious if continued for, say, 100 periods or fifty years.

By the use of logarithms a value for a large number of periods may be found almost as quickly as for a small number. Only one of the necessary factors requires the use of logarithms; the rest of the operation is easier by simple multiplication and division.

We will give the algebraic formula for obtaining the premium or discount, using the following notations: i the rate of interest per

period exprest decimally; n, the number of periods; c, the cash income of $1, or nominal rate. Then the value of a $1 bond is

$$1+\frac{c-i}{i}\times\left(1-\frac{1}{(1+i)^n}\right)$$

If $c > i$, the result will be greater than unity; if $c > i$, the result will be less than unity.

The only quantity which necessitates the use of logarithms is $\frac{1}{(1+i)^n}$ or, as it might be written $(1+i)^{-n}$. This is the present worth of $1 payable n periods hence at the rate i. When this has been accurately obtained, the rest is easy. This present worth might also be found from tables of compound interest.

The bond-tables vary as to their range of time, of cash rate, of income basis. As to time, they usually give each half-year up to 50 years, sometimes extended to 100 by jumps of 5 years or 2½ years. As to nominal, or cash rate, they usually comprise the following rates, or the most of them: 2 per cent bonds, 2½, 3, 3½, 3.65, 4, 4½, 5, 6, 7. They do not usually cover the odd rates which sometimes occur, such as 3.60, 3.75, or 3.80 per cent bonds. These are easily derived. As to income-basis, some of them advance by eighths, thus, 3, 3⅛, 3¼, 3⅜, 3½, 3⅝, 3¾, 3⅞, 4 per cent basis, etc. Other tables advance by tenths of 1 per cent, like 3, 3.10, 3.20, 3.30, 3.40, etc. Others still advance by twentieths, 3, 3.05, 3.10, 3.15, 3.20, 3.25, etc., and this is the closest regular advance given by any tables yet publisht. In all of these particulars, intermediates may be interpolated; intermediate times, intermediate cash-rates, intermediate bases of interest. The means of interpolation will now be explained.

The above examples refer to entire periods, not to times comprising odd months or days. When the time falls in the midst of a term or period, there are two ways of stating the price: "flat," or "and interest." The former includes the interest which, at cash-rate, has accrued since the last interest-day; the latter excludes this accrued interest.

If in the example above the time were one year and three months instead of one year and six months,
the price would be .....$1,024,563.61 flat

or ..... 1,012,063.61 and interest
As the accrued interest for 3 months at 5
per cent is 12,500.00
it is evident that these two express the same values.

The flat price may be found by multiplication and the price ex-interest by proportion.

If we take the value $1,014,419.42
and to it add interest thereon for 3 months at 4
per cent 10,144.19

we have the flat price $1,024,563.61

If we take a value halfway between.....$1,014,419.42
and the one-year value 1,009,707.80

We have the and-interest price $1,012,063.61

The latter method is generally considered the simpler. It consists in proportioning the amortization for the period to the time elapsed: $^1/_{180}$ of the six months amortization being supposed to "run off" each day. The "360-day" rule is now the only one used for accrued interest, having been adopted by the leading brokers in New York a few years ago.

It may be remarkt that this rule for intermediate dates rests upon custom and convenience, but is not absolutely correct, nor equitable as between buyer and seller. The buyer advances the accrued interest, which is like a non-interest-bearing loan to the seller for the remainder of the term. The buyer might claim, and perhaps legally, that the price is the present worth for the unfinisht time, obtained by discount. For times less than six months this is frequently done. Thus, a three-months' value of the same bond by the ordinary brokers' rule would be

$1,002,450.98 and interest
or 1,014,950.98 flat

By discount, it would be $1,025,000 ÷
1.01, or ..... 1,014,851.49 flat
a difference of 99.49

The buyer would support his claim by the following calculation:

If I invest $1,014,851.49
I am entitled to 1 per cent on my money for the quarter, as our contract calls for a yield to me at 4 per cent per annum; 1 per cent is 10,148.51

and I receive exactly the amount $1,025,000.00

But if I invest $1,014,950.98
Interest on that is 10,149.51

and I ought to receive $1,025,100.49
What I do receive is only 1,025,000.00

and I lose $100.49

Neither of these methods gives to both buyer and seller the same rate of income. The exact value for that purpose would be $1,014,901.23, about halfway between the two results by multiplication and division; and this would yield to each a rate *equivalent* to 2 per cent per half year; not 1 per cent, but .995049 per cent.

A basis of income intermediate to those given in the table may often be required. For example, if the table gives the values at 2.50 and at 2.60, it may be desired to find the value at 2.54 or 2.55 or 2.56. The midway rate, 2.55, is more frequently needed than any other. Both in the shorter and the more extended tables these intermediates are first found approximately by simple proportion. A 7 per cent bond for 50 years at a 2.50 per cent basis

is quoted at 228.03
a 2.60 basis at 222.72
the difference 5.31
represents 10 points;
5 points would be 2.655
therefore the value for a 2.55 basis would be 225.375
approximately.

To correct this, we must set down three successiv values; and in two columns alongside, their differences and the difference of these differences, called a "second difference."

		First Difference	Second Difference
2.50 per cent	228.03	5.31	.19
2.60 per cent	222.72	5.12	
2.70 per cent	217.60		

The correction always consists in *subtracting one-eighth of the second difference* from the approximate value.

Approximate value	225.375
One-eighth of .19	.024
Corrected value	225.351

This value would in practice be "rounded off" to 225.35. The actual value extended to 6 decimals is 225.351754.

This correction need only be applied to high values; for less than 23 years there can be no second difference large enough to affect the result. The extended tables have, or should have, auxiliary tables for correcting the approximate values exactly or within a cent or two, and this may be done without even the trouble of the differencing process. The "⅛" rule for correcting the short tables was devised by the writer and has not, so far as he knows, appeared before in print.

We have now explained the method of interpolating odd times and odd bases, in each of which a fair approximation is obtained by merely dividing the interval into equal parts. When we come to the cash rate, no correction is needed; the 5 per cent bond on any income basis is exactly midway between the 4 per cent and the 6 per cent. Any bond at an odd rate may be derived from the values of the next regular rates above and below. Thus, on a 2.50 basis for 25 years, the value of a $4^1/_3$ per cent bond might be found thus:

5 per cent bond	146.27
4 per cent bond	127.76
Difference	18.51
$^1/_3$ difference	6.17
which, added to the 4 per cent, gives	133.93

as the value of a $4^1/_3$ per cent bond, if such a bond were issued.

Some bonds provide for paying interest every quarter instead of every half-year. If we take two bonds, both nominally 5 per cent per annum, the one quarterly and the other semi-annually; the former, *on the same income-basis,* is worth a higher premium. Let us suppose that each is on a 4 per cent *semi-annual basis;* it

will not do to have one basis quarterly and the other semi-annual, for these would not be the same. The bond being supposed to be one for $1,000,

the quarterly coupon is	$12.50
The holder of the coupon has the use of this during the other quarter, and this is worth, at 4 per cent	.12
At the end of the half-year there is another coupon	12.50
so that this bond pays	$25.12
as against the other's	25.00

that is 5.025 per cent instead of 5 per cent. As .025 equals $^1/_{40}$, we must add to the value at 5 per cent $^1/_{40}$ of the difference between the 5 per cent and the 6 per cent values.

Let us try this on a 10-year value. We find opposit the 4 per cent basis

in the 6 per cent table	$1,163.51
in the 5 per cent table	1,081.76
Difference	$81.75
$^1/_{40}$ of which is	$2.04
and this added to	1,081.76
gives the value of the quarterly bond	$1,083.80

on a basis of 4 per cent *semi-annual.*

The mistake is often made of giving the basis as well as the cash rate quarterly; for example, expecting the bond whose nominal rate is 5 per cent quarterly to yield an income-basis of 4 per cent, also quarterly. To yield that basis it would be worth only $1,082.09. But this would be of no value for purposes of comparison with the half-yearly bond; the basis must be *identical* in all respects. Annual bonds are *less* valuable on a given income-basis than semi-annual, and the reasoning is much the same.

Both for quarterly and for annual bonds, some bond-tables give multipliers for finding how much should be added or subtracted to compensate for the change in time of interest payment.

Some bonds have a double date of maturity, they are positivly payable at a certain date, but redeemable at an earlier date, at the

option of the borrower. What date is then to be taken as the date of maturity?

In all such cases the investor should, in order to be safe, not reckon upon the alternativ which is in his favor, but on the one which is adverse. His interests and those of the borrower are naturally antagonistic, and the option will be exercised in favor of the one holding it.

Consequently, the investor who pays a premium must expect the bond to be called in at the earlier date, but he who buys at a discount must expect to hold to maturity. If it does not turn out that way, there is an incidental gain, due to one of two causes: either the general rate of interest has lowered or the security for this particular loan has increast, bringing it into a higher grade, that is to say, lower interest. In the former case, the investor's good fortune is offset by the less favorable chance for re-investment; in the latter case, he has a real profit.

Sometimes the option of redemption exists, but not at par. A bond may be absolutely payable in 50 years, but redeemable after 25 years at 105. The principle of expecting the worse alternativ is here applied in a different manner. First, assuming the longer period to rule, ascertain whether, at the redemption date, the amortization will have brought the bond below 105 or not. If the price on the same income basis will be below 105 at the redemption date, then the redemption should be assumed to fail of accomplishment and the bond will run for the full fifty years. But if the sum invested is so much greater that amortization will not bring it below 105 at the twenty-fifth year, then the bond is a 25-year bond for 105, not a 50-year one for 100.

Bonds are often issued in serial form. They do not come due all at one time, but so many each year; for example, an issue of $10,000 payable $1,000 in 10 years, $1,000 in 11 years, $1,000 in 12 years, and so on, the last being payable 19 years from the date of issue. A very common but erroneous manner of valuing such a series is to consider it all payable at the "average date," which would be 14½ years, the arithmetical mean between 10 and 19. By adding together the values at some given income-basis it will be seen that this is incorrect; it is unjust to the buyer if above par, and unjust to the seller if below par. The only correct way is to

take from the tables the values for the respectiv time each bond has to run and add all these together; what is known among brokers as "separate maturities."

The question, so far, has been: what is the value at a certain basis? The converse question, What is the basis of a certain value? cannot be solved by any direct mathematical process, but the actuarial writers give approximate formulas which are rather complicated. The writer has discovered a simple method of gradual approximation which is now publisht for the first time.

Let us give the name of trial-divisor to the difference between the values of a 4 per cent and a 5 per cent bond on the same basis and for the same time; or, what is the same thing, between a 5 per cent and a 6 per cent, or a 3 per cent and a 4 per cent; always 1 per cent difference in the nominal rates.

Assume arbitrarily for trial any income rate; the nearer to the true rate as indicated by the tables the less the work of approximation. Find the trial-divisor at this trial rate. Divide the given premium (or discount) by this trial-divisor. The quotient is to be subtracted from the nominal rate if the bond is above par, or added to it if below par; the result will be an approximate rate which will be nearer the truth than the trial rate, being too great when the trial rate is too small and *vice versa*. This approximate may be used as a new trial rate and will result in a still closer approximation.

For example, take a 4 per cent bond, twenty-five years to run, selling at 114.00 what is the basis?

Nominal rate 4, premium 14, let 3 per cent be the assumed rate. By any tables a 4 per cent bond at a 3 per cent basis for twenty-five years is worth 117.50
and a 5 per cent bond is worth 135.00
The trial-divisor is therefore 17.50
$14 \div 17.50 = .80$; $4 - .80 = 3.20$. 3.20 is therefore a nearer approximation than 3 per cent.

We now assume 3.20 as a trial rate. Trial-divisor for 3.20. $130.81 - 113.70 = 17.11$. $14 \div 17.11 = .818$. $4 - .818 = 3.182$.

We now assume 3.18 as a trial rate. 17.31 being the trial-divisor for 3.10 and 17.11 that for 3.20, it follows that 17.15 is the trial-divisor for 3.18. $14 \div 17.15 = .816$. $4 - .816 = 3.184$. As

3.182 is too small and 3.184 is too great, it is safe to take the rate as between the two and nearer to 3.184. Without the use of more extended tables, it is safe to say that the basis is 3.18 to the second decimal.

Had more extended tables been used, with auxiliary differences, this mode of approximation would have been unnecessary, altho it might have been applied. The value at 3.18 would be given directly as 114.0125+, and by arithmetical interpolation the rate required would appear as 3.18367.

The re-investment of the instalments of amortization has nothing to do with the fact that a certain effectiv rate of interest *has been earned* by the capital so long as it was invested in this form. The re-investment is a new operation dealing with the future, and does not affect the past. The few writers who asume that the whole theory of amortization depends upon the creation of a sinking-fund to be utilized at maturity but not before, and who have made present values depend on an arbitrary rate of 4 per cent in the accumulation of this sinking-fund, hold opinions contrary to those of the most eminent actuarial writers.

It might as well be claimed that a serial issue of 5 per cent bonds at par, payable $1,000 each year, did not pay 5 per cent because you could not re-invest each $1,000 so as to pay 5 per cent up to the last maturity. A bond at a premium is practically a serial bond, the successiv repayments not being uniform like this $1,000 series, and the last being much larger than any of the preceding ones.

BOND REDEMPTION AND SINKING FUNDS

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Sinking funds in private finance are payments made by a corporation to the trustee of its bonds, to be devoted to the retirement of the bonds either at maturity, serially, or in instalments, usually annual. In kind, the sinking funds present an almost infinite variety. In effect, they are uniform. They tend to reduce the outstanding liabilities against the property of the corporation, and hence to enhance the value of the equity represented by the stock of that corporation.

In the case of public finance, government bonds, state bonds and municipals, the principle of the sinking fund is slightly different. The government and the municipality are not usually in business. They have no revenues except taxes, in one form or another. If it be accepted as an axiom that the public debt must be kept down to a fair parity with the property owned or governed by the public, then sinking funds become an expedient that comes close to being a necessity. For the correct principle of public taxation is that the people who enjoy, and benefit from, the public debt should be the people to pay it off. For instance, the people of New Rochelle, N. Y., decide to build new fire stations. Bonds are issued for those stations. The bonds have thirty years to run. It would not be right to allow the people of 1937 to meet the whole burden of paying off this debt, which will represent at that time not the new, efficient, and necessary plant of to-day, but a plant thirty years old, and probably obsolete. If such a bond be allowed to run to maturity without some sinking fund provision the people of 1937 will probably be obliged to finance not merely the maturing bonds but an additional amount sufficient to rebuild the plant from top to bottom. It is by such short-sighted methods that governments, and more especially local municipal governments, run into disastrous debt.

It is well to take up the question of corporation sinking funds somewhat *in extenso* before turning to the consideration of state

sinking funds in detail. In general, the writer does not believe that sinking funds for corporation bonds are good finance. The following objections may be noted:

1. *A certain sum to be used each year from current revenues to purchase the bonds of a certain issue at 110 and interest, or other such price. Illustration, the Nebraska Extension 4's, Chicago, Burlington and Quincy, 1927.*

A sinking fund of this sort establishes a fictitious price. In the case in point, it means that the revenues of the stockholders are diverted to the purchase of bonds at 110, which will, if allowed to run, be paid off at 100. Since the issue is a large one, the waste seems to aggregate nearly $2,500,000. There seems no good reason for the sinking fund at all.

2. *A certain sum to be set aside to be used in the purchase of a certain bond at certain times at a fixed price, or in other securities if the bonds named cannot be secured at the price. Illustration, Burlington and Missouri River, in Nebraska Sinking Fund debenture 4's.*

Such a sinking fund is of little or no use to the holders of the bonds in a receivership, because, after all, their main reliance must be in the property pledged under the mortgage. Moreover, in nine cases out of ten the other securities purchased are the bonds of other issues of the same system, and therefore exposed to the same risks as the bonds retired. Suppose, for instance, that this issue was found at maturity balanced in the accounts of the company against a collection of other branch line bonds of the Burlington system. What funds would be used to pay the holders of these bonds? Clearly, unless the company happened to have a great amount of cash on hand, it would be necessary either to sell the divisional bonds in the treasury or else re-finance the maturing bonds in some other bonds or stock. It is rather difficult to find out what advantage has been gained through the sinking fund, so far as the payment of the debt is concerned.

3. *A certain sum to be set aside to retire or call a certain amount of the bonds each year, say at par. Illustration, Republican Valley Railroad 6's.*

Few investors desire to purchase a bond that may be forcibly taken away from them at any time by lot. In particular, they do not want to buy such a bond at any price above the figure at which

it may be called. Of course, shrewd dealers figure the chances on such redemption, and often establish a price above the call price, but the average investor does not care for that kind of chances in his use of money. In some European countries municipal bonds are created with such an element of chance in the drawing for redemption that they come very close to the lottery ticket in their nature. If a man happen to get an early redemption, his profits may be over 20 per cent in the year. That is not a correct principle to introduce into the bond market.

4. *A certain sum to be set aside to purchase the bonds at a certain price, or to be used at the discretion of the trustees if the bonds cannot be obtained at that price. Illustration, Lincoln and Northwestern Railroad 7's.*

This provision speaks for itself. The fact that it is found mostly in very small mortgages on big systems reveals the doubt that naturally hovers around it. Suppose that it were applied to a mortgage for $100,000,000, with an annual sinking fund of $2,000,000. It would then provide the trustee, in years when the bonds were too high, with a comfortable little fund with which he could do pretty much as he liked, within reason. Certainly, the principle of such a provision is susceptible of no defense.

In general, there can be little defense of the sinking fund as a financial expedient in railroad or corporation finance. It is difficult to see by what right the stockholders of the Chicago, Burlington and Quincy are asked to give up each year over $700,000 of their revenue to form a fund for the protection of the bondholders. If it were a fact that the property upon which the bonds are liens was wasting through decay, or deteriorating through use, then there would be some reason in it; but since the mortgage in most cases provides that no such waste or decay may take place, and since the stockholders yearly contribute in maintenance charges more than enough to keep the property in the condition called for under the mortgage, it seems transparent that the sinking fund charge is a burden quite unnecessary, and perhaps even unjust.

Of course, it may be argued that the stockholders get the ultimate benefit of the retirement of the bonds. When a student of finance undertakes to analyze the value of the stock of the Chicago, Burlington and Quincy he always reckons the sinking funds as belonging to the stockholders. But the average stockholder would

much prefer to have his profits in money. In the case in point, the old stockholders of the Burlington, whose sacrifices built up the sinking funds so largely, sold out of their stock in the years that followed the great decline of the early days of the last decade, and the profit of the self-sacrifice made by those stockholders has gone to Mr. J. J. Hill and his friends, or to the Great Northern and the Northern Pacific it may be. In a general way, it is not usually a good thing for the stockholder to be quixotic, or to build with an eye single to the interests of to-morrow, for the history of our great corporations has shown indubitably that where one sows, often in tears, another reaps in joy.

The principle of the sinking fund in operation in the bonds of a corporation of this nature is hardly defensible, yet many have defended it. In this past year, so able a financial writer as Mr. Edgar Van Deusen, former instructor in finance at Tuck School, Dartmouth College, writing in the "Bankers' Magazine," stated his thesis in the following words:

"It is a significant fact that all the strong companies of the Northwest have developed in connection with their sinking fund policy, until to-day they occupy an almost impregnable position. The sinking fund, besides constituting a safety fund for those particular bondholders, furnishes a proper outlet for the uncommonly large earnings of strong corporations. It may be claimed that exceptional earnings should be paid to shareholders rather than held as a trust fund for the benefit of a certain class of creditors. But where this latter course is followed, and the indebtedness proportionately reduced until the property is so far free from encumbrance, the sinking fund payments *ultimately* accrue to the benefit of the stockholder through the resultant increase in the absolute value of the property, while in the meantime of protection to the bondholder. Furthermore, unusually high dividends are never paid regularly to stockholders, but the surplus remains as an unappropriated fund which may be easily 'juggled' by an unscrupulous management for their own advantage and the company's possible detriment, when it has no predetermined use as a sinking fund. Such a provision, accordingly, seems desirable to both bond and stockholder, even in the case of strong corporations."

Since this view is widely held, and has many strong advocates, it is as well to take it up in some detail. Let us look,

for instance, at the "strong companies of the Northwest," above referred to. Did the profits through sinking funds "ultimately accrue" to the stockholders who provided them? The Union Pacific, the Oregon Short Line, the Oregon Railroad and Navigation Company and the Northern Pacific passed through reorganizations of various sorts, and it is difficult to see how the original self-sacrifice of the old Northern Pacific Railway stockholders has been repaid in profits. Without going into detail with regard to the various changes that have come to the roads above mentioned, it may be stated that they are evidently not meant in Mr. Van Deusen's statement.

He refers, then, to the Burlington, the Northwestern and the Great Northern. The last named has about $12,000,000 in its sinking funds, in the old bonds of the St. P., M. & M. R. R. The writer has never heard it advanced as a great reason for the value of the stock of the Great Northern Railway that this sinking fund existed, and he cannot believe that it is more than an infinitesimal factor in the value of that stock. The case of the Burlington is touched upon in previous paragraphs. The Chicago and Northwestern is a better client for the advocate of the sinking fund, but even here it would be difficult to prove that more than a very small percentage of the stockholders who built up the sinking funds to over $10,000,000 in 1901 reaped much advantage from the prices that have ruled in this stock this past year or two; for the road was nearly captured by the Moore Brothers and their associates in 1902, and the ownership shifted radically.

As to the "juggling" with the surplus, such an episode is surely rare. The great magnates seldom confine their "juggling" to the small amounts that accrue to the income surplus from year to year. The "juggling" of the Rock Island, the Cincinnati, Hamilton and Dayton, the Pere Marquette, the Chicago and Alton, the Union Pacific, was not done through an income account. It was done through capital account in almost every instance. Men have at times "rifled the sinking funds," plundered the capital account, split the stocks, robbed the improvement accounts and done various other high-handed acts of financial piracy for personal gains on a large scale, but I cannot recall a case from my own experience where any great financial wrong was worked upon the stockholders through the appropriation of the income surplus. Petty wrongs

are easy to remember, but "juggling" on a large scale has always been done through other agencies.

Turning from the strong companies, it is time to make inquiry as to the effect of a sinking fund on the weak companies. The history of finance tells the story clearly enough. In cases where it has become necessary to save the corporation, the sinking funds are passed without much hesitation. It will be found that it is difficult, in many cases impossible, to enforce the payment of the sinking fund as strictly as one may enforce the payment of interest or principal. As a matter of sober fact, the trustee of the mortgage is generally found to be pretty complacent, and he will not go into court to throw the road into the hands of a receiver to collect the sinking fund. If he should do so, and there should be a sudden collapse in the prices of the bonds, the bondholders would be the first to execrate him. A sinking fund is not supposed to break a company. A weak corporation, striving to build up its property, can gain no benefit through being obliged to take in some of its older and better established bonds each year. If the money used for such a purpose is appropriated directly for improvements and additions, the benefit is far more direct and the company gains far more strength than it could gain through the sinking fund.

That this is recognized may be happily illustrated from the record of the Rock Island Company. When the Chicago, Rock Island and Pacific Railway Company bought the Choctaw, Oklahoma and Gulf it issued for that stock its collateral trust bonds, payable in series up to 1918. No provision was made at the time for paying the annual instalments, amounting to about $1,475,000, except from the earnings of the Chicago, Rock Island and Pacific. It was soon seen, however, that the payment out of income was a burden, and surely an unjust one, for why should the stockholders sacrifice a large part of their surplus to buy stocks for the capital account? Therefore, when the refunding mortgage was made, in 1904, provision was made under it for the payment of these serial instalments. To-day the Rock Island appropriates its income surplus directly for the purchase of equipment and for improvements. Who will say that the change is not to the benefit both of the property and its stockholders?

It is as well, having gone thus far in the discussion, to define this criticism of the sinking fund principle, lest it be thought that

the criticism applies with equal force to *all* corporation sinking funds. The conclusion to which the study of the question points may be stated as follows:

That sinking funds are not advisable, but rather are unjust, when applied to bonds that are issued to purchase or create permanent additions to the capital account, or properties that will permanently establish new earning capacity for the property of the corporation.

It is on this word "permanent" that the whole discussion hinges. When bonds are issued to purchase some property that will waste with time or will entirely disappear in a few years, taking its earning capacity with it, the sinking fund is not only advisable, but it is necessary, if the corporation will avoid the evil of stock and bond watering. If a company issues $4,000,000 of bonds to purchase a coal mine containing 2,000,000 tons of coal, and takes all the coal out within five years, the bonds remain as a permanent charge against the earnings of the corporation, and future stockholders are assessed to pay interest on capital from which they derive not one dollar of benefit. In every such case there should be a sinking fund.

A good sinking fund of this sort, established on a sensible and sane, but rather peculiar, principle, is the fund of the Reading Company and Philadelphia and Reading Coal and Iron joint general gold 4's, of 1997. The sinking fund provision is as follows:

"That the Reading Company shall not, in any year, pay a dividend on either class of stock until it shall have paid to the trustee five cents per ton of anthracite coal mined in the preceding year from the Coal and Iron Company's lands to an amount not exceeding the amount of dividends in such preceding year. This sum is applied to the purchase of these bonds, at not exceeding par. If bonds are not obtainable at that price, the fund is to be invested in such securities as are legal for New York savings banks."

For the sake of clearness, the provision is here taken from Moody's Manual for 1907, rather than from the mortgage.

Similar funds will be found in operation in nearly all conservative coal mining companies, though the provisions as to call price, investments, etc., will vary in each case. The principle, of course, is that the bonds shall be retired contemporaneously with the exhaustion of the coal. Similar arrangements are usually

made in the bonding of a lumber tract, a land company, or any body of property purchased to be resold. The Canadian Pacific has recently retired the last of its land grant bonds against balances unpaid by the purchasers. In such mortgages, where agricultural land underlies the mortgage, a sinking fund is usually based upon a percentage of the aggregate amount received in any one year for lands sold; but this, of course, is arbitrary, and varies greatly. It will be found that the railroads of the United States generally observe as axiomatic that such wasting properties as land, timber and coal demand a sinking fund on the bonds. In respect to coal, the same principle is generally observed throughout the long list of small independent companies.

Unfortunately the industrial companies are not, as a rule, so soundly financed in this respect as are the railroads. The United States Steel Corporation and many others of the big companies have established sinking funds with their bonds on wasting properties, but only a small percentage of the little, scattered companies have been so conservative. Frequent cases could be cited where a lumber development company, a paper company, a land company, or a mining company has depleted its fixed assets year by year, paid dividends to its stockholders, then finally left the bondholders to foreclose on stripped timber lands or empty holes in the ground. It is too ordinary a story to need elaboration.

From this fact arises the rule, so strongly enforced in conservative banking circles, that all industrial bonds must be carefully scrutinized before purchased. It is not advisable to make any permanent investment in industrial bonds secured on wasting properties unless the sinking funds are liberal. In a very general way the nature of the sinking funds for various industrial corporations may be itemized:

Coal Company.—A royalty of two cents to ten cents per ton mined, per annum, to be invested in the bonds at a fixed price. Drawing by lot is advisable.

Land Company.—Fixed sum per acre or lot sold, the aggregate amount being sufficient to retire the whole issue contemporaneously with the sale of the last acre or lot.

Manufacturing Company.—An annual "renewal fund," quite apart from the "improvement fund," sufficient to replace the plant when it is worn out. The period varies. If the machinery will

last ten years, on an average, the fund should be ten per cent of the cost, or of the bonds issued for plant. A manufacturing plant without this sinking fund against its bonds, or stocks, or floating liabilities is practically certain to over-capitalize sooner or later.

Lumber or Paper Company.—A charge of so much per thousand feet on lumber cut, or so much a cord on pulpwood cut, sufficient to retire the bonds at exhaustion of the property. This fund should be compulsory, and clearly stated as such in the mortgage, with proper penalties attached.

Steamship Company.—Annual "depreciation fund" sufficient to replace the tonnage in the fleet when worn out.

This is, of course, intended to be merely an illustration of the principle upon which the sinking funds should be established. It is not at all intended to be exhaustive. It is not too much to say that every manufacturing company that issues bonds against its buildings, its plants, its supplies of raw material, must have sinking funds. If it does not, its business will have to carry an ever-increasing burden of capital. Suppose a sugar company has outstanding $50,000 of five per cent bonds against its plant, maturing in thirty years. The entire plant will be worn out in fifteen years, let us say. New buildings must be erected and new machinery put in. How is it going to be done? If there has been no sinking fund, that issue of $50,000 must stand as a first lien against the renewed plant. Presumably it will take at least as much again to renew. The debt against the plant at the maturity of the first mortgage will be $100,000. If there have been no sinking funds at all, the plant will be again worn out, and the assets of the bonds maturing will be practically nil.

Turning again to the railroad field, attention to-day centers upon the question of paying for the millions of dollars' worth of new engines and cars that are constantly made necessary by the increasing flood of traffic. Here is a field in which the sinking fund principle is generally insisted on by the best and most conservative critics. In general, the critics take the ground that all equipment added to the rolls of an established railroad system should be paid for out of current earnings within the lifetime of the equipment. In cases where the accumulated earnings are not sufficient to pay for the required engines and cars in a lump sum, the sale of serial equipment bonds or notes—usually called equipment trusts—is ap-

proved. The most extreme of the critics would not allow the permanent bonding of any new equipment except what is included in the original cost of the completed property.

As railroad editor of the *Wall Street Journal,* the writer, on a previous occasion, took this attitude in criticising the new refunding mortgages of the Chicago, Rock Island and Pacific and the Colorado and Southern, when they were created. It seemed right to deplore the tendency of the financiers at the present time to place practically all their new equipment under permanent mortgages. That this tendency exists is well known. Yet reflection and study of the equipment situation throughout the country have tended to at least soften, if not to change, the opinion expressed at that time.

Applying the general principle that all permanent additions to the plant should be financed under permanent mortgages and all temporary additions by bonds or notes under sinking funds, the division of the equipment charges of the road may be made with justice. Renewals of the original equipment covered by the construction mortgages, or of any equipment bought subsequently under bond issues and pledged with the trustee of those mortgages, or even not pledged, should come out of the current revenues. This is usually accomplished by means of a "replacement fund," not peremptory but optional with the directors. The fund is built up in good years, and carried as a liability in the balance sheet.

The object of such a fund should be not to increase the earning capacity of the property so much as to maintain it. At all times during the life of a railroad the earning capacity represented by the equipment put on the road at building and subsequently added through permanent financing should be kept intact without resource to the capital account in any way. It should not, theoretically, be increased out of current revenues. Of course there comes in the history of most railroads a long period during which the plant is allowed to run down. The property, and more especially the equipment, is scientifically skinned by the management for personal profit, to pay dividends or to "make a showing." The waste through such process should be made good out of earnings, without recourse to capital account. Such a process has been in action on the Southern Pacific, the Santa Fé, the Union Pacific and many other railroads throughout the past few years.

When, however, it is necessary to add new equipment, increas-

ing the number of locomotives, the number of cars, or the capacity of either the motive power or the rolling stock, it is right to call upon the capital account to make the additions. For instance, the Union Pacific in 1906 added seventy-four locomotives. One was charged to replacement and seventy-three to "free assets," *i. e.,* to capital. That seems just. The point of the distinction is that the addition of new equipment, increasing the earning power of the property as a whole, simply increases the value of the road as a whole, and creates new property which must be maintained and renewed out of earnings, but should not be created in that way.

In the case of the St. Louis and San Francisco Railroad, for instance, we have a property that was built through a territory and to reach traffic that did not demand a heavily-equipped railroad plant at the outset. Let us suppose that the new lines of this company through Texas and the territories, were built at the outset for $15,000 per mile and equipped for an additional $6,000 per mile, and that securities to the aggregate market value of $21,000 per mile were issued against this line. Not even the most radical exponent of the sinking fund idea would claim that it is incumbent upon the management to make provision for a sinking fund against these securities. The fact that the equipment put on the line will all be worn out in twenty years has no weight. The point seems to be that the earning capacity which is created by the use of this equipment is a permanent earning capacity and may properly be made subject to long term bonds and take its place under the item "property and franchises" in the balance sheet of the company.

The equipment thus created should always be maintained and renewed at the expense of the stockholders. In other words, at the end of twenty years there should be, on this line, in working order, equipment worth this $6,000 per mile, which has not been created by an additional call on the capital account. If, however, it has been necessary in the meantime, to add very largely to the capacity of the equipment on the line, such addition may very properly be charged to capital account and financed under a permanent mortgage without a sinking fund.

This distinction will draw the line pretty clearly between the two kinds of additions to property which should be financed under sinking fund and permanent securities respectively. The first class,

which are really replacements or renewals and which merely perpetuate the value created in the first place by the construction financing or by permanent financing subsequent to the construction, are very properly carried out under serial or sinking fund bonds or notes. These securities, known as equipment bonds, equipment notes, or car trusts, may be found in great abundance in the list of latter-day financing. The student may consult the records of the Missouri Pacific, the Norfolk and Western, or the Central of New Jersey for examples of equipment serial bonds. The St. Louis and San Francisco will afford plentiful examples of the equipment notes. The Pennsylvania issues car trusts in abundance. Here and there one may find equipment replacement financed under regular sinking fund bonds, as in the case of the Buffalo, Rochester and Pittsburgh 4½'s of 1922. Convention and practice have established a rule that sinking fund or serial issues of this nature are a lien on the entire amount of the equipment purchased until the last of the securities are retired.

Turning from the field of private finance to the question of sinking funds on government and municipal debts, the variety becomes almost infinite. It is recognized as a rule that the debts of states or municipalities, based as they are upon assessments and the taxes levied on the basis of such assessment, should be amortized through sinking funds. The usual method of establishing such a fund for the issues of municipalities is to provide in the resolution creating the debt for the payment out of taxes of a certain amount year by year to be invested in the bonds either by purchase or by drawing. The bonds so called are generally kept alive in the sinking fund, and the interest is added to the fund for redemption of the bonds. There are, however, hundreds of variations of this method.

To cover the variations and the phenomena of such sinking funds in detail would be an endless and a thankless task. A general outline of the subject may be gathered from an analysis of the methods used by the states for the making of their sinking funds, and the uses to which such funds are put. The aggregate of such funds in the states is put, in the latest government returns, at $35,281,201, divided as follows:

North Atlantic	$25,884,288
South Atlantic	6,461,653
North Central	1,274,890
South Central	390,128
Western	1,270,242
Total	$35,281,201

Of this the State of Massachusetts holds $18,304,730, or over fifty per cent. Of the other states, Maine, New Hampshire, Vermont and Connecticut of the first division; the District of Columbia, West Virginia, North Carolina and Georgia, of the second division; Illinois, Wisconsin, Iowa, Nebraska and Kansas, of the third division, and Wyoming, Utah, Washington and Oregon, of the fifth division, have no accumulated sinking funds; while in the fourth division but two states, Kentucky and Arkansas, have such funds.

The following distinctive funds may be cited:

Arkansas.—Since 1899, an annual tax of one mill on the dollar has been levied against taxable property to provide a "general sinking fund" out of which all obligations are to be met.

California.—The San Francisco depot fund consists of monthly payments of $4,631 made by the harbor commissioners out of collections, to be used to pay interest on the harbor improvement loan and to retire it at maturity. This fund is invested in United States bonds—a very wasteful investment.

Colorado.—The capitol, casual deficiency, Cripple Creek insurrection and Leadville riot bonds are to be retired by a sinking fund based on taxes to be levied some years after the date of the bonds, sufficient to create an annual fund amounting to twenty per cent of the issues.

District of Columbia.—It is noted above that there are no sinking funds on hand. By an act of 1878, the commissioners were abolished, and the Treasurer of the United States took command. He has construed the law to mean that he can buy with the funds any of the bonds of the District and cancel them. Therefore the fund disappears as it is created.

Florida.—Sinking funds were made for the 1871 and 1873 bonds, based on annual taxes for interest and one per cent of the principal of the 1871 bonds and an annual tax of one mill on the dollar for the 1873 issue. In 1901 the bonds of 1871 in the fund

were canceled and the cash in the fund transferred to the general revenue of the state.

Georgia.—The constitution of Georgia requires the assembly to raise $100,000 per annum for sinking funds, but it does not appear that the constitution has been respected to any great extent.

Kentucky.—The sinking fund in Kentucky is derived from a tax of five cents per $100 of taxable property and the income from some stock investments. In this state, as in some others, the "general fund" appears to be able to make an occasional overdraft on the sinking funds.

Massachusetts.—Sinking funds in this state are very numerous. In general, they start with the deposit of the premium over par received for the state bonds when sold. In the case of bonds issued to aid railroads, the fund is usually based on an annual payment to the state by the railroad. In 1867, a state issue to assist the Boston, Hartford and Erie Road was provided for by a charge of $50,000 per annum against the road, supplemented by an additional charge of $20,000 against a new bond issue in 1869. By 1890 this fund had grown so big that it was sufficient to retire the bonds at maturity. It was, therefore, diverted to help meet other sinking funds. The state has reserved to itself the right to change its sinking fund provisions from time to time. The principal funds of the state are as follows: The bounty loan sinking fund, coast defense sinking fund, Boston, Hartford and Erie sinking fund, Troy and Greenfield sinking fund, closed and the specified bonds paid; prison and hospital loan sinking fund, statehood loans sinking fund, Fitchburg Railroad securities sinking fund, Medfield Insane Asylum sinking fund, state highway loan sinking fund, abolition of grade crossings loan sinking fund, harbor improvement loan sinking fund, and Massachusetts war loan sinking fund, alive and in operation at the date of the government report.

Minnesota.—The sinking funds of Minnesota are of two classes, the first being raised by taxation and the second from proceeds of the public lands set aside by the legislature to meet the old debt of the state.

Montana.—There are six sinking funds in Montana, all derived from the proceeds of land grants made to the state by Congress.

New Jersey.—The small state debt of New Jersey is amply provided for, the sinking funds being greater than the entire debt

in every year since 1897. A unique provision in this state is that the treasury may be called upon to make up a deficiency in the sinking fund, the same to be paid back as the funds come in.

New York.—All the bonds issued by New York State between 1890 and 1902 were serial bonds, and therefore needed no sinking funds, except the canal bonds. The sinking funds therefore consist of a part of the canal fund of the state.

Ohio.—The constitution requires an annual sinking fund of $100,000, to be gathered from the sale of lands, public works, or stocks owned by the state, from the income earned by the profit-producing public works and the stocks owned, and from a tax to be levied to make up any deficiency left by the above sources of revenue.

North Carolina.—This state has two classes of sinking funds, the "ordinary" and the "cumulative phosphate" sinking funds. The income of the latter is derived from royalties on phosphates, amounting to $37,500 per annum. Both funds are now invested in the bonds of the state, without cancelation. A third fund, for insurance, is not included in the regular government report of the sinking fund, but is treated separately.

Virginia.—The sinking fund provision in Virginia is very elaborate. The fund is based largely upon the stocks and bonds of railroad and canal companies held by the state, both the income and the principal of such investments being included. The fund is based on the securities owned prior to 1875, but the law of 1894 supplemented this fund by the addition of all revenues received by the state from its interest in the work of internal improvement.

It will be noted that there is no great uniformity in the maintenance and operation of these state funds. Nor does the amount of the funds at a certain date have much meaning, because such amount is made up only from the cash or bonds or stocks held alive in the fund. In cases where the sinking funds are immediately invested and the bonds canceled, the amortization of the debt goes on, but the government report does not show it. This process is followed to some extent in nearly every state, and many of the states that are reported by the government to be without sinking funds are steadily reducing their debts by cancelation.

In the whole field of study covered, however imperfectly, in this review, there is one particular feature that should be recom-

mended to the attention of the private investor. It will be found in the laws of Massachusetts with respect to the sinking funds. That state provides that when its bonds are sold *at a premium* the full amount of the premium goes into the sinking funds. That law is a recognition of a principle that too few private investors understand. The principle, which is the chief application of the sinking fund principle to the investments of the private individual, may be stated briefly:

Bonds bought at a premium for investment are wasting investments, and unless the buyer establishes a sinking fund against the premium paid they are necessarily losing investments if held to maturity.

Let us take as an example a 6 per cent bond for $10,000 bought in May, 1907, for $12,000, and due May 1, 1927. If the whole annual income of $600 is considered income, and spent, the investor will find when the bond is paid off that he has spent as current revenue $2,000 of his principal. Of course, every man who knows anything about investments knows this fact, but, unfortunately, far too many investors seem to forget it.

Following this example, let us determine how much should be set aside out of each semi-annual interest payment as a sinking fund to equalize the waste in the value of the bond. The following is a partial table, to cover investments at 4 per cent, 5 per cent and 6 per cent, for periods from 10 years to 25 years. It is based upon the idea of withdrawing a certain fixed part of the revenue each half year and depositing it in a savings bank or trust company to receive interest at the rate stated, compounded every six months, through the period stated. For convenience, the table shows the amount to be deposited to absorb a loss of $1,000 during the period named:

Years.	Four per cent.	Five per cent.	Six per cent.
Ten	$40.35	$38.19	$36.13
Eleven	35.91	33.80	31.79
Twelve	32.23	30.16	28.20
Thirteen	29.12	27.09	25.18
Fourteen	26.46	24.48	22.62
Fifteen	24.17	22.22	20.41
Sixteen	22.17	20.26	18.49
Seventeen	20.41	18.54	16.82
Eighteen	18.86	17.03	15.34

Years.	Four per cent	Five per cent.	Six per cent.
Nineteen	17.47	15.68	14.03
Twenty	16.23	14.47	12.88
Twenty-one	15.12	13.39	11.84
Twenty-two	14.11	12.42	10.90
Twenty-three	13.19	11.54	10.06
Twenty-four	12.36	10.74	9.30
Twenty-five	11.50	10.00	8.61

In the example cited above, the investor should put into his sinking fund $32.46 each half year if he can get only 4 per cent, $28.94 if he can get 5 per cent, or $25.76 if he can get 6 per cent. At the end of the twenty-year period he will find the loss of $2,000 on his principal exactly balanced by his bank account. Any trust company or banking house can supply the tables needed by the investor to enable him to calculate for himself the sinking funds he should have established against his investments at a premium.

VALUE OF A BOND DEPARTMENT TO A BANK OR TRUST COMPANY

By George B. Caldwell,
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It is within the past five years that the attention of the public has been directed to the action taken by some of our largest national banks and many of our trust companies in opening bond departments. There is little doubt but that this movement has met with popular approval by both the public and the managers of the banks that have entered this new field of banking. Prior to 1900, the handling of bonds was confined almost entirely to private banks. The progress in banking which has brought about the trust company, with its various departments, has led to the establishment of the bond department as an important part of a modern trust company.

The many millions of dollars' worth of bonds that have been put upon the market during the last few years could not have been handled had the work been undertaken by the private banks alone. The funds at their command were inadequate to carry on a business of such great magnitude, and this made it inevitable that the private banker must have the assistance of the larger banks. The banks found that the bond business was a special line of banking, differing very materially from that of discounting commercial paper, or loaning money on real estate, and that in order to aid the bond houses successfully, as well as to further the best interests of their clients, a special department in the hands of experienced men was essential. Experience has proven that this was at least a safe, profitable and dignified course for the banks to pursue. In this way the private banks have been greatly benefited. They have found a man in the bond department of their bank who could comprehend their needs and aid them in their undertakings. This I should say was the original reason that led many of the larger banks to form and maintain bond departments.

The bond department of a bank, besides being an aid to the various bond houses, has also found a large field of operation and

responsibility in the investment of a considerable portion of the bank's own funds. There are few national banks, and a less number of trust companies, that do not invest in bonds. The percentage of increase in the assets of banking institutions of all kinds in bonds since 1900 is over 300 per cent. To have these investments carefully scrutinized by those familiar with the issuing of bonds is in itself of great value to the larger banks and trust companies which carry an investment of from $1,000,000 to $50,000,000 in bonds.

In addition it may be said that the growth of the bond business, aided by the larger banks in the country, has opened another avenue of profit, viz., that of supplying the investment demand. Among the customers of every bank are some persons with funds to invest who desire an income larger than can be secured from the rate of interest paid on savings deposits. Such customers will seek their banker for advice and ask him to recommend investments for them. The banker, desiring to be helpful to his customers, feels the additional responsibility to be somewhat greater than he is always qualified and willing to undertake, but by the aid of his organization, one branch of which is a well-organized bond department, he has a place to which all such inquiries can be referred, and through which such investments can readily be made.

Another feature of banking which has no doubt been aided to a considerable extent through the agency of the bond department is that of passing upon collateral offered the bank from time to time for loans. All banks loan the larger percentage of their money on collateral, and heretofore the banks have had only a limited knowledge of the character of this collateral, gained largely from stock exchange and curb market quotations. Beyond the investigations made by the banks themselves through their various credit departments, they are frequently aided in their judgment of both stocks and bonds by the statistics and ready information to be found in the bond department. The bond department also creates a great deal of new business for the trust department of a trust company, and frequently arranges many new loans which the banking department can take to advantage.

The bond department of a modern bank to be efficient and of value must not only be equipped with a manager, but must have on its staff competent men as appraisers, auditors and attorneys to pass judgment upon properties and to act as employees in the buying

end of the business. Such a department must also have a sales manager and various salesmen to look after the advertising and selling and to place before the public the various bonds they desire to offer for sale. Through the agency of the buying department, all banks come into possession of detailed knowledge at the hands of their official staff, charged only with the responsibility of protecting the bank's funds. In the selling end of a bond department, the bank comes into contact with the investing public, which is not alone confined to the customers of the bank, or trust company, but to those of other banks and trust companies and other bond houses. This aids the bank in securing knowledge of the general market conditions that should be of benefit to any banking institution in making new friends and obtaining valuable information bearing upon the future welfare of the bank.

In general, it may be said that as the investment field broadens the work of the bond department will naturally grow and become of still greater importance. It will educate and turn out a large number of capable and careful men to become the future traders in securities. It is certainly wise that these men should be educated under the influence of banks where the standards of moral responsibility, as well as of financial credit and strength are high. In their education in this department, they are continually impressed with this standard. As they grow up it becomes a part of them, and in after years it will become an element of security to the investing public. Banking houses operating bond departments do not and cannot afford to offer the public at any time securities which do not possess both "security" and "income." Public insight into financial institutions and into public loans of all kinds is keen, and has been trained to discern any technicality or slight irregularity. For any banking institution to recommend any investment that will not bear the closest examination would be very detrimental to its business. The zealous maintenance of this principle will both broaden the market for bonds and bring to banks and trust companies a large and profitable business yet in its infancy.

TABLES OF BOND VALUES—THEORY AND USE

By Montgomery Rollins,
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This article assumes that the material presented is to be referred to by the average practical dealer or investor in bonds, who seeks results for easy use and application. There are more exhaustive treatments of the subject[1] which may better serve the purpose of those engaged in the valuation of an estate, or in other instances where great care should be exercised in order that all parties may be treated equably.

It is strange how frequently one who has, during his entire business career, been familiar with the handling of investment securities, or, in fact, been in almost daily contact with such matters, fails to comprehend the principles upon which bond values tables are computed. The writer has been time and again surprised to find that men who should understand such matters suppose that it is a mere calculation by simple arithmetic, and that not to obtain the results given in the ordinary tables of bond values by their method astonishes them. Such people have begun on the supposition, to illustrate, that they could take a bond bearing 6 per cent interest, maturing in ten years, costing 110, and divide the premium—10 per cent—by the length of time which the bond has to run—in the case cited, ten years—and, obtaining 1 as the result, deduct it from 6 per cent, the rate which the bond bears, and assume, therefore, that the net return upon that particular investment is 5 per cent, the 10 per cent premium being charged off at the rate of 1 per cent yearly.

The failure in this reasoning arises from their not understanding the fundamental principles upon which such tables are based, which presuppose that the holder of a bond will, at the maturity of each one of the coupons, reinvest a sufficient portion of the money received, and keep it so invested until the maturity of the bond, so that the face value of the bond, added to the accumulation of reinvested interest, will, at its maturity, be exactly equivalent to the original cost of the same.

[1]See Chapter VIII of "The Accountancy of Investment," by Charles E. Sprague.

We have now arrived at the parting of the ways in this computation. There are two classes of accountants, or what you may choose to call them, whose ideas at this point sharply diverge. The first proceeds on the principle that the portion of the coupon money set aside shall be compounded at the same rate as the net return upon the investment. To illustrate: If it is a twenty-year 5 per cent bond, and selling at such a price as to yield 6 per cent, it is assumed that the money set aside shall be compounded at 6 per cent, regardless of the rates of interest which will probably prevail at such investing periods. To show further the absurdity of this, imagine the owner of several different lots of bonds, one lot having been purchased at a price to yield him 6 per cent per annum, another at 5 per cent, and another at 4 per cent. The class which we are now discussing assumes that a portion of these interest payments, even though they may all fall due at the same dates, shall be reinvested at compound interest at 6 per cent, 5 per cent, and 4 per cent respectively. It is unreasonable to believe that these three separate rates of interest will be ruling, at the same time for a similar grade of securities, or that there is any likelihood that the investor will guide himself, in the reinvestment of this interest, by taking into consideration the net return which he is enjoying upon the bonds in question.

The other school, which is undoubtedly the correct one, proceeds upon the plan of the reinvestment at some fixed definite per cent, say 3½ per cent or 4 per cent, without any regard to the net return which the original purchase price of the investment warrants. It does not take a very deep knowledge of finance to see that it is fairer to predict the future investment rates of money at some average rate, such as just mentioned, than at such widely divergent rates as by the other plan.

In the case of bonds selling at par both schools would be right as to their results, because there are no premiums or discounts to be provided for. Also, in the case of a bond computed by the first method, selling at a net return which is the arbitrary rate assumed as the reinvestment rate of the second method, then, likewise, will the two schools agree, but in all other instances they disagree. An idea of the amount of this disagreement may be shown by referring to the table accompanying this article, by which it will be seen that a 6 per cent bond having twenty years to run,

selling to net 5 per cent, is 112.55, and, in this case, 5 per cent is the compounding rate. By the use of a table of bond values based on a 4 per cent compounding rate, 112.03 is the result—a difference of nearly one-half of 1 per cent. Yet, custom has decreed, and undoubtedly always will, that the tables based upon the principles of the first school, including those of the author of this article, which he conceives to be inaccurate, are likely always to prevail in use, and that the tables of the second school will never reach any wide circulation. It would be relatively as great an undertaking in financial matters to change from the incorrect to the correct school, as it would be to introduce the metric system into this country, or to change the present standard gauge of railways.

In the circulars of banking houses offering investment securities, the financial columns of newspapers, and the "shop" talk of the investment dealer, will be encountered, with great frequency, such expressions as: "net return upon the investment," or, to be more specific, "a bond pays the investor 4½ per cent," "yields 4½ per cent," " is on a 4½ per cent basis," or whatever the rate may be. In any event, the intent is to convey the information as to what rate of interest the purchaser of a certain security at a given price may expect upon his money. By this is meant the proportionate rate which the income upon any investment bears to the total cost of that investment—"accrued interest" excepted—taking into consideration the time which it may be outstanding before being paid off.

Stocks, as a rule, are irredeemable, and consequently are figured as perpetual. Most bonds and other investments of a redeemable nature—having some fixed determinable time to run—are not so figured. A simple illustration of an irredeemable stock would be that of one selling at $200 per share, upon which dividends are being paid at the rate of 8 per cent yearly. In this case, the ratio of dividend, namely, 8 per cent, to the total cost, $200, would be 4, or 4 per cent, which is the investment yield. If the price of the stock were but $100 per share, and the dividend rate 4 per cent per annum, the yield would still be 4 per cent.

We now come to a security having some determinable date of maturity, and the problem likewise becomes more complicated. Special tables, commonly known as bond values tables, are used to ascertain the net returns from investments of this class. The books

comprising these tables are so arranged as to cover different periods for which redeemable securities are likely, in the experience of bankers, to be outstanding; and, therefore, cover half yearly periods from six months to, say, fifty years, and then at greater intervals to one hundred years, it being supposed that most securities of this class will mature in, perhaps, twenty-five or thirty years and the vast majority inside of fifty years.

To simply this article, page 45, which covers the twenty-year period, is reproduced from one of the ordinary books in use.

Henceforth, we shall speak of all redeemable securities as bonds. Let us now take an example of a bond having twenty years to run, bearing 5 per cent interest; at what price must it be sold to pay the investor 4 per cent? The twenty-year page above covers the period in question. The column headed 5 per cent must be taken and followed down until opposite 4 per cent in the extreme left-hand column. A result of 113.68 will be found, which is the rate of purchase of a bond to yield 4 per cent upon the investment; that is to say, $1,136.80, plus the interest which may have accrued since the last maturing coupon. This 4 per cent net return means 4 per cent per annum for each of the twenty years, and is reckoned upon the entire sum invested "accrued interest" excepted—or in this case, $1,136.80.

The time upon which to compute the net return, or the price of the bond, is the time from the date of computation to the maturity of the issue, not from the date of the issue, as some inexperienced persons have occasionally supposed, unless, of course, the date of issue and the date of computation should coincide.

This seems a pertinent place to consider at some length the matter of "accrued interest" referred to above. Strange as it may seem, there are many investors who fail to comprehend a subject, which, to most, is so simple. It is customary to make nearly all bonds with interest payable twice yearly. Let us take a $1,000 bond bearing 5 per cent interest. Upon this there will be found two coupons of $25 each, and, we will say, for the sake of simplicity, that these coupons fall due, one in January and the other in July of each year. On the first day of September, a purchase is made of a twenty-year bond at 113.68 and accrued interest. The purchaser will pay $1,136.80, which is the principal and premium, but in addition thereto, he will pay the interest upon $1,000, the face

20 YEARS

Interest Payable Semi-Annually.

PER CENT PER AN.	3%	3½%	4%	4½%	5%	6%	7%
2.90	101.51	109.06	116.60	124.15	131.70	146.80	161.89
3.	100.00	107.48	114.96	122.44	129.92	144.87	159.83
3.10	98.52	105.93	113.34	120.75	128.16	142.98	157.81
3⅛	98.15	105.55	112.94	120.33	127.73	142.52	157.31
3.20	97.06	104.41	111.75	119.09	126.44	141.13	155.82
3¼	96.34	103.66	110.97	118.28	125.59	140.21	154.83
3.30	95.63	102.91	110.19	117.47	124.75	139.30	153.86
3.35	94.93	102.17	109.42	116.66	123.91	138.40	152.89
3⅜	94.58	101.81	109.04	116.27	123.49	137.95	152.41
3.40	94.23	101.44	108.66	115.87	123.08	137.51	151.93
3.45	93.54	100.72	107.90	115.08	122.26	136.62	150.98
3½	92.85	100.00	107.15	114.30	121.45	135.74	150.04
3.55	92.17	99.29	106.41	113.52	120.64	134.87	149.11
3.60	91.50	98.58	105.67	112.75	119.84	134.01	148.18
3⅝	91.16	98.23	105.30	112.37	119.44	133.58	147.72
3.65	90.83	97.88	104.94	111.99	119.04	133.15	147.26
3.70	90.17	97.19	104.21	111.24	118.26	132.30	146.35
3¾	89.51	96.50	103.50	110.49	117.48	131.46	145.44
3.80	88.86	95.82	102.78	109.74	116.70	130.63	144.55
3⅞	87.90	94.81	101.73	108.64	115.56	129.39	143.22
3.90	87.58	94.48	101.38	108.28	115.18	128.98	142.78
4.	86.32	93.16	100.00	106.84	113.68	127.36	141.03
4.10	85.09	91.86	98.64	105.42	112.20	125.76	139.32
4⅛	84.78	91.54	98.31	105.07	111.84	125.37	138.90
4.20	83.87	90.59	97.31	104.03	110.75	124.19	137.63
4¼	83.27	89.96	96.65	103.35	110.04	123.42	136.80
4.30	82.68	89.34	96.00	102.66	109.33	122.65	135.98
4⅜	81.80	88.42	95.04	101.65	108.27	121.51	134.75
4.40	81.51	88.11	94.72	101.32	107.93	121.14	134.35
4½	80.35	86.90	93.45	100.00	106.55	119.65	132.74
4.60	79.22	85.72	92.21	98.70	105.19	118.18	131.16
4⅝	78.94	85.42	91.90	98.38	104.86	117.82	130.77
4.70	78.11	84.55	90.99	97.43	103.86	116.74	129.61
4¾	77.57	83.98	90.39	96.80	103.20	116.02	128.84
4.80	77.02	83.40	89.79	96.17	102.55	115.32	128.08
4⅞	76.22	82.56	88.90	95.24	101.59	114.27	126.95
4.90	75.95	82.28	88.61	94.94	101.27	113.92	126.58
5.	74.90	81.17	87.45	93.72	100.00	112.55	125.10
5.10	73.86	80.09	86.31	92.53	98.76	111.20	123.65
5⅛	73.61	79.82	86.03	92.24	98.45	110.87	123.29
5.20	72.85	79.02	85.19	91.36	97.53	109.87	122.22
5¼	72.34	78.49	84.64	90.78	96.93	109.22	121.51
5.30	71.85	77.97	84.09	90.21	96.33	108.57	120.81
5⅜	71.11	77.19	83.27	89.36	95.44	107.60	119.77
5.40	70.87	76.94	83.01	89.07	95.14	107.28	119.42
5½	69.90	75.92	81.94	87.96	93.98	106.02	118.06
5⅝	68.72	74.68	80.64	86.59	92.55	104.47	116.38
5¾	67.57	73.46	79.36	85.26	91.15	102.95	114.74
5⅞	66.43	72.27	78.11	83.95	89.78	101.46	113.13
6.	65.33	71.11	76.89	82.66	88.44	100.00	111.56
6⅛	64.25	69.97	75.69	81.41	87.13	98.57	110.01
6¼	63.19	68.85	74.51	80.18	85.84	97.17	108.50
6⅜	62.15	67.76	73.36	78.97	84.58	95.79	107.01
6½	61.14	66.69	72.24	77.79	83.34	94.45	105.55
6⅝	60.14	65.64	71.14	76.64	82.13	93.13	104.12
6¾	59.17	64.62	70.06	75.50	80.95	91.83	102.72
6⅞	58.22	63.61	69.00	74.39	79.78	90.57	101.35
7	57.29	62.63	67.97	73.31	78.64	89.32	100.00

value of the bond, from July first, when the last coupon was detached, until September first, two months. The bond bearing 5 per cent, this interest will be computed at that rate, and the investor will pay, in addition to the $1,136.80, $8.33, which is the interest on $1,000 for two months at 5 per cent. An investor may fail to comprehend that this $8.33 is not thrown away. As a matter of fact, it is returned to him when the next coupon is paid, which will be, following this illustration, January first. The investor will have held the bond four months, at the end of which time he will receive not only 5 per cent per annum for the time he will have held it, but, likewise, the $8.33 which he paid to the holder from whom he made the purchase. He will be out, however, interest on the $8.33 for the four months.[2] Here is where bonds and stocks sell differently, although there are exceptions to this rule. When a stock is sold, a sufficient price is added to the quotation so that it offsets the amount of interest—dividend—which has accrued since the last payment. A stock selling ordinarily at $100 a share and paying dividends at the rate of 4 per cent per annum, 2 per cent, say, each January and July, would, everything else being equal, be quoted at 101 half way between the two dividend periods, as the 1 per cent premium would fairly represent the dividend accumulation for three months at the rate of 4 per cent per annum.

On the New York Stock Exchange bonds are sold in this same way, and quotations include the interest accrued. Upon the Boston Stock Exchange they are—income or defaulted bonds excepted—sold plus the accrued interest, and the difference is here accounted for in the quotations upon the two different markets of the same security. The ordinary bankers selling bonds not listed upon the New York Stock Exchange, customarily sell the same "with accrued interest."

The foregoing explains such common expressions as "103 and accrued interest," "109 and accrued interest," or "109 and interest."

[2]The loss of interest upon the interest brings up the point that ordinary investment transactions always ignore this loss. Unless a bond by chance happens to be purchased upon a coupon date there must be some accrued interest paid, and absolute accuracy in figuring would demand the taking of this into consideration and would change slightly the net yield if it were figured into the actual purchase price, even though it were returned to the purchaser at the next coupon period. This would complicate matters so much, however, that it is seldom taken into consideration, as the amount, which is always against the purchaser and in favor of the seller, is slight.

An expression something like this is often encountered: "Yielding 4 per cent for the first ten years and 5 per cent for all time thereafter which the bond may run." By this it is understood that the issuer of the bond has the right to redeem it any time after ten years, but shall not be obliged so to do until some later date, as, in this case, twenty years. These bonds are known by such titles as "10-20 year bonds" or "10-20's," by which it is understood that they are absolutely due and payable in twenty years, but optional on the part of the issuer to redeem any time—generally upon a coupon date—between ten and twenty years. In a case of this kind, the seller must not assume that the bond will run longer than ten years. The greater the length of time which any form of an indebtedness, selling at a premium and having a fixed rate of interest, may be outstanding, the greater the percentage in interest return to the holder, prices always being equal. Therefore, in selling a 10-20 year bond at a premium, the net return should be computed on the basis of its being outstanding the minimum possible number of years—in this case ten—but should it run twelve years, for instance, before being paid off, the purchaser would benefit by the two additional years. That is, if the net return were computed, as it should be, on the ten-year basis, for any additional time which the bond might run, the investor would obtain a yield of the full rate of interest borne by the bond.

Should a bond be selling at a discount, the shorter the length of time which it runs the greater the interest return, prices being equal; the contrary to a bond selling at a premium. In computing the interest return or yield, the following rule must be observed, if the issue is "optional," so called, as in the case just cited:

Rule for Computing Net Yield of Optional Bonds

When bonds are selling at a premium, the interest return must be computed upon the shortest possible time which the security may be outstanding; when selling at a discount, the greatest length of time which it may be outstanding must be used as the basis.

In buying an issue of bonds known as "serials," that is to say, with a certain portion of the issue maturing periodically, many dealers in investment securities, who should know better, make the mistake of averaging the life of the issue, and then, by the use of a

table of bond values, basing their computation upon this average maturity; whereas, a separate price should be computed for each maturity, and then the average price taken—supposing, of course, that it is the intention to make one price for the entire lot, covering the different maturities. If bonds are bought by the first method and retailed by maturities, either a loss will result, or a less profit than expected.

The fallacy of averaging the maturity, and upon the period of time resulting computing the net return, arises from the fundamental principles set forth elsewhere in this article, that the net return upon a bond is based upon reinvesting at compound interest a certain portion of the coupons as they severally become due. Consequently, each maturity of a serial issue must be computed upon its own time, in order that this principle of compounding the interest may have true application.

An investor should guard against deceiving himself as to the income upon a redeemable bond, for which he has paid some price other than par. Let us illustrate by taking a bond having twenty years to run, bearing 5 per cent interest, and for which payment has been made at the rate of 113.68; that is, $1,136.80 and accrued interest; the net return by the ordinary bond values tables being 4 per cent. That is to say, the investor is supposed to receive 4 per cent per annum upon the purchase price of $1,136.80. In actual practice, as the coupons fall due, the investor receives $25.00 each six months, or $50.00 per annum. When the bond matures, he will receive, in addition to the last interest payment, only the principal sum of $1,000. There is, therefore, $136.80 premium paid that must be accounted for in some manner. A sinking fund, so called, may be set aside each half year out of the interest as received to provide for this premium. The investor is entitled to reckon his income at 4 per cent per annum on $1,136.80, the total purchase price, which would be $45.47, or, for each six months' period, one-half that sum; namely, $22.74. Deducting this from the semi-annual coupon leaves $2.26, which sum, if invested each six months at 4 per cent, will, at the maturity of the bond, added to the principal sum, equal $1,136.80, the original purchase price.

This is all based on the supposition that the $2.26 above mentioned will be invested promptly when received twice yearly at the rate of 4 per cent per annum; in other words, that it will be

compounded at 4 per cent per annum. It may be that this is an unfair rate, that a lower rate, 3½ per cent, or the prevailing savings bank rate, would be a better one to choose. If such were the case, a proportionately larger sum would have to be set aside each six months to create a sufficient sinking fund.

So far, we have had but one period, *i. e.,* twenty years, together with a fixed net return and price. The amount of the sinking fund must necessarily vary with the change of any one of the three factors: time, net return, or price. We will change but one of these, the time. Take nineteen years as the life of the bond when purchased. The tables show the price of a 5 per cent, nineteen-year bond to net 4 per cent to be 113.22, or $1,132.20 for a $1,000 bond. Proceeding again, as above, we find 4 per cent on this sum to be, for a half year, $22.64, or $2.36 less than $25.00, the amount of the six months' coupon. Here, then, is $2.36 for a nineteen-year bond, as against $2.26 for a twenty-year bond—prices and net return being equal—as the sinking fund.

The question naturally arises as to the way to treat similarly a bond bought at a discount. Let us again illustrate: A 5 per cent bond having twenty years to run, if purchased at the rate of 88.44, or $884.40 and accrued interest, will net the investor 6 per cent; that is, 6 per cent on the $884.40 invested. As the coupons fall due, he obtains, the same as in the above case, $25.00 each six months, or $50.00 per annum. When the bond matures he will receive, in addition to the interest, the full principal sum of the bond, $1,000, for which he has paid but $884.40. There is, therefore, a difference here of $115.60, by which amount the purchaser will be apparently enriched at the maturity of his bond. If, however, he wishes to avail himself of the full 6 per cent net return, which is he entitled to receive, he must anticipate this difference of $115.60, which may be done in this manner: He is entitled to reckon his income at 6 per cent on the $884.40, the original purchase price, which, for each six months, would call for $26.53. The coupon which he detaches from his bond provides for but $25.00 of this. There is, consequently, the sum of $1.53, which he should receive, from some source, to make his full 6 per cent interest. He may anticipate the $115.60, above referred to, by taking from some other fund this $1.53 each six months. This represents the amount which, if invested at 6 per cent, the same net return as provided for in the

investment, will, at the maturity of the bond, added to the $884.40, just equal $1,000. It will be noticed, however, that in this instance, it is supposed that the $1.53 will be compounded at 6 per cent, and here again the fallacy of the customary method of compounding the reinvestment portion is emphasized, for it is not likely, nor supposable, that these sums can be compounded at 6 per cent. But, in this case, as the bond is bought at a discount, the investor will not be likely to deceive himself; for accepting an arbitrary compounding rate of 6 per cent is necessarily taking a less amount (in this case $1.53) than he would if it were compounded at a lower rate. To prove this, let us suppose that 4 per cent is taken as this rate. The investor might then allow himself $1.88 each six months to add to his $25.00, to provide himself with a 6 per cent net rate.

To explain one more point in this connection, and following the illustration above where $1.53 is taken each six months, and which must be taken from some other fund, is there not a loss of interest each time upon that amount until the maturity of the bond? Or, in other words, what provides for the interest on these sums? That comes back at the maturity of the bond, for it will be noticed that if $1.53 be multiplied by 40, the number of coupons, the sum equals $61.20. But $115.60 will be received at the end of twenty years, and the difference between these last two sums is $54.40. That is to say, $54.40 represents the compound interest on the $1.53 periodically taken and expended as income.

The above argument is based upon the supposition that a bond will be held until maturity, or that, in case it should be disposed of earlier, the price realized shall be such as to give a yield equivalent to that at the time of purchase. In other words, if a bond having twenty years to run, bearing 5 per cent interest, is bought at 113.68, *i. e.*, a 4 per cent basis, and is, at the end of five years, sold, it is supposed that the price shall be computed on a basis of the fifteen years which the bond still has to run, which, to give a 4 per cent basis, would be 111.20. Instead, however, the holder of such a security may sell it at a higher price than the equivalent basis. What, then, shall be done with this surplus or profit? This question has been considered many times by the courts, which have decided that this excess premium belongs to the principal and should not be considered as income. This is from the standpoint of trustees. The ordinary investor, however, may treat it as he likes, except, that

in order to ascertain whether or not he has made a profit, he must find the price for the equivalent basis, and compare it with the price received.

Loring's "A Trustee's Handbook" deprecates the practice of buying bonds at a discount to offset those purchased at a premium, and his reasoning is that the difference in price is not simply a question of interest, but more often one of security.

Bond values tables cannot cover all rates of interest and all maturities. Neither can they give every conceivable net yield. To have in one volume sufficient matter to cover all the possible results, which investors or bankers may desire to obtain in the course of their investing or business careers, would require a volume beside which the family Bible of old would pale into insignificance. The most likely called for and commonly desired results only can be given in a volume of moderate dimensions. Likewise, financial conditions change. At times, rates of interest between 3¼ and 3¾ per cent are the prevailing levels of high-grade securities. It was not many years since, that few bond dealers would have had the temerity to predict a long-continued interval during which high-grade securities could be purchased to net the investor in the neighborhood of 5 per cent. Yet such is the condition of affairs at the time of writing this article. This is stated to illustrate the difficulties with which the authors of tables of bond values have to contend, in order to meet the popular demand. Tables issued a few years ago during the prevailing low rates of money are of little value to-day, when the rates have so largely increased.

The fact, however, that a book of bond values does not give every result sought for need not deter the user thereof from making some attempt to secure the result desired by a simple use of mathematics. We will confine ourselves to the twenty-year page already referred to as an illustration.

Suppose it were desired to know the price at which a 5½ per cent bond should be sold to net the investor 4 per cent. In the 6 per cent column, opposite 4 per cent, will be found 127.36. In the 5 per cent column, directly to the left, 113.68. Add these two results together and divide by 2, and you have the result for a 5½ per cent bond.

The highest rate bond which the sample page covers is 7 per cent. Prices to cover an 8 per cent bond may be found by obtaining

the difference between those of a 7 per cent and 6 per cent rate and adding the result to the former. Example:

Price of a 20-year 7 per cent bond to net 5½ per cent....	$118.06
Price of a 20-year 6 per cent bond to net 5½ per cent....	106.02
Subtract	$12.04
Add price of 7 per cent bond	118.06
Price of 20-year 8 per cent bond to net 5½ per cent....	$130.10

By an understanding of all this, it will be clear that the results for a bond bearing any rate of interest may be quickly computed.

Again, suppose it is a 5 per cent bond having twenty years to run and that it is desired to find the price at which it will net the holder 4.05 per cent. The nearest results in the table here given to this are 4 per cent and 4.10 per cent net returns. Find the column headed 5 per cent; obtain the results for 4 per cent and 4.10 per cent; add them together, and divide by 2, and the result, near enough for all practical purposes, will be obtained. There will, however, be a very slight inaccuracy. If a result for 4.03 per cent were desired, it would be necessary to find the prices opposite 4 per cent and 4.10 per cent; subtract the lesser from the greater, divide by 10, which is the difference between 4 per cent and 4.10 per cent in the left-hand column, and then you obtain what the ratio of change is in price for each one-hundredth of one per cent increase in the net return. Multiply your result, to follow this example, by 3, and deduct it from 113.68, the price to net 4 per cent, and you obtain the price of a 5 per cent bond to net the investor 4.03 per cent per annum. This, again, is a rough mathematical calculation and not absolutely accurate, but a little understanding of such matters will enable one to form approximate and useful conclusions.

It is sometimes desired to ascertain what a bond will yield at a given price when sold "flat." By this expression it is understood that the purchaser pays no accrued interest. A twenty-year bond, bearing 5 per cent interest, with coupons maturing semi-annually, February and August, is offered for sale, April 1st, at 115 "flat." What does it pay? We must first find out how much interest

has actually accrued upon the bond. In this case, it is two months. This, then, must be brought into dollars and cents. Two months' interest at 5 per cent on $1,000 (360 days to the year) is $8.33. The price of the bond is 115: that is, $1,150 for a $1,000 bond. Deducting the $8.33 just mentioned, you have as a result $1,141.67, which brings the bond down to 114.167, or, rounding out the second place to the right of the decimal, 114.17. To put it in another form, 114.17 and accrued interest is equivalent to 115 "flat." By referring to the table under the column headed, 5 per cent, we find that 114.17 lies between 115.18, which is a 3.90 per cent basis, and 113.68, which is a 4 per cent basis. We deduct the lesser of these two figures from the greater and obtain 1.50, which represents the ratio of increase for each variation of ten one-hundredths of one per cent in the net return. That is, a 3.90 per cent basis is to a 4 per cent basis as 115.18 is to 113.68. Divide 1.50 by .10, the difference between 3.90 per cent and 4 per cent, and you get what the ratio of decrease in price is for one one-hundredth of one per cent, which would be 15. Now we deduct 114.17, which is the price given, from 115.18, the nearest higher price in the tables, and obtain as a result 1.01. Divide this by 15, the ratio of change in price for each increase of one one-hundredth of one per cent in the net return, and we get .067; by which we understand that 114.27, the price given, is less than 115.18, the next higher price in the tables, as .067 is the increase in net return over 3.90 per cent. Add, therefore, these two together, 3.90 and .06+ and we obtain 3.96+, which equals the approximate net yield, according to this example, of a bond selling at 115 "flat," which is the equivalent of 114.17 and "accrued interest."

To sum up:

Price of bond—"flat"	$115.
Deduct 2 months' interest	.833
Price of bond—"with interest"	$114.167 or $114.17
Price of bond to yield 3.90 per cent	115.18
Price of bond to yield 4 per cent	113.68
Difference in price to equal .10 difference in yield	$1.50
1/100 per cent difference in yield, therefore, equals	15

Price of bond to yield 3.90 per cent equals....	$115.18
Deduct price of bond in example	114.17
Difference	$1.01
Divide by 15, the difference in price equivalent to difference in yield for each $^1/_{100}$ per cent and get	.067
Add to	3.90
	3.96 +, the result desired.

Be it understood, however, that this result is not absolutely accurate. There will be a variation of one or more one-hundredths, but it is a rough-and-ready way to obtain a very close approximation to what a bond will pay under conditions that are given. By the above method, it will be understood how to obtain the net return at a given price, when the price varies from what is actually given in the tables used.

It is seldom that a security is purchased upon a coupon date, and when such is not the case, tables which cover only half yearly periods are only approximate and must be adjusted to the actual time which the bond runs before maturity. For example, take a bond with 19 years 8½ months to maturity bearing 5 per cent interest, to net 4 per cent. The twenty-year table gives 113.68, the 19½ year table, 113.45. Subtract and get .23 which equals the difference in price between 19½ and 20 years for a 5 per cent bond netting 4 per cent. Nineteen years 8½ months lies between these two periods, and is 2½ months longer than 19½ years. There being twelve half months in a half year, divide 23, found above, by 12 and get .01916. As 2½ months are 5 half months, multiply .01916 by 5 and get .0958, which is added to the price of the 19½ year bond.

Thus 113.45 and .0958 give 113.5458, or, rounding out, 113.55, which is close enough for practical purposes.

We have been so far discussing bond values tables based upon redeemable securities with interest payable semi-annually. There are many issues of bonds in existence bearing annual interest, far more than the average bond dealer or investor realizes. There are, likewise, many other issues, such as our government securities, which have interest payable quarterly. It is not fair, therefore,

to use a table of bond values based on semi-annual interest payments to compute the net return upon issues of bonds with interest payable in annual or quarterly instalments. The semi-annual bond values tables, as already explained, are based upon the theory that a portion of the coupon money, as received, will be reinvested twice a year, and the interest compounded. In a bond with the interest payable but once a year, this money can only be reinvested and compounded once a year. Likewise, in a quarterly table, it will be four times a year. To show the difference, let us take (again see the table) a 4 per cent bond having twenty years to run. At 114.96 it pays 3 per cent as a semi-annual bond. As a bond with interest payable annually the price would be 114.88, and as a bond bearing quarterly interest payments, the price would be 115.00. There are to be had, therefore, separate sets of tables to meet these requirements.

ESSENTIAL RECITALS IN THE VARIOUS KINDS OF BONDS

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A bond ordinarily is simply a promise to pay money at a given time, bearing a rate of interest, the interest usually being payable at stipulated intervals—annually or semi-annually. Such a bond is sometimes defined as

> *An instrument in writing, under seal, whereby one binds himself to pay a certain sum of money to another on a day named.*

Bonds are issued by governments, states, counties, municipalities, school districts and other public bodies. They are frequently classified as government and state bonds, municipal bonds and corporate bonds. Municipal bonds are subdivided into city, village and hamlet bonds. There are also county bonds and school bonds; railway, street railway, gas, electric light, water, telephone, telegraph and industrial bonds, which last term includes, generally, bonds issued by private corporations engaged in some specific line of industrial development. Railroad bonds have, for many years, stood almost in a separate class.

Income bonds are bonds, frequently, whose interest, and sometimes whose principal, are made payable from the income of the party giving the bond. Government bonds, state bonds and municipal bonds are seldom secured by mortgage on property, but depend for payment upon the faith and credit of the government, state, municipal, or other public corporation, and upon taxes or revenues collected for their payment. Railroad bonds and bonds of industrial and private corporations are almost invariably secured by mortgage or pledge of property, real or personal, or both, and are commonly known as mortgage bonds, or collateral trust bonds.

The essential recitals to be made in a bond depend largely upon the statutes and laws governing the issue. It is necessary to have a knowledge of the statutes under which the bond is sought

to be issued, in order to be sure of all the recitals which should enter into any particular issue of bonds. It is quite a common practice to select some bond form which has been evolved by long continued experience and adopt and copy such a bond. Such practice is much better than to approach the subject in a haphazard manner, but no bond form should be adopted without careful investigation of the authority by which it is issued and the conclusion arrived at that the bond complies in all respects with the authority granted. These observations apply to what may be called the unusual recitals in bond forms. Some of these recitals are not essential, but at times the recitals, if they are to become part of the contract between the obligor of the bond and the one who buys it, are very essential, and it becomes very necessary to have the exact terms clearly expressed.

A bond written in any unusual phraseology is liable to attract attention and raise questions that might hinder the negotiation and sale of a bond that would not attract attention if written in the ordinary terms.

A bond secured by mortgage, whether real estate, chattel or collateral trust, should usually, in addition to containing the obligation to pay, advise the bondholder, either directly or by reference to the mortgage, of his rights and of the terms and conditions upon which the bond is issued and secured.

Ordinarily, a proper form of mortgage bond will set forth:

(a) *An acknowledgment of the indebtedness for value received.*

(b) *A covenant to pay the principal at a certain place and time, in lawful money, or gold coin of a fixed standard of weight and fineness, with interest at an agreed rate, payable at a specified place, and at specified times, usually semi-annually, and ordinarily represented by coupons attached to the bonds.*

For many years it has been the custom in this country to require bonds to be paid in gold coin of the present standard of weight and fineness. Since the rapid advance of prices in the last few years and the great increase in the amount of gold which is being mined annually, some long-time obligations, running from fifty to one hundred years, are giving the obligee a right to demand payment either in gold coin or in lawful money, at his option.

(c) *A description of the issue of which the bond is one, showing usually the amount of the issue, and, oftentimes, the purposes.*

(d) *A statement showing that the bond is secured by a mortgage or trust deed, as the case may be; the place where the instrument is recorded or filed, and a reference to the instrument for a description of the property mortgaged or pledged; the extent and character of the security, and the terms and conditions upon which the bonds are issued.*

Usually the bond is specifically made subject to the terms and conditions of the mortgage, so that, should there be any conflict between the terms of the bond and mortgage, or instrument securing the bond, the terms of the mortgage will govern.

(e) *A recital briefly advising the bondholder of his rights on default of payment of interest or otherwise.*

(f) *A provision that the bond shall not be valid until authenticated by a certificate endorsed thereon and executed by the trustee.*

This certificate to be executed by the trustee needs careful attention. It should not be a certificate purporting to be anything more than an identification of the bond as one of the bonds of that particular issue. The trustee should never represent that the bond is secured by a mortgage or other instrument executed to the trustee, because the trustee is not expected to in any sense determine that the bond is secured, or to what extent it may be secured. All that is asked of the trustee is to identify properly the bond and guard against an over-issue.

In addition to the foregoing, there are various special provisions which frequently occur in bonds. For instance:

1. *A provision for registration.* This in order that the bond, which is usually payable to bearer, may be registered and held so that the owner would not be deprived of his property, should the bond be stolen or destroyed by fire. If a recital of this kind is to be put into a bond, ample provision should be made for converting the bond once registered to an unregisterd bond, and to make several of these changes, especially if the bond is a long-time bond and liable to pass through several ownerships.

2. *A provision for redemption prior to maturity.* Such provisions are exceedingly common in railroad and corporation issues. Experience has taught those who are in the habit of drawing bonds of this character, that almost every kind of business is liable to develop far beyond the expectations of those interested at the time a bond is put out; and that, in order to finance an increasing business, whether it be a railroad or even an ordinary corporate enterprise, upon which larger demands are being made yearly for capital to be used in the business, additional stock must be sold or additional bonds issued. Sometimes resort must be had to the one method and sometimes to the other. When it is found better to issue new bonds, it is frequently of great advantage to be able to retire the underlying bonds, and it is very wise that the bond should contain a provision permitting such retirement. As a matter of experience, the bond should usually provide for its retirement only at some interest-maturing period. Such retirement is ordinarily accompanied by an obligation to pay a premium, though not always; whatever the contract is, it should be clearly expressed upon the face of the bond. There can be said to be no uniform custom as to the amount of the premium, as bonds are seen upon the market which provide for their redemption at all the way from par to 115 or 120 per cent of their face. The ordinary provisions, however, usually observed, make a redemption possible at from 102 or 103 to 110.

3. *For a sinking fund.* The sinking fund provision in a bond is sometimes a difficult one to deal with. The experience of the writer is that a sinking fund provision is frequently insisted upon, in close times, by a bond buyer, when it should not be submitted to by the person issuing the bond, and that the bond buyer would not insist upon it if he gave careful thought to its effect. This observation, of course, is true only with reference to certain kinds of bonds, such as bonds issued by street railway, electric light, water and gas companies, in rapidly growing municipalities where the service rendered is at the time of the issue of the bonds grossly inadequate to the demands of the municipality. In every such case, all income that can be earned above a fair dividend on the money invested can be put to better advantage, of both the bond-giver and the bondholder, in extensions and improvements of the plant than in providing a sinking fund. Any attempt to

compel the bond-giver to apply such earnings towards a sinking fund hampers and checks the growth of the plant and the proper development of the enterprise and is not so beneficial a security as such an amount would be, properly expended upon extensions and betterments to the existing plant. There is a character of bond, however, where the reverse is true and where a sinking fund is absolutely essential to protect the bond buyer. A familiar instance of this is a coal bond, or a bond upon a coal mine. Take, for instance, a bond issue of $5,000,000 upon an estimated coal tonnage of 200,000,000 tons. It is essential that, as the coal is mined, some provision should be made for the payment of the bonds, which provision should be certain and definite. In the illustration used, a sinking fund of five cents per ton (which should be absolutely used for the retirement of the bonds, the interest to be paid besides) would retire the bonds or provide for their retirement at least as soon as one-half the coal is mined.

The illustration used is, perhaps, hardly a fair one, for it is frequently the case that bond issues are put on very much nearer to the value of the property. Other instances will readily suggest themselves. Vessel bonds, where the vessel is liable to decay and largely to depreciate, should have a sinking fund, and every bond, where the security is necessarily rapidly deteriorating. Such recitals should be specific and the trustee should rigidly enforce them. The trustee's attention is especially directed to see that strict observance is had of all sinking fund provisions. Instances are known where a trustee, by neglect, has permitted sinking fund provisions to be violated and the corpus of the property to be wasted before the maturity of the bond.

The main idea in the matter of sinking fund provisions, is that such provision should be intelligently written with reference to the particular issue of bonds, and that the bond buyer and bond seller should both have a thorough knowledge of the property.

4. *For the exemption of stockholders, directors and officers of the corporation from individual liability for the payment of principal and interest of bonds.*

Provisions like this arise mainly from two causes: First, in the original promotion of many enterprises property which is of an uncertain value is, under a contract, turned over to a corporation,

sometimes accompanied with a money payment and sometimes without; sometimes in an undeveloped condition and sometimes in a developed condition, for a given number of bonds and a given amount of stock, all of which are issued as fully paid, and then the bonds and stock are put upon the market by the party making the proposition. If the enterprise turns out successful no question arises, but if, as is not infrequent, the enterprise is a failure, and the property mortgaged will not sell for sufficient to pay the outstanding bonds, then the bondholder (who is frequently an innocent person) looks to see if he cannot hold the original promoters, the stockholders, directors and officers in some way, for any deficiency. To guard against being so held, recitals of the character suggested are frequently put in the bonds.

A second reason for such a recital arises from the double statutory liability provided for in some of the states. The constitution of some states provides that all stockholders shall be liable for an additional amount up to the amount of the holding of their stock to pay the indebtedness of the corporation. Most states have no such provision, but wherever such provisions do exist they make trouble and give rise to a considerable amount of litigation. Such litigation it is sought to escape by a contract provision in the bond or mortgage.

A recital of the character suggested should be full and distinct in the bond to be effective, and so written that the holder of the bond, by the mere fact of buying it, becomes a party to the contract expressed in the paragraph, and he agrees to release, to the extent provided, the officers, directors and stockholders from individual liability. As to the construction of such provisions and their validity, the courts have not all agreed. They are, however, generally enforced if specific. In order to be so enforced the courts have leaned to the holding that the provisions must be set out in sufficient detail to advise the bondholder in the bond of his exact rights and lack of rights in respect thereto. Some courts have held that it is not sufficient to have these provisions set out in the mortgage, with a scanty reference to the mortgage in the bond. Other courts have held that where the mortgage referred to the bond the mortgage could be held to govern. But, in fairness to the bondholder, such a recital should be so made as to be a part of the contract.

A great bulk of the issues of bonds issued throughout the country are lithographed or printed bonds, put out cheaply and without much care. In very many localities which do put out bonds continually the people are not familiar with the requirements for listing of bonds upon stock exchanges. Many issues are put out each year, with no thought of listing them upon the stock exchanges, when, years later, it is found that it would be very desirable if the bonds could be listed. It would be, indeed, very advisable if some means could be taken to acquaint the public more generally with the requirements of the various stock exchanges, and especially that all large issues of quasi-public and industrial corporations should be made to comply with the rules of the stock exchanges, so that bonds would be properly certified by an independent trustee and such form adopted as would bring bonds within the rules and regulations of stock exchanges and permit them to be listed.

Municipal bonds are very different in many respects from the bonds of the ordinary corporation. While it is true that all bonds are, to some extent, regulated by statutes, still much more attention has to be given to the issuing of a municipal bond than to many so-called "corporate bonds." Municipalities are not held to a strict accounting of debts and obligations incurred, unless the same are legally incurred, and it has too frequently happened that municipalities have sought (and in cases succeeded) to avoid their just obligations upon purely technical grounds. It is, therefore, most important that every safeguard possible be thrown around the issue of municipal bonds. It should be the object of every municipality, including of course hamlets, school districts, and everything of that character, to obtain the highest price possible for their bond issue as well as to give the bondholder the greatest security. There has grown up, therefore, a class of recitals which it is ordinarily expected to find in a municipal bond, by which the municipality guarantees that all its actions have been regular, and that everything necessary to be done has been done to make the bond a binding obligation upon the municipality; that the total indebtedness of the municipality, including the issue of which the bond is one, does not exceed the constitutional or statutory limits of indebtedness, and that the tax necessary to pay the same does not exceed any constitutional or statutory limitation thereof.

Many bonds are put out by various municipalities that are known as "improvement bonds," and the question is sometimes an interesting and close one as to whether such bonds are payable only out of assessments collected upon property benefited; or, in the event that such assessments turn out invalid, for any reason, or insufficient when they are collected, to pay the bonds, whether the bonds become general obligations of the municipality.

It is hardly possible to do more than to suggest these various questions, in the way of warning the bond buyer that it is necessary to have all matters of this character looked into before the municipal bond is purchased.

In the older states, by reason of very thorough examinations for the last few years, the municipalities, or many of them, are being educated to examine carefully the statutes before their bonds are issued, and to conform to the statutes and have their record in complete shape before their bonds are offered; but, frequently, municipalities seem almost to go wild in their desire to aid some railroad or similar industry that they think will help their particular locality and to issue aid bonds. Such bonds have brought a great deal of litigation, as the result is frequently the same as promoting any enterprise, the aid furnished does not bring the result anticipated, and technical advantage is sought to be taken of any mistake or omission in the issue.

Generally speaking, it may be said that the recitals in municipal bonds should also contain a reference to the laws under which the bonds are issued, the purpose of the issue and a reference to the proceedings authorizing the issue. Then the bond buyer should insist that the bond should contain a broad general recital to the effect that all acts, conditions and things necessary to be done precedent to the issue of the bonds, in order to make them legal, binding and valid obligations of the municipality, have been done in regular and due form, as required by law; and that the faith, credit and revenues and all the property of the municipality are pledged, either directly for the prompt payment of the principal and interest of the bonds at maturity, or in such a way as to obligate the municipality to see that the assessments or taxes are levied and collected to pay the bonds at maturity, and that the total indebtedness, including the issue of the bonds, does not exceed the constitutional or

statutory limit of indebtedness, and that the municipality has the right to collect the necessary tax or assessment to pay the bonds.

It must be borne in mind all the time, however, that there are some things that a municipality cannot contract to do, and that there are some things it may, by recital in bonds, estop itself from afterwards disputing. No municipal bond should be put out or purchased until some one shall have thoroughly examined into the situation and passed upon it. This obligation should be upon the municipality. It would, to quite an extent, raise the value of all government, state and municipal bonds if they could be issued in such a manner that there would be no disputing of the obligation when once put out. To have such credit as that is what every government and every state should desire for all of its municipalities.

THE ORGANIZATION AND MANAGEMENT OF A BOND HOUSE

By William Foley,
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Bond house is the name used to denominate a partnership or corporation formed or organized to buy and sell evidences of municipal or corporation debt. All bond houses are also banking houses in that they advance money to municipalities and public corporations, and their business is distinguished chiefly from other banking in that they do not transact commercial business. In this country the name bond house, by custom, has come to apply to those houses which endeavor to sell bonds strictly on the investment value by advertisement, circular letters and personal solicitation, as distinguished from banking houses, which accept deposits and deal in other securities as well as bonds; and from brokerage houses, which deal in bonds but on a commission basis only.

The organization of a bond house comprises: First, a buying department; second, a selling department, and, third, a financial department. The duties of these departments may be analyzed under these various heads.

The Buying Department

The first duty of the buying department is to examine into the safety of such investments as may come into the market for sale. In the case of corporation bonds this will necessitate critical and careful examination of the assets, physical value, franchises and rights, past and present earning power and management of the corporation desiring to borrow. With the loans of municipalities, a close inquiry must be made of the valuation of the property, the extent of the existing debt, character of the officials and general reputation of the borrowing communities. Once the decision is made that the security offered is ample, and that the obligation will be secure beyond question, the matter of price requires consideration.

Since the limitations of the business the bond house can do are

dependent on its ability to sell, and to borrow pending sale, the matter of price becomes one for consultation with the other departments. The selling department can best judge of the ease with which the bonds may be sold, and the probable figure at which sales may be made; the financial department can best determine the desirability of the bonds as collateral.

If all of these questions are satisfactorily answered, it remains for the buying department to make the purchase at the best price possible, but not above such a price as will secure, in all probability, a fair profit. All purchases are made on the condition that the legality of the issue shall first be approved by the attorney for the bond house, and for this purpose certified copies of all papers precedent to the issue must be prepared. In many cases the bonds are issued under the direction and advice of the attorney for the purchasers.

When the bonds are prepared, it will then become the duty of the buying department to examine them for signature, certifications and seals, and to see that a proper delivery is made, which includes payment for the bonds to the proper party. The purchase now being made, the bonds are turned over to the financial department.

Recapitulating the duties of the buying department, they may be stated as follows:

First. To buy only such bonds as are safe.

Second. To see that the bonds have been issued legally.

Third. To buy as cheaply as possible.

All other duties of the buying department are tributary to these.

The work of the buying department as considered up to this time consists of the buying of new and original issues; but more often it is called upon to purchase blocks of bonds of old issues on which there is a known market. In order that the buying department may have the necessary information on file, it is the custom in all properly constituted bond houses to maintain a library of information, or, as it is more often called, a statistical file. This library of information will contain the well-known manuals of information in regard to railroads and corporations extending over a number of years, files of the current financial publications, the supplements of the *Financial Chronicle,* envelopes containing newspaper clippings concerning the various corporations, which files should also contain an account of any personal observations of the properties which it

may be possible to make. As to these last observations the bond house should encourage its employees to put into writing any personal observations they may make or any interesting gossip they may hear of the various corporations. No piece of information is of too little value to keep. The library of information will also contain the books, supplements and publications relative to municipalities, with complete records of past municipal sales and prices.

The circular offerings of other houses should also be kept carefully, and reference indices to the various offerings should be placed in the information file of each corporation or municipality. The objects of the library of information are apparent, briefly they may be stated to be:

First. To enable the buying department to judge quickly of the security offered.

Second. To offer a complete record of the prices at which the security has sold.

Third. To locate possible buyers or sellers of the bond in question.

It is an axiom of the bond business that a bond well bought is already sold.

The Selling Department

Since bonds are bought usually at wholesale and sold at retail, the selling department will use more employees than the buying department. The first duty of the buying department is to see that the funds of the bond house are safely invested; the first duty of the selling department is to develop its ability to sell, as on that ability the growth of the business depends.

The selling department should consist of a manager, office salesmen, and outside salesmen, with the necessary assistants. The manager should be a man who has not only a wide knowledge of securities in general, but who is full of market information, and who will know instinctively in what market a security will be well received. It will also be his duty to regulate the price at which the security should be offered, and direct the efforts of the salesmen. In large houses more than one manager may be needed, and such managers' duties may be divided either on the line of the classes of bonds, or as to the territory where sales are made. The manager must always be in close touch with his salesmen, and upon taking

up a new offering should talk over the issue exhaustively in order that the salesman may not only understand the desirability of the security, the reason why his house has bought it and why it recommends it; but also that he may become enthusiastic about it and go out on his business with the innate feeling that he can sell the security.

The office salesmen may be divided into two classes, the men who meet and talk with clients who come into the office, and the men who prepare circulars and letters. Salesmen of every class must be men of more than usual intelligence and must know bonds and the bond business; but it is especially important that the office salesmen should be men of pleasing personality, with quick memories of people and events. The men who prepare circulars and write letters are the men behind the guns. Letters must be direct, forceful and in good English. In bond literature unnecessary prolixity is a sin. As a rule, more bond buyers know a house through its circulars and letters than in any other way. Therefore on the intelligence, directness and business-like form of these communications, the opinion of many possible customers will be formed.

The outside salesmen are composed of city men and traveling men, and it is their duty to sell bonds by personal solicitation. Their work is more difficult and requires a degree of self-assurance and the ability quickly to interest a buyer in the matter in hand. But it is particularly necessary that these salesmen should be able to impress the men they visit with their knowledge of what they are offering. It is also particularly the province of the salesmen to gather new names of investors, and upon their doing so conscientiously depends largely the ability of the house to increase its number of customers.

Two information files, which are of the greatest value to the bond house and essential absolutely to its success, are kept in the selling department. The first, which is often the firm rock on which success is built, is the investors' list. This list will consist of the names of those who have bought from the house, and of those who are well known as buyers of bonds from other houses. A second list will be kept of possible buyers; this is, of course, a tentative list, and names will be occasionally moved to the regular list or dropped altogether. The investors' list is a source through which considerable loss may come to the house, and it is the aim of every

house to see that letters and circulars go to possible buyers only, and that useless names be discarded as rapidly as possible. The names for the investors' list are gathered through many sources, which in their relative importance are as follows: First. Through the exertions and observation of the salesmen who in their day's work meet many people. Second. Through the tax lists and records of the probate courts. Third. Through the replies to advertisements in the newspapers and financial publications. Fourth. Through the names furnished by clients. That such a list is of great value is illustrated by an instance recently published in the daily papers of a discharged employee of a bond house who took a copy of the investors' list. In this case the bond house was willing to pay twenty-five thousand dollars for its return, although the list taken was only a duplicate.

In the well-organized bond house the investors' list will be subdivided under the direction of the manager on the lines of probable sales. From his observations and experience, the manager comes to know the inclinations and preferences of the clients. Supposing, then, that the house has seen fit to purchase an issue of municipal bonds of a city in the middle west, it is the duty of the selling manager to see that an offering of those bonds is in the hands, at the earliest possible moment, of the men who are known to buy bonds of that class. In the same way he will so direct his salesmen that they will visit first those who will be most inclined to consider the security offered.

The second list of importance kept by the selling department is the bond sales list. This list is entered under two heads, and consists, first, of a list under the heading of the bond description and shows to what investors or other houses the various bonds have been sold. This list becomes valuable in that, at maturity, it will enable the selling department to locate the holders of the securities, and in all probability to replace the investment with other bonds, and also should there, before maturity, arise an occasion when there is a demand for that particular issue, it will enable the house to locate the bonds and make bids where there will be probable results.

The list is also cross-entered under the name of each investor. The object in doing this is to enable the house to keep posted on the securities owned by each client. With this knowledge on hand

the house is able to talk more intelligently with him, and to make exchanges which are of mutual benefit.

The Financial Department

Bond houses are provided generally with large amounts of capital, and, as a rule, are considerable borrowers of money in addition. It is the duty of the financial department to receive and pay for securities bought, to make deliveries of bonds sold, to arrange loans and to keep the general books of the business. The matters of receipts and deliveries are well regulated by custom and require no especial mention or description.

The item of loans is an important one, and one through which much money may be made or lost for the bond house. All loans are made on collateral, and the collateral offered by bond houses is the best obtainable, since it is good intrinsically, rapidly resalable and of known values. In the conduct of its business the bond house comes to know many banks and many wealthy individuals who have at certain periods of the year surplus funds. If the reputation of the house is good and the character of its securities high, these funds may often be borrowed at rates below the market for money. At all times, however, the loans of bond houses, when secured by reasonable collaterals, are looked upon with favor and command the best borrowing rate. The adjustment of loans as to time is a question of policy for the house, and the decision on these matters should come only after consideration and consultation. It is wise to keep a certain amount of loans on call, in order that the results of sales may immediately show in the interest-saved account.

If the bond house is of sufficient size and reputation, it will be advisable for it to maintain relations with one or more foreign banks, in order that loans may be made in the cheapest money market. Once the relationship is established, foreign banks will accept readily the time drafts of the bond houses; but they will demand the deposit of well-known and readily salable securities as collateral. The desirability of these connections has brought many bond houses into a regular foreign banking business, and inversely, a well-established foreign business has made a bond business adjunct desirable, so that we now see the foreign banking houses doing a large business in bonds. Some bond houses, when of sufficient reputation, borrow funds from their clients and others by soliciting deposits, on which

the best market rate is paid; but as this is properly a function of banking, the particular features of it will not be considered at this time.

Under the head of the financial department, it may be appropriate to call attention to the one particular in which the bond business differs from all others, except that of the dealer in commercial paper, *i. e.,* the cumulative nature of its stock on hand. In every other business where the functions of wholesaler and retailer appear, the item of interest on loans is a direct charge against selling profits, but bonds are themselves interest earners and the charge of interest becomes one of arbitrage only, depending on whether or not the bonds yield a greater interest return to the house than is paid on loans. In the average year, owing to the nature of its collateral, the bond house is able to borrow money at less than the average return of its investments, and the interest item is one of credit and a source of profit.

The keeping of the general books of the business is clerical in its nature, and requires no consideration in this paper. There are, however, many technical details, and the work should be in the hands of experienced and careful men.

The component parts of the organization of a bond house have now been considered. There are many details of the business of which no mention has been made. The transactions of syndicates and joint accounts, et cetera, have been omitted purposely, since their operation and management would require too much description. The effort has been made to show the skeleton structure about which the business has been built. In closing the paper, the writer wishes to say that, in his opinion, the bond house, *i. e.,* the strictly investment house, may expect to be successful if it has the following attributes, which are important in the order given:

First. Absolute honesty.
Second. Conservative and careful buying.
Third. Energetic selling.
Fourth. Well-developed system.
Fifth. Conservative financial management.
Sixth. Dignity.

BOND SALESMANSHIP

By William Foley,
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The successful salesman of bonds must be born with a good personality and a quick mind, but his real success depends more upon his desire to know and thoroughly understand the bonds he sells, and upon his realization of the responsibility and dignity attached to his profession.

To sell bonds successfully, the salesman must be ever studious. It is quite as important for him to keep thoroughly posted on every happening in the financial world and on every change or tendency to change in the leading money markets, as it is for the doctor to keep in touch with the developments of the medical world or the lawyer with the latest decisions affecting his practice. The word "profession" has therefore been used with intent. Bond selling is a profession in that it necessitates studious and careful preparation, and, at all times, constant reading and study.

The prime requisite for a successful bond salesman is that he should be a glutton for knowledge, knowledge of the world of business, of affairs, of public opinion and of general conditions. He must read the newspapers with avidity, particularly the columns devoted to the editorials, to financial matters, and to the railroads. He must supplement this by careful reading of the financial papers and magazines, and by such text books and articles as appear from time to time.

To sell successfully, the salesman must know not only the issue he is offering, but nearly everything else that may arise in reference to financial matters. The clients of the salesman belong to the class that has shown the ability to gather money, and they have given, naturally, considerable time and thought to the subject of its investment. The largest factor in the personal equation in bond selling is the necessity that the client should realize that the salesman knows his subject. No one, of choice, goes to a bad lawyer for advice, nor to a physician who is behind the times, nor will

clients buy bonds from a man who does not understand what he is selling.

The next important factor is the necessity for the realization of the responsibilities and dignity attached to the profession of bond selling, and of the duty to the client. The investing of money is a serious matter, and for the salesman who realizes it fully, there is a great field as a seller of bonds. Money in America accumulates very rapidly, the number of bond buyers increases each year, and the buyer of to-day will be in the market again next year and the year after. It therefore behooves the bond salesman to guard with sincerity the interest of the client, to the end that he may retain the business of his client, and establish for himself a reputation for honesty, conservatism and care. No immediate profit can make up for the loss of the client's business. The salesman who abuses the client's confidence to make sales above real values, or of indifferent securities, will gradually and surely disappear from the rolls, because he will soon have no clients. On the contrary the man who is faithful to his trust will add client by client, until the volume of his business becomes larger than ever hoped for.

For the same reason, it is necessary that the salesman should show fixity of purpose, and once he is satisfied that his house is safeguarding honestly and conscientiously his interests and the interests of his clients, he should remain with the firm until he can take his place as a partner.

The bond salesman who gains the trust of his clients, and builds up a business on the right lines, is creating a most valuable asset for himself, and one for which there is always a market value. Only a few days ago a salesman who has worked hard, has been conscientious at all times and has had success, said that it had been hard work, but the results were like a pension for life. Clients who come to have confidence in a salesman often rely entirely on his judgment. They not only rarely change to other salesmen, but recommend the salesman in the highest terms to their friends. A salesman who is losing his business must have some elemental weakness, and it is best for him and his house that his efforts should be turned early to other channels.

Some salesmen who are conscientious and have ability meet with only fair success. When this is so, it is probable that the sales-

man is not a good judge of people or is failing to place his offerings properly before his clients.

In addition to the general requisites which have been spoken of before, there are certain points in salesmanship which should be developed. They are not tricks of salesmanship since they are honest and fair, but rather the factors which distinguish the good from the mediocre salesman. To take them up in order, it is perhaps well to speak of:

(1) Enthusiasm. While bond selling must of necessity be a business of cold facts and figures, there is a certain spirit of enthusiasm which aids in making sales. The salesman must feel that his offerings are absolutely good, so good that he recommends them with warmth and a hearty manner. He must at all times feel the merit, the intrinsic value and desirability of what he is offering.

(2) Centralization. When a new issue of bonds is brought to the salesman's notice he must study most carefully all of the information relative to the issue. He must mark, read and inwardly digest, he must analyze and compare. If the issue is really desirable, certain salient points will appear. While he must know everything in regard to the issue, let him in making his offerings draw especial attention to the points of desirability which have most impressed him; the probability is that they will also impress his client. The same general remark will also hold true where the salesman has more than one issue to offer. He must not jump from one subject to another, and thus confuse the client and himself. Scattered shot is only good for small game.

(3) Observation. Under this head it is desired to recommend to bond salesmen the necessity for observation of the inclinations, ideas and opinions of the client. It is a good thing to emphasize those points in regard to a bond issue which appeal to the client. Likewise, under this head, may be considered the important item of closing business. Many salesmen succeed in interesting the client, but do not close many sales. There can be no more desirable accomplishment in a salesman, than the realization of the proper time for making the business firm.

There are many pitfalls in the path of the bond salesman, and one dangerous quicksand. The latter is misrepresentation and the salesman who falls into it never recovers; his total disappearance is a question of but a short time. The bond salesman who misrep-

resents any particular in regard to an issue of bonds to accomplish sales, has placed himself beyond the pale; he has betrayed the responsibility of his profession, and the faith of his client, and he deserves his fate. It is a pleasure though to consider that the morale of bond selling, both on the part of houses and salesmen, is high; and cases of misrepresentation are noticed chiefly on account of their rarity.

The pitfalls of salesmanship are numerous, and cause many troubles to the salesman. Fortunately these are not beyond repair, and to many salesmen a mere mention is enough. Briefly the following may be mentioned:

(1) The mistake of recommending bonds from the speculative standpoint. The salesman should sell his bonds on the basis of their absolute goodness and price as compared with other securities of equal excellence. Safety, income and convertibility are the great merits of good bonds. The wise salesman will not try to prophesy the movement of the market or the trend of money.

(2) The mistake of talking too much. It is always well to remember that the salesman's business is the affair of his house and his client, and he has no moral or other right to talk about it. Many desirable clients are lost through the tendency on the salesman's part to talk of his business.

(3) Unfair competition. No salesman has ever made an ultimate gain by belittling opposition houses or criticising their offerings. This policy often results in the loss of faith on the part of the client, a poor opinion of the salesman himself, and scepticism of the offerings of his house.

In this paper no effort is made to write of bond salesmanship in any other than the most general way, and what has been written will apply equally well to the office salesman or the one who goes out to make sales by solicitation. But there is another class of bond salesmen who contribute a large percentage of the total sales, that is the salesman who talks well on paper. Circulars and letters from the various investment houses go out to investors in surprising numbers, and it is safe to say that the class of literature sent out, the care in its preparation and the general form contribute largely to the impression formed in the investors' minds regarding the conservatism of the house and the character of the bonds offered. The salesman who prepares the circulars and dic-

tates the letters is a most important factor in the success of the business.

To prepare and write good bond-selling literature is an accomplishment, and requires a thorough knowledge of conditions, statistics and facts, as well as ability to write good, strong English. Good salesmen of this kind are rare, and are often of more value to the house than the men who meet the clients. Their work is not showy, and often is not appreciated for its full value.

No effort has been made in this paper to write on the duties or preparation of the salesmen who are "in the street," whose work it is, wherever there is a well-defined market, to go about the banks, insurance companies and other bond houses with offerings; since in these cases the clients are themselves experts on bonds, the buying becomes simply a matter of trading. Rather, it has been the effort to write of bond salesmanship where there are difficulties to overcome, and where the relations of confidence and trust are established.

The responsibility of the bond salesman's position cannot be too strongly emphasized. It often comes to him to invest the savings of the old, the funds of trust estates, the legacies of widows and orphans and the surplus funds of business men. There can be no position more filled with responsibility. To be successful, the bond salesman must live up to his responsibility.

SELLING AMERICAN BONDS IN EUROPE

By Charles F. Speare,
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For another generation and, perhaps, until the middle of this century, the United States will have occasion to look to Europe for capital. We are still in the development stage. Industrially, only beginnings have been made toward the accomplishment of great manufacturing and transportation results on which will rest the future economic standing of the nation. For the past decade there has been more work to do, in building, rebuilding, equipping, transforming, enlarging, tearing down and refitting our mills and railroads than there have been domestic funds with which to do it. The balance has been drawn from the surplus capital countries of Europe. This condition shows no sign of change. It would be easy to spend a billion dollars annually on American railroads alone for the next ten years and then they might not have sufficient capacity to meet the traffic demands of 1920. As much more might be put into the steel mills, the smelters, the cotton goods factories of the South, the implement producing plants, the car and locomotive and the electrical shops in the four corners of the land, and after all this was done, they would only be on a fair economic basis and barely able to turn out their maximum capacity in reasonable time. So, with our agricultural wealth rising each twelve-month, products of our gold, silver and copper mines increasing rapidly in value, our exports to foreign countries advancing steadily, there is all the time an offset in capital consumption to more than balance the scales on which is placed our new wealth. Without the accumulated and unemployed pounds sterling of the Englishman, the francs of the Frenchman, the Belgian and the Swiss, the guilder of the Dutchman and the marks of the German, the material progress that has been the lot of these United States ever since the close of the Civil War could not continue.

The foreign investor is necessary to the American banker. He has been the means of turning many a bond offering from dismal failure to partial success. The international bankers have cultivated him for the last fifty years and know that he will often-

times take securities that the American rejects and that he usually gets his reward in a heavy profit. He frequently has more foresight, better judgment, even more detailed knowledge of American railroad and industrial properties than the man at home. His vision is less clouded, his perspective more accurate, because he does not include in it the disturbing minutiæ of finance but concerns himself with the fundamentals. Just as an European often has a clearer idea of American politics than a New Yorker or the man of average information wherever located in this country, simply because he sees only the broad movements in state and national affairs, so the investor in London, Paris, Amsterdam or Berlin judges better of the value of an American railroad bond, about which he knows the essential facts and from which all sentimental speculative influences are stripped, than the native investor who sometimes stands too close to the ticker when taking the measure of his bond.

Back of the average good judgment of the foreign investor is a vast amount of patience and willingness to give his investment a fair trial. Bonds that go from the United States to Europe usually stay there until they mature or the profit on them is so large or the interest yield so low, due to the premium they command, that they are no longer desirable to hold.

An instance of this has been given in the case of the United States 4 per cent bonds of 1907 which have just been redeemed. The bonds into which the maturing issue was converted were originally placed abroad in the 70's by the Rothschilds. Most of them went to Holland and to Germany, particularly to southern Germany where Frankfort was then the financial center of the empire. Blocks of the bonds have just been released. In Holland last year I came across several lots of Chicago & Northwestern and Chicago, Milwaukee & St. Paul divisional bonds that have been held for thirty to thirty-five years. The European man of means takes great pride in seeing his estimate of a property fulfilled, and he rarely abandons an investment until it has made good or shows itself to be utterly worthless. Many times, during the reorganization period of fifteen years ago, investors on the other side paid their assessments when the American balked at it. They lived to see their judgment vindicated and profits of great size credited to their account.

My subject has to do with the selling of American bonds in Europe. Included in this are the history of the introduction of bonds of American issue into foreign countries with a surplus for investment, the probable extent of the investment of different European nations in our securities, the ebb and flow of foreign capital in American securities, the ways in which bonds are placed on the markets of Europe with some suggestions concerning the method of facilitating the distribution of bonds among the small investors on the Continent. Treatment will also be made of that fascinating aspect of the whole subject, the French market and the pioneer work necessary in order to fertilize well that lucrative field for the American bond dealer.

For over forty years now the names of English, German and Dutch investors have been on the books of American banking houses.[1] Whatever figure might be named of the par value of the bonds placed abroad in that time would be guesswork. It would reach up into billions of dollars. The movement began when this government started to find a market for its bonds at the end of the Civil War. The country was poor enough then there were few men with capital to spare for investment, and suspicion of the permanent credits of the government prevailed in many conservative quarters. But the Dutch bid eagerly for a 6 per cent bond, guaranteed by the United States of America, which was offered at 60, and, therefore, returned them an income of just 10 per cent. Large blocks of these bonds were sold throughout Holland. The German investor, particularly the wealthy South German bought the sixes, too, with avidity and held them until they were redeemed. In most cases the proceeds of these bonds were converted into cash which was, in turn, placed in the 7 and 8 per cent bonds of such American roads as Chicago & Northwestern; St. Paul; Illinois Central; Great Northern; Norfolk & Western; Central Pacific; Union Pacific, and Missouri, Kansas & Texas. These bonds were subscribed to between 75 and 85. As a general rule it seemed to be felt, in those days, that the United States was on about a 10 per cent interest basis.

The English investor came on the scene at a later date. But when he did take part in the absorption of American securities

[1]Early financial history contains the record of sales of American governments to Dutch bankers by Alexander Hamilton, then Secretary of the Treasury.

he did so on a very liberal scale. In the late 70's, but mostly between 1880 and 1885, and again between 1893 and 1898, his purchases were enormous. It is estimated that, in the decade between 1880 and 1890, $3,000,000,000 of English capital went into foreign enterprises. I should say that fully 50 per cent of this came to the United States. The control of three-fifths of the American railroads was held in London. Not only the bonds but stocks of these properties were bought in quantity. America seemed to the English investor of those times the one profitable field for his funds. Our strongest banking houses had made good connections on the other side and they were able to secure the confidence of the distributing agents for the best class of bonds current. In committing themselves so exclusively to one country's securities the English made a bad mistake, and the panic of 1893 cost them tens of millions pounds sterling. They are now much more discriminating buyers than they have ever been and look more to steady income than to big speculative profits.

France is a comparatively new field. So far it has scarcely been touched and holds out the greatest possibilities of any in Europe. But it is peculiar territory and a difficult one to work and I am not sure but that conditions which now make it seem so attractive to the distributor of bonds will entirely change in another ten years. An industrial revival in France, demanding a large amount of domestic capital, would quickly absorb the annual surplus of the nation. However, it may be too much to suggest that France will ever imitate Germany or Belgium and derive an income of any size from anything other than her crops, wine, silks and the free-spending tourist.

Different considerations enter into the sale of American bonds to the English investor from those obtaining, for instance, when the investor in Holland is approached. It is much easier to interest a German in our securities than it is to secure attention from the Frenchman. Each looks at the question from a slightly different point of view. Investment traditions, local prejudices, the amount of income yield that will satisfy the prospective buyer, relations between government and investor, taxes on securities, the attitude of banker toward his client and the current state of the market which the seller of bonds is approaching with his wares are all factors to be considered.

Investment conditions have been changing throughout the entire world in the past two years. In a magazine article a year ago I had occasion to point to the fact that investors who, at the beginning of the twentieth century, were content with a yield of 3 to 4½ per cent were then demanding from 4 to 5½ per cent. This was due to several economic changes that had taken place. One was the higher cost of living which made it impossible for the income of 1906 to do the work of the income of 1895. The man with £20,000, for instance, invested in British consols yielding about 2¾ per cent, had to economize severely, whereas his annuity of £600 had, in other days, made him very comfortable. Further than this, under the influence of a rapidly rising gold production, the highest grade bonds were the ones in which the greatest depreciation occurred. British consols, for generations the premier security of the London market, and the financial barometer of international exchanges, dropped 30 points, or more than much less exalted issues. So the investor took the wise stand that, if the very best bonds could not be guaranteed against severe shrinkage he might as well place his funds where they would yield more and possibly suffer no greater decline. Therefore, instead of consols, he bought the 6 and 4½ per cent issues of the Japanese government which yielded him from 5 to better than 6 per cent and have, since flotation, fluctuated less than half as much as British consols. In place of old line British rails like Northwestern, Great Western, Brighton, etc., whose stocks have gone down from 60 to over 100 points in recent years, from a level that returned under 3 per cent, the British investor bought notes of American railroad companies which could be had to return an average of 6 per cent. German investors at about this same time refused to consider government issues on a 3½ per cent basis and they carried their point. Dutch investors have always demanded a good income, say 4 to 5 per cent, and they began to select securities that bore ½ to 1 per cent more. The French investment customs surround both Belgian and Swiss investors who similarly refused, after they had been able to get Russian bonds on better than a 6 per cent basis, to be attracted by the low interest-yielding securities which exclusively filled the portfolios of their ancestors. The rising credit of new countries, like the United States, South America, Canada, South Africa and Egypt and of former third-rate nations, as Spain and Italy, brought into competi-

tion with the ranking securities of the older empires a great quantity of bonds which were perfectly safe and had the distinction of providing a satisfactory yield. This condition is a fairly permanent one. Never again, I believe, will the pulse of the markets of the world beat in unison with the fluctuations in British consols and more and more, in spite of the deep patriotism that inspires the French investor, will the *rente* cease to be the channel into which the thousands of small investors turn their annual surplus. Germany is constantly clamoring for better returns on her money which the competition of trade and of broadening foreign markets incites. Holland invests perhaps too great a percentage of her income away from home because she wants as big a yield as possible. And this is the tendency prevailing whenever there are securities to be bartered for cash.

The insurance companies are the largest English buyers of American bonds. At the time of the San Francisco fire it was shown how vast the amount held by these institutions had grown to be. Most bonds are placed through the London agents of American banking houses or by their own branch offices. The English and the Scottish banks are also buyers on a large scale when the market seems to offer good opportunities. Bank purchases are invariably for the clients of the institution who have intrusted the selection of their securities to their banking adviser. The vaults of most of the important English banks contain a fair representation of high-class American railroad first mortgage and prior lien bonds. There are also in England companies that purchase American issues and issue their debentures against them, and from the profits on their holdings, pay interest on their own shares. Quite a bit of capital is invested in this way. The English market is pretty well scratched over. Englishmen do not have to be told about American railroads or of the best of our industrials. The question with them now is mainly one of yield, for they have a strong faith in the general destiny of the United States and are not afraid to invest their funds here when they can get the proper terms. It might be said of them that, latterly, they are more inclined to take hold of tested and tried bonds than invest in junior mortgages which have still to make their record.

It is on the Continent that the great future market for American bonds lies. That this fact is appreciated is shown by the num-

bers of representatives of American houses who have traveled there in the past year and a half sounding the people and trying to tap their reservoirs of capital. Wide-awake firms are establishing agents in all of the leading centers of Holland, Germany, Switzerland and Belgium, and there are already a half dozen branches of New York and Boston bond houses within a radius of a mile of the Bank of France in Paris. Instead of writing their circulars of bond offerings in the English language exclusively the up-to-date bond dealer to-day has to put it into French and German as well.

Circularizing is a popular form of bond introduction in parts of Europe. It pays in Holland and in Germany where a good deal is known of American conditions and also in Switzerland, but I regard it as a waste of time in France until more preliminary work of a pioneer sort serves to give the investor of that thrifty nation a closer acquaintanceship with our institutions, our corporations and our methods of financial operation.

While hundreds of millions worth of American bonds are held in Holland (and bonds that go to Holland stay there indefinitely, so that the aggregate of them is all the time rising) only a small percentage of the Dutch investors who buy American bonds from preference ever see them or cut the coupons from them. The Dutch method of investment is similar to that which exists in smaller form in England. What are known as "offices of administration," which are directed by some individual banker or group of banking-houses, exist. They take the funds of the investor and buy certain securities with them. Suppose, for instance, that the purchase was Union Pacific first 4's. Against this the investor receives a certificate of the "office" with an attached coupon. When the Union Pacific coupon falls due in January and July the corporation collects it and credits it to the account of its client. The client cannot exercise any voting privileges. These are waived in favor of the administrators. Of course, the latter would be controlled by the prevailing sentiment of their clients on any important decision. For the work they do the "offices" receive a commission of ¼ of 1 per cent. Another type of concern is that which purchases American and other foreign interest-bearing securities and issues its own 4 per cent debentures against them. These companies are patterned after the mortgage banks of Germany and the French Credit Foncier.

They have been very successful and have rarely defaulted their interest.

Holland will always be a good field for American bonds. The Dutch have made money in them and are satisfied with the yield. They have been steadily liquidating the enormous mass of Russian bonds (at one time estimated as high as $500,000,000) and placing part of the proceeds in our securities. The country is rich in colonial possessions from which its income ranks only second to that of Great Britain. The people are economical and live to save and gain a competency. It is this quality of temperament that makes of Holland one of the great surplus capital countries of the world.

Going over to Germany we find that investment conditions there have their own peculiar forms. The great banks of issue figure prominently in all of the underwritings and the flotations of securities. They can, in many instances, make a bond go or they can blackball it with the investor. There are, of course, separate groups of banks which are more or less in competition with each other and constantly offering different lines of bonds. But there is not the pulling apart that is exhibited by the American banks which remind one of the "two and seventy jarring sects" of the Rubaiyat. They are a unit generally on fundamental questions of finance and one would not find one group taking a diametrically opposite stand from another group on the expediency of national investment in the securities of a foreign nation whose affairs just then happened to be passing through a critical stage. The Deutsche Bank, the Dresdner Bank and the Disconto-Gesellschaft, with an annual turnover of about $50,000,000,000, are the great distributing mediums for Americans as well as for all other foreign issues. The Darmstader Bank has very close connections with banking firms in the United States which place a great many bond issues on the market, and the new American Bank in Berlin was formed a year ago especially to facilitate the placing of American securities in the hands of the German investor.

The original field of activity of the American bond dealer in Germany was in the southern part of the Empire. Frankfort was a ready buyer of American bonds long before the north German had any acquaintance with them. This was due to the success that had followed the placing of American governments in South Germany and the profits that had accrued from some of the western

railroad mortgages in the ante-receivership period. The family connection, too, between South Germans and the German banking interests in New York did a great deal to establish our best issues in the region of which Frankfort was the distributing center.

Now the Berlin banks are the power to be reckoned with. They have made a very successful propaganda in American bonds the past few years. It may be said without hesitation that no underwriting syndicate is ever formed to bring out an American bond or note issue but that the big Berlin banks are allowed to participate in it. They carry on their campaign largely through circulars. These they send to their regular clients, who number thousands, and to the countless small banks and private banking firms throughout the empire. They do a great deal of advertising, too, in the public press. The Berlin banks have taken the initiative in securing admission to the Berlin Boerse of the few American issues listed there. There are less than thirty American bonds now quoted on the Boerse and only three or four American stocks. Listing is a very expensive operation. It cost the bank, which was the sponsor for the Pennsylvania 3½ convertibles put on the Berlin Boerse a few years ago, something like 100,000 marks to complete the work. A good part of this was in the advertising which is required before the bonds can be located. Then the Boerse authorities demand an inexhaustive report on the property whose bonds are up for listing. In the case I have cited this statement covered twenty-five long printed pages. The difficulty surrounding the listing undoubtedly accounts for the small number of American issues regularly quoted in Berlin.

The German investor asks a fairly good income on his capital. He likes his own railroad and municipal issues and will take them in preference to any other bonds, income being equal. One objection that he has to American bonds is that they have a constantly changing title. The transition of the first mortgage bond into some junior issue, as reorganization necessities arise, the creation of newfangled types of bonds, as the "convertible" or the "collateral trust," do not meet with the approval of the German banker or his clientele. "You wrap the original bond in many coverings like an onion," a Berlin banker said to me, "without giving new value to the bond or creating fresh assets for the security." To get back to the original issue would require the most expert bond advice. The

investor who buys a bond which is nearest possible to the road and sees it transformed into several different types, finally begins to wonder what his equity is should he need to exercise it. This is one great drawback against the popularizing of American bonds throughout Europe.

Switzerland is a smaller market than those we have been dealing with but one that has a good surplus for investment and is friendly to Americans. I am told that about 75 per cent of the bond business with the United States is done through one house which has been selling bonds to the Swiss investor for a quarter of a century. The Swiss Bankverein is one of the large distributors and a subscriber to most of the best underwritings. The Swiss likes his own state railroad issues and wants about the same income as the German and the Dutchman. Geneva, Zurich and Basle all have exchanges on which are to be found a fair number of American securities and the leading Swiss newspapers carry quotations of bonds of our railroads.

The fascinating feature of the French market, from the point of view of the average American dealer in bonds, is that it is unexploited. It is fallow ground from which fair crops may be harvested if the right kind of seed is sown there. It is a market worth making a great deal of effort to cultivate. The French are the thriftiest of the investing people of Europe. The Italian lives as closely and saves as much in proportion to his income. But he is not an investor in securities. The yearly surplus of France, available for investment, must be some milliard francs. At various times in the past two or three years there has been an uninvested supply of capital to French credit of from $400,000,000 to $600,000,000. Thrift is the national virtue. It is practiced by everyone and is a means to an end,—that end being independent old age, a marriage *dot* for the daughter and a portion, at maturity, for the son. The "woolen stocking" of the French is proverbially well lined. From it was drawn the billion dollar indemnity that Bismarck imposed on the Republic at the end of the Franco-Prussian war and which he expected would be a load under which France would be crushed. The debt was liquidated in surprising time. Then did Europe appreciate first of all the saving quality of the French and the amount of their reserves constantly in hand. It was a revelation significant to borrowing nations of the Continent, and from that

time to this, France has steadily been petitioned by borrowers to place a part of her funds in their bonds.

This appeal has resulted in the investment of nearly $2,500,000,000 in Russian bonds alone. France has been Russia's banker almost exclusively for the past twenty years. Naturally, having invested so liberally in government issues, the French were attracted to Russian industrials. In them their experience has been unfortunate. While they have never lost a coupon on Russian funds, though the market value of them has greatly depreciated since the Russo-Japanese war, they have lost interest and much of their principal in ventures of other sorts. Mining shares particularly have been the *bête noir* of the French. Some Russian mines, bought at 1,200 to 1,500 francs, have shrunk to a few hundred francs. Spanish mining securities, too, have been unprofitable. On the whole, however, the Frenchman has taken as his motto: "Buy industrials if you would live well; buy governments if you would sleep well," and adhered to the last half of it. He has been content with the smallest yield of any investor, and consequently the great bulk of his funds has gone into the very safest issues on the market.

Alfred Neymarck, the eminent French statistician, estimates that the total securities held by the French people approximate $18,600,000,000. The population of France is about 40,000,000 souls, so this means a per capita investment of $465. The wealth of the country is placed at $35,000,000,000. About $13,000,000,000 are represented in foreign investments. The value of foreign investments made in 1906 alone was $850,000,000. The Frenchman is prone to locate his funds where the tax collector cannot get at them. While the wealthiest in regard to available capital, France is the sorest taxed of any nation and is continually raising her assessments on her people to meet deficiencies in the budget caused by official extravagance. It is reckoned that the value of the yearly income of the individual is absorbed by taxes within six years and his capital in fifty years, and some economists claim that the fortune left by parent to children is wholly exhausted by taxation in less than a generation. The *fisc* is the hobgoblin of the *rentier*. Every means known to human ingenuity is resorted to in the attempt at evasion of taxes and keeping secret the personal effects of the individual. We know how quantities of securities are held in this country to the credit of the Frenchman so that he may not

have to pay the government and bourse taxes on them; how a year ago there was a steady outflow of capital and securities from France into Switzerland and Belgium until the rate of exchange of Swiss and Belgian cities on Paris moved in their favor,—an uncommon occurrence. The inquisitorial policy of the government threatened to exhaust French markets of capital and the export of capital was one of the influences which determined the higher discount policy of the Bank of France. Socialism, which is rising more rapidly in France than elsewhere on the Continent, has its terrors for the French investor and makes him loath to place his funds in bonds or shares that might be affected by political or social revolutions.

This antipathy to home issues is stronger now than ever, and coming at a time when the *rentier* is beginning to doubt the wisdom of having so large a part of his principal in Russian bonds, it gives splendid opportunities for the American bond dealer to drive home his arguments and enter a wedge that cannot easily be dislodged. The Pennsylvania Railroad loan of $50,000,000 placed in Paris in 1906 and now listed on the Paris Bourse and the loan of $29,000,000 of the New York, New Haven & Hartford Railroad have broken the ice. As money conditions the world over improve there will, no doubt, be other issues located in Paris and quoted there on the official sheet of the Bourse.

The bond dealer in the United States who is eager to place securities in France should first study the type of investor with whom he is to deal. The unique personality of the French *rentier* makes exploitation in France much different from that in any other country. His character is peculiar and without parallel. Individually the French investor's influence is infinitesimal; collectively his power penetrates the money markets of the world and determines their rate of interest. Saving is taught the French boy and girl just as soon as they are able to appreciate the value of money. The schools make economy a virtue and an incentive. Thrift is a quality which, if strictly practiced, brings its reward in the form of ten-francs books of deposit at the end of the term. The government savings banks get these first few francs. The limit of deposits in them is 1,500 francs ($300). When this sum is reached it is reinvested by the bank authorities for the benefit of their depositor in 3 per cent *rentes*. These banks are very popular with the peasants, farmers and small shop-keepers who have already bought

with their savings, since about 1880, when France began to show a surplus, $4,300,000,000 of *rentes.* Of the total French debt in 1905 of $5,878,822,695, the sum of $5,005,246,780 was held at home.

In addition to the government savings banks there are the postal savings banks, different organizations that make a specialty of receiving the funds of members and of investing them, and finally, the great credit banks with headquarters in Paris and branches that touch every district and parish in the Republic. These institutions, of which the Credit Lyonnaise, the Société Générale, the Comptoir Nationale, the Banque de Paris et des Pays Bays and half a dozen smaller concerns are most notable, are the great bond-distributing forces of the nation. They form the syndicates that take over immense issues of Russian colonial or American bonds and place them with their clients. The Credit Lyonnaise has nearly 450,000 individual accounts, while the aggregate accounts of the five big Paris banks is close to one million. The managers of these institutions become very intimate with their depositors. It is their judgment which determines the character of the bond into which the funds of the client go. The implicit confidence that the *rentier* places in his banker or "agent de change" is one of his most astonishing qualities. It is a confidence rarely misplaced.

The great handicap to placing American or any other foreign securities in France is the high tax imposed on all bonds or stocks listed on the Bourse. The taxes are three in number, viz., a stamp tax, a transfer tax, and an income tax. It cost the Pennsylvania Railroad about $200,000 to list its bonds in France. This will be the yearly impost, exclusive of the cost of collection and the commission to agents, so long as the bonds live and the present laws exist. The stamp tax may be paid in full, amounting to $1.20 per $100 face value of the sum issued in France, or six cents per $100 per annum, payable quarterly. This tax must cover the number of securities to be issued in France. For stock this amount cannot be less than one-tenth of the capital and for bonds one-fifth of the total amount outstanding. On coupon bonds the annual transfer tax is one-fifth of 1 per cent on the average price of the year preceding taxation. The income tax is 4 per cent on the revenue. The transfer of a bond from one estate to another, in the event of

the death of the holder, calls for a tax of 2 per cent. Summing up the whole effect of the taxes we find that it amounts to about four-tenths of 1 per cent per annum. In other words, bonds that could be sold flat in New York to yield 4 per cent would only bring about 3.60 per cent in Paris.

Efforts have been made to remove or commute these taxes, but with no success. They will probably stand for some years to come. The American banker must take them into consideration if he would enter the French market. There is, of course, a loophole. This is provided by carrying bonds owned by French investors in the country of issue. It is being done now with some success. But it will never get beyond certain proportions. The small investing class would not buy bonds that they could never see or from which they could not personally cut the coupons. They like to have and to hold their bonds; to see the physical substitute for their slowly accumulated savings. In time it might be possible to issue French bonds against American holdings, but I doubt whether this, even, would be very popular.

It is difficult to impress on the American the small supply of capital that the individual French investor, towards whom the former is working, possesses. Perhaps this may be done by showing the value of individual holdings of French *rentes*. The investors in *rentes* who receive less than 1,500 francs ($300) income annually are more than 3,000,000. There are over 600,000 who draw less than 30 francs ($6) income a year, and no fewer than 1,600,000 who derive a revenue of but 20 francs ($4) from their investment. The income of 30 francs means an investment of 1,000 francs or $200. This brings forward another matter of detail to which the American will have to look sharply before he makes a success of the French flotation of his bonds. He must issue bonds of small denominations. Bonds of $500 and $1,000 par value will not sell to any extent in France. Issues of $100 or $200 ought to be the maximum size where popular subscription to them is sought. A third detail—and this would be a natural sequel of the listing of the bonds on the different bourses—is the desirability of having the bonds quoted daily in the papers which reach the bulk of the French people. The Frenchman likes to see his bond quoted and to know each day what it is worth. It is claimed that, in order to get a bond listed in France, the press has to be bribed—"sugared"

they call it—and that this bribe, sometimes as high as 2 per cent, should be added to the cost of listing. I do not know about this. What I do know is that American bond dealers have been guilty of selling in France bonds at from 2 to as high as 8 and 10 per cent above the regular quotation on the New York Stock Exchange. They could not do this were the prospective buyer provided with an official quotation of his favorite issue.

As near as I can estimate, from figures procured in the most reliable quarters in Europe, the gross holdings of English and Continental investors in American securities—and the bulk of these is represented by bonds—are valued at from $6,000,000,000 to $6,500,000,000. Of this Great Britain, whose foreign investments are said to be more than those of all other countries, holds $4,000,000,000; Germany $1,000,000,000; Holland $600,000,000 to $700,000,000, though Mr. Hill, the American Consul at Amsterdam, puts the figure much lower; France $300,000,000 and Switzerland $100,000,000. M. Leroy-Beaulieu believes that French capital will flow into American securities in increasing proportion as the years go on, and that, in another decade, the investments of France in the United States will be greater than in any other country save Russia. Not all people agree with M. Beaulieu on this subject, but the French promises are bright. So they are from Great Britain, Germany, Holland and Switzerland. For a generation money will be in good demand here and interest rates will average higher than in Europe. The best income, therefore, will be on American securities; and as the European investor is gradually being educated to better returns on his capital, he will look westward for the field in which to place it to best advantage. Whatever the absurdities of our currency system and the irregularities of some of our high financiers, the investor abroad realizes that these things cannot destroy the country's wealth or exhaust her resources, and that the trend of values here, barring some interruptions, is upward.

METHODS OF AUDITING AND ACCOUNTING IN A BOND HOUSE

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Before undertaking to outline a method of auditing and accounting in a bond house, it would seem desirable to consider the nature of a bond business and what a bond house is called upon to do. A bond house is a partnership or corporation (usually a partnership) the principal business of which is to buy and sell bonds. In the conduct of its business it may buy and sell as principal, or it may buy and sell as agent, *i. e.*, the proprietors may be bond merchants, or they may be bond brokers or both. As bond merchants they may buy and sell direct, or they may buy and sell through brokers. To the end of facilitating its business a bond house or some of the partners may hold memberships in stock exchanges. For outside trading the house may have a large staff of salesmen, some of whom are local, visiting investing offices and prospective purchasers in the financial centers where the bond house is situated, others of whom are traveling salesmen, going from city to city to dispose of issues on hand. Each salesman may have his own constituency, working for the house on commission, or on salary, or both. Bond houses which purchase state and municipal issues direct, also have representatives who visit the state capitals, county seats, and city offices where bonds are to be disposed of, for the purpose of examining the laws, ordinances and proceedings authorizing the issues as a means of determining their validity before bids are submitted.

In the usual course of business bond houses frequently act as managers of syndicates; as fiscal agents for the purpose of paying interest on various issues of bonds, and as underwriters of bond issues. They may participate in these underwritings, or in others; they may participate in syndicates, joint accounts and pool accounts; they borrow money and deposit bonds owned as well as bonds held for

customers as collateral; they borrow bonds for deliveries on short sales; they may also, for the accommodation of customers, do a private banking business. These several relations and functions are mentioned to indicate the character of the accounts to be kept and audited.

The Purposes and Advantages of an Audit

The purposes of an audit may be briefly stated as follows:

1. To prove the clerical accuracy of the bookkeeping.
2. To verify the authority for entries.
3. To prepare a true statement of financial condition.
4. To prepare a true statement of earnings and expenses, and of profits and losses.
5. To determine whether any of the employees and agents have been guilty of infidelity to the proprietors or their co-employees and co-agents.

To a concern whose business is so largely conducted by employees and agents, whose clerks and messengers are entrusted with so much of value that can be easily converted into cash, and which itself carries on a business as trustee and serves in so many fiduciary relations it would seem unnecessary to suggest the desirability of an audit. The accounts being kept by clerks and frequently under high pressure, proof of the clerical accuracy of the bookkeeping is essential to a correct statement of financial condition, or financial results. A business which combines its own assets with the assets of customers, and which accepts various trust relations, should know, for its own protection, that its own financial condition is properly represented in its accounts. A house which trades for itself as well as for customers should have stated by some disinterested person that its profits and losses are truthfully reported. As the many purchases, sales, deliveries and payments are conducted by employees, those who have acted in good faith should have some independent means of having it represented to their employers that each has properly accounted for money and securities that have come into his possession. Moreover, it might be made a valuable trading asset to a bond house to have it known to customers that their accounts are regularly audited by a reputable firm of accountants.

Method of Making the Audit

Owing to the peculiar nature of the business, it is of advantage to begin the audit after the close of the exchanges. Three o'clock in the afternoon is usually chosen as the time most opportune for taking possession of the office. It is generally considered desirable not to advise the office staff when an audit of the books and accounts of a bond house, or in fact any business, is to be made. The officers and employees should not be given an opportunity to adjust either the books or the cash and securities in hand for the expected visit of an examiner.

Proof of clerical accuracy of the bookkeeping and verification of authorities for entries do not differ materially from similar proof and verification in audits of other concerns and therefore need not be described in detail.

Those features of the audit which look toward verification of present financial condition, or assets and liabilities, begin with the balance sheet, or, in case no balance sheet has been prepared, with the verification of the asset and liability accounts of the trial balance. At the time of taking possession, the cash on hand should immediately be counted and trial balances of the several ledgers drawn off, together with lists of the securities owned or held for customers and of the securities deposited with other concerns. This plan is suggested for the reason that in the bond business changes are constantly occurring, that is, the securities owned or held for customers to-day may not be the same to-morrow, and substitutions of collateral with banks to secure loans are constantly being made. It is always desirable to get as much information as may be possible concerning the accounts before any changes occur. As a part of the audit of cash, a verification should be made of the bank balances. This verification is obtained by certificates from the several banks as to the amount on deposit. All confirmations and certificates should be mailed directly to the auditor making the examination. This is best accomplished by written request, approved by an officer of the company under examination, enclosing stamped envelope addressed to the auditor. The balances shown by the bank pass books should never be relied on—they are not final, being memoranda only, and are too easily modified to conform to the accounts.

All securities on hand, whether belonging to the company or

held in trust, should at once be taken into possession by the auditor, which possession should not be released till both the cash and the securities have been counted, and the securities have been checked against the list previously referred to. The amount of securities counted, whether owned or held for customers, should agree with the ledger accounts of securities on hand, unless it appear that some of them are in the possession of other parties, in which case confirmations must be obtained in the same manner as the verification of bank balances. In Wall Street this is commonly called "balancing stock." In counting coupon bonds, it should be noted whether or not all undue coupons are attached. If any undue coupons have been detached or are missing, this fact should be noted and the reason for such a condition be determined, as by detaching coupons not due, the value of the bond has been depreciated and the account should be reduced correspondingly. As to the ownership of bearer bonds, tests may be made by comparing the bond numbers with the numbers shown in the books, or delivery slips. If the numbers do not agree, it is an indication that the bonds may have been tampered with, and it may develop that missing bonds have been temporarily replaced by other bonds for an expected audit.

Aside from liabilities to customers for securities held for their account, the liabilities of a bond house are verified in the same manner as in other audits. For the purpose of this verification, statements should be mailed to all customers on the same afternoon that the examination is started, showing their ledger balances and the securities held for their account, with the request for confirmation. Statements should also be sent to the different banks, with which the house may do business, as to the amount of loans, and also as to the securities in their possession to secure loans, asking for confirmation.

The verification of earnings and expenses and of profits and losses is made as in other audits, except that the profits or losses on trading for customers should be carefully allocated from the profits and losses on trading for the house, the profits and losses of customers operating to increase or decrease the liabilities of the house to customers.

Underwriting

One of the most important parts of the business conducted by many bond houses is the underwriting of bond sales. The underwriting of a bond issue is a contractual undertaking by the bond house insuring the sale of the issue at a stipulated price, the essence of the contract being that in case the issue is not disposed of by the banker or selling agent at the price agreed on or better, the bond house will take such part as remains unsold. This conditional or contingent liability may not be set up on the books. When a bond house underwrites it usually becomes the selling agent or broker as well.

The bonds are offered for sale by circular letters mailed to customers, through traveling salesmen and by advertisement. In this respect the bond business is similar to that of an iron broker or coffee broker. Bonds are taken in large quantities (wholesale) and sold in wholesale lots to large houses or in small quantities (retail) to investors and small dealers. When the term of the underwriting expires the bond house takes over the unsold portion of the issue as bonds purchased.

In auditing these accounts, it is necessary to call for the underwriting agreement, which generally shows the amount underwritten, the price guaranteed, rate and nature of commission, etc. The first entry appearing on the books in connection with a transaction of this nature should charge "bonds owned," and credit the party or parties from whom the bonds were purchased at the stipulated price. As the bonds are sold, "bonds owned" should be credited with the proceeds. In checking the cash receipts or the charges made for the bonds sold, frequent reference to the order should be made to see that the price charged is correct and that the full amount represented by the bonds sold and delivered has been credited to the account. The bonds which have not been disposed of and which are represented by the balance remaining in the account should be included in the count of securities on hand, or, if on deposit with other parties, confirmed in the usual manner.

Syndicate Managers

Bond houses very often act as syndicate managers. They may or may not participate in the syndicate, as the case may be. In

transactions of this nature an account with the syndicate should be opened on the books and this account should be charged and credited with all of the transactions relating to the syndicate. To audit these accounts it is first necessary to examine the syndicate agreement. Agreements of this class generally show in detail the nature of the business to be transacted, the rate of commission the syndicate managers shall receive, and all of the data necessary to a complete understanding of the situation. If the syndicate owns securities or has any securities temporarily or otherwise under its control, they should be verified by actual count or by confirmations. No charges or credits should be made to the syndicate account other than those authorized under and in accordance with the terms of the syndicate agreement. A bond house will frequently participate in a syndicate agreement or underwriting with an outside party as the syndicate manager. In this event, a certificate should be obtained from the syndicate manager as to the amount the bond house has contributed to the syndicate. The amount so determined should be reconciled with the ledger account. The syndicate agreement will sometimes show what these contributions should have amounted to.

Fiscal Agents

Many bond houses act as fiscal agents, for the purpose of paying interest on certain bonds. The bond house should keep a separate account on its books with each of the several concerns it may represent. These accounts may frequently, with advantage, be subdivided by coupon number or maturity dates. The accounts should be credited with the money received from the principal and charged with the coupons paid. The paid coupons should be forwarded periodically to the principal, together with a statement of account. A receipt should be taken for the canceled coupons so returned. In auditing these accounts, all paid coupons which have not been returned to the principal should be counted. The ledger balance should be confirmed by means of a certificate from the principal and the amount of paid coupons on hand.

Proof as to the Fidelity of Employees

In general, the proof of the fidelity of employees of a bond house comprehends the same features as similar proof for any

financial institution. The verification of cash and securities has already been described. In auditing the books and accounts it is a wise precaution that may with profit be taken (unless the privilege is denied by the officers, in which case an exception may be noted) for the auditor to open and handle two or three days' mail. This will aid the accountant in many ways, such, for example, as in the verification of items in transit. Many irregularities have been concealed by using to-day's receipts to cover yesterday's shortage. Such a condition would necessarily be developed by this plan, and the opening and handling of the mail may also develop other clues for the accountant.

In connection with his audit the accountant should determine whether or not all of the interest on the bonds owned and on those held for customers has been collected at each interest date during the entire period covered by the audit. All deliveries of bonds should be verified by the receipts signed by the party who received the bonds, and the date of the receipts should be checked against the date of delivery shown by the books.

Accounting Methods

Nearly all bond houses are constantly receiving bonds from customers for sale at certain prices, or for exchange for new securities, or for other reasons. All such deposits should be recorded immediately on the general books under captions which would properly represent the trust relations under which they are received. They might be entered upon the books at some arbitrary figure, par is suggested, but whatever figure is used, it should always be uniform. Unfortunately, some bond houses fail to make any record of these accounts on their general books and many do not even keep duplicates of such receipts as may be given for securities so received. Such a practice is a constant inducement held out to employees to make use of such securities for their own purposes, as no accurate verification of the securities which should be on hand is possible under such a system. In the cases referred to, no confirmations from customers can be obtained by the accountant, as there is no record on the general books as to who the customers are. The same observation would apply to money received as deposits accompanying bids for securities. In many instances these checks are held without being recorded on the books until it is subsequently

decided whether bids will be accepted or the money returned. Where a bond house fails to make an immediate record on its general books of all securities received by it for any purpose whatsoever, and of all money received, there is always a possibility that a shortage may exist in the accounts which would not be detected by a most thorough or exhaustive audit. If irregularities were detected it would be by fortuitous circumstances rather than by application of methods based on professional care and foresight.

The accounting system in a bond house should be so arranged that the general books will have a controlling account over each of the several cages and departments. The general books should show what cage No. 1 is responsible for, what the coupon department is responsible for, what the foreign department is responsible for, and so on. Each of the departments could, under this method, be audited independently. Errors would be localized, and the blame, when there was blame, placed on the proper party. When entries are made of securities deposited for safe keeping, or of moneys deposited on bids, the books or memoranda showing these transactions should also be made a part of the system under control and proper accounts opened on the ledger, as a means of informing the officers of the company and the auditor, as to the amount of the liability of the house on these accounts.

BONDS AS ADDITIONAL BANKING RESERVE.[1]

By William C. Cornwell,
Associated with J. S. Bache & Co., New York City.

Beginnings of Bond Buying

Twenty years ago the loanable funds of interior banks were used almost wholly in discounting business and accommodation paper, for local customers. The loans available for this purpose varied in different localities, but after setting aside a slim cash reserve and discounting all the good paper offered, the banker rarely had a surplus and quite frequently the supply of funds was insufficient. By reason of this scarcity of money, high rates were asked and willingly paid.

From year to year, however, wealth increased in the community, deposits grew larger, interest rates declined and at certain seasons of the year, the country banker finding his money accumulating and the demand falling off, began to apply to his New York correspondent for commercial paper offered by large concerns in the metropolis. With the coming of the trust era and its consequent combination of many smaller enterprises, home manufacturing plants were merged into great corporations with sufficient capital, and ceased to be borrowers at the local bank. The accumulating surplus of unemployed funds, thus further enlarged, called for new channels or sluggish dollars would not pay for their keeping. Wealth was increasing steadily and deposits growing correspondingly. To join in some of the underwritings was one way of providing outlet, but this never became a very successful method outside of the great money centers. The best of the underwritings were monopolized by the larger capitalists there, and one or two finger burnings with the poorer ones cured the desire of the country banker for further experiment in that direction. There were, of course, mortgage loans of varying degrees of desirability, but the amount of these became inadequate in proportion as different sec-

[1]Much of this paper is taken, with the consent of J. S. Bache & Co., from a publications of theirs, entitled "Bonds as a Safety Reserve for Banks," written by William C. Cornwell.

tions developed, although they are still available in the agricultural states. Commercial paper had become somewhat unpopular through many losses in 1893.

The expedient of investing idle funds in some of the higher grade bonds was gradually forced to the attention of interior bankers, and while the returns were small compared with the old-time interest rates, yet the stable and satisfactory character of such investments, the availability of the bonds under pressure, and their steady interest-yielding quality, made this plan of caring for a proportion of the assets of a bank more and more a favorite one.

Inception of Reserve Idea

Another consideration, beside that of investing idle funds, had been occupying the attention of bankers for some years. The recurrence of panics, large and small, had put to test, at intervals, the stability of banking institutions. Either by his own experience or by that of others, there had been forced upon the attention of the interior banker, the problem of strengthening his resources, so that his position, fully fortified in ordinary and prosperous times by the usual cash reserve, would not be jeopardized when clouds gathered on the financial horizon and stormy weather threatened or prevailed. To keep on hand at all times a cash reserve of sufficient proportions to insure safety in any emergency would mean to hold idle 50 per cent of deposits with consequent loss to stockholders. The high-class listed railroad bond, safe, yielding steady returns, quickly convertible into cash or available as collateral at lowest charge for interest, seemed to furnish ideal material for a second reserve as well as employment for surplus funds. Tried in a limited way at first, and gradually increasing in favor, the usage has become widespread, of maintaining a reserve in high-class bonds in addition to the regular cash reserve.

Investment by Trust Companies

While this evolution in character and operation of investment was going on among banks of deposit and discount, there was a parallel movement in trust companies, carried farther and of different origin. Beginning in 1897 and extending to the present time, an enormous growth took place in these institutions. During this period deposits in trust companies increased from six hundred

millions to twenty-two hundred millions. These great and constantly accumulating funds, shut out in a degree from the ordinary commercial field, demanded some safe and profitable channel of employment. This was first supplied by loans on real estate, but these, while safe, were found to be stiff and unyielding when cash was wanted. Only a portion of assets could be so invested, because deposits fluctuated and something was needed which, while safe and profitable, could also be readily converted into cash. The trust companies then gradually became aware, as had the banks of discount, and perhaps before these latter, that the three requisites were completely combined in high-grade railroad bonds. Further, too, because of the quick convertibilty of bonds, it became necessary to carry only a small cash reserve, and profits were thus correspondingly increased. In this way trust companies began the investment of a part of their cash reserve and a large proportion of their assets in high-grade investment securities absolutely safe, reasonably profitable, and quickly marketable for cash.

Inquiry Concerning Bond Holdings of Banks and Trust Companies

The reports of banks and trust companies for the last dozen years or more make it quite evident that a gradual investment has been made in bonds other than government bonds, and that the investment has been growing larger each year; at least, until about a year ago, when bonds from extraneous causes began to decline in value. There has heretofore, however, been no way of making an accurate or even fairly accurate estimate of the extent to which bank funds were so invested or of the classes of bonds so held. The reports of national banks to the comptroller of the currency do not furnish these statistics because the head under which bonds other than United States bonds are reported to the comptroller (owing to a retention of an obsolete classification) reads: "Bonds, securities, judgments, claims," etc. The reports of state banks and savings banks to their respective commissioners furnish information only in a few states and territories, and the reports of trust companies, while much more definite in this respect, are incomplete in many states.

Nevertheless, from such statistics as have appeared it is apparent that this investment in bonds has been proceeding in growing

volume for several years and that it has attained at the present time remarkable proportions. It is, therefore, gratifying to be able to record, with many particulars, and with substantial accuracy, the extent to which this investment in bonds has developed. This has been made possible by the investigation made by the banking house of J. S. Bache & Co., New York, and conducted by the author. A letter of inquiry was sent to seven thousand banks and trust companies in the United States, the list including every institution of $50,000 capital and over.

The inquiries in this letter pertained to the kinds and amounts of bonds carried, and to the opinions of the banker regarding the advisability of keeping a reserve in high-class bonds and the proportion of deposits which should be so employed. An opinion was also requested as to the character of bonds considered best for this purpose and as to the advisability, in the vicinity, of dealing in bonds with private investors. Nearly four thousand banks sent in answers, many replying in detail as to exact kinds and amounts of bonds, and expressing opinions and conclusions founded upon years of experience in their respective localities. Expressions of opinion, honestly given by intelligent business men as to undertakings in which they are engaged, are always of great value to those in the same line of operations. When the inquiry is widely made and the response received in statistics and in opinions, as full and as pertinent as in this instance, the published result, while it cannot fail greatly to interest, is of much more than ordinary benefit to the great army of earnest and thoughtful men, who conduct the banking operations of the United States.

Tables have been prepared from these statistics (received from nearly 4,000 out of about 7,000 banks addressed), and from statistics of deposits in national and state banks and trust companies, for the entire country.

Table A shows the total deposits in each state, and an estimated total of bond holdings, obtained by applying to the total deposits the ratio which the reported bond holdings bear to the deposits of banks reporting. By aggregating the results for all the states, the total bond holdings throughout the United States are arrived at with substantial accuracy, as well as the ratio which such holdings bear to total deposits.

TABLE A.

DEPOSITS AND ESTIMATED BOND HOLDINGS OF NATIONAL AND STATE BANKS AND TRUST COMPANIES IN THE UNITED STATES (DOES NOT INCLUDE PRIVATE BANKS AND MUTUAL SAVINGS BANKS).

STATE.	Total Deposits (excluding U. S. deposits).	Estimated Total Bond Investment (excluding U. S. Bonds).	Ratio of Estimated Bond Investments to Deposits. Per cent.
Maine	$50,391,000	$18,256,000	36.23
New Hampshire	18,782,000	4,031,000	21.46
Vermont	28,596,000	7,099,000	24.83
Massachusetts	150,595,000	25,586,000	16.99
Boston	357,174,000	51,290,000	14.50
Rhode Island	123,081,000	43,324,000	35.20
Connecticut	81,293,000	23,601,000	29.03
New England States	$809,912,000	$173,187,000	21.38
New York	$603,908,000	$140,631,000	23.29
New York City	2,501,896,000	335,504,000	13.41
New Jersey	257,627,000	111,805,000	43.40
Pennsylvania	715,860,000	203,161,000	28.38
Philadelphia	534,059,000	116,117,000	32.51
Delaware	16,175,000	6,411,000	39.64
Maryland	114,186,000	41,595,000	36.43
District of Columbia	46,250,000	5,368,000	11.61
Eastern States	$4,789,961,000	$960,592,000	20.05
Virginia	$90,135,000	$5,781,000	6.41
West Virginia	69,138,000	3,655,000	5.29
North Carolina	41,016,000	324,000	.79
South Carolina	33,128,000	222,000	.67
Georgia	61,503,000	911,000	1.48
Florida	24,477,000	656,000	2.68
Alabama	26,268,000	774,000	2.95
Mississippi	40,125,000	2,284,000	5.69
Louisiana	92,762,000	3,232,000	3.48
Texas	117,725,000	1,732,000	1.47
Arkansas	22,337,000	1,892,000	8.47
Kentucky	111,134,000	8,870,000	7.98
Tennessee	88,647,000	12,021,000	13.56
Southern States	$818,395,000	$42,354,000	5.18

State.	Total Deposits (excluding U. S. deposits).	Estimated Total Bond Investment (excluding U. S. Bonds).	Ratio of Estimated Bond Investments to Deposits. Per cent.
Ohio	$510,436,000	$94,545,000	18.52
Indiana	167,922,000	38,143,000	22.71
Illinois	252,921,000	42,794,000	16.92
Chicago	611,272,000	103,427,000	16.92
Michigan	258,466,000	37,261,000	14.41
Wisconsin	179,092,000	39,254,000	21.92
Minnesota	163,492,000	19,459,000	11.90
Iowa	242,012,000	7,856,000	3.25
Missouri	217,157,000	41,696,000	19.20
St. Louis	262,525,000	35,277,000	13.44
Middle Western States	$2,865,295,000	$459,712,000	16.04
North Dakota	$28,471,000	$209,000	.73
South Dakota	29,614,000	598,000	2.02
Nebraska	129,046,000	2,748,000	2.13
Kansas	111,311,000	6,585,000	5.92
Montana	34,790,000	2,128,000	6.12
Wyoming	8,580,000	133,000	1.55
Colorado	105,309,000	14,484,000	13.75
New Mexico	10,221,000	40,000	.39
Oklahoma	23,114,000	2,120,000	9.17
Indian Territory	14,279,000	166,000	1.16
Western States	$494,735,000	$29,211,000	5.90
Washington	$66,324,000	$3,113,000	4.69
Oregon	34,126,000	8,323,000	24.39
California	520,662,000	90,664,000	17.41
Idaho	10,032,000	498,000	4.96
Utah	35,313,000	3,417,000	9.68
Nevada	4,103,000	No report.	
Arizona	9,964,000	611,000	6.13
Pacific States	$680,524,000	$106,626,000	15.66
Total United States.	$10,458,822,000	$1,771,682,000	16.94

From these tables it appears that the New England national and state banks and trust companies lead in the proportion of deposits invested in bonds, with a percentage of 21.38, while the Southern

States are lowest, with a percentage of 5.18. It will be noted at once, as a general rule governing such investment, that the more fully developed states, and those which have acquired their wealth and standing through the manufacturing industries, are above the average in respect to bond investment, while the agricultural states, particularly those which are in the developing stage, are below the average.

The bankers of New Jersey lead the United States in percentage of deposits invested in bonds other than government securities. The New Jersey banks have 43.40 per cent of their deposits in bonds. This is probably due in large part to the fact that the savings bank law of the state, approved in April, 1897, is liberal. Such legislation, while not bearing directly on the subject of investment for banks and trust companies, has in all states an influence on such bank and trust company investments. Probably another reason why the bankers of this state invest so largely in bonds is to be found in the fact that the farm mortgages of New Jersey are lighter in proportion to value than in almost any other state. The sweeping law of 1893, which exempted from taxation all the municipal securities of the state, without exception, added another very valid reason for such investment.

New Mexico brings up the rear in respect to bond investment. The banking industry in that state is an infant industry, comparatively speaking. The banks were created for the financing of the local undertakings of a country barely entering upon the development stage. Under such conditions, it is both natural and right that the local resources of the country should be the security upon which the deposits are loaned. The same remark applies to the Dakotas and several other states which run low in investments.

The showing of the South in respect to investments is somewhat of a surprise. With the exception of Tennessee, not one of these states appears to have developed any strong tendency toward the use of funds in this way. This is largely explained, on broad grounds, by the fact that the South has needed its local funds in the past few years to keep pace with the rapid development that has gone on in agriculture and in manufacturing. It may be noted that the development of the country has used and is still using an immense proportion of the deposits in farm loans. The investment laws of the Southern States as a whole have by no means reached

the same degree of perfection that has been reached in the older states of the east.

The comparatively small holdings of bonds in the great reserve cities is accounted for by the fact that central reserve city banks, from whom the smaller institutions accept accommodation in stringent times, prefer to keep their funds otherwise employed, because, when called upon by their correspondents, they might be unable to convert bonds promptly into cash, by reason of the heavy simultaneous offerings thus brought about. The smaller bank can always obtain loans on its bonds at the reserve centers and at lower rates, on account of the high character of the collateral, than would be accorded on rediscount of commercial paper.

Table B—Classes of Bonds

Table B shows the classes of bonds in each state, divided into railroads, municipals and miscellaneous.

Probably the most interesting details of the replies from the banking point of view are to be found in this classified list of investments. Because Washington, Oregon and California run to railway bonds very strongly, the Pacific coast states lead the Union in proportion of investments placed in the railroad bonds. The Eastern and New England States are not far behind.

So far as a general rule may be laid down governing the subdivision of the investments, the rule appears to be that the states which for the past eight years have been the scene of the great boom in railroad building have not been the heavy investors in railroad bonds. The center of railroad bond buying appears to be located in Connecticut. The great ratio of the railroad bonds to total investments in Washington, Oregon and California seems to be due largely to the lack of municipal bonds.

The bankers of Connecticut are naturally very heavy buyers of railway bonds, because the legislature of that state has for years been educating them in the buying of railway bonds. The influence noted above of the savings bank law on the investment by other banks, is here again strongly exemplified. The savings bank laws of Connecticut, as compared with those of New York or Massachusetts, are extremely liberal. The bankers of the State of Connecticut are at all times in close touch with the Boston and New York bond markets. They have learned the science of bond-buying

TABLE B.

CLASSES OF BONDS HELD BY NATIONAL AND STATE BANKS AND TRUST COMPANIES IN THE UNITED STATES (GOVERNMENT BONDS ARE NOT INCLUDED).

STATES.	Total Estimated Bond Investment.	CLASS OF BONDS HELD. Railroad. Amount.	Per-centage.	Municipal Amount.	Per-centage.	Miscellaneous. Amount.	Per-Centage.
Maine	$18,256,000	$11,311,000	45.65	1,774,000	44.01	417,000	10.34
New Hampshire	4,031,000	1,840,000	61.96	$3,201,000	17.53	$3,744,000	20.51
Vermont	7,099,000	158,000	2.23	6,187,000	87.15	754,000	10.62
Massachusetts	25,586,000	16,660,000	65.11	5,169,000	20.20	3,757,000	14.69
Boston	51,290,000	12,848,000	25.05	22,101,000	43.09	16,341,000	31.86
Rhode Island	43,324,000	30,419,000	70.21	6,827,000	15.76	6,078,000	14.03
Connecticut	23,601,000	21,024,000	89.08	838,000	3.55	1,739,000	7.37
New England States	$173,187,000	$94,260,000	54.43	$46,097,000	26.62	$32,830,000	18.95
New York	$140,631,000	$88,497,000	62.93	$28,928,000	20.57	$23,206,000	16.50
New York City	335,504,000	206,345,000	61.50	81,348,000	24.25	47,811,000	14.25
New Jersey	111,805,000	44,857,000	40.12	44,702,000	39.98	22,246,000	19.90
Pennsylvania	203,161,000	135,021,000	66.46	18,194,000	8.96	49,946,000	24.58
Philadelphia	116,117,000	72,707,000	62.61	12,966,000	11.17	30,444,000	26.22
Delaware	6,411,000	2,762,000	43.09	3,649,000	56.91	None Reported.	
Maryland	41,595,000	33,460,000	80.44	1,639,000	3.94	6,496,000	15.62
District of Columbia	5,368,000	4,211,000	78.45	1,157,000	21.55	None Reported.	
Eastern States	$960,592,000	$587,860,000	61.20	$192,583,000	20.05	$180,149,000	18.75

Virginia	$5,781,000	$699,000	12.09	$4,866,000	84.17	$216,000	3.74
West Virginia	3,655,000	477,000	13.06	2,850,000	77.97	328,000	8.97
North Carolina	324,000			Classes not Reported.			
South Carolina	222,000			Classes not Reported.			
Georgia	911,000			Classes not Reported.			
Florida	656,000			Classes not Reported.			
Alabama	774,000	194,000	25.00	580.000	75.00	None Reported.	
Mississippi	2,284,000	162,000	7.08	2,079,000	91.03	43,000	1.89
Louisiana	3,232,000	347,000	10.73	2,195,000	67.92	690,000	21.35
Texas	1,732,000			1,678,000	96.89	54.000	3.11
Arkansas	1,892,000			376,000	19.89	1,516.000	80.11
Kentucky	8,870,000	4,501,000	50.74	4,037,000	45.51	332.000	3.75
Tennessee	12,021,000	222,000	1.85	11,688 000	97.23	111,000	.92
Southern States	$42,354.000	$6.602.000	16.41	$30,349.000	75.47	$3.290.000	8.12
Ohio	$94,545,000	$2,789,000	2.95	$89,643,000	94.82	$2,113.000	2.95
Indiana	38,143,000	7.579,000	19.87	29,317.000	76.86	1.247.000	3.27
Illinois	42.794.000	12,787,000	29.88	25,360.000	59.26	4.647.000	10.86
Chicago	103,427,000	45,622,000	44.11	25.888.000	25.03	31.917.000	30.86
Michigan	37,261,000	8,645,000	23.20	27.547,000	73.93	1,069.000	2.87
Wisconsin	39 254,000	9,421.000	24.00	26,288.000	66.97	3,545.000	9.03
Minnesota	19,459.000	13.695,000	70.38	5.480,000	28.16	284.000	1.16
Iowa	7.856,000	3,515,000	44.75	3.822,000	48.65	519.000	6.60
Missouri	41.696,000	26.606 000	63 81	11,154.000	26.75	3.936.000	9.44
St. Louis	35,277,000	16,492,000	46.75	11,352.000	32.18	7.433.000	21.07
Middle Western States	$459.712.000	$147.151.000	32.01	$255.851.000	55.65	$56.710.000	12.34

TABLE B—*Continued.*

States	Total Estimated Bond Investment.	Class of Bonds Held: Railroad. Amount.	Railroad. Percentage.	Municipal. Amount	Municipal. Percentage.	Miscellaneous. Amount	Miscellaneous. Percentage.
North Dakota	$209,000			$174,000	83.33	$35,000	16.67
South Dakota	598,000			Classes not Reported.			
Nebraska	2,748,000			2,748,000	100.00		
Kansas	6,585,000	$904,000	13.73	5,656,000	85.89	25,000	.38
Montana	2,128,000			2,128,000	100.00		
Wyoming	133,000			Classes not Reported.			
Colorado	14,484,000			11,041,000	76.23	3,443,000	23.77
New Mexico	40,000	40,000	100.00				
Oklahoma	2,120,000			1,997,000	94.22	123,000	5.78
Indian Territory	166,000			Classes not Reported.			
Western States	$29,211,000	$944,000	3.33	$23,744,000	83.86	$3,626,000	12.81
Washington	$3,113,000	$2,802,000	90.00	$311,000	10.00		
Oregon	8,323,000	8,088,000	97.18	158,000	1.90	$77,000	.92
California	90,664,000	65,015,000	71.71	15,984,000	17.63	9,665,000	10.66
Idaho	498,000			437,000	87.72	61,000	12.28
Utah	3,417,000	272,000	7.95	2,867,000	83.92	278,000	8.13
Nevada	No Reports.						
Arizona	611,000	57,000	9.35	524,000	85.72	30,000	4.93
Pacific States	$106,626,000	$76,234,000	71.50	$20,281,000	19.02	$10,111,000	9.48
Total	$1,771,682,000	$913,051,000	51.62	$568,905,000	32.17	$286,716,000	16.21

at its fountain head. They like railroad bonds because they find these yield higher rates than municipals, and at the same time they are possibly as well equipped as any group of bankers in the Union to select, for their investments, railroad bonds that will net them market profits. The State of Connecticut has for years been the banner territory for the traveling bond salesman.

At first glance, the failure of the bankers of the State of Vermont to qualify with the bankers of the other New England States as buyers of railway bonds appears strange. Less than 2.25 per cent of the investment in that state is in railway bonds. The phenomenon is explained in large part by the fact that the savings bank and trust company laws of that state prohibit the investment of funds in bonds of railroads.

Vermont, therefore, naturally becomes one of the states which run to municipals. Considering the volume of holdings, as well as the ratio to total investments, the State of Ohio and the City of Boston appear to be the real leaders in municipal investments. The "old-line" bankers in both supplied a nucleus about which was built a large trade in standard municipal bonds. Boston, in particular, has many investment houses of wide clientele which do the bulk of their business in municipal bonds.

The State of Ohio, with over $89,000,000 in municipal bonds, owes its distinction as the leader of the list largely to the tax exemption of this class of bonds, coupled with the fact that the state is prolific in municipal issues of sterling character. Cincinnati is a busy center for municipal bond trading. Most of the municipalities of the state have reached that stage in development which calls for heavy expenditures on public works, and the banks find it profitable to invest in local securities of this kind.

The same tendency is noted in the Far West, though not to so great a degree on the Pacific coast. The banks buy municipal bonds as a bid for city business, and to assist in local development which accrues eventually to their own benefit. Localizing of investment is the popular excuse from the Western bankers for failure to purchase any great amount of railways bonds. Kansas, Oklahoma, Idaho, Utah and other states whose local resources are opening out incline to home investment rather than to the purchase of securities good in themselves, but without local influence.

This localization of investment is the basis of practically all

the buying of miscellaneous bonds by the banks. Boston and Chicago are notable in this respect, as are also Arkansas and Colorado. The latter state seems peculiarly averse to railway bonds. Nearly all its investments, not very heavy in the aggregate, are in local municipals and in miscellaneous bonds on local, particularly irrigation, enterprises. The investment of bank funds in miscellaneous bonds is not widespread, the total for the Union being 16.21 per cent of total bond holdings. This figure is probably lower than it was in 1902. The investment of bank funds in bonds of this kind was recognized as the most important single factor in the numerous bank troubles that arose during and after the long period of liquidation in all the markets of the United States.

Opinions as to Advisability of a Bond Reserve

The wisdom of keeping a second reserve in high-class bonds in addition to the ordinary cash reserve, has evidently received much thought among bankers. Their tabulated replies are given below. The larger percentages of approval, it will be seen, are in what we have termed the more fully developed sections.

TABLE C.

FAVORABLE TO A BOND RESERVE FOR BANKS.

Percentages from replies by banks expressing opinions.

	Yes.	No.
New England States	93	7
Eastern States	96	4
Southern States	81	19
Middle Western States	88	12
Western States	81	19
Pacific States	90	10
Average for United States	89	11

It is evident, then, that the bankers of the United States have gradually, in the last fifteen years, taken up the matter of carrying a bond reserve, and after careful consideration, a large majority have adopted it in the developed portions of the country, and have approved of it in those parts which have not yet reached the bond

zone. The practice is steadily extending and bonds are being absorbed in very large amounts annually.

On the subject of what bonds should be used for the secondary or safety reserve, the bankers have expressed themselves freely.

TABLE D.

CLASSES OF BONDS RECOMMENDED FOR BOND RESERVE.

Percentages from number of banks expressing opinion.

	High-class Listed R. R.	Municipal.	Public Utility and Industrial.[2]	U. S. Gov'nt.
New England States	54	27	9	10
Eastern States	65	22	7	6
Southern States	25	50	4	21
Middle Western States	27	55	4	14
Western States	24	45	11	20
Pacific States	29	35	15	21
Average for United States	38	42	6	14

The opinion in favor of municipals for this purpose (highest in percentages in the South, Middle and Western States) is influenced by the same local conditions to which we have called attention in Table B, showing class of bonds held.

The New England and the Eastern States easily lead in the percentage of banks which pin their faith to the high-class listed railway bonds. The fact is traceable in part to accessibility to bond markets, which underlies the long-standing penchant of investors in those states for railway bonds. The Eastern investor demands a better return than he can get from government bonds; hence the low percentage of bankers in these states who recommend the government issues. The predilection of the Western bankers for local municipals is an outcome of the co-operative spirit that has made the West what it is to-day. The same principle governs the inclination of the Pacific coast bankers toward public utility and local industrial bonds.

Our correspondents were asked to express an opinion as to what proportion of deposits should be kept as a reserve in bonds. The results are herewith given in

[2]The proportion of industrial in this column, as shown by the replies, is in very small proportion to public utilities.

TABLE E.

PERCENTAGE OF DEPOSITS RECOMMENDED FOR BOND RESERVE.

Average from replies received.

New England States recommend	26
Eastern States recommend	29
Southern States recommend	18
Middle Western States recommend	19
Western States recommend	18
Pacific States recommend	22
Average for United States	22

The conservative and more highly developed sections again lead in proportion recommended, the Pacific States follow closely, and, as before, the South, Middle West and Western States stand lower. It will be noted that the average percentage of all replies is 22.

Dealing in Bonds

The taste for bonds as an investment for idle funds has not been confined to banks. Investors themselves, the real owners of the idle funds in banks, have found this to be a better disposition for a part of their balances than to leave them on deposit in banks at lower rates than bonds yield. Consequently there has grown up a demand for bonds in the communities where deposits have been increasing most. Some thrifty bankers have taken advantage of this demand, and seeing deposits being drawn out by the investor, for bond purchases, have established bond departments for the purpose of supplying their customers with such issues as they might desire, and buying from them, when, for any reason, they might wish to sell. In nearly every instance reported this has proven a satisfactory innovation. The bankers have been acute enough not to cultivate this taste in advance and so induce depositors to draw down their accounts. The process of evolution is shown by many expressions of opinion from communities where depositors are not yet familiar with bonds, indicating the attitude of the local bankers, who assert that the sale of bonds to customers would at once reduce deposits. It is only when the depositor has begun to buy bonds and

to draw funds for this purpose that the bankers, yielding to the inevitable, have turned the practice into a source of profit.

In the expressions of approval of the bond business many bankers are careful to state that they do not mean underwriting and floating a special single issue among customers, with a chance of unfavorable outcome and a consequent bad reputation for the bank. A number distinctly state that they confine themselves to the classes of bonds for which customers are looking, dealing only in such. One banker makes it a practice to buy back any issue he has offered, even should it decline in value.

That the practice of dealing in bonds is growing steadily, and especially in what we have termed the more highly developed sections, is shown by the following table, which gives percentages of opinions as to the expediency of banks dealing in bonds, affirmative and negative, also percentages of banks actually engaged in the bond business:

TABLE F.

DEALING IN BONDS.

Percentages from replies by banks reporting on this subject.

	Approve of Bond Business.		Engaged in Bond Business.	
	Yes.	No.	Yes.	No.
New England States	43	57	19	81
Eastern States	29	71	18	82
Southern States	39	61	11	89
Middle Western States	37	63	18	82
Western States	34	66	11	89
Pacific States	64	36	15	85
Average for United States	37	63	16	84

General Conclusions

The opinions and information furnished by our correspondents (in addition to statistics), revealing conditions pertaining to the bond question the country over have proven a most interesting result of this investigation. Some general conclusions may be drawn from the data thus obtained, supplemented by a previous knowledge of conditions.

Commercial Paper Compared With Bonds

It may be concluded with some confidence that commercial paper as an investment for bankers, distant from the financial centers, is undesirable. This does not apply to many bankers in the East, who are expert buyers of paper and rarely have a loss. These find that maturities, purchased with reference to fixed dates of payment, with no expectation of renewal, answer most advantageously the purpose of a reserve. It is in fact a reserve which, so to speak, converts *itself* into cash. For the banker who is not an expert, however, such purchase is most hazardous. To test the quality of outside commercial paper requires long experience, unremitting investigation, wide facilities for detecting signs of deterioration and never-ceasing, alert attention to the faintest sign of danger. To one who is not thus equipped the proportion of loss is large, and the testimony of our correspondents is mainly to the effect, that while paper yields a larger immediate return, the results over a period of years are largely in favor of bonds. The proportion of loss on paper (while there is practically none on well-selected bonds) is so considerable that the actual return on bonds is greater. The yield of bonds is calculated as about 1 per cent less than the nominal yield of commercial paper, but when the losses have been equated the difference is practically much more than wiped out.

The conditions on which the value of commercial paper (other than purely local paper) rests are very miscellaneous and constantly shifting. Bonds, on the other hand, show a very small percentage of defaults. Their maturities may be long deferred, but they are definite and certain. None of the bankers writing us has had occasion to refer to any lack of safety in bonds properly selected.

A very considerable number of our correspondents find that by the careful purchase of bonds when they are cheap a substantial appreciation in their value may be realized. Of course, prices of bonds are subject to numerous contingent conditions and a certain amount of experience is necessary to determine values with a fair degree of accuracy. In the earlier stages of bond investment the banker, if inexperienced, must depend in a measure upon some thoroughly reliable bond house through which to make his purchases and sales, and he may do this very safely. It is not necessary to become a speculative trader in order to realize a conserva-

tive profit on bond investment, which, added to the fixed rate of interest, produces a handsome yield.

Bonds as Reserve and for Investment

Bonds lend themselves to two distinct uses for bankers; as a reserve and as an investment. Nearly all experienced bankers recognize the value of bonds for temporary investment of idle funds. Many of our correspondents find them desirable for permanent employment of a considerable part of the bank's resources for revenue purposes. One or two banks report that they invest practically all their loanable funds in bonds.

In creating an added reserve of some sort, the consideration of the soundness of the security presents itself first; next convertibility—the question of income being subordinate to both of these. Where investment alone is considered, convertibility does not enter as a factor to so large an extent. Soundness and rate of income are then the two requisites, but for reserve purposes, as has been said, convertibility is the primal consideration, next to safety.

The high-grade municipal bond is generally conceded the first place for safety, because it rests upon the established credit of communities. The bonds of long-established railroads come next in favor because the conservatively operated large railroad has developed a credit not easily dissipated by a short period of indifferent management, and because transportation, by reason of its universal necessity, is a comparatively stable industry, and responds less sharply to changes in economic conditions than do enterprises less public in character. Good traction bonds and the best class of industrials are gradually growing in favor as investments, and some have already established themselves on a plane with standard railroad issues. Great care should, however, be exercised in the selection of such investments, and only well secured bonds, of thoroughly established enterprises, should be considered.

Convertibility for reserve purposes comprises not only the power to convert into cash, but also the ability to realize cash equivalent by loans upon which bonds are collateral. Loans of this character may be obtained at the lowest rates prevailing. Still another channel of convertibility has been opened in the last year or two by the decision of the Secretary of the Treasury to receive high-grade

bonds as security for government deposits in especially stringent crises.

In selecting bonds for the purpose of reserve, the broader the market the more perfectly is the purpose served. Hence, those listed on the principal exchanges and those with an international market, are preferable. The broader the market the greater is the facility for the purchase and sale of securities at close quotations.

As to Total Holdings

Reverting once more to the first table of the series (Table A), the total figures for all the states show that there are held by banks and trust companies in the United States (excluding private banks and mutual savings banks) the enormous sum of $1,771,000,000 in bonds, exclusive of governments. The sum is equal to about 17 per cent of the total deposits and is greater than the total capital of all the banks, being 124 per cent of the capital, or equal to the total amount of capital and a considerable portion of the surplus.

As nearly as can be ascertained, the main part of this vast sum has been absorbed by bonds since the panic year 1893.

Economic Effect of Large Investment in Bonds by Banks

The inflation of commercial credit beyond the ability of bank cash assets to support it, has brought about commercial collapse at nearly regularly recurring periods during the entire era of industrial progress in the United States. In times of plethora of money, banking judgment is easily warped by the disturbing reflection that funds are idle when they should be earning dividends. This attitude leads to the acceptance of doubtful investments which would be refused quickly if legitimate demand were active. In each period to which reference has been made the enthusiasm for expansion, excited by plentiful credit and preceded by real prosperity and an accumulation of wealth, has carried the banking operations beyond legitimate functions, into promotions of unwarranted enterprises, resulting eventually in widespread disaster.

The availability of high-grade bonds furnishes a field for the safe employment of surplus moneys during prosperous periods, thereby minimizing the temptation to participate in speculative or questionable schemes.

The economic effect of the reserve investment in bonds by banks will undoubtedly be to strengthen the foundations of credit in the United States. Not only are the funds in this great reserve rescued from the danger of unwise risks in the periods already referred to, of enthusiastic promotion following truly prosperous times, but, owing to their disposition in high-class convertible securities instead of in possibly uncollectible paper, an additional and always available means is provided for weathering financial storms.

This investment, then, means a curtailment of credit inflation, either averting for a longer period the recurrence of industrial panic or providing means of meeting and ameliorating that condition when it does actually develop.

Whether bond investment has been undertaken by the bankers of the United States to counteract these ever-recurring tendencies toward panic, or whether considerations of safety or of profit have determined the policy of each individual, the fact remains that the movement has progressed steadily with beneficial results. These benefits will continue and will increase, providing the bonds acquired are of the high character which is now the standard among able and conservative bank managers.

RAILROAD BONDS AS AN INVESTMENT SECURITY

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Railroad bonds have for many years enjoyed the favor of investors, for reasons which are well established. For over half a century of the greatest period of development which any nation has ever witnessed, the railroads of the United States have proved to be not only the pioneers in the opening and developing of new territory, but also the main arteries for the constantly increasing commerce of the nation. In railroad securities, notably railroad bonds, more than in any other form of corporate security, are to be found the elements which make for stability in value. The railroads have proved themselves necessary to the development of the nation and are directly related to public necessity and convenience. The railroad companies, as the employers of so large a number of the laborers of the nation, are protected in that the prosperity of all is co-related. Further security is found in the fact that so great a proportion of the wealth of the nation is invested in the securities of the railroads. Perhaps the greatest safeguard protecting railroad securities is found in the cost of the railroads themselves and the impossibility of replacing them. It is commonly known that the terminals alone in the large commercial centers of the country are not capable of being duplicated, irrespective of the cost involved. Furthermore it appears highly improbable that any new invention in the aid of transportation will be discovered which will not readily adapt itself to the steam railroad of to-day.

These safeguards, it is believed, will prove themselves an ample protection for investors in railroad securities. Emphasis is given to them at the beginning of this discussion in view of the wide-spread apprehension which has seized upon investors by reason of the agitation in favor of the regulation of railroads by commissions, both state and national, in the interest of the people. Success or failure for the railroads means nothing more or less than prosperity or the reverse for all business enterprises in the United States; oppressive legislation directed against the railroads will certainly affect adversely every business in the country. Under such conditions public opinion will compel fair and equal justice

in the solution of this question of public regulation of railroads. It is proposed herein to outline, in an elementary fashion, some of the considerations which the investor must weigh in determining the value of a railroad bond, and at the same time to point out some of the fallacies of the arguments which commonly influence the rank and file of investors in railroad bonds. Preliminary to the discussion on the desirability of railroad bonds as investments, it must be stated that railroad bonds, like any other form of investment security, are subject to the influence of economic laws. Many rules for investment, which experience has dictated, are often seemingly rendered nugatory owing to a change in monetary and economic conditions.

The four most essential considerations which make a bond attractive in the eyes of an investor are the following:

(1) Security of principal.
(2) Security of income.
(3) Marketability.
(4) Fair rate of interest and reasonable chance of appreciation in value.

By the very nature of the business of railroading, the first three qualities are found to a greater extent in well-selected railroad bonds than in perhaps any other form of corporate obligation; the last-mentioned quality, that of rate of income and chance of appreciation in value, the railroad bond, purchased under favorable conditions, possesses in a marked degree. Thus railroad bonds are by nature a favored investment. National banks are permitted under the laws of the nation to invest funds in railroad securities, a privilege which is expressly denied so far as real estate mortgages are concerned. National banks have repeatedly been allowed to offer railroad bonds as security for public deposits.

During the past decade, it is safe to say, that, all things considered, railroad bonds have been especially sought by investors, as against real estate loans, owing to the generally accepted belief that the interest return in the United States was steadily declining. Until recent years the interest rate on high-class securities fell perceptibly. This tendency to a lower rate was ascribed to various causes, notably to the fact that a vast amount of capital was accumulating year by year in the treasuries of insurance companies, trust companies and banking institutions and in the hands of

custodians of estates, and to the belief that the investment of these funds must create such a demand for first-class bonds as to raise prices materially. Railroad bonds, which for the most part have a long time to run, enjoyed favor because the investor did not care to have his funds returned to him for re-investment at an early date, when in all probability the interest return would be lower. Under the influence of prosperity the investor witnessed the constant increase in value of all property, and naturally favored that form of investment which would appreciate in value, in sympathy with the increase in value of the property on which such investment was based. Real estate mortgages did not hold out such attraction. Owing to their short duration, they did not appreciate, while the appreciation in the price of bonds was very great. Economic conditions have changed during recent years, so that those who to-day hold long-term investment bonds purchased on a low interest basis, find the selling value of their bonds reduced; had they confined their purchases to real estate mortgages, their funds would be returning to them intact for re-investment at the profitable rates which have prevailed since 1905.

Owing to the severe losses during recent years imposed on that class of investors who chose railroad bonds as against real estate mortgages, it is peculiarly fitting at this time, when railroad bonds are selling at much lower prices than have prevailed under like conditions for many years, to point out briefly some of the important qualities which characterize these two forms of investments. It is believed that such comparison will show that well selected railroad bonds, purchased under conditions now existing, will prove decidedly the more profitable investment.

	Railroad Bonds.	Real Estate Mortgages.
As to the security behind the investment.	The security behind well-selected railroad bonds, especially underlying bonds, is fully as great as in the case of real estate mortgages, and in many cases much greater.	The security behind well-selected real estate mortgages is more capable of appraisement, yet proof is not wanting to show that the equity here is not greater than in the case of railroad bonds.
As to the margin of safety in earnings.	A large measure of protection is found. In the case of well-selected underlying bonds the protection is much greater than in real estate mortgages.	A large measure of protection is found generally where the mortgaged property is improved and used for business purposes. Protection is uncertain in the case of dwellings and unimproved property.

	Railroad Bonds.	Real Estate Mortgages.
As to the rate of income.	The interest rate is usually lower on railroad bonds.	The interest rate is usually higher on real estate mortgages by from one-half to one per cent.
As to marketability.	Railroad bonds are readily marketable and at minimum expense. Railroad bonds are for the most part listed and dealt in on prominent stock exchanges.	Real estate mortgages are not readily marketable. Expense attending sale is comparatively heavy. Real estate mortgages are not listed on exchanges.
As to availability for collateral for loans.	Railroad bonds enjoy a high degree of favor among bankers as collateral for loans because of their ready salability. Most bonds pass from hand to hand as readily as bank notes. A banker can easily inform himself as to the probable value of any railroad bond by reference to any one of the numerous railroad and investment manuals.	Real estate mortgages are not promptly accepted by bankers as collateral because they are not readily marketable. The expense to an investor seeking a loan is large, on account of commissions, cost of examination of title, etc.
As to appreciation with advance in value of security.	Railroad bonds, which usually have a long time to run, when purchased at a fair interest return basis, will appreciate in sympathy with the increase in value of the security behind them.	Real estate mortgages, owing to their short maturity, do not rise in market value appreciably, even when the security of the loan is greatly enhanced.
As to depreciation with decline in value of security.	For the very reasons which cause bonds, under normal conditions, to advance when the security behind them increases, railroad bonds usually decline when the security is impaired.	Unless the impairment in the security is great, real estate mortgages do not have a tendency to decline under normal conditions. In this particular real estate mortgages are preferable to bonds.
As to the status in the event of serious impairment of security, and in case of default.	When bondholders find it necessary to take legal steps to protect their investment against threatened default, or in the event of actual default, the expense pro-rated among a large number of bondholders is inconsiderable.	When there develops serious depreciation in the value of the security behind a real estate mortgage, the selling value of the mortgage is greatly lessened, and the lack of ready marketability often entails a severe loss on the investor. In case of default, the holder of the mortgage is often compelled to take over the property at considerable cost and inconvenience.

The advantages in favor of railroad bonds seemingly outweigh those in favor of real estate mortgages. In a time of high interest rates when railroad bonds depreciate and can be purchased on a remunerative income basis, they are much more desirable, yet experience has shown that when railroad bonds sell on a low interest basis, the advantage often lies with real estate mortgages, for, in the case of the latter, the principal sum is not liable to shrinkage under changed monetary conditions except where the value of the security is seriously impaired. Attention has been directed to the marked decline in the prices of bonds during the past few years owing to the changed monetary conditions. Naturally a multitude of investors have, from time to time, been attracted to railroad bonds for the reason alone that they have witnessed a steady increase in price of such bonds, whereas no such appreciation was shown in real estate mortgages. Many investors, who have witnessed the protracted decline in railroad bonds during the past few years, doubtless find themselves ready to accept the satisfactory record of real estate mortgages, during this period, as sufficient proof of the advantages they possess over railroad bonds.

The above comparison of the relative merits of these two classes of investment tends to show that, for the very reason that railroad bonds have declined to a level where they yield a liberal interest return, the investor would do well to study the characteristics of these two classes of investment before passing judgment. Arguments advanced a few years ago, contemporaneous with the conditions prevailing at that time, appeared logically to favor railroad bonds over real estate mortgages as investments; so under present conditions the recent steady decline in the price of railroad bonds argues logically in favor of real estate mortgages. As a matter of fact the conditions recited above indicate that railroad bonds at prevailing prices will prove to be the more profitable investment.

The scope of this article will not allow of a discussion as to the relative merits of railroad bonds and bonds of industrial companies and public utility companies. Such a comparison would favor railroad bonds in respect of many of the considerations which already have been discussed in the comparison of railroad bonds and real estate mortgages. Industrial companies are more exposed to competition than railroad companies, and in many cases their success

is largely dependent upon special benefits which they enjoy, by reason of patent rights, protective tariff, legislation, contracts, etc. So far as public utility companies are concerned, these are franchise corporations pure and simple, and in the majority of instances their capitalization is based largely upon their franchises. Franchises are widely different, and in many cases the benefits conferred by them are circumscribed by so many limitations as to render successful operation under them extremely speculative. The communities granting franchises retain their taxing power. Public utility corporations are always subject to political attacks, and their success is dependent in a great measure upon the state of local public opinion. Railroads own their rights of way and terminals in fee and the many advantages which they enjoy are fundamentally more secure, as already explained.

Instances are not lacking to show that, under certain conditions, inferior grade bonds resist decline where first-class bonds, often the prior obligations of the same company, show decided and continued weakness. Owing to the large increase in the production of gold, the purchasing power of gold has declined, prices generally have risen as a result, stimulus has been given to trade, demands for capital for commercial enterprises have consequently increased very largely and finally interest rates have risen. The investor having $200,000 invested in bonds yielding four per cent per annum enjoys a fixed yearly income of $8,000. With the cost of living increased he becomes impatient to increase his income. Impelled by this motive and by the confidence begotten of general prosperity, he often disposes of his bonds and seeks an investment in some more "attractive" security. Thus the anomalous condition arises where often times "gilt edge" bonds decline more than speculative bonds.

While, therefore, economic and financial conditions have varying influences upon different classes of railroad bonds, yet, for the reasons cited above, it is likely that railroad bonds will continue to be preferred by investors generally over most other forms of corporate security.

The name bond does not carry with it any guarantee of quality. So far as the term is accepted as a synonym of protection or safety, it is, in this day, a misnomer. In recent years so many new kinds of railroad bonds have been introduced into our market, that the investor must use great care lest, in pur-

chasing a bond, he finds himself possessed of a security far inferior in grade to many railroad stocks in which he would not care to invest. There are outstanding to-day various kinds of collateral bonds; bonds the joint obligation of two or more railroads; bonds the joint obligation of railroad and coal companies; participating bonds; convertible bonds; debenture bonds with no security; debenture bonds collaterally secured; debenture bonds to be secured by mortgage in the event of a new mortgage being placed upon the property in the future. The names of bonds vary; as prior lien, general lien, divisional, consolidated, unified, first consolidated, first mortgage, second mortgage, third mortgage, extension mortgage, etc. Needless to say a third mortgage bond may be infinitely more secure than a first mortgage or prior lien mortgage bond.

The value of a bond therefore must rest to-day, more than ever before, upon the earning capacity and the character of the management of the issuing company. The bond may be a first mortgage on property, the value of which is much greater than the face value of the bonds issued against it, yet this bond may suffer considerably in the market, owing to the fact that the issuing company has outstanding other bonds issued against insufficient security, the result being that, if this company's credit becomes impaired, all the bonds of the company, good and bad alike, will suffer depreciation. The value of a bond is based upon the commercial value of the security behind it; the commercial value depends largely upon revenue-producing capacity.

The investor should acquaint himself with the character of the security back of the bond and the legality of the mortgage securing his bond. As a personal examination of the physical property would not be possible or advantageous, the value of the security back of the mortgage must of necessity be judged by its income-producing capacity. The strategic importance of the property securing a bond of course must not be overlooked. So far as the legality of the mortgage is concerned, the average investor must be content to rely upon the judgment of the lawyers who have drawn up the mortgage, being reminded that before such mortgages are recorded they are examined not only by the counsel for the company, but also by the counsel of the trust company in whose favor the mortgage is drawn. An inves-

tor, however, should be careful to read the mortgage, copies of which are usually easily obtained in printed form from the railroad company, for thus he will learn the provisions which may exist for the retirement of the bond earlier than maturity, for participation by the bondholder in profits of the company, for the optional conversion of the bond into stock of the company, for provisional voting power accorded to the bondholders, etc. It is important, also, to know when underlying bonds mature, and whether or not such underlying bonds may be extended at maturity.

It is important to the holder of collateral trust mortgages to ascertain whether or not the capital stock of the companies, whose bonds may be pledged thereunder, is deposited with the trustee. If it is so deposited, the holders of the collateral bonds, in case of foreclosure, come into possession of the immediate control of the physical property. Those collateral trust mortgages which best protect the interests of the bondholder provide, where the parent company has made use of its voting power to effect a lease of the subsidiary company's properties, that, upon default in the payment of interest on the collateral trust bonds, such lease shall immediately terminate. Provisions are frequently found in collateral trust mortgages restricting the powers which would naturally belong to the parent company as owner of the capital stock of a subsidiary company; such provisions relate to the power to consolidate, to sell property, to issue bonds, etc. Some collateral trust mortgages provide for the sale of the collateral without the necessity of foreclosure. In the mortgage securing the Chicago, Rock Island & Pacific Railroad collateral four per cent bonds of 2002, secured by deposit of the capital stock of the Chicago, Rock Island & Pacific Railway, this clause is found, coupled with the provision that, when the stock is sold, bondholders may bid it in, using their bonds at their face value in payment. Thus, although the bonds themselves should sell at fifty cents on the dollar, and other bidders should make a cash offer of seventy-five cents on the dollar for the collateral, the bondholders would have a decided advantage in the bidding, for they could bid par for the collateral and make payment in their bonds at their face value. Sufficient illustrations have been given to show that the casual investor in railroad bonds will find great advantage in reading the mortgages.

Those bonds which are by statute declared a legal investment

for savings bank and trustees, are considered rightly the safest bonds. The laws of New York, Massachusetts and several other states are very strict in limiting such investment. Bonds that are legal in these states are considered "gilt edged." As such bonds bear the stamp of approval of the various states, and as trustees may invest funds in them without liability for loss arising from depreciation, there is a better demand for such bonds, and as a result their market prices are less subject to fluctuation. By reason of the existence of this demand these bonds naturally yield a lower return than other bonds. However, it can safely be stated that there are many bonds which for one reason or another have not become legal, and which may never become legal, which are quite as safe as the so-called savings bank bonds. The investor shows himself astute who studies the laws of the various states, for often he is enabled to secure at an advantageous price, bonds which he foresees will probably soon become legal, owing to compliance with the provisions of the law, as, for example, that provision which provides for the payment by the company in dividends to its stockholders during each of five years an amount equal to four per cent upon all its outstanding capital stock.

The bonds of the larger railroads, especially of important trunk lines, are preferred by many shrewd investors to those of smaller railroads, notwithstanding that the earning power of the one may be relatively less than that of the other. The large railroad derives its traffic from a wide territory, the volume of traffic is not dependent so largely upon local or territorial commercial and agricultural conditions. Local calamities, arising from plague, floods, fire or crop failure, often cause severe inroads to be made in the earnings of small railroads, whereas the influence of these on the earnings of a large system is not threatening. Another reason for the prejudice in favor of the bonds of large railroads is a simple one, namely, that damages arising from accidents, washouts, etc., bear heavily upon small railroads. An accident, such as that which occurred in the tunnel of the New York Central & Hudson River Railroad in New York City in 1902, or a washout, such as that with which the Erie Railroad was visited in 1903, under certain conditions, if visited upon a small railroad, would go far toward impairing its credit.

On the other hand attention should be directed to the fact

that small railroads, if profitable, are often absorbed by large systems, and their bonds become underlying bonds to their great advantage marketwise. The investor, however, who owns bonds of a small issue, is oftentimes at a disadvantage, due to the relatively greater proportion of expense which he must share in the event of the foreclosure of his mortgage.

The bonds of a mortgage which is closed, that is, of a mortgage under the terms of which bonds in addition to those outstanding may not be issued, prove usually more desirable for investment than the bonds of a mortgage which allows of the issuance of additional bonds. The price level of an issue of bonds may range for years between say 95 and 100; the railroad company, finding itself in need of funds at a time when investment or financial conditions are unsatisfactory, may sell additional bonds of this issue at 90. The bankers who purchased are willing to sell at 92, thus establishing a new level for the bonds. Later the company may sell at 85, and the price is accordingly lowered still further. If the bond is indeed desirable its price will eventually rise to its proper level, yet the effect of the issuance of additional bonds, under the circumstances here recited, would be none the less disconcerting to the investor who had purchased his bonds at the higher price.

Underlying bonds can frequently be purchased on as remunerative a basis as the bonds of the refunding or consolidated mortgage of the same company. In such cases the underlying bonds will prove the more desirable investment, from the investor's standpoint, for the reason that they are, so to speak, "more seasoned," that is, are so securely lodged, among a comparatively small number of investors, that they do not come on the market in time of stock panics, etc.

The creation of a refunding or consolidated mortgage and the issuance of bonds thereunder, usually enhance the security of the existing bonds, especially where the proceeds derived from the sale of such bonds are invested in improvements, enlargement of terminal facilities, and the purchase of equipment, for additional expenditures for these purposes tend to fortify the position of the existing bonds. For example, the refunding and extension mortgage created in 1905 by the Colorado & Southern Railway provides for the issuance of many millions par value of bonds for the express purposes of improving, equipping and double tracking of existing

lines. The issuance of these bonds will result in enhancing the value of the security behind the older mortgage issues. The investor should study the financial history of railroad companies, to ascertain how much capital stock may have been sold to stockholders to raise funds for improvements, etc. In recent years railroad companies, whose stock has sold at a sufficiently high premium to allow of an advantageous sale of capital stock to stockholders, have chosen this method for raising funds for the development of their properties. The stock has usually been sold at par or higher. Hundreds of millions of dollars have been secured in this way. The Baltimore & Ohio Railroad has raised over $100,000,000 since 1900 by the sale to stockholders of common stock or of convertible bonds which have since been exchanged for common stock. Among other companies which have secured large sums of money through the sale of capital stock, are to be mentioned the Chicago & Northwestern Railway, the Chicago, Milwaukee & St. Paul Railway, the Great Northern Railway, the Illinois Central Railroad, the New York Central & Hudson River Railroad, the Northern Pacific Railway, the Pennsylvania Railroad, and the Southern Pacific Company. Many railroads, as, for example, the Atchison, Topeka & Santa Fé Railway, the Delaware & Hudson Company, the Erie Railroad, and the Union Pacific Railroad, have raised large sums of money by the sale of bonds or debentures convertible into common stock. There is no need of further comment in emphasis of the importance of this mode of financing to the holders of the underlying bonds of these companies. The bonds of all these companies, and more besides, have been placed in a well-nigh impregnable position so far as their security is concerned.

There are many railroads in the United States to-day whose command of business has been restricted and whose profits greatly reduced, owing to the lack of adequate facilities for handling their traffic. Economical operation, in the present epoch of railroading in the United States, usually results from the expenditure of large sums for improvements, etc. So far from being a cause of anxiety to the investor in the existing bonds of any railroad, as a rule the creation of a new mortgage or the sale of stock by such railroad should bring re-assurance to him. While commenting upon the manner in which the bond issues of certain railroads have been strengthened by the expenditures of large sums derived from

the sale of capital stock, etc., it is proper to add that a tremendous equity has been established for the bond issues of railroads generally, owing to the expenditure for improvements during recent years of large appropriations from surplus earnings. It is safe to say that, notwithstanding the large increase in the amount of dividends paid to stockholders during the last ten years, the aggregate of the dividends paid during this period has not consumed forty per cent of the total surplus earnings available for dividends. The excess of surplus earnings over the dividend payments has, for the most part, been turned back into the property in one way or another.

It is important, from an investor's standpoint, that the railroad company should own in fee the approaches and terminals which it uses in and about large cities. The position of a company which gains access to large commercial centers over tracks owned by other companies is often jeopardized. In such a case it is always prudent to make an investigation as to the terms and limitations of such trackage contracts as may exist.

It has been stated above that the value of a railroad bond rests largely upon the earning capacity of the company, whose obligation it is. So far as the earning capacity is concerned, the investor can readily gain sufficient knowledge for his guidance from a study of the annual reports of the railroads. He must not content himself, however, with the study of the earnings of but a few railroads, for he must remember that value is a relative quality, and that a bond can be said to be cheap or dear only when comparison with other bonds demonstrates its price to be relatively low or relatively high. As a rule comparisons of the earning power of railroads can be made easily and intelligently owing to the fact that all the railroads issue annual reports, which furnish in substantially uniform method the important details of their financial operations.

It is not the purpose here to enter into an exhaustive discussion of the study of railroad reports; there are many manuals and reference books devoted to this subject, which the investor should consult. It will suffice here to dwell upon some of the more important considerations, brought out by the study of railroad reports, which, because least understood, should be of particular interest to the investor.

The income account of a railroad is usually given as follows:

Gross Earnings	$10,000,000
Operating Expenses	6,000,000
Net Earnings	$4,000,000
Miscellaneous income	200,000
Gross Income	$4,200,000
Fixed Charges:	
Interest	$1,500,000
Rentals	100,000
Taxes	375,000
Sinking Fund, Exchange, etc.	25,000
Total Charges	$2,000,000
Surplus	$2,200,000
Dividends	1,000,000
Balance	$1,200,000

It is obvious, as operating expenses absorb so large a proportion of the earnings from all sources, that the investor should inquire into the nature of these expenses. The operating expenditures are classified according to the rules prescribed by the Interstate Commerce Commission. These classifications have for years been embodied under four prominent heads, as follows:

(1) Maintenance of Way and Structures.
(2) Maintenance of Equipment.
(3) Conducting Transportation,
(4) General Expenses.

Beginning July 1, 1907, the railroads of the United States have changed their methods of keeping and rendering accounts, to conform with a new system adopted by the Interstate Commerce Commission. The system of accounts previously in use allowed of the incorporation in maintenance of way and structures and maintenance of equipment, of expenditures of an extraordinary nature for improvements, additions, etc. The new system requires that all these extraordinary expenses, over and above the actual expenses for maintenance, shall be included in a separate item

and deducted from net earnings. Many railroad companies have heretofore been enabled to conceal their true earning capacity by arbitrarily charging to maintenance large sums for improvements; on the other hand, other companies have caused their net earnings to be unduly swollen through inadequate charges to maintenance. While the reports to be issued under the new system of accounting doubtless will show a wide variance in the opinions of different managements, as to what constitutes adequate maintenance, the statements hereafter issued by the railroads will undoubtedly be more intelligible to the average investor. The only way in which the investor may satisfy himself, that a railroad in which he is interested is charging its operating expenses sufficiently for the keeping up of its property is by a comparison of the accounts of that railroad with the accounts of other railroads operating under like conditions in the same territory. The mere fact that companies have adopted a more intelligible method of rendering their accounts does not relieve the investor of the necessity of examining carefully into this question of maintenance.

The new system will not change materially the character of the expenses which heretofore have been included in conducting transportation and general expenses. Conducting transportation expenses will hereafter be divided into two classifications, namely, conducting transportation—traffic, and conducting transportation—operation. To the consideration of the expenses which fall under these headings the investor should give considerable attention, for the significance of their relation to the company's ability to meet its interest payments is not generally understood. These expenses relate and are incident to the immediate conduct of the railroad's business, and, like those commonly called "fixed charges" —interest, taxes and rentals—their payment cannot long be delayed. Maintenance expenses are to a considerable extent capable of curtailment, under necessity or in the discretion of the management, but these other expenses, which include wages, cost of fuel, salaries, legal expenses, etc., must be met if the railroad continues to do business. So the conducting transportation and general expenses are by their character "fixed" charges against earnings. Where the ratio of these expenses to the gross is large and shows no tendency to decrease, the margin of safety for interest becomes less, as is shown in the illustration which follows.

Where, in the comparison of two roads with like character of business, it is found that these expenses of one require a relatively larger percentage of gross than in the case of the other, it means one or both of two things; either that, with relatively like rates for the work performed, the one road is not conducting its business with the same degree of economy as the other, or that, with like relative economy in the conduct of its business, the rates received by it for work performed are relatively smaller. In the use here of the word "economy" it is understood that the measure of economy is net results. To show the significance of this percentage to the investor, take, for example, the Chicago & Great Western Railway and the Chicago, Milwaukee & St. Paul Railway. The character of the tonnage on these two roads is very similar. For the year ending June 30, 1906, conducting transportation and general expenses consumed 48.0 per cent of Great Western's gross earnings against 37.6 per cent for St. Paul. These expenses have required about the same percentage of Great Western's gross earnings each year for the last eight years, and their ratio to gross earnings has shown no tendency to become less. When it is remembered that these expenses partake of the nature of a fixed charge upon gross, the full significance is apparent. Suppose the annual interest, taxes and rentals had required, in 1905-06, 20 per cent of the gross for both Great Western and St. Paul. Of Great Western's gross, then, 68.0 per cent would have been consumed by these "fixed" charges, leaving 32.0 per cent for maintenance and surplus. Of St. Paul's gross, but 57.6 per cent would have been consumed by "fixed" charges and 42.4 per cent would have been left for maintenance and surplus. It is clear that the margin of safety as represented by the surplus would have been far greater for St. Paul than for Great Western. The actual margin of safety for Great Western was less than as given above, because interest, taxes and rentals required 24.0 per cent of the gross for 1905-06 as against 13.7 per cent for St. Paul.

While the larger percentage of gross required for the conducting transportation and general expenses in the case of one road reflects what has been called "relatively less economy" in operation, yet this by no means implies a relative lack of efficiency in the management. A railroad might be operated with the highest degree of efficiency, yet the average rates received, and consequently the

gross earnings, might be so small as to make these expenses bear a very high ratio to the gross.

It will be shown in the discussion of the operating ratio, which follows, that the margin for maintenance and the fixed charges may be greater on the road with large gross earnings per mile, where conducting transportation and general expenses require, say, 42 per cent of the gross, than on the road with small gross earnings per mile, where conducting transportation and general expenses require but 35 per cent of the gross. For the first road 20 per cent of the gross might be ample for maintenance, while 35 per cent of its gross might be an insufficient allowance for the second road. The fact remains after all, that, other things being equal, where these expenses are relatively larger, the margin of safety is relatively less.

It is with great difficulty that many investors are dissuaded from the belief that the operating ratio counts for all. Where a road is reported as operating at fifty per cent it is not uncommon to hear it said that "it cannot be done." Another road reports operating at 75 per cent, and it is said that because of this high operating ratio there is manifestly "abundant opportunity for curtailment in expenses." It may be stated at once that the operating ratio, or the ratio which operating expenses bear to gross earnings, has of itself no significance whatever. A few examples will tend to establish this fact.

The gross earnings and operating expenses of roads "A," "B," "C," "D," and "E" may be taken as given in the table on page 136.

For the sake or argument, it is assumed that it requires for normal maintenance of road and equipment no more "per mile of road" for one of these roads than for another. It is clear that road "A," operating at 55 per cent, makes more liberal outlay for maintenance than roads "B," "C" or "D," which operate at 60 per cent, 65 per cent, and 75 per cent, respectively. Consequently road "A" has greater room for curtailment in its maintenance. Road "A" includes in its operating expenses sums in excess of normal requirements for maintenance, road "B" spends enough for maintenance, while "C" and "D" fall considerably below the average requirements. The $1,500,000, or 15 per cent of its gross, expended by road "D" for maintenance of way on its 5,000-mile road is by far a relatively smaller outlay than that of road "A," where

Average Mileage Owned and Operated	A 1,000		B 1,000		C 2,000		D 5,000		E 1,000	
	Total	Per Mile	Total	Per Mile	Total	Per Mile	Total	Per Mile	Total	Per Mile
Gross Earnings.....	$10,000,000	$10,000	$10,000,000	$10,000	$10,000,000	$5,000	$10,000,000	$2,000	$30,000,000	$30,000
Maintenance of Way	1,250,000	1,250	750,000	750	1,000,000	500	1,500,000	300	3,000,000	3,000
Maintenance of Equipment	1,250,000	1,250	750,000	750	1,000,000	500	1,500,000	300	3,000,000	3,000
Ratio of "Maintenance" to Gross.....	25%	.....	15%	.....	20%	.....	30%	.....	20%	.....
Conducting Transportation and General.....	$3,000,000	$3,000	$4,500,000	4,500	$4,500,000	$2,250	$4,500,000	$900	$9,000,000	$9,000
Ratio of "Cond. Trans. & Gen." to Gross.....	30%	.....	45%	.....	45%	.....	45%	.....	30%	.....
Total Operating Expenses	$5,500,000	$5,500	$6,000,000	$6,000	$6,500,000	$3,250	$7,500,000	$1,500	$15,000,000	$15,000
Ratio "Operating Expenses" to Gross.....	55%	.....	60%	.....	65%	.....	75%	.....	50%	.....
NET EARNINGS.....	$4,500,000	$4,500	$4,000,000	$4,000	$3,500,000	$1,750	$2,5000,000	$500	$15,000,000	$15,000

$1,250,000, or but 12½ per cent of its gross, is so expended on 1,000 miles of road. Now, take road "E." It is seen that while conducting transportation and general expenses require the same percentage or gross earnings, "E," operating at 50 per cent, spends for maintenance 140 per cent more than "A," which is operated at 55 per cent. The table explains itself. It is unnecessary to give more examples (many more might be given) to show that the operating ratio of itself is of no significance. Wherever it may have significance it will be found to be wholly the result of accident.

The statement of the income account given above shows that under fixed charges fall interest on the funded and floating debt, rentals of leased lines, etc., taxes and, in some cases, sinking fund payments. The investor should examine the annual report carefully to ascertain whether or not the full interest on all the bonds outstanding at the close of the fiscal period, has been charged in the income account for the period under review. Another important suggestion which may be made here, is that the investor ascertain what opportunity there may be attaching to this or that road for future saving in interest charges through refunding. The Chicago, Rock Island & Pacific Railway, for example, has little opportunity for future refunding. The Chicago, Burlington & Quincy Railroad, the Chicago & Northwestern Railway, and the Chicago, Milwaukee & St. Paul Railway will each save, through the refunding in the next ten years of high-rate interest-bearing bonds, at least $800,000 per annum, in interest charges.

Very few roads are required to-day to set aside each year from earnings specific amounts for sinking fund purposes. The Chicago, Burlington & Quincy Railroad's annual appropriation for sinking funds is, it is believed, relatively larger than that of any other railroad in this country, excepting where annual payments are made in the retirement of short-time serial bonds, such as the Atchison, Topeka & Santa Fé Railway debentures, Pennsylvania Company 3½ per cent trust certificates, and the Chicago, Rock Island & Pacific Railway collateral trust bonds. In the latter cases the sinking fund charges are not included in fixed charges. For the year ending June 30, 1906, the sinking fund payments of the Chicago, Burlington & Quincy Railway, including interest on bonds held alive in the sinking funds, amounted to $1,500,000. As

such appropriations are in their nature extraordinary, and are used for the retirement of obligations of the company, they must be given due weight in the comparison of the respective earning power of different roads.

As there is of itself no significance in the comparison of the operating ratio of different roads, so, from the investor's standpoint, there is necessarily no significance to be attached to the fact that one road has a bonded debt of $30,000 per mile, while the bonds outstanding on another road amount to but $15,000 per mile. Likewise, the fact alone that the fixed charges of one road amount to $2,000 per mile of road against $1,000 per mile on another shows by no means that the bonds of the latter are more secure. The essential consideration here, as in the case of those quasi-fixed charges, conducting transportation and general expenses, is the ratio which these charges bear to gross earnings and the ability of the road to pay these charges. It stands to reason that the New York Central & Hudson River Railroad with $22,800 per mile gross earnings, could more easily provide for the interest on bonds aggregating $60,000 per mile than could the "Atchison," with $9,200 per mile gross, provide for interest on a bonded debt of $30,000 per mile.

A popular argument advanced in the recommendation of a railroad's bonds is that the railroad is mortgaged for only, say, $15,000 per mile. This may be the case and, under certain conditions, the argument should have considerable weight. Instances will be found where, with a comparatively low debt, the fixed charges are high, due to the large rentals which the railroad is obliged to pay for trackage into cities. The annual interest charges at 4 per cent on the railroad's bonds may be $300,000 and the various rentals for terminals, etc., may be likewise $300,000. The bonds will be recommended on the basis that the entire bonded debt is but $7,500,000, or $15,000 per mile. It is apparent that the combined charges for interest and rentals will equal the interest at 4 per cent on a bonded debt of $15,000,000.

The fact that the railroad costs, in the building, so many dollars, and could not be reproduced except at a cost so much greater than the original cost, has not overmuch significance so far as the value of that railroad's bonds is concerned. It is the earning capacity which counts. An office building erected in

New York City at a cost of $2,000,000 might readily be sold at any time for $2,500,000, whereas such a building, erected in Sitka, Alaska, at a like cost, might not be worth $50,000, for lack of earning capacity.

It demands no proof to show that fixed charges of $600 per mile on one road might be a heavier burden on earnings than fixed charges of $1,000 per mile on another, although in each case the percentage of gross required for these charges is but 20 per cent. Take as gross earnings for the first road $3,000 per mile, and for the second $5,000 per mile. Let conducting transportation and general expenses require 35 per cent of the gross for each road. Here is 55 per cent of gross consumed by "fixed" charges in each case. The one road has 45 per cent of $3,000 per mile, or $1,350 per mile for maintenance and surplus; the other has 45 per cent of $5,000 per mile, or $2,250 per mile remaining for maintenance and surplus.

As a rule, where, on the present basis of earnings, the fixed charges of any given road require less than 20 per cent of gross income, and where the surplus after the payment of all operating expenses (including liberal outlays for maintenance), amounts to about 20 per cent of the gross income, the interest on the road's bonds may be considered quite secure. It should be noted that this is not the same as saying that the interest is secure where the fixed charges require 50 per cent or less of the net income, for the reason that operating expenses (including proper outlay for maintenance) might in one case require 90 per cent of the gross income against 60 per cent in another case. The fixed charges in the first case might require but 50 per cent of the net, or 5 per cent of the gross income; in the second case they might require, likewise, 50 per cent of the net, or 20 per cent of the gross income. Should the gross income show a proportional decrease of, say, 15 per cent for each road, other things being equal, one road would show a deficit after fixed charges, while the other road would show a surplus.

The percentage of fixed charges varies in an inverse ratio with gross earnings. Observe the following tables wherein are given the income accounts of roads "A" and "B," the figures being stated both in full and reduced to a "per mile" basis:

TABLE I.

	A		B	
Miles Operated	1,000		1,000	
Gross Earnings	$10,000,000	$10,000	$10,000,000	$10,000
Operating Expenses	6,000,000	6,000	6,000,000	6,000
Net Earnings	4,000,000	4,000	4,000,000	4,000
Fixed Charges	2,000,000	2,000	3,000,000	3,000
Ratio of Annual Charges to Gross.	20 per cent.		30 per cent.	
Surplus	2,000,000	2,000	1,000,000	1,000
Operating Expenses.				
Maintenance of Way	$1,250,000	$1,250	$1,250,000	$1,250
Maintenance of Equipment	1,250,000	1,250	1,250,000	1,250
Ratio of Maintenance to Gross..	25 per cent.		25 per cent.	
Conducting Transportation	3,000,000	3,000	3,000,000	3,000
General Expenses	500,000	500	500,000	500
Ratio of Conducting Transportation and General Expenses to Gross	35 per cent.		35 per cent.	

In the above comparison of the income accounts of roads "A" and "B," the operating expenses are in every respect similar. The fixed charges of road "A" require 20 per cent of the gross and of road "B" 30 per cent of the gross. The surplus of "A" amounts to $2,000,000 and that of "B" to $1,000,000.

Assume that gross earnings decrease 25 per cent, and that roads "A" and "B" are operated as before at 60 per cent. The income accounts would appear somewhat as follows:

TABLE II.

	A		B	
Miles Operated	1,000		1,000	
Gross Earnings	$7,500,000	$7,500	$7,500,000	$7,500
Operating Expenses	4,500,000	4,500	4,500,000	4,500
Net Earnings	3,000,000	3,000	3,000,000	3,000
Fixed Charges	2,000,000	2,000	3,000,000	3,000
Ratio of Annual Charges to Gross.	26.6 per cent.		40 per cent.	
Surplus	1,000,000	1,000	.....	....
Operating Expenses.				
Maintenance of Way	$950,000	$950	$950,000	$950
Maintenance of Equipment	700,000	700	700,000	700
Ratio of Maintenance to Gross..	22 per cent.		22 per cent.	
Conducting Transportation	2,350,000	2,350	2,350,000	2,350
General Expenses	500,000	500	500,000	500
Ratio of Conducting Transportation and General Expenses to Gross	38 per cent.		38 per cent.	

Here maintenance expenses are curtailed; conducting transportation expenses, while requiring a greater percentage of gross, are smaller, due to less business handled; and general expenses remain the same. The fixed charges remain the same, and they require 26.6 per cent of road "A's" gross and 40 per cent of road "B's" gross. The percentage of gross required for "B's" fixed charges is 10 per cent greater than in the example given first above, while the percentage required for "A's" fixed charges is about 6.6 per cent greater than it was before the earnings decreased. Road "A" shows $1,000,000 surplus, while "B's" surplus is entirely wiped out.

The many consolidations and leases made by railroads in the last few years emphasize yet another consideration, which has an important bearing upon the margin of safety represented by the surplus earnings. The following illustration shows how, solely because of the losses resulting from leases by road "A," the margin over its interest charges was entirely wiped out, notwithstanding the fact that in the year following the taking of these leases, and by reason of them, the margin was increased fifty per cent. On page 142 are given the income accounts of six railroads (Roads "A," "B," "C," "D," "E," "F").

These income accounts are shown for three distinct periods representing three different conditions of affairs which will here be explained. Each of the roads has a capital stock of $200,000, and each earned, as shown in the income account (Schedule I), $20,000, or 10 per cent on its capital. Road "A," being desirous of extending its sphere of influence or of protecting its existing traffic, arranges for the lease of the other five roads, the rental being in each case 9 per cent on the capital stock.

The income accounts (Schedule II) show the result of these leases to the parent road "A" in a prosperous year, when gross earnings were as large as are shown in the income accounts first given (Schedule I). When road "A" was operated alone a surplus of $20,000 was earned. Its equity in the surplus earnings of the leased lines in the year following the making of the leases was such that the actual surplus accruing to road "A" over all its fixed charges and guaranteed dividends was $30,000.

Income accounts (Schedule III) show gross earnings of the roads reduced. The charges against earnings remain the same.

	A	B	C	D	E	F
SCHEDULE I.						
Gross Earnings	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
All Charges	80,000	80,000	80,000	80,000	80,000	80,000
Surplus	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000
SCHEDULE II.						
Gross Earnings	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
All Charges	80,000	80,000	80,000	80,000	80,000	80,000
Net	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000
Gaurantees	00,000	18,000	18,000	18,000	18,000	18,000
Surplus	$20,000	$2,000	$2,000	$2,000	$2,000	$2,000
SCHEDULE III.						
Gross Earnings	$95,000	$95,000	$95,000	$95,000	$95,000	$95,000
All Charges	80,000	80,000	80,000	80,000	80,000	80,000
Net	$15,000	$15,000	$15,000	$15,000	$15,000	$15,000
Guarantees	00,000	18,000	18,000	18,000	18,000	18,000
Surplus	$15,000	Df. $3,000	Df. $3,000	Df. $3,000	Df. $3,000	Df. $3,000

Road "A" earned, of itself, $15,000, or 7½ per cent on its stock, but owing to the guarantee of dividends on the stocks of the other five roads the deficit of each of these roads amounted to $3,000. Inasmuch as these losses fall upon road "A" and are suffered by that road's capital stock, it appears that as against 15 per cent earned upon road "A's" stock in the previous year nothing is earned in the year of small earnings. Had road "A" not assumed obligations to the stockholders of the other roads its surplus earnings in the prosperous year would have equaled but 10 per cent on its stock against 15 per cent. On the other hand, in the year of small earnings the road would have earned 7½ per cent on its stock instead of earning nothing at all. A study of the reports of the railroads will show, in many cases, that there exist conditions very similar to those described above in the case of road "A."

It has been made clear, from what has been said above, that no absolute rules can be laid down for measuring accurately the value of this, that, or the other railroad bond. The mere statement of any "rules" must of necessity be clothed with so many exceptions and modifications as to make one lose sight of the rules themselves. Each bond must be judged by the particular conditions which surround it. Nevertheless, experience has demonstrated the worth of certain well-defined methods for judging a bond's value, and it has been the purpose of this discussion to set these forth. It is believed that if the investor, in his study of the statements of income accounts of the railroads, is guided by the suggestions given in this paper, he will profit greatly. These suggestions, elementary as they appear to be, are not generally followed, and investors are frequently misled into believing that the margin of safety for a railroad's fixed charges is large, when, as a matter of fact, the reverse is the case.

In conclusion, let it be said that the actual value, as well as the market value, of a bond, often depends upon the character of the management of a railroad and the management's record for conservatism. The market value of excellent bonds has frequently been impaired, despite an increase of the value of the security behind them, owing to a general lack of confidence, on the part of investors, in the ability and integrity of those in the control of the policies of the several railroads.

ELECTRIC INTERURBAN RAILWAY BONDS AS INVESTMENTS

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Descriptive Definition

Characteristically different conditions of construction and operation separate the urban street railway from the interurban line; but due to local peculiarities of development and present inclusions, a distinct segregation of the two is perforce somewhat arbitrary.

The classification basis used by the Census Bureau designated as interurban all those roads which have more than half their trackage outside of incorporated municipality limits, whether or not the major part of their business was done within or without those limits. Included in this class, but constituting a more clearly defined group, are the so-called fast, long interurban lines composed of those electric roads more than fifteen miles in length, which have at least two-thirds of their track outside of municipal limits and operate their cars at a maximum speed of not less than twenty miles per hour.

Relative Extent and General Location

In accord with the above definition, the relative amount of interurban trackage for this country in 1902 was around 35 per cent[1] of its total electric railway of approximately 22,000 miles, or about 7,700 miles, which has meantime increased to doubtless not less than 10,000 miles at present, in view of the much greater increase of steam roads during the same period.

As to the regions especially occupied by interurbans, Massachusetts led[1] (1902) in the proportion—though not the absolute

[1]Above facts appear from the special census report on electric railways in 1902, which contains latest public data on this subject. Under existing law, another census of electric and interurban railways will be taken during 1908, the statistics to cover the calendar year 1907.

amount—of its interurban lines, with about two-thirds (66 per cent) of its total trackage outside the limits of incorporated or of urban communities; Maine and Connecticut followed with about three-fifths (60 per cent) of extra-urban lines each; in point of highest total of interurban track, Ohio led with around 1,300 miles, while New York, Pennsylvania, Michigan, Indiana and Illinois possess a large amount of first class high-speed interurbans.

Some General Features

Broadly speaking, many Eastern interurbans, especially between the numerous nearby towns of New England, developed from urban railways extended often along rural highways, though sometimes located in part on private right of way; while in the West, electric lines have been commonly planned and built from the start on private roadway to furnish transportation in regions left untouched by steam roads or even to parallel and compete with the older lines which they closely resemble save in motive power.

Ordinarily organized and existing under general state railroad laws, the interurban is commonly invested with the usual powers—such as the right of eminent domain—and duties—as to maintain a practically continuous service—that attach to steam railroads.

Except as otherwise regulated by state statutes, as in the stringent Commonwealth of Massachusetts, interurban construction finance follows the general methods of present-day corporations, and properties are built with bond proceeds so far as the law and the underwriting financial institution or bond house will permit. That is, the bond issue authorized at the inception of a company is commonly hypothecated with a trust company under agreement to supply as needed money for construction purposes; on completion of the road, or a portion thereof, its promoters may sell to a bond house the previously pledged obligations, in whole or part, and with the sale proceeds liquidate the debt to the trust or other financial institution. Occasionally, one or more private bankers and bond dealers may perform the above underwriting function; but in any case where the law does not expressly provide that a certain minimum portion of first cost shall be paid by the stockholders themselves, as in Massachusetts, the existence of any so-called "equity" in the property or margin of safety and value for

and above the funds contributed by the original bond buyers must be obtained by the exactions of the underwriters or bond house. In other words, the promoters will normally attempt to have their enterprise constructed and started out of the proceeds of the bonds alone and to retain for their own compensation, either to sell or hold, the entire or most of the capital stock, thus rewarding themselves without the risk of their funds, save as the house which takes their bonds insists on the investment of more or less cash in the property beyond that supplied by the bonds. In this event, it is likely that the promoter will manage to sell privately the necessary stock to a comparatively few private persons by whom it is more or less closely held and hence seldom if ever appears in the market. Thus it transpires that the investing public sees and is offered almost solely the interurban *bond,* save where a percentage of stock may be included therewith as a "bonus" to facilitate the bond sale. The fact of such bonus offer is *prima facie* evidence of the existence of more or less so-called "water" in the stock capitalization of the particular company; while, though in a crude way only, the per cent of such bonus may roughly indicate the amount of such water: for example, the capitalization of a $1,500,000 company whose entire assets have been derived from bond proceeds may be two-thirds stock, which may be distributed in several ways and in a multitude of proportions; one-half may be held by the promoter or one-fourth by the promoter and banker each, while the other half may be offered as a 100 per cent bonus with the bonds, and may easily be given where the stock represents no actual investment; or $250,000 cash may have been for certain reasons actually invested by the promoters and their stockholding friends, when the amount of stock bonus given away will depend on whether it is believed that the bonds will sell for a sufficiently higher price to compensate; that is, as each $100 share of stock represents $25 cash, instead of ten shares being given away with each bond, but two shares, or a stock bonus of 20 per cent, representing $50 cash, may be offered; to make this worth while, the bonds which, without the offer, would sell at perhaps ninety-five, should, with the stock bonus, sell not less than five points higher, or above par.

Interurban bonds, however, it should be noted, are simple and few in type as compared with those of the older steam railroads, being mostly first mortgage issues, with an occasional consolidated

or refunding bond or even a rare second mortgage, though these latter are generally concealed under one of the last previous titles. Furthermore, while around ninety-five per cent in number and sixty-five per cent. in value of steam railroad "firsts" are estimated to be first liens in name only,[2] the interurban "first" is almost uniformly a "first" in fact. Five per cent is the regular interest rate, though there is an occasional first mortgage 4½ per cent bond.

In the matters of duration and redemption interurban bonds vary somewhat from the usual, and commonly run for the relatively short terms of twenty, twenty-five or thirty years. Prior to maturity, however, and uniformly on any interest date from, or more commonly five or sometimes ten years after, their issue, and after due notice to the holders, interurban bonds frequently may be called for redemption, sometimes as a whole, but generally in part, and almost invariably at a premium of from five to ten points.

While the contingency of this feature may be theoretically undesirable for trustees and other investors who desire to leave their funds undisturbed after their investment on a satisfactory basis, it is equally attractive to other investors because of the possible extra profit in case of a call for redemption and the resultant opportunity to shift or reinvest the proceeds, if desired, on a possibly better basis, especially in times of rising interest rates.

Sinking fund provisions, also, are a sometimes characteristic and uniformly desirable feature of interurban bonds from the investor's standpoint, as noted later.

These securities within a comparatively few years have become for the future a distinct and prominent investment type regularly handled by several of the best known and most reliable investment houses which make more or less of a specialty of the bonds of interurbans and allied properties that they sometimes control or which are often managed by the operating department of a large and reputable engineering firm.

Only in rare cases are these bonds listed on an exchange, as they are usually for comparatively small aggregate amounts and are often locally and for the most part closely held by permanent investors. Being unlisted, their price normally fluctuates less than that of similar listed issues which are subject to the varying influ-

[2]See article by the writer in the Bankers' Magazine (N. Y.), for December, 1906, p. 879.

ences of a theoretically more fluid market: thus, a comparison of approximately present quotations for certain representative bonds with their bid prices about fifteen months previous, a period marked by unusual dullness and decline in the bond market, shows that quoted price declines for six representative listed *prior lien* bonds of steam railroads ranged from three to eight and one-half points and averaged considerably over five and one-third points; similar declines for six representative *first mortgage* bonds ranged from six and five-eighths to eleven and one-half points, and averaged about eight and eight-tenths points; or an average fall for these twelve listed bonds of somewhat over seven points: turning to the price quotations for one dozen unlisted but similarly quoted first mortgage interurban bonds of properties located in different parts of seven distinct states, the price variation ranges from zero to six points, an average of less than three and one-half points for the list; or, if a thirteenth and unfortunate company whose bonds declined ten points is included to offset those which remained practically stationary, the average decline is less than four points.

In this connection it should be noted that "listing" in itself does not assure an active market nor more ready quotations for a security, though it may increase its favorable reception by banks and money lenders as collateral, but that a security's market activity depends largely on the size of the issue and the closeness with which it is held, which will normally vary inversely with its general standing as a non-speculative holding.

Practically, a market for these securities can usually be found at any time, save in seasons of severe depression or panic, with the house through which they were put out.

Interurbans in General as a Type for Bond Investment

Consideration of any corporate enterprise type as a form of investment may be approached from the standpoint of a bond or of a stockholder, and proceed with reference to the type as a class or the individual enterprise. Few types of possible investment can be sweepingly condemned, as must be all offerings of oil and mining prospects as unequivocally and hopelessly beyond the pale of investments in any sense whatever. In most lines of corporate activity, however, good, bad and indifferent enterprises are found; so that

any investment study to be of value should regard the normal indices of a reasonably sound and desirable proposition rather than merely the general financial results of the type industry as a whole.

As interesting and indicative of the general status of the interurban industry in this country, however, some average statistics for about one hundred and fifty interurban railways [3] in seven representative states may be noted. Safety of principal and regular continuance of income instalments, as the two leading questions of bond and of all true investors—in view of the contingent legal rights and powers of a mortgage creditor—indicate the general lines of examination. Without further analysis it may be taken that the chance of principal recovery depends on the ratio between the amount of claim and value of the encumbered property, which latter in turn depends first upon its cost, secondly upon its character as affecting what may be termed its residual value, and thirdly upon the earnings above operative costs which the property can produce. An exact determination of either the actual or proper ratio in the case of interurbans would call for a more skillful weighing of the fluctuating and uncertain elements of value than has yet seemed possible or would be here feasible to attempt. Only rough approximations can be made, assisted by comparisons with steam railroads. But it should be noted in this connection that interurbans are occasionally joined with other enterprises, such as the supply of light and power, so that a pure interurban electric transportation proposition for comparison with a steam transportation enterprise is not always to be had.

Starting, however, with the question of unit costs of tangible property as the central basis of security, the following general observations may be made as approximately indicative of the facts. Compared with a similar steam railroad, the first cost of an electric road for reasonable speed, frequency and uniformity of service under average conditions is commonly from around one-fifth to one-third greater. So far as right-of-way, roadbed, track, stations, etc., are concerned the costs will generally be substantially alike for steam or electric traction; the rolling-stock with its motor trucks and essential wiring and insulation will be perhaps five to ten per cent more costly than corresponding steam railroad equipment; while the generating stations and distributing systems are costly

[3] From original data compiled by the writer.

items against which locomotives are practically the only offset on steam lines. Central stations may be estimated to cost around $125 to $150 per kilowatt capacity, including land and buildings, the tendency being towards increasing first cost to reduce operation expenses. Distribution or feeding systems at about $1,500 to $2,000 or over per mile are expensive whether current is supplied directly or through transformer sub-stations which may be valued at around $40 per kilowatt. The contact system most common on interurbans is the overhead trolley which costs approximately $4,500 to $5,000 per mile for steel pole and bracket support, or from one-fifth to one-fourth more than third rail construction.

With these general suggestions as to relative first cost, the comparative average bonded debt upon interurban and steam properties may be noted. From the compiled data before mentioned, it appears that the average funded debt per mile of sixteen interurbans in Maine was $17,625; and for twenty-one companies in Massachusetts—out of twenty-four examined, three having no bonded debt—$10,784; or an average for thirty-seven interurbans in the two states of $14,204 per mile. These states may be taken as representative of New England, which constitutes Group I of the Interstate Commerce Commission's classification of steam railroads, whose bonded debt in this group for the same period averaged $26,773. In Group II of steam railroads, or the North Middle Atlantic states, their average bonded debt is $65,308 per mile, and that of thirty-three interurbans in New York as typical was $23,980. Group III embraces Ohio, Indiana and Michigan, the funded debt of whose railroads is placed at $46,169; that of fifty-two interurbans in the same three states averages $25,825. Group VI shows a steam railroad funded debt of $26,298 per mile, while twelve interurbans in Illinois are bonded for an average of $33,000 per mile; this comparison, however, is hardly fair, as the group's steam roads cover parts or all of seven large states of the Central and Northwest. Summarizing, the average for 134 interurbans in seven states which are especially their home is $23,267 of bonded debt per mile; that of steam railroads in Groups I to VI inclusive—except Groups IV and V—is a little over $42,000 per mile, or over $46,000 per mile for Groups I to III inclusive, as against $21,644 in the first six interurban states.

Judged, accordingly, by steam railroad standards, the mileage debt of interurbans seems safe, aside from the fact that the latter

are more costly than the former per unit of construction, the present minimum cost per mile of single track, including equipment, for first-class interurbans being placed by competent engineers at not less than $25,000 to $30,000.

To maintain these assets at approximately their face value involves not only their technical "maintenance"—which for roadway and structures may be put at about $1,000 per mile, and around two and a half cents per car mile for up-keep of cars and motive power—but an allowance or offset for "depreciation."

In accord with steam transportation usage, it has not been customary so far for interurbans to provide particularly for any natural depreciation of their physical property, which in general may be considered about 5 per cent for power house and equipment and 2½ per cent for overhead construction and distributing system. For certain classes of tangible assets it is evident that regular "maintenance" is sufficient and covers and includes depreciation also, as with ordinary rail or tie renewals, or, in general, wherever the replaced article is a complete and independent unit in itself. The general justification offered for this practice, however, is that appreciation in value of interurban properties due to the attendant development of their territories and also to their increased earnings therefrom has both offset the normal depreciation and permitted, when necessary, increased capitalization to provide funds to cover depreciation instead of deducting the same from earnings. Whatever validity this view may have up to the present time, however, it should be noted that as the country's rate of development becomes progressively slower, it will become more and more necessary to provide against the inevitable deterioration of physical property an available monetary fund as offset to maintain at near their nominal value the assets which are the bondholders' immediate security.

Turning briefly to the question of residual value, it should be here further remembered that the existence of bonds implies the contingency of possible trouble ahead and foreclosure, and that investment investigation properly contemplates a proposition in the twofold aspect of a liquidating as well as a going concern.

In view of the particular character of electric transportation plants—and without reference to the demand for their continued

operation as provided by the general railroad law under which they may be incorporated—the residual value of a standing interurban would seem higher than that of a similar steam railroad, especially where the valuable trolley wire is used, since its source of motive power is available for other than traction purposes, in accord with an evident principle which may be stated as a general rule that residual value varies inversely with the degree of specialization of the article or property in question.

Another possible asset which may be briefly referred to in this connection is the bond sinking fund, which is a not uncommon feature with interurbans. Out of twenty-four Massachusetts interurbans, nine, or 37.5 per cent, possessed sinking or other special funds, though the proportion of same to funded debt was not large, being a trifle less than one per cent. for nine companies; or, omitting one rather exceptional case, a little over one and a half per cent. for eight companies out of twenty-four.

Where franchise privileges, especially when limited, are enjoyed, the propriety of a sinking fund is obvious; although even when a company occupies its own private property such a fund may be desirable to increase the margin of safety and offset the deficiency between the funds received and actually invested from bonds sold at a discount and the face amount of the debt to be repaid.

Coming to the question of interurban income considered as the source of interest payments, as of sinking fund accumulations, but without regard as to how much value it imparts to the physical property which is the medium of such income and the central item in the directly realizable security of a bondholder, it may be noted that the latter's immediate concerns in view of his legal position are the questions of gross income and operating expenses.

For convenient comparison with steam railroads, income may be calculated by the mile, though such estimates are generally less accurate and significant than data on a per capita basis. Thus, the average gross receipts per mile for seventeen interurbans in Maine were $4,591, and for twenty-three companies in Massachusetts $3,912; or, for the forty companies in Group I of steam railroads an average of $4,251, as against steam road passenger earnings of $5,263 per mile in the same group. Thirty-four interurbans in New York state showed average gross receipts per mile of $4,115,

as against steam road passenger earnings per mile of $4,513 in Group II for the same period. Forty interurbans in Ohio had gross receipts of $3,868 each per mile; five Michigan companies averaged $5,465; and thirteen Indiana companies $5,161; or an average for the fifty-eight companies of $4,831 per mile, as against $2,481 per mile for steam roads in the same states which constitute Group III. In Illinois, thirteen interurbans showed average receipts of $4,588 per mile; while the railroads of Group VI of which this is one state averaged passenger earnings of $1,786. Summarized, the average passenger receipts for the four steam railroad groups stands at $2,198 per mile, compared with $4,446 for interurbans.

Operating expenses for interurbans in these several states range from around fifty-five per cent of gross receipts, as an average for Illinois, to seventy-one per cent as the average for thirty-three companies in New York, though if an additional company be here included which operated at a large loss, or 257 per cent of its gross receipts, the average for this state is brought up to about 76.5 per cent. In general, a fair ratio between gross receipts and costs of operation for interurbans is about sixty per cent for comparatively level and sixty-five per cent for roads with heavy grades.

If, finally, to determine in a general way the margin of safety for interurban bond interest and the apparent distance of possible default, the interest rate is assumed to be five per cent and the approximate average operating ratios for each state are taken together with the average gross income and funded debt above shown, the following rough results appear: Maine, average net income after deducting operating expenses and taxes is practically one and two-thirds times the bond interest charge, leaving a balance or gross surplus equal to about sixty-seven per cent of the interest; Massachusetts, average net income about two and one-half times the bond interest, with ratio of gross surplus to interest charge over 145 per cent—a most ample margin; in New York, average net receipts are but little more than enough to pay fixed charges, and average surplus but about three and a half per cent of the yearly interest per mile; Ohio shows net earnings of over one and a fourth times the average interest charges, and surplus equal to twenty-six and a half per cent of the average interest; Indiana, net receipts over one and a half times average interest, and gross surplus over fifty-nine per cent of the latter charge; Michigan interurbans average net

income over one and two-thirds times their average funded interest, with a gross surplus of sixty-nine and three-quarters per cent of the interest; Illinois, net revenue about one and a fourth times the average interest, and average gross surplus equivalent to over twenty-two per cent of the average interest charge per mile. Summarized for the seven states, interurban net receipts average over one and a half times, and average surplus is fifty-six per cent of their interest charges.

To shed a supplementary light, however, on these figures, some further data are appended relative to the failure of certain interurbans in these same states to earn fully their fixed charges. Twenty-two out of one hundred and one companies examined in seven states, or approximately twenty-one per cent, showed deficits for the period taken, as follows: In Maine, four out of sixteen companies, or one-fourth, showed deficits; in Massachusetts, five out of twenty-four, or around one-fifth; New York, ten out of thirty-one, or one-third approximately; Ohio, one out of eleven; Michigan, one out of five; Illinois, one out of eight; while all of six companies in Indiana had a surplus to spare.

The Particular Interurban

Continuous income as the purpose of investment implies production of net revenue above costs of operation. Aside from matters of legal privilege or duty and of right accountancy as determinative of financial results, such success involves two main factors as the objects of investigation in a particular case, viz., (*a*) the amount and character of the business or traffic, and (*b*) the cost of its acquisition and conduct. Furthermore, these inquiries will be applied in any instance to either a "going" or to a new or so-called "construction" enterprise. Cost of acquiring traffic in either event practically resolves itself primarily into the subject of necessary outlay or investment in plant and accessories—as amusement parks, etc.—which is largely a question of wise engineering practice and expense, and cannot here be discussed further than as already noted. Cost of conducting traffic depends—aside from the influence of economical engineering—upon skilful administration, which is most readily tested by the average and specific statistics of similar enterprises. Aside from the general ratio of operating expenses to gross

income already given, the operative efficiency of interurbans may be further briefly indicated by their general cost of operation per car mile, which in such states as Maine and New York average for nearly fifty interurbans between about 16¼ cents as an average minimum to around 17¾ cents as a similar maximum, though in a few specific cases this item is as low as 10 cents and as high as 53 cents. While average statistics of any type of enterprise as a whole are of limited value, when extremes are excluded, as criteria in specific cases, and the latter must uniformly be judged on their individual merits, it may be generally stated that electric railway operating costs will not greatly differ from those of similarly situated steam roads, and will normally range between about $6,000 to $7,000 per mile of track annually for first-class high-speed interurbans, economies in some lines being offset by added cost in others; where it is attempted to run single cars at high speeds the much greater power required greatly increases the car-mile cost, especially if the service is comparatively infrequent; this, however, may be appreciably reduced by multiple-unit operation: on the other hand, the advantage of electric operation is gained by frequent service at reasonable speeds, though unit operating costs will be seldom reduced to fully offset the possibly greater unit charges due to larger required capital investment. The financial gain of electric traction comes rather from the marked proportional increase in travel that follows introductions of the interurban, and which in some cases has averaged over a term of years from one hundred to the astonishing amount of around one thousand per cent per annum.

Amount of available traffic, as the first and decisive consideration for every designed road, may be approximately gauged for a going enterprise in the financial results shown in its reports which are the ordinary investor's chief source of information. For a new enterprise, however, amount and character of probable tributary traffic must be calculated independently and in advance of performance, and are questions of the actually available population who will normally patronize the road, and their traveling-habit. The general rules followed by engineers in an estimate of probable traffic in the case of a certain projected interurban are highly interesting and helpful in a study of the desirability of any proposition as a conservative investment, but cannot here

be given. A minimum traffic, which can be determined mathematically, is plainly necessary to success, and, in view of the essentially local nature of the interurban as yet, depends on a sufficient tributary population, the amount of which will vary with its character and particularly its distribution, to which practically not less than three-fourths of interurban success or failure may be attributed. In general, interurbans may be classified as to their population distribution into those which connect a large and a smaller center and those between two centers of approximately the same size. As between lines which serve the same aggregate population differently distributed differences of total traffic may be expected, though, as suggested, no uniform ratio of amount of population to patronage is established: in exceptional cases a tributary population of but 210 persons per mile has enabled an interurban to show gross receipts of $2,500 and net income of $524 per mile, with a percentage net income to capital stock of 1.94, even with the operating ratio abnormally high; similarly, roads of 320 and 360 people per mile have shown gross revenue of $4,500 and $2,000 per mile respectively, and corresponding nets of $585 and $400 per mile, although operating ratio in the first case was very high.

On the other hand, populations of 1,300, 1,800 and 2,000 per mile have shown a deficit in net income, though the exact cause of the deficiency is not always easy to discover from statistics. In general it may be said that, while the distribution of a given population will make a great difference in its production of traffic, the number of tributary inhabitants should not fall below about 600 per mile for a successful interurban, and that its traveling habit, which may vary widely, should be indicated approximately by gross receipts per capita of from $2.00 to $2.50 for a line between smaller terminals, of perhaps 20,000 inhabitants and under, and of somewhat near the same size, to around $6.00 per capita gross for an interurban located between a relatively small and a large town.

Save in occasional cases, light freight and express traffic produce but a relatively small part of interurban income, although about sixty-five to seventy per cent of interurbans carry such goods; in Massachusetts the per cent of total gross income derived from this source was only about three-fourths of one per cent for

the last reported year; in Ohio, for an earlier period, the average per cent of freight and express earnings for four railways was about 10.5 per cent, the average express earnings for eleven roads less than three and a quarter per cent, and the average freight earnings for twenty-one lines around 8.9 per cent, while the total earnings from freight and express per mile of track for twenty-two railways was a little over $161.50.

Once established, however, a marked increase of interurban gross receipts should normally follow, from the effect of cheap and convenient transportation facilities on a people's travel-habit; thus, in the case of eleven interurbans in four states a consecutive yearly increase in gross receipts of twenty-six per cent for the second over the first year, about eighteen and a half per cent for the next, and nearly fifteen per cent for the third year were shown without any material change in the track mileage.

In fine, and without any attempt at elaborated conclusions, it may be safely said that, as a class, interurban bonds furnish a type of investment that combines an excellent rate of income with adequate security in all judiciously handled enterprises, which also commonly enjoy comparative immunity from popular hostility in this troubled era of rate regulation and antagonism to very large corporations partly, perhaps, because of their relatively small size and also their usually harmonious relations with the inhabitants of the regions which they traverse.

REAL ESTATE BONDS AS AN INVESTMENT SECURITY

By George A. Hurd,
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In considering real estate bonds as an investment security, it is essential to examine them from the standpoint of the fundamental requisites of all good investments, namely, safety, interest return and convertibility. Of these requisites, that of the safety of the principal under all conditions which may arise is by far the most important and the one to which most consideration will be given.

It may be said at the outset that the principal advantage which real estate has over other forms of security rests in the certainty or stability of its productive power. All value in real estate is the result of income capitalized. In the case of city real estate, the natural causes which lead to the growth of cities in certain locations create a permanent demand in those locations for areas on which to live or transact business. Such advantages in location are paid for in the form of rent, and as long as a community exists there will be income from the use of locations within it, and real estate values founded upon this income. In regard to farm lands, the productivity of the soil creates an annual income, a part of which, as rent, may be capitalized into value. As long as the soil is productive, income, and therefore real estate values, will exist.

The basis of value for real estate being its productive power, and this being dependent on permanent forces, real estate furnishes the soundest basis against which to issue investment securities. Such securities are based upon a mortgage of the real estate to secure an obligation. While any mortgage might secure a series of bonds, instead of a single bond or note, which might thus be called "real estate bonds," they would not differ in any essential, except that of convenience, from the ordinary mortgage transaction. What is meant by "real estate bonds," or mortgage bonds, in the investment sense, is a series of bonds in convenient denomi-

nations secured by real estate mortgages, the bonds being issued by a company formed for that purpose and itself obligated on them. Such mortgage companies have been developed so long in Europe, that any study of the subject must include an examination of the history of the development of the mortgage business in Europe, and other parts of the world subject to European influence, as a prerequisite to the understanding of real estate bonds as an investment security in this country.

So large a part of the world's wealth consists of real estate, that the use of it as security for debt has been a matter of the most vital importance in the commercial progress of the race, since it gave to land a partial convertibility, and prevented the capital invested in real estate from being wholly fixed. Down to the beginning of the last century, however, mortgages were restricted to transactions between individuals who had personal knowledge of the particular property offered as security. This necessarily confined possible mortgage lenders to those residing near the property on which a mortgage was desired, and as capital could not move freely to the places where it was most needed, great differences in interest rates existed between different localities.

Among other disadvantages attending this condition of things, was the fact that the effort to find individual lenders, having the exact amount needed, made it unduly expensive to obtain loans, and resulted in economic waste through unnecessarily high commissions. Individuals were also unwilling to make long-time mortgage loans which were nearly or quite inconvertible in their hands, and this resulted in forcing borrowers to pay commissions for obtaining new loans at comparatively frequent intervals, and in exposing them to the risk, at each maturity, of being unable to replace the loan. Individuals also did not ordinarily wish to have their capital returned to them a little at a time, but wanted the full sum at the termination of the loan. This prevented the use of amortization loans, or loans which are paid off by degrees throughout the life of the loan. This type of loan, which is almost universal on the Continent of Europe to-day, and is coming into more frequent use in this country, so greatly increases the safety of mortgage investments that the resulting reduction in interest rates may be sufficient to enable a borrower to pay off a loan in forty or fifty years, by an annual payment for principal and interest no greater

than the payment for interest alone would be, were the loan without the amortization feature. It may be added that loans for fifty or seventy-five years would be for too long a period to be safe, unless for a constantly decreasing amount.

Perhaps the greatest single objection, however, to the old system of conducting the mortgage business, arose from the fact that most individual investors could not be mortgage experts, and as a result frequent and serious losses were made, which tended to increase the whole level of interest rates.

So serious were these objections that Frederick the Great, after the successful termination of the Seven Years' War, took steps to remedy them by approving, in 1770, the formation of the first association for conducting the mortgage business, and lending to it 200,000 thalers at 2 per cent interest as a capital with which to commence business. This association, "Die Schlesische Landschaft," was formed of the land-owning nobles of the Province of Silesia, where the great victories of Frederick had almost all been won. In this district buildings had been burned, cattle and farm implements destroyed, and the demand for money had become so urgent that, even on the safest mortgage loans, interest rates had risen to 10 per cent, with an additional commission of 2 per cent to 3 per cent.

Before describing such an association it may be well to say that there exist side by side in Europe these mutual associations, which deal largely if not exclusively in farm loans, and mortgage-banks, or stock companies, for dealing both in city and farm loans, the latter having appeared almost simultaneously in Germany, Austria and Belgium about 1835. These two forms of conducting the business operate through the same method, which is to make mortgage loans and then issue their own bonds, secured by an equal amount of mortgages.

While there are, of course, differences between the laws governing mutual mortgage associations at different times and in different countries, the great majority have certain principles in common. They are formed with their borrowers as members, and each member is responsible for any loss of the association through bad loans, a condition which acts as a check on the committee of members which approves applications for loans. They began generally by making loans not in money, but in bonds of the asso-

ciation, which the borrower then had to sell for the best price he could; though, as a surplus was accumulated, this feature was often given up and the loans made in cash, the bonds being sold by the association. Their loans are long-time loans, generally from fifty to seventy-five years, with an annual payment sufficient to retire the principal of the loan, and with privileges of anticipation; and the associations are restricted by law as to the locality in which they may make loans, the character of the property they may loan on, and the margin of security they must have.

A later development in Germany and the Scandinavian countries has been a central association, which makes no loans itself but issues bonds secured by the less well-known bonds of local associations, thus obtaining a lower rate of interest through having better credit. The mortgage companies proper are stock companies, which are conducted along lines similar to the associations, and are subject to similar legal restrictions. There is, of course, no individual responsibility to make good the losses resulting from bad loans, the place of this being taken by the capital and surplus of the company, and by the limitation by law, of issues of bonds to a certain number of times the capital.

To Germany belongs the credit of originating and developing the business as it is now conducted, though other countries have not been slow to imitate her methods. In Germany the number and size both of the companies and associations has gradually increased, and especially since the Franco-Prussian War, until there are now about thirty-five companies and twenty-five associations, having an aggregate amount of bonds outstanding of over 8,000,000,000 marks, considerably more than half of these having been issued by the companies.

The Credit Foncier of France, founded in 1852, is the largest and most widely known of all mortgage companies, and the magnitude of its operations may be judged by the fact that for many years past its outstanding bonds have amounted to between 3,000,000,000 and 4,000,000,000 francs, while its credit is so good that the rate of interest on its bonds gradually dropped to 2.60 per cent some ten years ago; though a more recent issue was at 3 per cent. There are in France in addition to the Credit Foncier, which enjoys special privileges from the government, and, consequently, has no rivals, only small local mutual associations for

making farm loans in restricted districts. More than two-thirds of the mortgage loans of the Credit Foncier are on city property, and the remaining one-third on farms. Although in the early years of the company's history a great majority of the city loans, in amount, were on property in Paris, the loans in other French cities have for some years past exceeded those in Paris, the company thus showing a growing tendency to distribute its loans more widely.

In Austria-Hungary both mortgage companies and associations are well developed, and fill the same place in the business system of that country as in Germany. More than 600,000,000 florins of Austrian and Hungarian bonds are listed on the Berlin Exchange. The eleven mortgage companies alone have bonds outstanding amounting to over 450,000,000 florins.

In Italy it was not until 1866 that a general mortgage law was passed, under which eight companies were formed, each of which was restricted as to the territory in which it could loan. By 1884, when the law was changed, these companies had loans of over 1,000,000,000 lire. By the new law the restrictions as to locality were done away with, and mutual associations were authorized. The next year, however, the Italian National Bank was authorized to go into the mortgage business, and 25,000,000 lire were set aside from its surplus for this purpose. It was soon found that this large bank could obtain funds on better terms than the smaller companies, and in 1890 Italy decided to abandon the old system entirely and to give to this one bank the exclusive right to issue mortgage-bonds, and other special privileges, thus following the example of France.

In Russia it is natural to expect more backward conditions than in other parts of Europe, yet even here mutual mortgage associations have been created in different districts, the oldest of them dating back to 1803, and in 1873 the Central Mortgage Bank of St. Petersburg was formed, with a capital of 15,000,000 roubles, one-third of which was owned by the government, to issue bonds based not directly on mortgage-loans, but on the bonds of the local associations.

In the Scandinavian countries, including Finland, each has developed its mortgage business in imitation of that of Germany, but along independent lines. In Denmark the mutual associations are highly developed, the oldest of them dating back to 1795, and

there is also one large mortgage company. In Norway there is only one mortgage company, a national concern operating with capital furnished by the government. In Sweden there are two central associations, each issuing bonds against loans made by local provincial associations. One of these sets of associations deals in farm loans, the other in city loans. In addition, there is one strong mortgage company, which loans in the City of Stockholm. In Finland there is a mutual association; and a company, whose bonds have been largely sold in Germany.

In most of the smaller countries of Europe we find, as in Germany, a dual system of mutual associations and stock companies, sometimes with special privileges from the government after the model of the Credit Foncier. The latter is the case in Spain, where the Banco Hipotecario has since 1875 had a practical monopoly of the mortgage business, and also in Portugal, where only one company is authorized to issue mortgage-bonds. In Holland the mutual associations are of less importance than the mortgage companies, which exist not only for the purpose of making loans in Holland, but also for loaning in the United States and in the Dutch Colonies. Belgium has two large mortgage companies and two associations which are old and well established. Switzerland is provided with over twenty mortgage companies, about half of which operate only in their own cantons. In Greece the National Bank was authorized in 1841 to make mortgage loans, and in 1879 a mortgage company was founded. Servia has one mortgage company, whose bonds, guaranteed by the government, are sold in Germany. Roumania has several mortgage companies.

The mortgage business of Algeria and Egypt is done by French companies, and their bonds are sold in the French market, as are also those of French companies loaning in Canada and Argentina. Among other countries where the European system of conducting the mortgage business, by issuing bonds against mortgages is found, we may mention Brazil, Mexico and the Argentine Republic.

An exception to the general prevalence of this system is England, whose example has largely influenced the United States, though it is doubtful if the causes which led to a different development of the mortgage business there are applicable here. England has no mortgage company loaning on English property and organized on lines similar to those on the Continent, though English

and Scotch companies operating in the United States, Canada, Australia, Cape Colony, Natal, Mauritius, Argentina and Peru, issue bonds in the same manner as the European companies. One of the principal reasons is no doubt the prevalence in England of long-time ground leases, which do away with much of the necessity for mortgages, since instead of owning the fee with his own capital and borrowing on mortgage for improvements, the tenant under a long lease puts his own capital into the improvements and pays an annual ground rent in place of interest on a mortgage. Then, too, legal restrictions, such as the life-estates and entails commonly met with in England, are great obstacles to the mortgaging of property. And it must be remembered, also, that since the security in England depended to an unusual degree on questions affecting legal titles, the mortgage business naturally fell largely into the hands of lawyers, who still control a great part of English mortgage investments.

In any consideration of the methods of loaning in Europe, the most striking fact is that never, in the 135 years of their existence, has there been a failure of a European mortgage company or association, with insignificant exceptions due to dishonest management. Such long-continued safety and success make it interesting to examine the safeguards established by law with a view to preventing losses on bad loans. The principal of these are four in number, and have to do with the class of real estate accepted, the percentage of value to be loaned, the limitation of the volume of bond issues in proportion to capital, and the requirement of annual payments in reduction of the principal of loans. While some variations are naturally found in different countries, the underlying basis is found on examination to be surprisingly uniform.

Taking up first the class of real estate accepted, we find that no company is allowed to loan on vacant land, or other unproductive property. In the laws of the Prussian Central Boden-Kredit Company, one of the largest of the German companies, the restriction is expressed in this way: "The company shall make loans only on property yielding a permanent and sure income." No loans, also, are permitted on mines and quarries. To these prohibitions the Credit Foncier adds theatres; and mills and factories, except where valued at what they would bring if sold for a different purpose.

The Mortgage Bank of Norway prohibits loans on factories, as do many other companies, and, in addition, loans on "uninsured

buildings or country houses without land," in this resembling the Bavarian Mortgage Bank of Munich, which prohibits loans "on country castles or on buildings which cannot be rented separately from the estates to which they belong." A peculiar provision in connection with the Berliner Pfandbrief Institute, whose loans are restricted to the City of Berlin, is that it can only loan "on buildings that have been in use for three years." Undivided interests in property are universally excluded as security.

The second safeguard is the limitation on the percentage of value to be loaned. The only companies or associations ever allowed to loan more than $66^2/_3$ per cent of the value of property are the Hamburg Association, founded in 1782, and the Deutsche Grundschuldbank of Berlin (when loaning on city property), which could loan up to 75 per cent. Another exception is Holland, where 75 per cent is usual on land and 60 per cent on buildings. In Germany the usual limit is $66^2/_3$ per cent of the value, though the Prussian Central Boden-Kredit Company is limited to 50 per cent of the value of buildings and $66^2/_3$ per cent of the value of land, while on vineyards and forests the limit is $33^1/_3$ per cent. The Deutsche Grundschuldbank of Berlin is limited on farm loans to 60 per cent and the Bavarian Mortgage Company of Munich to 50 per cent. The Deutsche Hypotheken Bank of Meiningen takes special precautions against overvaluation by limiting its loans to 60 per cent "of the value when sold under unfavorable circumstances." The limitation is sometimes expressed in terms of rentals, the Deutsche Hypotheken Bank of Berlin, for instance, being limited to ten times the official assessed income in cities, and twenty-five times the assessed income on estates, and the Süddeutsche Boden-Kreditbank to twenty times the net income. Some companies in Germany are, however, restricted to 50 per cent of the value of property, and others to 60 per cent of the land value and 50 per cent of the value of the buildings.

Turning to other countries, we find that the Credit Foncier of France is limited to 50 per cent, except on forests and vineyards, where the limit is $33^1/_3$ per cent. In Italy the limit for mortgage companies, originally placed at 50 per cent, was raised in 1881 to $66^2/_3$ per cent. In Russia the St. Petersburg Credit Association is limited to 50 per cent, and the same is true of the associations in Belgium, though the mortgage companies there loan up to $66^2/_3$

per cent. The largest mortgage bank in Austria is limited to 50 per cent. In Denmark the companies are limited to 60 per cent on land and 50 per cent on buildings, while the associations are limited to 50 per cent on land and 40 per cent on buildings. In Norway the limit is 60 per cent on all farm loans, and loans in Christiania and Bergen, while it is 40 per cent to 50 per cent in other towns. In Sweden the limit is generally 50 per cent, though the one mortgage company there has been raised to 60 per cent. In Argentina and Mexico the limit is also 50 per cent.

These percentages may be compared with the limitations imposed by law in this country for the mortgage investments of trustees and savings banks, and those generally adopted by custom. In New York State the limit for trustees is $66^2/_3$ per cent and for savings banks 60 per cent, while except in a few other large cities 50 per cent is a maximum, and in smaller cities and newly developed agricultural districts loans are not often made for more than $33^1/_3$ per cent to 40 per cent of the value. It should be stated, however, that the delays incident to foreclosure are much greater here than in Europe, with correspondingly greater accumulations of delinquent interest, taxes and costs, so that our loans are in fact for larger percentages than they appear to be. In some cases European companies have the right to take almost immediate possession after default, the Credit Foncier having to wait but eight days, and the Banco Hipotecario of Spain only two days.

The third limitation established has to do with the amount of bonds which may be issued with a given amount of capital. The surplus is in all cases treated as a separate and special fund, and the usual legal requirements are, that a percentage of the earnings amounting to 10 per cent or 20 per cent be set aside annually until the surplus equals 20 per cent or 25 per cent of the capital of the company. The Credit Foncier of France, and the Prussian Central Boden-Kredit Company, are both limited in their issues to twenty times their capital stock, and this was until recently the generally recognized limit in Germany. Now, however, the General Mortgage Bank law of Germany fixes the limit at fifteen times the capital. Among companies restricted to ten times their capital stock are the Italian companies under the law of 1884, the Swedish Company, the Banco Hipotecario of Mexico, and the greater number of Dutch mortgage companies, though the latter are restricted to

ten times the *subscribed* capital, only a fraction of which is paid in. Norway limits the issues of its mortgage company to eight times, and Denmark its companies to six times their capital. The English and Scotch companies, which loan only outside of Great Britain, follow a different plan and usually limit their bond issues to an amount equal to their subscribed capital, or even to the unpaid portion of it. At first thought this would appear to be more conservative than the continental method of allowing issues up to fifteen or twenty times the capital, but it may well be doubted whether the continental method is not in fact the safer; since with a large volume of business profits are satisfactory from a small difference in interest rates between the bonds and the mortgages securing them, and the temptation is removed of taking risky loans at higher rates of interest in the attempt to earn greater profits through a wider margin of difference in rates, where the volume of business is small. Incidentally to this it may be mentioned that the Credit Foncier, and the Credit Foncier Canadien, are limited by law to a difference in interest rates on their loans and their bonds of $^{6}/_{10}$ of 1 per cent, the Italian companies, and more recently the Italian National Bank, to $^{45}/_{100}$, and the Austrian companies to 1 per cent, thus recognizing the danger of attempting to make large profits out of loans at high rates of interest.

The limitation of the territory in which loans may be made, and the general requirement of annual payments in reduction of the principal of loans, together with a rigid government inspection, furnish additional safeguards, as does also the further requirement that any property taken under foreclosure must be promptly sold, thus preventing a company from speculating for a future possible rise in the value of its foreclosed real estate, and concealing its losses by carrying such foreclosed real estate as an asset at cost, regardless of its real depreciation.

As has been shown, the companies engaged in issuing real estate mortgage securities in Europe are now safeguarded by a body of laws which has gradually grown up on this subject, and by which they are governed in accordance with past experience. In order to insure complete safety to investors, the business of making mortgages and issuing securities against them is one which should everywhere be closely controlled by law, as may be realized from a consideration of the varied elements of risk to be guarded against.

While many of these elements against which the margins on mortgage-loans are to guard are the same in farm loans as in city loans, the problems in farm loans are on the whole much simpler,* the quality of the soil, the annual rainfall and transportation facilities being the essential elements to be considered.

In the case of mortgage loans on city property, however, the margin to insure safety must be sufficient to cover the following elements of risk:

(1) Errors in judgment in valuing property.

(2) The lowering of real estate values by general commercial and financial depressions.

(3) Loss of value by changes in the internal structure of cities.

(4) Depreciation of buildings.

(5) Accumulations of delinquent interests, taxes and costs during foreclosure.

(6) Loss of value through disposing of property at forced sale.

Taking these up in order we may consider—First: Errors of judgment in appraising the value of property. Since each piece of real estate stands by itself, there can never be a "market value" for it in the sense that there is for bonds or shares of stock, where each sale is representative of the value of the entire issue. The valuation of real estate must rest on opinion only, and while it may be comparatively easy for an expert with full information to value real estate correctly in an active market, in a market where transactions are few the difficulty is very great. In order to have appraisals of any value, a real estate expert must have at his command a large fund of information in regard to sales of property, rentals of property, and the cost of construction of buildings, since these are indispensable to a proper valuation of the real estate. It is not always easy to obtain information in regard to the consideration for sales, especially in New York City, where the practice is growing of setting out a nominal consideration of one dollar in deeds conveying property. The insertion in deeds of fictitious considerations must also be guarded against, such considerations being sometimes placed at a figure above the selling price, in the hope of giving the property a fictitiously high value, and less frequently at a figure below the actual selling price, in the hope of obtaining a lower assessment for purposes of taxation. The selling price of property is ordinarily

based on the rental of the property, which is the source of its value, but this is modified by the prospect of the future rental of the property. The ordinary method of appraisal of improved property is to add to the estimated land value the present cost of the buildings, with an allowance for age and depreciation. The aggregate of these values should always be checked wherever possible by capitalizing the net rentals of the property, after deducting expenses of all kinds, to find if the building's commercial value is equal to its structural value. Wherever a building is misplaced or badly designed, loss of income over a period of years is a sure result; and examples could be given of many expensive buildings, the cost of which has been entirely thrown away, as is shown by the fact that the net rentals produced by them have been less than those produced by adjacent properties improved with buildings of trifling cost. The structural value of the improvements, considered by itself, is therefore an entirely unsafe guide in such cases.

On the other hand, to rely on the amount of the net rentals without considering the proper rate capitalization would be unsafe, since different classes of property are capitalized on a different interest basis. For example, a retail store property rented on a long lease to an entirely responsible tenant might be capitalized on a basis of 5 per cent net return, while a tenement house with a large number of tenants and corresponding vacancies and difficulties of collection would be capitalized at a considerably higher rate.

Second: Mortgage-loans ordinarily cover so long a term of years that general financial and commercial depressions during the life of the loans cannot be foreseen, and loans should have margin enough to cover shrinkage of value due to this cause. A period of general industrial depression has a powerfully depressing effect on real estate, but this effect varies greatly on different classes of property. When a mortgage loan is made for a term of years, if the borrower pays his interest and complies with the covenants of the mortgage in regard to taxes, insurance, etc., the principal of the loan cannot be called, nor can additional security be called for, no matter what the decline in the value of the property mortgaged may be. A great distinction is thus apparent between mortgage loans and ordinary banks loans; and when a loan is made for the usual term of five years, it should be borne in mind that the property, to furnish adequate security, should at all times during the five-

year period show a comfortable margin above the amount of the loan. We are familiar with the recurrence of panics every twenty years with intermediate depressions of less violence at ten-year periods. The effect on real estate of these greater and lesser panics is, however, not directly commensurate with the financial and commercial disturbance which they cause. A reason for this is probably to be found in the fact that the growth of population in American cities has, ever since the foundation of our government, been conspicuously greater in the alternate decades coinciding with the lesser or intermediate panics. The effect of this has been to offset the effect of intermediate depressions, as far as city real estate is concerned, because the abnormal growth of city population has coincided with that general period; while the relatively slow growth of cities during the decades coincident with the greater panics aggravates the depression of real estate following these panics. During the period of depression following a great panic individuals of every community are forced to restrict their expenditures to the most necessary objects, and the result of this is that the classes of property within a city which maintain their value best are the two indispensable classes of ordinary business and ordinary residence. All properties devoted to special uses, such as theatres, clubs, hotels, churches, etc., as well as factories and warehouses especially suited to a single line of business, suffer severely. During such a period, also, all properties which, on account of the growth or movement of a city, have a value based on expectations of higher rentals in the future are greatly depreciated, since the element of value based on future expectations is largely eliminated. This depreciation applies especially to suburban land, or that at the circumference of a city which is just coming into use, and is aggravated if the growth of a section has been artificially stimulated by capitalistic influences. The difficulty of valuing property, during a period of depression, is greatly increased just at the time when, through falling rentals and values, it is most necessary to be careful in making mortgage-loans. This arises partly because the number of real estate transactions is greatly reduced and information from this source is thus largely cut off, since no property owner will sell under such conditions except through necessity; and also because of the difficulty of forecasting future rentals where vacancies exist, it being a hard matter to judge whether these are to be temporary

or long continued. To avoid the difficulty which arises from a lack of information about sales, the most feasible method is to prepare a scale of relative values for a city, so that a few real estate transactions in different localities, will tend to show a drift of values, just as an inspection of the daily fluctuations of a half dozen prominent stocks tends to show the drift of fluctuations for the whole list of securities.

A further effect of a depression on values on different kinds of property, not usually given sufficient consideration, is the great difference which a reduction in the gross rentals of property makes in the net rentals where the expenses of the property are heavy, as contrasted with the slight effect which such a drop in gross rentals has where the expenses of a property are light. This is readily shown by contrasting a modern office building, which normally has expenses amounting to about 50 per cent of its gross rentals, these expenses including not only taxes and insurance, but heat, light, elevator service, janitor service, etc., with a store building of moderate height where the expenses do not amount to over 15 per cent of the gross rentals, the owner having no expenses except taxes and insurance. If we assume a drop in gross rentals amounting to 30 per cent, the drop in net rentals of the office building will be 60 per cent, while the drop in net rentals of the store building amounts to only about 35 per cent. Since values follow rentals, the stability of value of a property that is less expensive to operate tends always to be greater than that of a property which is more expensive to operate, and careful lenders are therefore disposed to exercise the utmost caution in loaning on large buildings, such as office buildings, hotels and apartments, the expenses of which are heavy.

Third: Loss of value through changes in the internal structure of a city. There is always going on in a city a movement of the retail stores in the direction of the best residence district, this being an effort on the part of the storekeepers to approach as closely as possible to their customers. As this district moves forward it leaves a vacuum behind it, which is filled later by wholesale or other uses which are inferior from a rental standpoint. Unless the growth of a city is so rapid as to make its wholesale property worth as much as retail property was a few years before, there will be an actual drop in the value of the property so replaced by wholesale; and this has commonly occurred. Where there has been

a change of axis of the main retail business streets of a city, there has always occurred a shrinkage of the values created by an anticipated growth of the business district in the line of its original direction. Many examples are to be found in American cities of the best retail business streets being parallel to a lake or river front during the growth of a city up to a population of perhaps 50,000, while after that point in population has been passed, the concentration of the best residence district at a distance from the water front has drawn business out towards this residence district, on lines at right angles to the waterfront and to the original business streets. As regards wholesale and warehouse property, the chief danger to be guarded against arises through changes in the location of transportation terminals. The natural tendency of wholesale property is to place itself between its transportation facilities and the best retail business district, so that it may at the same time be able to handle its goods cheaply and yet be in a location convenient for its customers. Where the wholesale business of a city grew up through river transportation, it is noticeable that of late years the predominance of railroads has been so great as to withdraw wholesale business very largely from locations occupied by it for half a century, with an increase of value near the railroad terminals and a corresponding decrease of value near the wharves.

In the case of residence property, purely social reasons are the predominant ones in establishing high values, and property of this character is for this reason liable to depreciation through changes of fashion. Changes of transportation are also of great importance in determining residence values, improvements in street-car facilities enabling people of a good social class to live at greater distances from the business center of a city and among pleasant surroundings. The general tendency of our street railway improvements of the last twenty years has been to equalize the value of residence property over considerable areas, and as a result of this to depreciate residence property which is close to business property, while rapidly enhancing the value of well-located property further out. Well-developed residence districts at a distance from the business center of a city have an element of stability in the fact that they are less likely than those closer to the business center to be injured by the encroachment of nuisances. In the term "nuisances" may be included buildings for every kind of utility

except residence, since homogeneity is necessary to the maintenance of value in a residence district.

Fourth: Depreciation of buildings. Mortgage loans are usually made for a long enough term to have the improvements lose appreciably in value from age and usage during the life of a loan, except in cases of the most expensive construction. The loss through depreciation where a building is kept in good repair is estimated at ½ per cent a year for the highest type of fireproof construction, and increases for different classes of buildings to a maximum of 5 per cent a year for cheaply constructed workingmen's cottages. If improvements are not kept in good repair—and it is practically impossible for the mortgagee to compel repairs to be made—the further depreciation from this cause must be added. In addition to the depreciation of buildings through age and usage there frequently occurs a further and more serious depreciation due to changes in style or new methods of construction, or to a change of utility in the location. An example of such a change in style in detached residences has been the abandonment of the mansard roof, once popular throughout the United States, with the result that residences built in this style of architecture depreciated heavily in value, regardless of the soundness of their structural condition. Other changes in fashion affecting residences are the abandonment of narrow hallways and of stained glass and other exterior ornamentation, together with newer and better methods of heating and lighting houses. As regards business property, the erection of modern fireproof buildings frequently takes away a large part of the value of the older buildings with which they compete; and the failure of architects formerly to plan their store buildings with the ground floor frontage all open for the display of goods, has greatly depreciated the value of older buildings, or has led to their reconstruction along modern lines at large expense. A further element of depreciation comes when there is a change of utility in the location. If a residence property has become suitable only for business, the value of the improvements disappears entirely; and the same is true of any such change of utility, subject of course to the possibility of saving a portion of the value of existing improvements through their reconstruction for a new purpose.

Fifth: Accumulations pending and during foreclosure, including the period of redemption, if there is one. The amount loaned

on property, practically speaking, is not the face of the loan, but the amount of the debt with all its accumulations at the time of realizing on the property which has secured the debt. These accumulations are usually made up of delinquent interest, delinquent taxes (with penalties and a high rate of interest), delinquent street improvement taxes (with penalties), court costs, attorneys' fees, repairs after obtaining the property, and a real estate commission for selling which varies from 1 per cent in New York up to 5 per cent in smaller communities. In addition to these, there is a total or partial loss of interest from the time of commencing suit until the property is finally sold. In the aggregate these accumulations vary from 10 per cent of the face of a loan to a maximum of 40 per cent in cases of small loans where the laws are unfavorable to lenders. These variations in the amount of the accumulations attract attention to a comparison of the laws of the various states in regard to mortgage loans. One of the commonest provisions in Western states, and one which adds largely to the accumulation, is the provision of law granting to the mortgagor a period after judgment of foreclosure within which he may redeem the property by paying to the judgment creditor the amount of the judgment with interest. This provision seems to have come into existence in states where mortgage loans on agricultural property predominated, with a view to avoiding the serious effect on farmers of a single crop failure; and since such laws must be uniform in their operation they apply to loans on city property as well. This period of redemption varies from nine months in Nebraska and a year in most of the Rocky Mountain and Pacific Coast states, to eighteen months in Kansas and two years in Alabama. The effect of this law is to prevent outside investors from buying at foreclosure sales, since they cannot be sure that the property will not be redeemed by the mortgagor by payment of the judgment and interest; and also prevents a mortgagee, during the period of redemption, from improving property and obtaining larger rentals, for the same reason. Where, as in a few of the Middle Western states, the mortgagor remains in possession during the period of redemption, the accumulation is much greater, since during this period the mortgagee is entitled to no rental return at all; and a further action at law may become necessary to obtain possession. Other legal features which affect the amount of the accumulations are those which permit inter-

est to be compounded; which permit penalty rates of interest, both on delinquent principal and interest, and large contractual attorneys' fees. Obviously the element of time is the principal one, and, where a mortgage may be foreclosed and the property obtained in a short time, the accumulations will be small. In this respect the laws prevailing in the Southern states appear to be more favorable to lenders than those in any other part of the United States.

Sixth: Loss of value through disposing of property at a forced sale, and through the injury to the property caused by the foreclosure. Though properties seldom have to be bought by the mortgagee at foreclosure sales in Europe, it is still the common rule in the United States, largely owing to defects in our mortgage laws. As has been pointed out, the time necessary to obtain title or sell the property at foreclosure sale in Europe is generally very much less than it is anywhere in the United States, and is generally less in the Eastern and Southern states than in the Western. It is usually in the largest cities only, however, that there is any speculative market furnishing a demand for properties of all kinds, at all times, at a reduction in price from the normal value. Outside of New York City there is practically no auction market for real estate, and in most, though not all, of the smaller cities, properties are sold generally to those who intend to use them personally. Where, therefore, a quick sale is desired, a surprising difference will be found in different communities and on various classes of property; some cities having an active market, which will absorb any good property offered at a price within perhaps 5 per cent to 10 per cent of its full value, while in other cities it is difficult to obtain within 25 per cent of the full value obtainable under favorable circumstances.

These varied elements against which the margins on real estate are to guard, and with respect to which the European laws compel certain safeguards, can be equally guarded against by the mortgage-bond companies in the United States, by the incorporation, in the trust agreement between the issuing company and the trustee for the bondholders, of covenants respecting the character of the mortgages to be deposited, the specific performance of which may be compelled by a suit in equity, in addition to rendering the company liable at law for any breach. This feature of the security for

real estate mortgage bonds is so vital that it may be well to quote in full from the trust agreement of an American mortgage-bond company, the article bearing on the mortgages which may be deposited:

1. That each and every mortgage which it shall at any time assign to and deposit with the trustee under this agreement, shall be a first lien upon improved real estate in a city situated in the United States of America, having a population of not less than 40,000, for an amount not exceeding one-half of the value of the mortgaged property as appraised for the company, except that in cities having a population of not less than 300,000 such mortgage may be for an amount not exceeding three-fifths of the value of the mortgaged property as appraised for the company, and that within the political boundaries of New York City such mortgage may be for an amount not exceeding two-thirds of the value of the mortgaged property as appraised for the company. The term "city" is used throughout this instrument in the economic sense, to designate an urban community, and without reference to its political boundaries.

2. That it will not assign to and deposit with the trustee under this agreement any mortgage on a single building which shall exceed an amount equal to $2.00 for each inhabitant of the city in which the property is located.

3. That the aggregate unpaid principal amount of all mortgages forming portion of the trust fund upon property in any one city, will not exceed in amount $2.00 for each inhabitant of such city per $1,000,000 of the company's bonds issued and outstanding and secured by this agreement.

4. That the aggregate unpaid principal amount of all mortgages forming portion of the trust fund upon property in any one city, shall not exceed in amount twenty per cent of the total amount of the company's bonds issued and outstanding, unless such mortgages are upon property situated within the political boundaries of New York City.

5. That the aggregate unpaid principal of all mortgages forming portion of the trust fund upon property in any city of from 40,000 to 70,000 inhabitants, shall not exceed a total of $40.00 per inhabitant, and in cities of from 70,000 to 100,000 inhabitants shall not exceed a total of $50.00 per inhabitant.

6. That no single bond or mortgage shall be assigned to and deposited with the trustee under this agreement which shall exceed in principal amount 10 per cent of the capital and surplus of the company then outstanding.

7. That the appraised value taken as a basis for the mortgage loans is not to exceed the selling value determined by the company by careful investigation. In arriving at this value only the established utility of the property and the earning power under systematic management will be considered.

8. That such appraised value of properties securing bonds and mortgages assigned to and deposited with the trustee under this agreement, shall be in all cases based on two appraisals, one of which shall be made by the company's appraiser in the city where the property is located, and the other shall be made by a representative of the company in the home office, who shall have personal knowledge of values in all the cities in which he makes appraisals. From time to time the board of directors shall issue instructions to the appraisers touching the methods to be employed in fixing the value of properties on which loans are to be made. No mortgage shall be assigned to and deposited with the trustee unless it has been approved by the executive committee of the company. In case any mortgage amounts to $100,000 or over, a third appraisal shall be obtained, made by an additional appraiser selected by the company.

9. That the bonds and mortgages which it shall assign to and deposit with the trustee under this agreement shall in no case be secured by farm property, unimproved property, undivided interests in property representing less than the entire ownership of the property, leaseholds, or by churches, factories, clubs or theatres.

10. That mortgages on new buildings which are not completed and productive must not form more than one-tenth of the total of mortgages assigned to and deposited with the trustees under this agreement. No building loans shall be made in New York City without a guarantee, either of the completion of the building or of the repurchase of the mortgage by a corporation in good standing competent to take such a contract, nor in other cities without retaining at all times from the moneys to be advanced upon the mortgage an amount which the company shall deem sufficient to entirely complete the building according to the plans and specifications.

11. That no real estate shall be acquired except to avoid losses under foreclosure, or to provide offices for the company's own use. All real estate acquired under foreclosure shall be promptly sold.

12. That fire insurance policies to an amount which the company shall deem sufficient to protect the mortgage in fire insurance companies in good standing shall be obtained by the company and deposited with the trustee.

13. That the time within which an action hereunder or upon any of the coupons or bonds of the company may be commenced, shall be that now established by the laws of the State of New York, namely, twenty years from accrual of such right of action.

14. That so long as any of the company's bonds shall be outstanding, the company agrees that it shall have an annual audit of its books by independent auditors or chartered accountants, to be designated from time to time by the executive committee of the company.

15. That it will from time to time duly pay and discharge all taxes, assessments and governmental charges lawfully imposed upon the trust fund, or upon any part thereof, and all taxes, assessments and governmental charges lawfully imposed upon the interest of the trustee therein; provided, however, that the company shall not be required to pay any such tax, assess-

ment or governmental charge so long as it shall, in good faith, by appropriate legal proceedings contest the validity thereof.

16. That it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, all and every such further acts, deeds, transfers and assurances for the better assuring, assigning and confirming unto the trustee each and every bond and mortgage which shall at any time be assigned to and deposited with the trustee or intended so to be, as portion of the trust fund, as the trustee shall reasonably require for better accomplishing the provisions and purposes of this agreement, and for better securing the payment of the principal and interest of the bonds issued and outstanding hereunder.

17. That it will not do or perform, nor voluntarily permit to be done or performed, any act or thing by which the security of this agreement and the assignment and deposit of the bonds and mortgages, which shall from time to time form portion of the trust fund, can be in any way or manner impeached or impaired.

18. That it will well and truly at all times fully inform the trustee in writing, with respect to all payments of principal received by the company from or with respect to any bond and mortgage assigned and deposited hereunder, and will give the trustee such additional information touching any of such bonds and mortgages, or the property covered thereby, as the trustee may reasonably require from time to time.

It may be observed that, in addition to the European requirements, this company has obligated itself so to scatter its investments as to introduce an element of insurance against loss through depreciation due to a possible decline of prosperity of any single community, and also that there are important limitations in regard to the size of loans in proportion to the size of the city. In the United States companies are now engaged in issuing real estate mortgage-bonds in New York, Chicago, St. Louis, Cleveland, Louisville and a few other cities, and a company has just been formed for this purpose in San Francisco. In some cases these bonds are issued by trust companies, and in other cases by mortgage-bond companies especially formed for conducting the mortgage business in the European way.

As to the rates of interest which may be obtained on real estate mortgage-bonds, these vary with the changes in interest rates on other classes of high grade securities, but in a general way it may be said that in the United States where mortgage-bonds are as yet a somewhat new type of security, these rates are slightly higher than rates on first-class municipal bonds or railroad bonds, while in

Europe the rates on mortgage-bonds are ordinarily slightly lower than on the same class of railroad or municipal bonds.

Quotations of the issues of different companies and associations show, that, with ordinary conditions in the European money markets, the 4½ per cent bonds sell considerably above par, and the 4 per cent bonds slightly above par, while the 3½ per cent and 3 per cent bonds, except those of the strongest companies, are at a small discount, unless they are issued with a lottery feature consisting of an annual drawing for prizes. These lottery bonds are prohibited in Germany, but are frequently issued in France and Austria, and ordinarily command a high premium regardless of the interest rate they bear.

Allowing for the company's profit, borrowers in Europe usually pay from 3½ per cent to 5 per cent interest on their loans, or an average of somewhat less than 5 per cent with the annual amortization payment included, provided they have good security to offer. The saving in interest to borrowers can be appreciated when we recall that rates in Germany were 10 per cent, in France 7 per cent to 12 per cent, and in Italy from 8 per cent to 12 per cent, just prior to the organization of the mortgage business in those countries. In Spain to-day private lenders frequently obtain from 8 per cent to 10 per cent, as compared with the 5 per cent charged on loans of the Banco Hipotecario with 1½ per cent additional to cover expenses and amortization. In Russia interest rates have always been higher than in the other large countries of Europe, the prevailing rates even before the present disturbances there, having been from 6 per cent to 7½ per cent, while bonds have not been sold at a lower rate than 4½ per cent.

In times of war mortgage-bonds have been found to be more stable in value than any other class of security, even government bonds,—because, though governments may fall, the land remains. At the time of the troubles of 1848 in Germany mortgage-bonds ranged in price between 83 and 96, while government bonds fell to 69, and the shares of the Bank of Prussia to 63. During the Franco-Prussian War the 4 per cent bonds of the Credit Foncier sold at from 92 to 95, a higher figure than the quotation of any subsequent year until 1875, and the bonds of German companies showed a similar strength. In times of commercial panics it has been observed, too, both in Germany and Austria, that these bonds

actually rise in value, the explanation being that in the period of inflation preceding a panic they are largely sold in favor of more speculative investments, while after a panic there is a desire to invest again in the safest securities.

The great advantage of the system of issuing bonds which are secured by mortgages, lies in the convertibility which it gives to mortgage investments. These bonds are quoted and dealt in on all the principal European bourses, Berlin and Paris being the great centers for mortgage-bonds of all countries, with Amsterdam and Hamburg next in importance.

Looking at the whole matter from the economic point of view, it appears that the charge of the companies is small for the services rendered. For this difference in interest rate of about one-half of 1 per cent between the bonds and the mortgages securing them, the investor obtains safety for his principal and interest, promptness in receiving payment, avoids loss of interest between investments, and can invest any amount he may wish at any time. In contrast with the ordinary mortgage-loan, no inspection or appraisal of the property mortgaged is necessary, and the care of maintaining fire insurance policies, taxes and assessments and other matters, is done away with; in addition to which, his investment is readily convertible. The borrower gains in having the business conducted by mortgage companies, because of their large resources and the promptness with which they can act on applications for loans, together with low rates of interest and liberal terms of partial or total prepayment; and, further, through the skill and experience of the companies in avoiding poor loans, owners of real estate are deterred from the waste of badly planned or located buildings, and an economic saving of real value is effected.

In comparing real estate mortgage-bonds with other classes of bonds, there are only two such classes at all comparable in point of safety, namely, municipal and railroad bonds. Undoubtedly one of the principal advantages which real estate has over other forms of security rests in the diversity of its usage. The advantage which railroads enjoy over industrials, in the lower rate of capitalization of their obligations, is largely due to the fact that while any one industry is subject to wide fluctuations in its profits, a railroad, which depends ordinarily on diversified industries, is only affected in a small degree by the failure of a few of the industries

upon which it depends. Real estate of a character suitable for mortgage security enjoys the same advantage, since its value does not depend upon the success of any one tenant or form of business; and it has the further element of stability, as compared with railroad and public service securities, of being purely private property, and as such not subject to the governmental regulation which is lawful in the case of quasi-public corporations. Advantages which real estate bonds possess over municipal bonds in the United States consist of a higher rate of interest, and the existence of tangible security supporting the promise to pay. Advantages which they possess over railroad bonds consist of the safety afforded by the fact that the real estate securing each mortgage is worth from 50 per cent to 200 per cent more than the amount of the mortgage, while many if not most of the newer railroads are bonded for their full cost of construction, their only margin of safety consisting of a capitalization of their possible excess earning power; and also of the fact that the capital stock of the issuing company, paid in cash, is pledged to make good any losses occurring through the mortgages.

In conclusion, it may be stated that where real estate bonds are properly safeguarded by law they furnish an attractive security of a high type, by combining absolute safety of the principal with a satisfactory rate of interest, and easy convertibility.

INDUSTRIAL BONDS AS AN INVESTMENT

By Lyman Spitzer,
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Some five years ago, in an article that was later published in the *Yale Review*, I went into a rather thorough discussion of the "industrial bond." In that paper I proved—to my own satisfaction, at least—that the industrial bond was a well-secured and attractive investment, and that the earning power behind it was greater than that behind the railroad or other corporation bond. Theoretically I still believe this to be true, and I shall presently present comparative figures to attest to the accuracy of this belief. But, looking at the matter from the viewpoint of the average investor—and the average investor has no large sums to invest and is not well informed in financial matters—the matter presents itself in a different aspect.

The first question the average investor asks about a bond is, "Is it safe?" The answer to this question in the case of the industrial bond involves more considerations than perhaps any other form of security. The earning power or the ability to pay the interest and, in due course of time, the principal must be considered in the industrial as well as in any other form of bond. But having satisfied himself as to this feature in the municipal bond, in the railroad bond and, in general, in the public utility bond, the investor need go no further. He can then buy the bond without misgivings. But in considering the purchase of an industrial bond the problem is different. The company issuing the bonds may be earning each year two or three times its fixed charges, that is, it may be making enough money to pay all the expenses of operation and management, the taxes, and insurance, enough to write off bad and doubtful accounts, to set aside a generous amount for depreciation, and to have left a balance sufficient to pay interest on its bonds two or even three times over.

Such a showing should surely satisfy the most cautious investor, could he be assured of the continued prosperity of the company, and be certain of a continued demand for its products. But wait. May not some other industrial company discover a better process for manufacturing these same goods, or enjoy some advantage in econo-

mies of operation, favorable railroad rates, something or other, whereby it can undersell or produce a better article? The automobile companies throughout the country are reported to be making money very rapidly (the 1905 census showed an aggregate output of 21,000 machines worth over twenty-six millions) and yet a twenty-five-year bond on an automobile plant could scarcely be called an investment of the most conservative nature. The automobile industry is too new, too unsettled, and the disastrous slump in the bicycle business is still too vivid in many minds. In 1900, bicycles to the value of twenty-two millions were manufactured in this country; in 1905, this output dropped to three and one-half millions. Bicycle bonds are very unpopular now.

It is this consideration, *i. e.*, the uncertainty of the future, that prevents so many of our industrial bonds from being desirable investments. For it must always be remembered that a stockholder is a partner while a bondholder is a creditor. In a new venture the stockholder may look for large and dazzling returns, but the bondholder can never hope for more than a certain fixed rate of interest on his money, no matter what success the company may win. Should failure result, both lose, though the bonds usually bring their holder something from the sale of the plant, machinery, etc. In popular parlance, the bondholder is "holding the bag" for the stockholder. This is the reason that it is difficult to float bonds on a new and untried industry. After actual results have been demonstrated it is easier for the company to borrow money. Sometimes this difficulty is avoided by giving to the bondholder a stock bonus, or gift, this bonus being anywhere from 10 to 100 per cent. So the investor who purchases $10,000 of bonds is given $1,000 to $10,000 of stock, the amount varying with the needs of the company and the shrewdness of the investor. This is, of course, treasury stock and costs the company nothing, but *presto chango*, the creditor is now also a stockholder and a partner and can share in the fat dividends that always look so alluring and so often prove a mirage.

It is the part of wisdom to be guided by the advice and the experience of others. In many states, and in nearly all the eastern states, the legislators have devised certain rules and restrictions governing the investments of savings banks and trust funds. The savings bank is pre-eminently the depository of the man with limited

means, and should be safeguarded with care and forethought. With amazing unanimity the different states have passed laws permitting the purchase of government and state bonds, municipal bonds of certain cities (with limits as to population and indebtedness), first mortgage bonds of dividend-paying railroads—but not of industrial bonds. The only eastern states that look with a kindly eye on industrial bonds are Maine and New Hampshire, and they frown on companies not doing business in the state.

The Maine law limits investments of this character to the bonds of those companies "incorporated under the authority of this state, and *actually conducting* in this state the business for which said corporation was created, which are earning and paying a regular dividend of not less than 5 per cent a year." This is clearly a provision to foster home industries. The New Hampshire law also limits savings banks investments in industrials to the bonds of New Hampshire companies, adding the provision that such company's "net indebtedness at the time of such investment does not exceed its capital stock actually paid in and remaining unimpaired."

Massachusetts, New York, Vermont, Connecticut, New Jersey and Pennsylvania refuse to countenance industrial bond investments for their savings banks. The western states in general make no restrictions of any kind, leaving the decision as to what constitutes a safe investment to the judgment of the bank officials. Such states as do legislate on this subject, as Ohio, Indiana, Iowa, Minnesota, Missouri, Nebraska and Wisconsin, bar out the industrial bond. Michigan permits her savings banks to invest in first mortgage steamship bonds, under very carefully drawn provisions. The steamer must be steel, the mortgage must not exceed half the actual cash cost, there must be an ample sinking fund, and full insurance must always be carried. This is again an effort to build up and encourage local industries.

The prospective purchaser of an industrial bond might well adopt some of these rules for his own guidance. He should make sure that the company is not a new one; that it shows net earnings for the past five years equal to double the interest charges; that the capital *actually paid in* is not smaller than the bonded debt; that the character of the company is such as to preclude the probability of a sudden decrease in the demand for its product and that the men in control of the company are men of good repute as to ability

and honesty. If he insists on these five requirements he can invest his money with reasonable certainty of an assured income and the return of his principal. It is possible that, even after these precautions, he may suffer a loss, for the *absolutely* safe investment is yet to be discovered. But he will have a reasonably safe investment.

A discussion of industrial bonds would be of little value if it were limited merely to pointing out a few simple "donts" for the investor. The subject is very interesting to the student and offers many opportunities for investigation and the collection of statistics. Our American industries are so vast, so widely distributed in so many different fields and phases of activity, so different one from another, that it is difficult to make generalizations about them. A fairly complete list of the kinds of industrial companies would take up nearly all of this article. The United States Census Bureau, in Bulletin Number 57, issued by the Department of Commerce and Labor, "Census of Manufactures, 1905," gives a list of 339 classes of industries, and some of these might be subdivided. In size they range from the colossal "United States Steel Corporation," the billion dollar steel trust, with annual gross earnings of five hundred million dollars and upwards and a bonded debt of a like amount, to the village tannery or the crossroad sawmill. So, therefore, when one speaks of industrial companies and industrial bonds, one must take into account the large and the small, the good and the bad. An excellent idea of this diversity of American industries may be obtained by the following summary (taken from Bulletin No. 57):

	Number of Establishments.	Capital Invested.	Value of Products.
Food and kindred products	45,790	$1,173,151,276	$2,845,234,900
Textiles	17,042	1,744,169,234	2,147,441,418
Iron and steel	14,239	2,331,498,157	2,176,739,726
Lumber	32,726	1,013,827,138	1,223,730,336
Leather	4,945	440,777,194	705,747,470
Paper and printing	30,787	798,758,312	857,112,256
Liquors and beverages	6,381	659,547,620	501,266,605
Chemicals	9,680	1,504,728,510	1,031,965,263
Clay, glass and stone products	10,775	553,846,682	391,230,442
Metals and metal products	6,310	598,340,758	922,262,456
Tobacco	16,828	323,983,501	331,117,681
Vehicles for land transportation	7,285	447,697,020	643,924,442
Shipbuilding	1,097	121,623,700	82,769,239
Miscellaneous industries	12,377	974,316,571	941,604,873
Totals	216,262	$12,686,265,673	$14,802,147,087

These figures are for "establishments conducted under what is known as the factory system, thus excluding the neighborhood industries and hand trades." This distinction omits 317,507 establishments, but they are all small, as their aggregate capital is only $1,185,769,698, or less than $4,000 per establishment. Exaggerated statements are often made as to the amounts of liquors and beverages consumed in this country. This table shows that the total value of liquors, beverages and tobacco produced in this country in a year is far less than that of chemicals and only five-sevenths that of leather—a minor industry.

The rapid growth of American industries is clearly shown in the statistics of the Census Bureau. The following figures are taken from the Census of Manufactures for 1905 and cover all industries in the United States:

	Number of Establishments.	Capital Invested.	Cost of Material Used.	Value of Products.
1905	533,769	$13,872,035,371	$9,497,619,851	$16,866,706,985
1900	512,254	9,817,434,799	7,345,413,651	13,004,400,143
1890	355,415	6,525,156,486	5,162,044,076	9,372,437,823
1880	253,852	2,790,272,606	3,396,823,549	5,369,579,191
1870	252,148	2,118,208,769	2,488,427,242	4,232,325,442
1860	140,433	1,009,855,715	1,031,605,092	1,855,861,676
1850	123,025	533,245,351	555,123,822	1,019,106,616

These figures are worth a little study. In these last fifty-five years of American history, the number of industrial plants or separate establishments increased not quite five times, yet the amount of capital invested has become over twenty-seven times that of 1850—a clear indication of the combination and consolidation that has been so prevalent. A half century ago the "captains of industry," with half a billion dollars to do business on, turned out products valued at twice their cost in the raw, making a gross profit of 100 per cent. Nowadays, with nearly fourteen billion dollars invested the gross margin of profit is only seven billions, or 50 per cent. In other words, the gross profits have been cut in two. But by economies in management, utilization of by-products, and the systematization of every branch of operation, the net profits have, if anything, been increased.

Definite figures on this point would be interesting. One can tell almost to a penny how much the railroads earned last year, but

with the industrials it is practically impossible. I have made the following compilation from this same census report:

Salaries	$609,200,251
Wages	3,014,389,372
Miscellaneous expenses	1,651,603,535
Cost of material used	9,497,619,851
Cost of products	$14,772,813,009
Value of products	16,866,706,985
Profit	$2,093,893,976

This would show a profit of 15 per cent on the capital invested, but as Mr. S. N. D. North, the Director of the Census, pointed out to me, the statistics take "no cognizance of the depreciation of plant, the expenses incident to the sale of products, the interest on capital invested, the losses due to bad debts and reverses in general, and these are all very important elements in the accounts." Still, 15 per cent would cover all these items, pay interest on the bonds and leave a very comfortable margin for the stockholders.

In the opening paragraph of this article I made the statement that it was my opinion that the earning power behind the corporation bond was greater than that behind the railroad or other corporation bond. The following table, obtained from "Moody's Manual of Railroads and Corporation Securities," for the year 1907, throws some light on this point:

	Number of Companies.	Stocks and Bonds Outstanding.	Total Capitalization (par value).
Steam Railroads	1,419 companies (222,013 miles of track).	$5,279,904,040 * 8,628,552,806 †	$13,908,456,846
Electric Railroads	1,109 companies (30,824 miles of track).	2,195,172,000 * 2,227,590,000 †	4,422,764,000
Gas, Electric Light, and other Public Utility Companies.	1,654 companies.	.....	3,478,084,000
Industrial Companies	1,466 companies.	7,585,340,000 * 2,264,493,000 †	9,849,833,000
			$31,659,137,846

* Capital stock. † Bonded debt.

Now it should be noted that the steam railroads of the country have bonded themselves to the amount of eight and one-half billions,

while their entire capital stock is not much over five billions. The industrials show a capitalization of seven and one-half billions, while their bonded debt is less than half that of the railroads. Of course, it is easier to pay interest on two and a quarter billion of bonds than on five and a quarter billions, and the industrial bond (as a whole) is just that much stronger.

If the figures given for the capital stock represented the actual cash paid in, all that remains would be to add Q. E. D. For the industrials need only to earn 1½ per cent net on their capital stock to pay 5 per cent interest on their bonds, while the railroads need 8½ per cent to pay the same rate. And he must be pessimistic, indeed, who would say that the industrial companies of the United States cannot earn 1½ per cent.

The statistics of the census show different figures, but they seem to prove the same thing. After elaborate calculations covering many months, a special department of the census arrived at a commercial valuation of all the railways operating property in the United States of $11,244,852,000. This includes "terminal properties, ferries, bridges and the like used but not owned by railway corporations," and omits property owned but not used in the business of transportation. These figures would, therefore, be large for the actual value of the railroads themselves. But, as we have seen, the Census Bureau shows $13,872,035,371 for capital actually invested in industrial establishments, or an excess of two billion over the railroads.

The census presents no figures on the stock and bonded capitalization of the industrials, nor has the Census Bureau ever attempted to collect such statistics except at the census of 1900, when this information was collected for industrial combinations or trusts. At that time there was found a total capitalization of slightly over $3,000,000,000, with a total of only $216,000,000 of bonds issued, or about 7 per cent. This small percentage shows that industrial bonds were not in favor in 1900, and that the companies were financed by stock issues rather than by bond flotations. In fact, the industrial bond is rather a new thing, as the first issue that I can find was just forty years ago, in 1867, when the Lehigh Coal and Navigation Company put out an issue of 6 per cent first mortgage gold bonds. The next issue seems to be fifteen years later. Definite information on this point is difficult to obtain, but

it is safe to assert that very few industrial bonds were issued more than twenty-five years ago. Of late years bond flotations have become more and more common, and more and more popular with the investor.

The following table of bond and stock listings, taken from the "Financial Review" for 1907 published by the *Commercial and Financial Chronicle,* shows this clearly:

Listings on New York Stock Exchange

BONDS

1906	$303,112,000
1905	569,079,000
1904	429,810,500
1903	191,515,050
1902	197,516,313
1901	220,171,700
1900	147,678,597
1899	156,304,760
1898	245,219,480
1897	87,720,502
	$2,548,127,902

STOCKS

1906	$237,479,600
1905	125,123,300
1904	120,635,050
1903	172,944,200
1902	251,069,400
1901	429,537,450
1900	296,550,572
1899	311,420,285
1898	69,754,130
1897	53,275,671
	$2,067,789,658

This shows that in the last five years there were listed bonds to the amount of nearly double the amount of stocks. These figures include both railroad and industrials, and hence do not bear directly upon the matter in hand, save to show the growing custom of meeting capital needs by the floating of bonds rather than by the issuance of stock. An interesting reason sometimes given for this

is that the financiers who control the railroads and the great industrial corporations are fearful of increasing the number of their stockholders. For example, a man can control a million dollar corporation by owning $501,000 of stock; now suppose that corporation needs additional capital for improvements or the extension of its business to the amount of an additional million. If the money is raised by stock issue Mr. Capitalist is forced to go down into his pocket for another half million to keep control, but if the corporation can raise a million by selling its bonds, he can keep his control without further outlay. Wall Street remembers only too well the coup by which Mr. John W. Gates secured control of Louisville and Nashville, and more recently how Mr. Stuyvesant Fish was forced out of the presidency of the Illinois Central, and it is bent on keeping control, represented by the actual certificates, tucked away in its strong boxes.

This is one reason, of course, but the real reason is the broadening of the bond market, the more favorable interest rates and the wonderful absorptive powers our American investors are showing. But to go back to the relative earning power behind the railway and the industrial bond, there is clearly a difference of two billions of cash capital in favor of the industrials. As railroad bonds easily aggregate four times the total of industrial bonds, then the railways must earn four times as much as the industrials to pay the annual interest charges. As to which earn the most, railways or industrials, I have never seen any estimate. With a favorable tariff and almost complete monopoly in some lines of industry on one hand, and rate regulation and threatened government control on the other, it would seem fair to suppose that our industries make as much money as our railways. And with a bonded debt only one-quarter as large, the margin of safety seems to be all in favor of the industrial bonds.

It must not be lost sight of that this discussion is theoretical and not concrete; that the investor is not considering the purchase of all the industrial bonds, as against all the railroad bonds. What he does consider is a few bonds of a particular issue on a particular industry, and he must be guided by special rather than by general considerations. And while as a whole the industrials of the United States are to be compared favorably with the railroads as regards extent and earning capacity, still the fact remains, that individual

investments in railroad bonds are much less apt to be disturbed than individual investments in industrial bonds, for the reasons already pointed out. An industrial plant is usually limited to one location and makes one product; a railroad connects and supplies hundreds of localities and carries hundreds of products. Conditions which would vitally affect the industrial are of passing importance to the railroad. Similarly the holder of a municipal bond is spared many worries, which must beset the mind of the industrial bondholder, for the faith and credit of a city and all its resources are pledged to pay its bonds, and it is an old saying that "There's nothing certain save death and taxes." A property owner must pay his taxes and the taxes pay the interest on the city's bonds.

The industrial bond as an investment is attractive in the high rate of interest usually offered and the great earning powers often shown behind it, but its purchase requires care and investigation beyond that of almost any other bond. The industrial bond is young and already occupies an important place in the investment world. As time goes on, as industrial conditions become less liable to change, the American investor will more and more turn to industrial bonds as an attractive investment.

THE PHYSICAL CONDITION OF A MUNICIPALITY ISSUING BONDS

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In the purchase of municipal bonds, the dealer should be personally acquainted, and familiar in every way, with the issuing municipality. By this is meant that no dealer should purchase an issue of municipal bonds without having first sent a representative to make a personal investigation of the municipality desiring to negotiate its securities. The aforesaid precaution is absolutely necessary in order that the dealer may be in a position fully to protect the interest of his clients, and also to inform them on every point regarding the investment he offers; for, it must be understood that the legitimate bond house purchases these securities for its own account.

The representative who makes this investigation should be one whose personality includes great intuitive power; for, possessing this quality, he will, within the course of a very few hours after arriving at his destination, be able to determine what should be considered the salient features of the physical condition of that particular municipality. Webster tells us "intuition" is "immediate knowledge as to perception." He also defines "intuitive" as "perceived by the mind immediately." Therefore, if the layman, or even one experienced in the handling of municipal investment securities, will fully consider the meaning of the words "intuition" and "intuitive," he will understand why this quality is the primary essential for one who undertakes to determine the physical condition of a municipality.

For the benefit of those who are perhaps unfamiliar with the points most considered by those experienced in the purchase of municipal investments, the following information, in as concise form as possible, is given:

Before a representative is sent to make an investigation, the territory in which the municipality is located is taken into consideration by the intending purchaser, the chief reason for this being that the investing public of this country show great partiality with

regard to location, when contemplating the purchase of municipal securities, showing preference usually for a municipality which has been settled for a long period. In other words, they do not care for the securities (unless they can be had at a very reasonable price) issued by what is termed "the newer sections." To this may be added, that a territory which receives a sudden "boom" and shows immense progress in the way of population and new industries, within a short time, is also regarded in some disfavor; at least until the municipality shows that its sudden growth is due not to a "boom," but to the natural resources which the territory can offer. The majority of securities issued by Southern municipalities are also in less favor than those of the Northern territory. This must be considered when a dealer has under advisement the purchase of Southern municipals. The readers of this article who are experienced investors, will know from dealings they have had, that there is quite a difference in the selling price of Southern and Northern bonds.

The above is due to several reasons, one of which is that during and after the war it became necessary for a number of Southern municipalities to default in their obligations. This was without doubt due to the devastation caused by the strife between the North and South, which gave opportunity to unprincipled politicians, placed in office by the federal government under military law, to cause the municipalities to create indebtedness for which they received very little or no return. Another reason is that a great many investors take into consideration that almost half of the population of the South is composed of negroes, a class of citizens which they do not consider so intelligent and thrifty as the Caucasian race or for that matter, as other nationalities. In this connection, however, the writer wishes to say, that his ideas, formed from active experience in the municipal bond business, do not coincide with those of the investing public who may have objections from the standpoint of safety, to placing their surplus funds in Southern municipal investments. The main reason for this conclusion is that the laws under which Southern municipals are now issued are really better than those in force in the Northern states. This is easily explained by the fact that, after the war, nearly all Southern states revised their laws governing the issuance of public securities, and in adopting new laws took the good

features of those existing in the North and combined them into a constitution for their respective states, which, when adopted, gave better protection both to the investor and to the citizens of the issuing municipality.

Furthermore, during the last twenty years the people of the South have awakened to the fact, that the only way they can progress and equal Northern business methods is by "putting their shoulders to the wheel," and interesting capital to develop the many resources which the South possesses and is in a position to offer to the rest of the world.

Great advancement has also been made in the South toward using the negro race to the best possible advantage for the development of the natural resources. While this question, however, still needs a great deal of thrashing out before it will be settled to the satisfaction of the South, the North and the colored race itself; yet, as some of the best men in this country are devoting themselves to the task, a solution will no doubt be secured at an early date. Therefore considering the great amount of capital which is now being invested in the South, and with a satisfactory adjustment of the question mentioned above, the Southern municipal securities should, within a very few years, rank in market value with those of the North. It can be said, that the Southerner, as a rule, places great stress upon a debt incurred and makes every effort possible to discharge it, because of the honor which he feels is involved.

After coming to some conclusion regarding the territorial merits of a security and before the representative leaves to make his investigation, the intending purchaser takes into consideration such items as the financial condition of the city or county, the character of the citizens, the progressiveness shown in building up the municipality, railroad and water facilities, ownership of public utilities, and the possibilities of the municipality in the future. All this is ascertained so far as possible through records and statistics, such as are on file in a well-conducted investment dealer's office. The opinions formed regarding existing conditions before the representative leaves, are then placed in his charge for verification upon arrival at his destination.

The financial condition of the municipality is determined by the following points:

(1) The proportion of assessment of the property of the community, as against its real value.

(2) The size of its tax duplicate.

(3) The total amount of its indebtedness and of what it consists. If part of this indebtedness is created for special assessment purposes, or the building of water works, electric light plants or school houses, so that the actual net indebtedness (securities issued for improvements which could practically not be realized upon after they are made, such as sewers and streets) is not too large—we will say, not over eight per cent of the assessed valuation—this is usually regarded as a good financial condition and will add considerably to the price which the intending purchaser will pay for the security. To this may be added that very often the constitution of a state prohibits a larger gross indebtedness than five to ten per cent of the assessed valuation. Where this is the case, it also adds to the value of the security.

Being satisfied as to the financial condition of the municipality, the buyer should then consider whether there has been any provision made for the retirement of the indebtedness. After this is settled the population is taken into consideration. This question is rather simple in nature, attention being given chiefly to the number of inhabitants, this being always determined by the federal census, or a certified statement by the officials of the municipality. Attention is also given to the character of the citizens; whether they are of a roving disposition, or of a nationality that usually goes to a place to make homes and help build up the municipality.

The record as to the progress made by the municipality since its incorporation is then duly considered. If it is shown that it has steadily gained in population, that new industries are locating there, that railroads are catering to the town, that there are ample water facilities and the necessary public utilities, this is taken as evidence that the citizens are of a progressive nature and doing everything in their power to further the welfare of the municipality.

The administration from a political standpoint must also receive serious thought, as much harm can be done by not having capable officials in charge of municipal affairs. If a satisfactory conclusion can be reached regarding this, the market value of the security will be enhanced. The railroad and water facilities of a community are of special importance to the bond dealer when considering the

purchase of municipal bonds. If these utilities are ample, the stability and market value of the security will be strengthened.

The question of the ownership of public utilities is now receiving attention from the public in general. As there is a growing tendency towards municipal ownership, the dealer in investments must give this very careful thought, and inquiry should always be made whether the municipality desiring to negotiate a loan, owns its water works, electric light plant, telephone system and street railways. If so, a statement should be obtained from the city officials of how these various utilities are operated, whether they have proven a profitable investment for the taxpayers, or whether it would be more advantageous to have them operated by private corporations. The successful operation of public utilities, when owned by a municipality, depends a great deal upon whether or not they are operated free from politics. It has been found, as a rule, that where politics are not a factor in the operation of public utilities, the municipality can save its citizens money by owning these outright. This is especially true in the case of water works and electric light plants. In the matter of telephones, street railways, etc., municipal ownership is gradually being developed; but, in the opinion of dealers in investment securities, these utilities should not for the present be owned by municipalities. In fact, it has been proven, in the few cases where telephone and street railway facilities are owned by municipalities, that the investment has not been a good one for the taxpayers of the community. If, however, the public utilities are operated in a creditable manner, this must necessarily increase the assets of the municipality, and at the same time enhance the market value of its securities.

As a last consideration in determining the physical condition of a municipality, in addition to the points more fully discussed above, the representative will take note of the condition of streets, sewerage, character of buildings, commercial pursuits, and the imperative need of the municipality to make the improvement, or possess the utility, for which it desires to create an indebtedness. And finally comes the impression he receives of the advantages or inducements the municipality can offer to its inhabitants, or to prospective home seekers, to settle within its limits and help build up a prosperous community.

MUNICIPAL BOND ISSUES EXPLAINED

By Harry E. Weil,
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A great deal has been written and said relative to municipal bonds, but the majority of the investing public of to-day do not fully realize what a municipal bond is, and that when they have purchased the security of a municipality, they have an investment that is second to none.

In investing funds the first thing that should be considered by the prospective purchaser is what security is back of the loan. During the last few years a great many corporations have placed on the market bonds and stocks which if fully investigated would be found to have little certainty of absolute payment; yet the public purchases such stocks and bonds, not knowing why, but simply because they see these securities advancing daily. They expect to sell at a profit, thereby getting the return of their principal with satisfactory rate of interest at an early date, but they fail to realize that at least a great shrinkage in market value of this class of security must come sooner or later. This does not mean that there are no corporation bonds or stocks of merit on the market, for there are a great many issues on the market to-day that are sound beyond question. But when an investment is made in a municipal bond the buyer has a security, as hitherto stated, second to none, and one that can be converted into cash or which will be accepted as collateral for a loan at a moment's notice.

A great many municipal bonds have been issued in the past ten or fifteen years, and these have been purchased by the most conservative investors and national and savings banks of this country. This has had a tendency to increase the demand for this class of securities, inasmuch as the laws of a great many states practically compel the banks to invest their funds in nothing but municipal bonds, for the retrictions placed on other classes of securities are such as very few of the public corporations issuing bonds can comply with.

The naming of a municipal bond as the most desirable investment for banks and trust funds was caused through the realization,

by the courts of this country, that there is an absolutely sound foundation back of the loan should a calamity occur. All municipal bonds are issued in accordance with the laws of different states, pledging the full faith, credit, and all the real and personal property, of all the citizens of the municipality, thereby making the security an absolutely safe investment. If the investing public will always purchase a security with a tax duplicate to strengthen it, no fears need be entertained for the safety of their funds.

The Nature of a Municipal Bond

A municipal bond is a form of obligation in which a municipality acknowledges itself indebted, and agrees to pay the bearer at some future time (designated in the bond recital) its face value.

When any city, town, county or school district (the term "municipal" being used to designate any one of the four) has occasion to build water works, sewers, erect court houses, city halls, schools, or make other expenditures for the public good, involving an outlay beyond regular receipts, the law empowers the borrowing of funds, within certain limits, by issuing "promises to pay." These promises the "municipality" pledges itself to meet at some definite future time, with interest, payable usually every six months at some place which is designated as its fiscal agency; the written instrument being known as a municipal bond.

The chief elements of strength in municipal bonds lie in the right of the holder to compel payment and in the imperative duty of the municipality issuing them to meet both principal and interest by levying a tax upon all property within its limits. Such taxes become by law a prior lien to all other claims and must be met before satisfying any other obligations, whether contracted in advance of, or subsequent to, such tax levy. The above is borne out by the repeated decisions of the United States Supreme Court, recognizing the rights of the bondholder, which have resulted in placing municipal bonds next in security to United States Government bonds.

How the Value of Bonds Bought by Investment Bankers is Ascertained

One would naturally think that the only fact to ascertain is the market value of current investments. In this belief the investor who places his surplus funds through the services of a bond expert is

very much in error. Instead of merely figuring the return an investment brings in a specified time, when purchased according to the condition of the financial market, the value of a bond, to be determined accurately, must also be figured from many additional points of view.

The different items from which the value of a bond is derived, and the points always taken into consideration by the bond expert when he computes the bid to be submitted to the municipality offering the securities, must each be considered separately, before he is able to base a bid in accordance with the market. Should he not give every item due thought, the security could not be offered to his clientele and the general investing public, without some flaws being discovered.

Financial Conditions

Any change in the financial market for the worse must also be taken into consideration by the underwriter of an issue, for while municipal bonds do not at any time fluctuate much in value, a change in the financial conditions is apt to make the bond expert stand the loss of the profit counted upon, if it becomes necessary for him to "turn" his securities. Therefore the buyer must be very well informed at all times as to financial conditions, and must also know about where he will find a market for his purchase. The most important conditions to be taken into consideration when an offer for bonds is submitted to a municipality are the following factors:

For instance, if a certain city were to announce an issue of bonds for sale, the first matter the bond expert would consider would be the population taken numerically, the location of the town and character of its people. If the town is located in a good, productive territory, with ample railroad facilities, and shows a progressive spirit, the person intending to submit a bid, would feel that the security of such a municipality would be an absolutely safe one.

After careful study of the territorial situation, the financial condition of the city is to be considered. By this is meant the tax valuation, which comprises all the taxable real and personal property; any assets which the city may have in the way of water works, or electric light plants, and any accumulated sinking fund, that is, "money accumulated in various ways to pay off its indebtedness as

it matures." There is, also, the question whether or not the indebtedness of a municipality is excessive. This cannot be definitely decided, as the fact could be determined only after the various merits of that particular municipality had been taken into consideration. In some places a ten per cent debt would be regarded as excessive; in others, a twenty-five per cent indebtedness would still be considered safe.

Limit of Indebtedness

The bond expert also considers the limit of indebtedness allowed by various state constitutions on municipal investments legal for banks and corporations located therein. For instance, one state in the East places a restriction upon its savings banks, by limiting them to purchasing municipal securities located in certain states only; moreover the municipalities may not have a net indebtedness exceeding five per cent of the assessed valuation, and if it is an obligation of a city, the municipality must have a population of 10,000. Counties are required to have 20,000. By "net indebtedness" the "gross debt" is referred to, less any bonded indebtedness issued for the purpose of water works and the cash accumulated in the sinking fund. A municipality having a percentage of debt and a population which will allow its securities to be sold in markets having restrictions placed on them by the state constitutions will, of course, have a much wider market for its bonds than a municipality, the bond of which cannot be sold in a restricted market. This is a very important point in figuring the values of a security, for the security which is hampered with no conditions can be sold at a much better price.

Earning Rates

After the above facts have been carefully reviewed, the general condition of the country or prevailing earning rates of investments at the time, are to receive consideration. The bond expert, in making up his mind what will be a safe price to bid the municipality for its bonds, so that the bond firm can sell them to the investing public at a profit, will send a representative, trained in the bond business, and in many cases an attorney, to the municipality which intends to issue the security, to make a general inspection of the city, including all the subjects which have been discussed, and

especially the laws of the state under which the bonds offered are issued. If it is found that conditions are not such as the firm thought they were, the representative will discuss the matter with his firm and make a recommendation that they reduce the premium which they will offer for the securities. The men who are sent out to make these investigations are experts in their line, and it is seldom indeed that there is an error in their reports as to the value of a security.

Another feature which must be discussed in determining the value of a bond (when a bid is submitted by a bond house) is the life of an issue and the rate of interest it will bear; in fact, the ground from which the market value of a bond is really based (meaning the premium it will bear) is from the life and rate the security carries. If the bond has a long life, for instance, twenty or thirty years, and bears five per cent interest, the premium on that particular security would be considerable when placed before the public for investment purposes. A great many investors object to paying a high premium on bonds (and this, therefore, must be taken into consideration in figuring), as they cannot see the difference between a security commanding a high premium and one bearing a low premium. Many even say, "We see no reason why we should pay any premium as the municipality issuing the security should pay the bond broker a commission for negotiating the transaction." This would all be very well if there were only one bond house in the business, but when it is argued that there are upwards of a dozen competitors at each offering of bonds by municipalities, and all anxious to secure them, it can be readily seen that the competition for this class of securities is very keen, and that only one, or a previously formed syndicate, can be successful, and that one is the firm or syndicate offering the largest premium.

Method of Bidding

When the price which the firm feels it is safe to bid has been agreed upon, sealed bids for the issue are submitted to the proper officer of the municipality. These bids are opened at a stipulated time and the bonds are awarded to the firm offering the highest premium, in addition to the par value and the interest accrued to date of delivery of the bonds. This award is made if the conditions of the advertisement of sale have been complied with by

the bidder. Should the high bidder not have complied with the conditions in the advertisement, the bonds will generally go to the next higher bidder who bids in conformity with the advertisement.

Delivery

After the award has been made by the proper officials of the municipality, the clerk of the corporation submits to the successful bidder a complete set of transcripts leading up to the issuance of the bonds. These transcripts include every legal step taken by the officials in the issuing of the securities until the time of sale. The transcripts are submitted, by the firm purchasing the securities, to some eminent legal counsel making a specialty of examining into the legality of public securities, and having no interest in a financial way, either in the firm which submits the papers to them, or in the city itself. If the attorneys examining the validity of the bonds give their approving opinion, the bonds are taken up and paid for by the successful bidder. However, about twenty-five per cent of municipal issues which are placed on the market, are generally found to be legally irregular, and the purchaser is consequently unable to conclude the purchase. An eminent attorney's approving opinion on the legality of a block of bonds, adds to their value.

Broker's Commission

When the bonds have been properly issued and paid for by the purchaser, an offering is made by the holder to his clientele and the general public, as an investment for their surplus funds, at a price which will generally allow the bond expert about one per cent for his services. A great many securities, however, are handled at less than the above-named profit and many at more, the profit made depending greatly upon the grade of the security offered.

If the public knew the vast amount of work the bond expert does, the number of people employed to secure correct information and the various systems in use, in order that the investigations may be made properly, and that information may be at hand at all times on old as well as new issues, so that the firm may conduct the business successfully and offer to the investing public investments in which they can safely place surplus funds—no doubt those availing

themselves of the service of the bond firm would wonder how the business could be conducted on the small profit asked over purchase price. All this, however, is obtainable on account of the big demand for the class of securities discussed, which again proves "the high regard in which municipal securities are held, if the same are bought and put upon the market by a firm properly equipped."

THE PROTECTION OF MUNICIPAL BONDS

By Park Terrell,
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A very little investigation of the manner in which municipal bonds are ordinarily issued will reveal a condition wherein the crime of forgery might find its natural domicile. It is not a matter for wonderment that bonds of this class are so frequently forged, but rather that an opportunity so ready and with such large possibilities of easy pecuniary gain should be comparatively neglected by those whose business daily brings them into close touch with the situation.

In providing a corrective for any defective condition it is desirable first to become familiar not only with the actual condition to be remedied but also with the underlying causes which have contributed to the fault. When these are not known, or but imperfectly appreciated, the well-meant labor of those who would afford relief is not only ineffective but tends to bring about a state of greater confusion and also to produce in the public mind an impression that no adequate remedy can be found. It is, however, unnecessary for our purpose to trace the history of the municipal bond from its beginning as a simple written order to be immediately paid out of funds in hand through its various stages of growth as a warrant without fixed maturity bearing interest until paid, to a bond with or without interest coupons attached and becoming due at a stated time. A few points only may be noted.

In 1883 the business of handling municipal bonds had grown to such considerable proportions that many large firms with adequate capital were engaged almost exclusively in buying and selling this class of securities. Since that date the annual output of municipal bonds has increased enormously, and now reaches a total of about half a billion dollars.

The necessity for providing a safe bond was not at first appreciated by municipal officials. Not infrequently bonds that were typewritten, printed or otherwise cheaply prepared would be tendered to purchasers; therefore, in order to obtain bonds which were businesslike in appearance and acceptable to their clients,

dealers found it necessary to furnish the blanks to the municipalities. This procedure eventually became a source of much trouble, for while the honest dealer could, in a measure, protect himself and his clients, those less scrupulous found in the practice an easy way to increase their capital.

Dealers in municipal bonds are justly held in high esteem as men engaged in an honorable business, requiring a capital large in proportion to the returns to be expected from its ordinary transactions. They must also, in order to do business at all, command the respect and confidence of the most cautious and conservative investors, for to such the bulk of municipal bonds are finally sold. When, therefore, men of such high standing yield to temptation and are false to the trust reposed in them, it must make thinking men pause and ask why this business, which should be absolutely free from even liability to suspicion, is not surrounded with such safeguards as to afford practical protection to those engaged in it, and to their clients.

From the first, abuses existed, such as over-issues, duplicates and actual forgeries, beginning in a small way, then increasing with the growth of the business until recently a single individual using the credit of his firm issued forged municipal bonds having an ostensible par value of over a million dollars. An evil of such magnitude naturally attracted public attention, and various attempts have been made by state legislators to surround the issue of bonds with formalities intended to prevent such irregularities as have been mentioned.

The various expedients adopted by dealers and by the various state legislatures, while tending to reduce the chances of the bonds being improperly executed or issued in excess of the amount authorized, however, protect only in part, and even when working together do not constitute an effective plan for the purpose, which should be to provide a bond itself bearing indubitable evidence of its own genuineness, a difficult task, but not impossible of accomplishment.

To meet such difficult conditions, to safeguard the issuing municipality, the dealer, the banker loaning on bonds as collateral, and the investor, against loss through accidental over-issue or subsequent fraudulent duplication, the method of issue must be at once economical, comprehensive, and exact in every detail; and the finished bond must be such that to the careful observer there can

be no doubt of its genuineness. In short, the bond itself should provide its own identification with even more certainty than does a treasury note or bank bill.

For some years the United States Government has safeguarded its bond issues by having the blanks prepared at the Bureau of Engraving and Printing under a checking system which has proved effective against liability to over-issue. Immunity from counterfeiting is secured by the use of a special paper and elaborate engraving, both plates and designs being further protected by heavy penalties attached to their possession or use by unauthorized persons. These expensive and elaborate precautionary measures were not adopted needlessly, but because experience has shown that the most perfect system was required to discourage would-be counterfeiters.

Several of the larger cities have attempted to meet the emergency by providing steel plates engraved by bank note companies, from which their bonds are printed. The smaller municipalities, however, are unable to afford even this partial remedy because of the expense attending not only the original engraving, but the changes in the text of the bonds necessary to provide for successive issues. As it is evident that the most careful engraving will not of itself be sufficient and that mere registration by state officials cannot prevent forgery, the remedy must lie in a complete system of issue providing for exacting supervision of every detail, all under the direction of a responsible and permanent corporation, which will affix to each bond an absolute guarantee of its genuineness.

In the issue of corporation bonds, it has long been the custom to require that identification be furnished by means of a certificate endorsed on each bond signed by a trustee (usually a trust company) before it becomes a valid obligation of the issuing corporation, but as the certificate also may be forged the evidence of genuineness is not so sufficiently conclusive that the purchaser does not still have to depend on the word of the vendor for his assurance that the bond is what it purposes to be.

As in the case of corporation bonds, a responsible and conservative trust company would seem to be the proper sponsor for municipal obligations, and as the trust company must first assure itself against accidents it must control all the details of manufacture from the time the paper leaves the vat, through all the various

processes, until the bonds are sealed, signed, attested by certificate and delivered.

The physical protection of the issue should be as perfect as the present state of the several arts employed will permit—thus, the paper should be made from a special formula and bear a distinctive watermark. Provision should be made whereby every sheet of the paper may at all times be accounted for until it is in the form of a completed bond. The engraving used should be of a character most difficult and costly to reproduce, and the plates should be owned by the trust company, which should also own the designs from which the plates were engraved, as otherwise they might be employed for other purposes and their value as a protective feature entirely lost. When the exact number of bonds required has been prepared and they have been executed under the direction of a responsible representative of the trust company who has first ascertained that the parties signing were the proper officers of the municipality, they are ready for the signing of the certificate of genuineness, which should be a full and explicit guarantee of the genuineness of the signatures and the seal attached to the bonds. Affidavits as to the proper execution of the bonds acknowledged by both the officials and the trust company's representative should then be filed for future reference and the bonds delivered.

In the space of this article it would be impossible to give more than a short reference to the conditions which have made a protective method of issue necessary and a brief general statement of the essential features of such a method without going into the almost innumerable details of which the method is composed. The painstaking care and exacting supervision which those details require in order to make the plan effective may also be passed without further mention. Taken as a whole the plan outlined is, under experienced direction, a success, and has been operating long enough to prove its practical value to municipalities desiring to safeguard the interests of the taxpayer and to the more conservative investors who appreciate the security thereby afforded to their investments.

CLASSIFICATION AND DESCRIPTION OF BONDS

By Frederick A. Cleveland, Ph.D.,
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A comprehensive basis for the classification of bonds is not to be found in the bond lists nor in current market reports. The names and classes thus arranged are for purposes of convenient reference and usually follow the practice of the local exchange. Generally speaking, bonds receive their titles from one or more of the following characteristics: (1) The character of the corporation using them; (2) the purpose of issue; (3) the nature of security given for payment; (4) the terms of payment, and (5) evidence of ownership and transfer. The first of these five characteristics is used as a basis for general classification. That is to say, quotations are usually arranged under the following heads:

Government—state and national.
Municipal and county.
Railroad, express and steamship companies.
Traction companies.
Gas, electric light, and water companies.
Bank and trust companies.
Investment companies.
Industrials.
Mining companies.
Miscellaneous.

No explanation is needed to an understanding of the significance of these general classifications.

Under the general heads above indicated, each issue, by abbreviation, is given its principal contractual or financial significance. An issue which falls in the general class, "railroads" for example, may be noted as a "unified, sinking fund, joint, or convertible bond." This carries us through the entire range of the classification suggested. The nature of the company places the issue under "railroads"; according to the purpose of the issue it is designated as "unified"; from the nature of the security offered it is called "sinking fund"; having reference to the payor, it is further qualified as "joint"; the terms of payment carry with them the sig-

nificance "convertible." These variances from the general class "railroads" suggest a detailed description of the several kinds of issues under each principle of classification.

Classification According to Purpose of Issue

Among the many varieties of bonds which take their names from the purpose of issue the following may be noted:

Adjustment bonds, bridge bonds, construction bonds, consolidated bonds, car trust bonds, dock and wharf bonds, equipment bonds, extension bonds, founders bonds, ferry bonds, general bonds, improvements bonds, interim bonds, interest bonds, purchase money bonds, refunding bonds, reorganization bonds, revenue bonds, subsidy bonds, terminal bonds, tunnel bonds, temporary bonds, unified bonds.

An *adjustment bond* is an issue of bonds so named for the reason that the funds obtained from the sale thereof enable a company to adjust its finances to its increased financial needs. It is also a term used to characterize an issue for the purpose of adjusting the interests of two or more persons or corporations. These are usually issued as a result of litigation involving a receivership or other interference with the regular use or management of the property. The property itself being considered ample protection to the several rights of parties, and the company not having the funds available with which to settle without further encumbering the enterprise, bonds are issued to consummate the transaction, release the property, and relieve the management from further legal interference.

Bridge bonds are frequently issued by an independent company organized for the purpose indicated. More often, however, this is not the case. In railroad nomenclature, the bridge bond is issued to procure funds for a costly bridge construction in which one or more roads are interested. If a bridge company is separately incorporated for the purpose of holding the title, the bonds are usually secured not only by a lien on the property but also by an individual or joint guarantee.

Construction bonds are issues pending construction to provide the cash with which to purchase materials and pay for labor. They represent the capital cost of construction. In railroad parlance, the term may indicate an intention later to refund by means of another

issue. By a construction company they may be issued pending payment on work in progress, and are in the nature of temporary advances on construction, the evidence of which is a serial issue of notes secured by a lien on the construction.

Car trust bonds are the issues of a company, or trustee, intermediate between the car manufacturer and the railroad company. The manufacturer, wishing to realize the ready cash with which to carry on his further operations, the title to cars desired by a railroad are transferred to the car trustee, who issues to the road a lease or other contract for partial payments; to provide the cash needed by the manufacturer a mortgage on the cars is placed in the hands of a second trustee (usually a trust company) and serial notes or bonds are issued and sold, provisions being made for the periodical payment of the notes by application of money received from the railroad. Usually these notes are in several series, Series "A" being first retired, followed by Series "B," etc., till all are paid and the mortgage is satisfied. Then the intermediary company, having fully paid its obligation to the bondholders and received a release from the trust company of the mortgage, makes an unconditional deed to the railroad for the cars leased or conditionally sold.

Dock and wharf bonds may be issued by several roads having common dock and wharf facilities or by a single road, the purpose being to have a separate and distinct security to offer for new capital with which to build the docks. In such case the dock and wharf property would be owned by a separate company, the stock in which would be held by the parent company.

Equipment bonds are issued for a purpose similar to that of "car trust bonds," the difference being that usually the purchase is made and a direct chattel mortgage is given back as part consideration without the interposition of another vendor or leasing company.

Extension bonds. The qualifying word "extension" has a double significance in bond parlance, the first meaning has reference to an extension of a railroad or other property, as the extension of the main line from one point to another; the second meaning has reference to an extension of time of payment. The latter provision, however, is usually stamped on the original instrument after the contract has been entered into and properly authenticated.

Founders bonds. In England founders shares are sometimes issued to represent the interest of the promoters of a new company. In some American states such an issue is also permissible under the law. Instead of stock, an arrangement may be made for a special bond issue. This is most frequent in industrial companies, where the founder, wishing to retire from business, will make a transfer, taking at par in bonds such portion of the estimated value of the property or the full value as may be agreed on, the corporation issuing to the new proprietors shares. This enables the old proprietor to obtain a regular income from the enterprise founded by him, and the new proprietors to obtain the benefits of any increased value that may accrue from the introduction of new capital or new methods.

Ferry bonds may be issued by a railroad which has a general mortgage on its properties the provisions of which make it a lien on all property subsequently acquired. If the bonds are issued as a part of the consideration for purchase, only the value of the equity inures to the benefit of the general mortgage bondholders. The same result may obtain by the organization of a subsidiary company to hold the title to the ferry properties.

General bonds. The term "general" when used to indicate purpose is similar in its meaning to "consolidated," "blanket" and "unified." More frequently it is used in relation to the character of security afforded.

Improvement bonds need no description, as the name itself suggests the purpose of the issue.

Interim bonds are issued for the purpose of procuring the funds with which to consummate a transaction, and at the same time to preserve the rights of parties during the interim of arranging the details necessary to final adjustment or settlement. The term is also applied to what is later defined as "temporary bonds."

Interest bonds are issued for the purpose of definitely deferring interest payments due and protecting the property or corporation from the consequences of a default. The new contracts amount to an extension of interest payments without operating as a novation of old contract.

Purchase money bonds is a term commonly used as descriptive of the use of issues as part consideration on purchase of properties.

Refunding bonds are issues used for the purpose of exchanging

for or procuring the funds necessary to purchase or make payment on and retire previous issues.

Reorganization bonds are usually issued as a means of settling the rights of the several parties involved in a receivership and as a means of providing the current funds needed for successful reorganization and the surrender of the property to its corporate managers. This name is also given to issues used for purposes of reorganization not involving receiverships.

Revenue bonds is a term most frequently used as descriptive of issues of municipalities sold to the public for the purpose of procuring funds for current use pending the collection of taxes and other revenue. When issued by the English government they are called "exchequer" bonds. "Revenue" is also at times used as a synonym of "income" in describing the character of security for payment.

Subsidy bonds is a phrase having reference to issues of towns, cities, counties and states, as subsidies for railways and other public service companies. The word "subsidy" may also be used in other relations as descriptive of the purpose of issue.

Terminal bonds are frequently issued by subsidiary companies organized to hold the title to terminal properties. The bonds issued for improvement of terminal facilities like "bridge," "dock and wharf" and "ferry" bonds are usually guaranteed by the private company or companies. The reserve for the separate incorporation and issue may be found in the terms of what would constitute underlying mortgages were the terminal bonds issued by the parent company.

Tunnel bonds, aside from the significance which the name itself implies, may have attached to them circumstances and conditions similar to "terminals," "bridge," etc.

The term *temporary bonds* has reference to the character of the stationery on which the bond is printed. Pending the production of engraved or permanent bonds the evidence of the contract may be a typewritten or cheaply-printed document.

Unified bonds are similar in purpose to "consols," viz., to consolidate and unify the various preceding issues. "Unified" bonds often have reference to prospective as well as past capital needs; if, for example, $25,000,000 of bonds had already been issued under a number of different mortgages and it was estimated that $25,000,000 more would be needed during the next ten years, the unified

mortgage and bond issue would not only provide for the refunding and consolidation of all previous issues but also for the issue of the bonds needed for further construction or holding purposes, all bondholders thus enjoying equal rights.

Classification of Bonds According to the Character of Security Provided for Payment

From the point of view of the security given for payment, bonds fall into two general classes, viz., (1) unsecured, and (2) secured. The secured bonds may again be divided into two general classes (*a*) those having personal security and (*b*) those secured by liens on specific property. These in turn may be sub-divided as follows:

I. Unsecured.
   - (*a*) Government bonds.
   - (*b*) Corporate debentures.

II. Secured.
   - (*a*) Personal security.
     1. Endorsed bonds.
     2. Guaranteed bonds.
        - (*a*) Guaranteed as to principal.
        - (*b*) Guaranteed as to interest.
        - (*c*) Guaranteed as to both principal and interest.
   - (*b*) Lien security.
     1. By character of property pledged.
        - (*a*) Real property.
          1. Land grant bonds.
          2. Real estate bonds.
        - (*b*) Personal property.
          1. Collateral trust bonds.
          2. Sinking fund bonds.
     2. By the character or priority of lien.
        - (*a*) First, second or third mortgage bonds.
        - (*b*) General mortgage bonds.
        - (*c*) Blanket mortgage bonds.
        - (*d*) Consolidated mortgage bonds.
        - (*e*) Income bonds.

(*f*) Profit-sharing bonds.
(*g*) Dividend bonds.

3. By the character of the holding participation receipts.

Unsecured bonds, sometimes called "plain" bonds, are credit instruments or unconditional contracts for the payment of money, to the holders of which no collateral contract is made, the payment of which is conditioned on default on the original or credit contract. It is commonly thought that what in the market is dominated a bond is secured. This is error. Some of the best bonds dealt in on the exchanges are in the nature of unsecured promises to pay. They are bought and sold on the open credit of the issuer, in the same manner as are one-name commercial papers. Among these are the issues of the federal and state governments, municipalities, county bonds, etc. The Bank of the United States issued unsecured bonds. In this country practically the only form of security given for the bonds of public corporations is a sinking fund. This may be a cumulating security or it may cover the principal from the date of issue. An instance of such secured municipal bond is found in the issues of the city of Chicago, where, at the time the issues were authorized, a tax was levied for the full amount, payable and collectible by instalments over the life of the bond. Among the unsecured private or corporate bonds are the debentures of railroads. The short time loans to railroads are sometimes floated in the form of serial notes. These are nothing more nor less than unsecured short-time bonds.

Endorsed bonds are those the security for which is a common law guaranty. That is, the contract of security is in the nature of a personal guarantee implied and enforceable in law by the act of writing the name of the guarantor upon the back of the instrument. This term is also used of bonds on the back of which is placed words of writing not properly pertaining to it, but which, according to the rules of the exchange may not be delivered except as an endorsed bond, as for example "This is the property of the Mutual Life Insurance Company."

Guaranteed bonds are those the security for which is a written guarantee, either attached to the credit instrument itself or evidenced by a separate writing. The guarantee differs from the endorsement in that the name of the endorser carries with it an

unwritten contract the meaning of which is established by common practice and legal precedent, while the guarantee, being expressed in writing, is strictly construed and enforcible only in accordance with the specific terms of the instrument. These guarantees may be for payment of principal or for the payment of interest or for the payment of both principal and interest in case of default of the payor.

Land grant bonds are issues of railroads, the security for which is a mortgage on the lands granted as subsidies by the state and federal governments. Many of the roads procured a large proportion of the funds used by them in construction by means of land grant bond sales, issuing the stock to the promoters, for the enterprise in organizing the project and procuring the subsidies.

Real estate bonds, in railroad parlance, refers to the issue secured by a mortgage on real property not used in the operation of the road. This designation is also used for the issues of real estate corporations. Some of them are issued by private parties secured by a mortgage on real estate improved by means of the funds obtained or flotation of the issue.

Collateral trust bonds are the issues of a corporation the security for which is a lien on other stocks or bonds, or both, deposited with a trustee, usually a trust company, under an agreement setting forth the conditions of the trust.

Sinking fund bonds are issues the security for which is a fund created by contract, usually a cumulating one in the hands of a trustee.

Prior lien, junior lien, first, second and third mortgage bonds are designations having reference to the priority of the rights of several parties holding a lien or mortgage to property held in trust for the payment of bond credit issues in case of default. A prior mortgage bond is also called an "underlying" bond.

General mortgage, blanket mortgage, consolidated mortgage, bonds, so far as they have reference to the nature of security for payment, signify that issues are secured by a general mortgage on properties. The "general mortgage" bond, however, may be secured by a mortgage on properties which have not previously been made subject to lien. The term "blanket mortgage" is frequently employed to indicate a very inferior lien given to secure a floating debt or other previously unsecured obligation. The "con-

solidated mortgage" is generally used to indicate the security for refunding issues.

An *income bond* is one of a series of issues the security for the interest payment of which is a lien on the net income of the company issuing it, which may be either cumulative or non-cumulative. The principal may be secured or unsecured. If secured, the security is usually a mortgage junior to all other secured issues, but places the obligation for the payment of principal ahead of unsecured creditors. Some income bond issues have been called "participation" bonds.

Profit-sharing bonds and dividend bonds are terms applied to issues, the holders of which, in addition to interest, are entitled to dividend or profit-sharing rights. This is a form of bond that partakes of the advantages of preferred stock, differing from stock in that it is usually secured and does not convey voting power; it differs from the "straight" bond in that it offers an added and speculative inducement to the purchaser. The issue generally carries with it what may be called a "sub-standard" risk.

Participation receipts are receipts issued by the trustee of a bond syndicate on payment of subscriptions, the effect of which is to entitle the holder to a certain participation in the profits of the syndicate or to a certain proportion of the bonds in distribution.

Classification of Bonds According to Terms of Payment and Retirement of Issues

Among classes of bonds which have reference to the contractual rights of parties looking toward payment and retirement of issues are the following:

I. As to character of payment required.
   1. Gold bonds.
   2. Silver bonds.
   3. Currency bonds.
   4. Legal tender bonds.

II. As to option of payor.
   1. Redeemable.
      (*a*) At specified time.
      (*b*) Call.
   2. Irredeemable.

III. As to option of payee.
   1. Convertible.
   2. Annuity.
   3. Endowment.

IV. As to character of payor.
   1. Joint.
   2. Several.

A gold bond is one by the terms of which the payor contracts to deliver the principal and interest in gold coin of the realm and usually specifies the weight and fineness. This gives to the holder a right to demand and receive the specific kind of money described. The contract is seldom enforced, as it may be settled by offer and acceptance of some other form of money, though more usually settlement is made with a transfer of credit by check or draft.

A *silver bond* is one in satisfaction of which the holder may demand an agreed amount of silver money of a specified weight and fineness. These bonds are common to countries having a silver monetary standard. To this class belonged the old "sterling" bonds of England. At the present time the provision is usually inserted for the supposed benefit of the payor.

Currency bonds were issued during and immediately after the Civil War. Similar bonds have also been issued by other countries where paper money was made legal tender.

Legal tender bonds are those by the terms of which the payor may have the option of paying in any kind of legal tender money; they give to him the benefit of the cheaper form of currency.

Redeemable bonds are those by the terms of which the payor may pay in a specified manner and at a specified time before maturity, *i. e.*, before the payee has a right to demand payment. Redemption may be at specified times or dates, or it may be "on call." Of the former class were many of the federal government bonds issued during the Civil War. "Call" bonds usually require notice and the payment of a one year's interest or other premium. Many sinking fund bonds are subject to call when a fund of specified amount has accumulated in the hands of a trustee. Redeemable bonds are sometimes called "optional" bonds.

An *irredeemable bond* is one which contains in the contract no option for payment prior to maturity.

Convertible bonds are those by the terms of which the holder has a right to exchange or convert at a given rate into other forms of property. The most usual form of conversion right is one which entitles the holder to obtain common or preferred stock at a predetermined rate of exchange. This right gives to the bond a certain speculative value aside from its estimated investment value, based on interest rate and security for payment. Oftentimes the conversion rights of bondholders become an important factor in control and in stock manipulation. Another form of "convertible" is issued by real estate corporations entitling the holder to convert into property according to schedule. A "tax bond" is a form of convertible bond, being convertible into payment for taxes.

Annuity and endowment bonds have taken many different forms and characteristics. Of the old English government bonds many were on an annuity basis, which indefinitely postponed the time for payment of principal and gave to the holder a right to income at a specified rate for a period determinable except by subsequent agreement. Some bonds have annuity and endowment options, the endowment feature providing for a definite number of payments of predetermined amount.

Bonds Classified According to Evidence of Ownership and Transfer

Considered from this viewpoint there are three classes, viz., coupon bonds, registered bonds and coupon registered bonds.

Coupon bonds are issues the contracts for payment of interest on which is evidenced by separate coupons or contracts for payment, which fall due consecutively on the interest-paying dates. The coupons may be detached and constitute complete promissory notes in themselves, payable to bearer. The coupons are usually written on small sections of a sheet of paper attached to the principal obligation and as they mature are clipped off and presented for payment. They are frequently presented for payment through a bank as a check or draft would be.

Registered bonds are credit instruments the interest obligation in which is expressed in the same writing or paper as in a promissory note, the ownership of the bond being registered as a means of protecting the payee against loss, necessitating a formal transfer and registration to transfer the title when the old instrument is canceled and a new one is issued. Interest is payable by money

delivery or by check sent by mail to the address of the registered holder. Notice should be given of any change in address.

Registered coupon bonds are issues the principal of which is registered, the coupons being made payable to bearer.

In practice a single bond issue may have any number of these many distinguishing characteristics, so long as they are not in conflict. When applied to specific issues the number of classes may be equal to the mathematical possibility of the several elements described in combination. The advantage of the analytical classification here used is that by classifying and defining bond characteristics the terminology may be understood in any combination used.

BONDS IN THEIR RELATION TO CORPORATION FINANCE

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Finance is defined as that branch of business which has to do with the getting and the spending of funds. A financial institution is a concern organized and conducted for the purpose of rendering service in funding operations, in exchange for which service it obtains an income. For example, the service for which a commercial bank is capitalized and equipped is to provide, in convenient form, the current funds by means of which business may be carried on; the service of a savings bank is to provide a safe and convenient form for the investment of funds saved—the form of the investment offered being an interest having credit account; the service of an underwriting syndicate is to insure the sale of issues of stock and bonds at an agreed rate, as a means of obtaining capital funds, etc. By corporation finance, it is assumed that reference is had to the funding operations of corporations.

What Are Bonds?

Bonds are one of the forms of instruments by the use of which funding operations are carried on. As an instrument, it is a contract entered into by the one desiring funds, with another having funds to invest. *The contract is one of bargain and sale.* There is no transaction which better illustrates the true character of a so-called loan than a bond issue. A so-called loan is the purchase of a promise to pay. The funds obtained on a loan is the amount for which a promisor is able to sell his contract for the future delivery of money. The amount that a promisor is able to obtain on sale of his contract for future delivery depends on the valuation placed on the promise by the investing public. Like all other sales, the price is agreed on only after a mental calculation as to whether that which is offered for sale is more valuable, to the one to which the offer is made, than the money in exchange for which it is proposed to sell.

Credit contracts are of two essentially different forms, viz.: (1) credit accounts, and (2) promissory notes. A credit account is a contract for the future delivery of money, the evidence of which is a personal memorandum made by one or both parties to the transaction, or which is evidenced only in memory. A bank account, for example, is a contract made between a customer and a bank by the terms of which the bank promises to pay a certain amount of money on demand (usually without interest), the evidence of which is a memorandum made by the bank on a "pass book" which is handed to the customer. This account is usually sold at par. A promissory note is a formal contract, the written evidence of which specifies the principal amount to be paid, the date of payment, the rate of interest, the payor and the payee, the agreement covering not only the exact terms but also the exact form of the writing which shall represent these terms. The advantages of the two forms are apparent. The credit account is most frequently used for current or demand credit transactions, while the promissory note is the more common in transactions where a definite time and rate of interest are specified or where a definite form of security is given for payment. *A bond is a species of promissory note.*

To understand properly the use of financial instruments, it is necessary to distinguish between current funds and capital funds. Current funds to a business man are his current means of purchase and of payment. It may be money or rights to draw, as on a bank. "Funds" when used in finance as a singular noun is a synonym of "cash." In business "cash" means all those forms of assets usually carried on the cash book. It includes all accounts with solvent banks, till cash and pocket money; sometimes it also includes postage stamps, and temporary advances or rights to draw on individuals to whom temporary advances have been made. Current funds is the cash intended to be used or held in reserve for the purpose of making current purchases, for meeting the amount of expenses, and for the payment of current liabilities. Capital funds is the cash which is procured or reserved for capital uses—*i. e.*, for investment in the properties and equipment that is to be permanently or continuously used in the business. Both of these classes of cash are to be distinguished from the moneys or cash in possession, but which do not belong to the company, such as trust funds. *Bonds are credit instruments commonly used to obtain capital funds.*

A bond is one of a series of promissory notes, usually of like tenor and amount, issued as evidence of a single credit agreement. Its serial issue arises from the character of the market and the purpose of its use. The purpose of a bond sale being to procure funds for capitalization, the bond contract offered, consequently, is one which has a long time to run. Since the capital resources of a business are not to be sold or realized on for the purpose of meeting expenses and current liabilities, the funds obtained for capital use must be procured in such manner that the company will not be required to repay or return the amount contributed until this may be done without forcing a sale of the permanent properties and equipment. As a means of increasing competition among prospective purchasers, the total issue is divided into small notes of equal denominations, which, for convenience and for purposes of identification, are serially numbered. The total issue being large compared with the total assets of the obligor, and the time to run being long, a favorable valuation of corporate bonds may be obtained only by giving some form of security, each bond of the same issue having common rights and equal protection against default in payment of principal and interest when due.

Principles Governing Bond Valuation

Bonds are sold for cash, but why should a purchaser of bonds exchange money for a contract for the future delivery of money? The considerations which operate on the mind of the purchaser are essentially two: (1) Rate of investment return, and (2) judgment as to whether the capital will become impaired. The rate of return is determined by a mathematical calculation based on two factors: (*a*) The price at which the bond is offered, and (*b*) the terms of the contract. A rate of return being offered which is attractive, favorable consideration involves two other judgments: (*a*) Judgment of the investor as to the ability of the promisor to obtain the amount promised at the time contracted for, and (*b*) judgment as to the integrity of the promisor, *i. e.*, on his willingness or disposition to fulfil his promise if he is able to obtain the amount promised. These two judgments with respect to the safety of his capital being favorable and the rate of return being satisfactory, the investor will buy. It is with respect to judgments as to the ability and integrity of the obligor that security has a direct

bearing. In a bond issue the contract of security is the means whereby a favorable judgment is obtained in the valuation of the notes offered for sale.

What Is Security to a Bond Issue?

A contract of security is a collateral agreement by the terms of which certain property of the debtor is transferred to a trustee, to be held, and, in case of default in the credit contract, to be sold, the proceeds to be applied to the satisfaction of the debt; but in case of the credit obligation being met then the trust is ended and the title to the property so held reverts to the debit-beneficiary.[1] Another form of contract of bond security is one pledging the paying power or money procuring ability of another as collateral to the credit promise. Such collateral promises are in the nature of endorsement or guarantee. The result of the contract of security is this: The value of the guarantee of payment or of the property pledged as security being considered sufficient to enable the creditor to obtain the amount of money promised in the credit contract, the investment is deemed amply protected. Through the collateral device known as security, both questions raised in the process of valuation are settled at the time of purchase: The question of willingness to pay (*i. e.*, of honesty) is determined by the wilingness of the debtor to enter into the collateral contract of security; the question as to paying ability is determined by the transfer of property which is estimated to be of sufficient value to enable the trustee, by sale, to obtain the money with which to meet the obligation. By investment companies, personal security is less highly valued than lien security for the reason that the personal ability and integrity of the endorser or guarantor may be subject to more of the shifting conditions, to more of the fortunes and misfortunes of business, and may be less readily controlled by the creditor than the properties assigned in trust, on which a lien is given. Personal property in the form of "collaterals," with power to compel the keeping up of an agreed margin, or real property, with ample margin of valuation and with provisions against waste and prior encumbrance such as taxes, receiver's cost, etc., when made the basis for valuation, places the creditor in a position to protect his invest-

[1]The creditor himself is frequently made trustee of the property of the debtor for the purpose of securing the obligation.

ment as well as to insure an agreed rate of income. It is this quality which gives to bonds their place and importance in corporate finance.

The Relative Importance of Bonds and Corporate Shares as Investments

The relative importance of the two forms of capital issues of corporations—bonds and corporate shares—is to be found in the character of the contracts themselves. The corporation is a legally constituted artificial person endowed by legislative act with power to acquire and dispose of property. The shareholders are persons (or their successors) who have contributed funds (or other property) to the corporation in exchange for a right to participate in the general control of the company and to share in dividends declared out of profits. In other words, the shareholders are the proprietors of the corporation and have a right to income from their shares, contingent (1) on net profits or surplus and (2) on the declaration of dividends out of net profits or surplus. Bondholders are persons (or their successors) who have contributed property or funds to the corporation in exchange for the corporation's promises to pay money. The bondholder as such does not stand in the relation of a proprietor; as creditor he has no rights of control over the company except to demand and enforce the payment of money in the amount and at the time promised. The bondholder's right to income is an absolute one, and, being a creditor, his claim is always prior to that of the proprietor.

But the bondholder, through his collateral agreement, may also stand in proprietary relation, both to the property of the corporation and to the corporation itself. By taking a mortgage, or the obtaining of a pledge of collateral the bondholder (as trustee), or his representative, has a legal title to the property on which a lien is given to secure the payment of an issue of bonds. In case a real-estate mortgage is given, the corporation usually retains possession, but enjoys its equity subject to the terms and control of the grant. In case collaterals are pledged, the bondholder or his trustee obtains possession as well as the legal title to the property of the corporation deposited as security. But the conditions of the collateral agreement may go further; they may give to the bondholder, or his trustee, voting power. In other words, the stockholders may as-

sign their rights to proprietary control over the corporation itself as a part of the security given for the payment of the money promised in the bond. Under a contract of personal security (endorsement and guarantee) only one of these proprietary relations may obtain. The nature of the security precludes the exercise of proprietary control over the property of the corporation; it may, however, give to the bondholder, or his trustee, the right to exercise voting power and to participate in the general direction of the corporation through control of the board.

Motives to Bond Investment

While such proprietary powers are possible, grants of voting power are seldom found in contracts of security, the only proprietorship insisted on being that which has reference to the property pledged. And this does not interfere with its use (except as against impairment) so long as interest is regularly paid and the principal obligation is met when due. This fact suggests the motive to bond investments. Generally speaking, the bond investor is not a person who wishes to charge himself with the duties and responsibilities of proprietorship in those concerns to which he contributes capital. One who has built up a large and profitable business may wish to retire. To accomplish this end, and at the same time make it possible for a successor to capitalize the business to advantage, he may sell to a corporation taking a large portion of the purchase price in first mortgage bonds. Again, an investment may be desired for an infant or a person incompetent to manage and control. For such a one an investment which secures the principal and guarantees a regular income is most attractive. A foreigner may find that competition for local issues has reduced the rate to a point lower than he cares to accept for this use of his capital. He turns to distant, perhaps to colonial enterprise, where a larger income is promised. Not being in a position to participate in control, he seeks a preferred and secured claim. He sells his capital, surrenders control and accepts a promise to pay with an assignment of property which he believes to be adequate to protect him from loss, leaving to the proprietors of the corporation the possibilities of still larger return in dividends on their corporate shares. Investment companies generally have such an absentee and inactive constituency. Savings banks and court trustees, for example, are not so much interested

in an extraordinary investment return as they are in providing an assured income sufficient to enable them to meet their responsibilities to depositors, or to beneficiaries under supervision of the courts. Such institutions are usually compelled by law to restrict their investments to prescribed issues. For this purpose bonds of the highest security and preferment are specified. The recent insurance laws of the state of New York definitely forbid investments in corporate shares and in issues of bonds secured by corporate shares deposited in trust. This legislation, however, did not emanate from a desire to strengthen the security for the investment so much as from a desire to preclude the use by the trustees of large cumulations of trust funds for purposes of corporate control.

Unsecured Bonds

A large portion of the bonds currently traded in are unsecured. Aside from those of doubtful or inferior character sold by misrepresentation or taken in settlement of existing claims, they are of two general classes: (1) the short time issues of private corporations, or (2) the issues of public corporations, such as federal, state or municipal governments. The first of these two classes of unsecured bonds appeals to much the same constituency as does one-name commercial paper. The second class of unsecured bonds is considered among the best of long time investments. Each rests on the same kind of investment judgment—the valuation of the unsecured paying ability and business integrity of the debtor. A private corporation which has a large floating debt, small net earnings, and doubtful surplus, would have difficulty in selling unsecured issues except at such a sacrifice as to make them an object of speculative buying; a private corporation whose officers and trustees had not honorably treated its creditors in the past, whatever its paying and income producing ability, would likewise have difficulty in disposing of an unsecured issue. A government, strangulated by debt, that had reached its revenue producing limit, that had suffered its credit issues to go by default, especially if it had refused to pay obligations purchased in good faith, would be unable to find a market for bonds except as specific security is given which is considered adequate protection to the investor. The reason that unsecured public bonds are preferred as investments is that the in-

tegrity of the government issuing them is unquestioned, and the debt-paying ability is unimpaired.

Legally, a government has the power to tax limited only by its charter or constitution. Economically, a government's revenue producing power is limited to the surplus profits of private business, for any attempt to levy which goes beyond the surplus net profits of business will leave no inducement for private persons to engage in business pursuits and will drive the capital already invested to jurisdictions where conditions are more favorable. In most of the American states and municipalities the legal debt and tax limit is placed far below the economic debt and tax limit. The result is that practically the only questions to be considered are political integrity and authority. It is seldom necessary to inquire into the ability of American states or municipalities to pay. As a consequence, their unsecured issues, as a class, are considered better investments, from the viewpoint of protection to principal, than the secured issues of private corporations. Many foreign states are not so fortunately situated, and to make their bonds marketable it is necessary that some specific property or form of revenue be pledged as security.

The Uses of Bonds and Corporate Shares in Current Funding Operations

Aside from their investment character to persons who do not care actively to participate in the management of business affairs (or who are incapable of such participation), bonds and corporate shares have an important use in current funding operations. Without regard to income or the character of business in which he may be engaged, one who may have made investments of this character, may go to bank, and, by depositing the securities under a collateral loan agreement, may procure current funds at a favorable loan rate to an amount approximating the market value of these securities. It is not an uncommon practice for merchants as well as investors to use a part of their working capital in the purchase of securities to operate as an invested surplus. When their stock in trade is low, and when the quarterly or semi-annual buying season occurs, these investments are employed as collateral to loans with which wholesale bills may be discounted. The same practice is common to com-

panies which have used a part of their capital to purchase corporate shares for purposes of control. The use of collaterals as a means of obtaining current funds is especially prevalent in financial districts where such funds are available for loans "on call."

Under our national banking system it is the practice of out-of-town banks to loan a large part of their money reserves to "reserve city banks." These loans are at the rate of from two to three per cent. Being subject to "call" by the out-of-town banks, the central city banks in turn offer loans to their customers "on call" secured by collateral. These call rates are often as low as one-half of one per cent, and the average rate is between two and three per cent. Not being required under the banking law to carry a money reserve of more than twenty-five per cent of the amount borrowed from other banks, the reserve city banks are able to loan to customers three times as much of their own credit as the amount loaned to them by other banks; as a consequence, there is a margin of profit to the city banks in call loans even at a lower rate than they themselves must pay for the money obtained from their banking correspondents. The constituency desiring call loans, however, is largely a speculating constituency, and for this reason the great speculating centers are the places where out-of-town banks find the best rates for loaning their surplus money reserves. So prevalent has the practice become in what is known as financial centers that, in these places, the business of banking has degenerated from the old time occupation of loaning on the business credit of merchants and manufacturers after a careful consideration of the profits or prosperity of their undertaking, and has become a species of pawnbroking—the pawns or pledges offered being stocks and bonds instead of jewelry and other personal effects. These collateral loan transactions being left largely to "loan clerks," the attention of discretionary officers is turned to the obtaining of loans from out-of-town banks, and to such operations as have come to be known as "high finance." When application is made for a personal loan no question may be raised as to the sanity of the venture in which the current funds are to be used, to the profitableness or income producing ability of the applicant, but query comes from the loan clerk "what is your collateral?" If the collateral offered is regularly traded in, the "ticker" establishes the basis of credit; if not regularly traded in, then the issue must relate itself to transactions or corporations in which the bank

has a funding interest or to issues which are duly accredited by an officer. Such a practice has in large measure removed our great commercial banks from support to a mercantile and manufacturing constituency and definitely attached them to the stock market; it has deprived the country at large of that steadying influence which comes with the exercise of financial wisdom based upon commercial and industrial judgment; the condition of credit and the current funding power of the nation has become closely related to the speculative changes and manipulated movements reflected in Lombard and Wall Streets. Without a change in industrial and mercantile conditions bank credits may be suddenly expanded or reduced to the extent of hundreds of millions of dollars.

Another use of bonds in current funding operations has been incorporated into our national banking law, viz.: the investment of a large part of the banking capital of the nation in government bonds which may be pledged at par to the Treasury as collateral for issues of bank notes. Since no interest is charged on the notes received by the banks on these collateral deposits and no provision is made for the exercise of discretion on the part of the government as to when note issues may be obtained on such pledges, it is to the immediate advantage of the bank to keep its capital investments pledged, and to use the bank notes for the purchase of commercial paper, thus adding to the income received from the government on the bonds, the interest obtained on the commercial paper purchased by use of the notes. The "reserve deposit" practice has contributed materially to unsettle credit conditions, by stimulating speculation, the tying up of capital in bond collaterals, impairs the ability of the banks to meet them. This practice is largely responsible for what is known as "inelasticity" in bank credit. It has permitted the government to borrow at a low rate, but has very seriously crippled the commerce and industry of the country.

The Increasing Demand for Bonds as Investments

In relation to corporations seeking capital, bonds are most important instruments of capitalization. In relation to persons and institutions having capital to invest they afford an element of safety which does not attach to many other forms of investment. The increasing demand for bonds closely relates itself to present social and industrial conditions. During the last two decades capitali-

zation and management of enterprises have become so highly centralized that a large proportion of the people have become wage earners. The greater economies of production and distribution incident to co-operative activity under corporate organization has made it more profitable for the small merchant and small producer to take employment from a corporation than to operate an independent business. In the past, as small proprietors, those who were engaged in business had an ever present opportunity for investment in the increased capitalization of their own business, while those who had earned and saved might join in a partnership already established or start a new business. The increased economy of large production has in great measure destroyed these investment opportunities. The small proprietorship is at a disadvantage. The employee of the great corporation is placed in the peculiar position; he has increased his income and his possible savings by becoming a wage earner, but he is deprived of opportunities for investing his increased savings in properties or business within his control. Opportunity for profitable investment is being gradually reduced to corporate issues, as to the value of which the possessors of these incomes have little opportunity to judge except as these valuations are reflected in the market. At the same time the market is so largely affected by speculations that the quotations reflect manipulation and financial impulse rather than sound consideration of the producing and earning capacity of corporations whose issues are traded in. The tendency of the time, therefore, is either to speculate, which usually results in loss to the so-called outsider; or turn to the credit of certain trustees and investment companies. Among the most popular of these is the savings bank account. The savings bank is in a position to give careful consideration to the investment value of corporate issues of bonds and shares. These issues are held as an invested fund for the collateral security of the interest bearing accounts sold to savers. Another form of investment which seems to be growing in popularity is the collateral trust bond of companies which syndicates purchase and sell issues against these collaterals in denominations which are within the reach of the small buyer. This form of bond investment, under proper regulation, is capable of affording protection and at the same time of supplying the fast-growing demand for the safe employment of small

surpluses as a means of providing income to the provident. Endowment policies of life insurance companies is another form of cooperative investment which combines safety with protection against the loss of life.

Dangers to Investors in the Capital Obligations of Corporations

The underlying bonds of a prosperous corporation and the obligations of investment companies which are secured by such issues are the safest investments that may be made. Corporate shares of companies which have paid dividends for a period of years and whose financial statements show large surplus as well as continued net profits are also attractive to those who have capital to invest. These issues, however, are not without their dangers. With all the protection thrown about secured bondholders in practice, it has been found that they have suffered loss. These losses have come from one of two causes, viz.: (1) Overvaluation of the security at the time of the bond purchase, or (2) impairment of the value of the security after the bond purchase.

If the security be in the nature of endorsement or guarantee, then it is the ultimate debt paying ability of the payor and endorser or guarantor that must be appraised. If this becomes impaired before the bonds become due, it is seldom that the bondholder has any recourse. The value of personal credit and personal security may also become impaired by the negligence of the bondholder himself. The officers of the company may be permitted to use the property and credit of the corporation for their own benefit, having entered into a collateral contract, the endorser or guarantor has certain rights which must be observed unless these rights are specifically named.

If the security be in the nature of a conditional transfer of property, the valuation of the bondholder at the time of the purchase may be made on a wrong basis; or, from indifference or inability to procure the necessary information, he may sleep on his rights, allowing the property to depreciate or become wasted. Property pledged as security for collateral trust bonds may usually be valued on the basis of current market quotations, and in case the trust agreement provides for the maintaining of a margin, protection against depreciation may be afforded by substitution or supplementary collateral deposits. But even with provisions

of this kind, the company issuing the bonds may not have the additional collaterals available, and any proceeding to enforce the trust agreement may cause greater loss to the investor than the impairment which would follow if no action were taken.

In bond issues secured by real-estate or by the capital resources and equipment of the issuing company, the value of the property pledged usually depends on its earning power. Such properties may be overestimated at the time the bonds are purchased by reason of failure to obtain accurate information. Too frequently bonds are issued and sold without investigation or appraisement of property; too frequently issues are purchased by persons who buy because a particular banking house is underwriting the issue, or, what is still more fallacious, because a particular company is trustee under the mortgage. After the issue has been disposed of, bondholders frequently rest content with watching the market instead of demanding and obtaining information as to whether the property is being wasted through neglect, through failure to repair, through default in meeting requirements as to reserves for depreciation and sinking funds, or through the declaration of dividends out of capital and the gradual distribution of the available resources of the company to stockholders under color of false statements showing net profits and surplus.

Looking toward the purpose of bond issues and corporate shares in their relation to the capitalization of modern business undertakings, it is of unceasing importance that every safeguard be thrown around investments of this kind. In the industrial régime such as that which has developed within the last two decades, protection to the investor must come through some form of control over corporate management which will guarantee the integrity of financial statements, and hold corporate officers and trustees to strict account to those whose capital has been contributed to the enterprise. Legally the corporation lends itself to the highest form of control and its officers too may be held to strictest account. In theory of law, no one in proprietary relation to the company, either as stockholder or as secured creditor, may transact any of its business. Both the property and the management are placed in the hands of a group of trustees called "officers." Again the officers themselves are appointed and controlled by a second group of trustees called "directors." Neither of these groups of

trustees may legally use any of the property or conduct the business of the corporation for their own benefit, and both are strictly accountable. The protection which comes through the law of trusteeship is complete. The weakness of the position of the investor before the courts has been not lack of law, but lack of evidence. As a matter of proof, or enforcement of rights, there have been two essential elements lacking: (1) Evidence as to the character of discretion used in the management of this company's affairs by the officers, the corrective for which is found in the election and appointment of representatives, and (2) evidence as to breach of trust, the corrective for which is found in the courts. In both cases, when the evidence has been obtainable, it has come too late or has been too uncertain to be effective.

Methods by which Dangers to Investors may be Overcome

Whether the investment be in the form of bonds or corporate shares, whether the bonds held be secured by personal guarantees or by liens on specific properties, the protection of the investor relates itself directly to corporate managment—to the ability and good faith of those to whom the affairs of the corporation have been intrusted. As before suggested, the nature of the corporation is such that neither may its property be held nor its affairs be managed by those who have contributed its capital; these must be intrusted to agents—to the control of officers and directors. Questions of successful management and fidelity of trust must be determined by the holders of bonds and shares from reports rendered to them. The records of the company from which these reports are made are kept by the officers—by those who are to give an account of their stewardship. Too often the only requirement made of the officer or trustee is that interest shall be met and a satisfactory rate of dividends be declared and paid.

For effective legislative requirements, looking toward the protection of bondholders and shareholders, by providing the means for obtaining evidence of the character of discretion used, and as to fidelity of stewardship, we must look to Great Britain. In America, such protection as is afforded comes largely as a voluntary act of officers or trustees who have accepted corporate responsibilities. Under the companies' acts of Great Britain, the stockholders are made responsible for bringing their own agents to account and pro-

tecting their own investment interests. At their regular meetings they are required to appoint a disinterested person to audit the accounts of the company, and to certify to the condition of its affairs, the auditor so selected being made both civilly and criminally liable for the truth or falsity of financial statements. Should the stockholders fail to elect, an auditor is appointed by the government.

In the United States, even when audits are made, the auditor is appointed by the officer or agent whose stewardship is to be reported on. The employment is therefore subject to such conditions and restrictions as may be imposed. Necessarily, the report of the auditor is rendered to the ones with whom the engagement is made. If, therefore, any comment or suggestion may appear in the report which is in the nature of criticism, such comment or suggestion may be withheld from bondholder and shareholder. A balance sheet may be certified to as correct and an income and expense account may be properly stated without disclosing facts by way of comment which are of serious moment to the investment interests.

Effort has been made to cure the evils of irresponsible corporate management, and to protect the investor from loss by the institution of public offices of corporate control. Officers of corporations are required to make sworn statements to these public agencies, and public examiners are appointed to investigate corporate resources and liabilities; but at best, these agencies cannot serve the same purpose and give the same protection as an audit which goes into questions of official discretion and efficiency as well as of fidelity, and which is reported direct to the investor instead of being filed away as a secret document in a department of state, where no action may be taken unless bankruptcy is threatened or evidence is procured of breach of trust. Adequate protection to the investor, against official incompetence, against high salaries to officials, and high prices to contractors, against depreciation of properties, against improper charges of betterments to accounts of repairs and replacements resulting in a hidden or inflated surplus, may be had only through an exhaustive audit and direct report to those who hold the proprietary interests in the company and who may administer correctives in the choice of officers and trustees to direct the affairs of the corporation without resort to laborious, and often times ruin-

ous resort to the courts. Such a law as that which has been found so effective in England would do more to correct corporate abuses and protect the integrity of corporate issues, than all the inquisitorial and restrictive measures that may be enacted. The public officer may be used effectively as a police power, but investors should be given the means whereby they may protect themselves. Such a regulation should be incorporated in every law as a condition precedent to exercise of delegated powers.

SOCIAL WORK OF THE CHURCH

THE ANNALS

OF THE

American Academy of Political and Social Science

ISSUED BI-MONTHLY

VOL. XXX, No. 3 NOVEMBER, 1907

EDITOR: EMORY R. JOHNSON

ASSOCIATE EDITORS: L. S. ROWE, SAMUEL MCCUNE LINDSAY, CARL KELSEY, JAMES T. YOUNG, CHESTER LLOYD JONES, WARD W. PIERSON.

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PHILADELPHIA

AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE

36th and Woodland Avenue

1907

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THE CHURCH IN ITS SOCIAL ASPECT

By Rev. Edward Judson,
Pastor, Memorial Baptist Church, New York.

The local church, when it finds itself in a peculiarly unresponsive and adverse environment, instinctively proceeds to supplement its ordinary functions, as preaching, prayer meeting, Sunday school, and pastoral visitation, with a system of philanthropic and educational institutions, through which it endeavors to touch people on the physical, social, and mental sides, in order to draw them within hearing of its religious message. In this way it becomes an institutional church. Church institutionalism is nothing more than organized Christian kindness. At bottom it is no new thing. Any church that has a sewing circle, is in just so far an institutional church; which only does as a social body, and in a systematic way, exactly what the individual Christian instinctively does, when, by acts of kindness, he subdues the hearts of men into receptiveness. The community is touched in a new spot when it finds out that the Church is interested in the welfare of the whole man. There could hardly be devised a more efficient philanthropic appliance for ameliorating the misery of a great town than the network of churches spread through its congested places, provided each church intelligently and profoundly interests itself in the cure of the social sores constantly exposed to its pitying eye. Some people are fond of tracing the roots of all our modern philanthropy back to Christianity; but the connection between the Man of Nazareth and the social compunction of the present day would seem more direct if the churches that bear His name, instead of leaving to private individuals, or to the state, or to societies exclusively charitable, the burden of caring for those who suffer, should themselves engage in the sympathetic study of social problems, and should feel a certain responsibility for man's welfare here as well as hereafter. If each church should, even in a small way, befriend the miserable close by its side—neglected children, the aged poor, the sick, the intemperate, the indigent, the fallen, then the working man as he passes a place of worship would have the same tenderness of spirit

as comes over him now when he passes some great hospital and sees the white faces of little children at its windows and thinks to himself that his turn may come to be folded in its shelter and embrace. The social forms through which the Church expresses its sympathy and compassion are like the soft tentacles which some creature of the sea stretches out on every side in order to explore the dim element in which it swims, and to draw within itself its proper food. The Church needs just such organs of prehension with which to lay hold upon the community about it. The Institutional Church is a kind of tentacular Christianity. The divine Peasant, had He been acquainted with modern agricultural processes, might have carried His Parable of the Sower a step further than He did, and laid upon His disciples not only the task of scattering the seed over all kinds of soil, but also the more strenuous labor of changing into good ground the hard road-bed, the thorny patches, and the rocky places. This surely would not have been incongruous with His own example and His subsequent teachings.

Having defined the Institutional Church, we inquire next in what kind of field it finds its richest opportunity for development and operation. It is under the pressure of an adverse environment that the local church tends to *institutionalize* (if we may coin a word suited to our definition). There are spots, it may be, in new and growing towns, or in the suburbs of large cities, where the currents of social life converge in favor of ecclesiastical growth. Church-going people arrive in shoals, and, unless the churches, in their eagerness to pre-empt such fields, which they are fond of calling strategic points, get in each other's way, and multiply so rapidly that the supply exceeds the demand, they seem to grow of themselves. The ordinary methods suffice. Given a good minister, with a commodious meeting house and alluring music, success comes swiftly and inevitably along the worn pathway of sermon, and prayer meeting, and Sunday school, and pastoral visitation; that is, if you mean by success, not the diffusion of Christian truth throughout society at large, but the building up of one's own church. The minister's pleasure, however, in seeing his own pews filled is mitigated by the reflection that other churches somewhere else are correspondingly empty. His sheep bear the brand of previous ownership. No dent has been made upon the great non-church-going mass. He has only given the ecclesiastical kaleidoscope a turn,

and produced a new arrangement of the same old bits of colored glass. What is the net gain to Christianity at large, when one church has achieved its development by sucking the life out of a score of feebler ecclesiastical growths? In such fields there seems little call for the Institutional Church, and all her devices are lightly esteemed.

It is in more difficult fields that she gains her scanty triumphs, as in the low, congested sections of our large cities, where, against the few churches that have been left behind in the general exodus, all the great social currents swiftly and steadily converge. Lower New York, for instance, offers a rich field for institutional experimentation, and indeed upper New York seems all the time becoming lower New York. The south end of Manhattan Island, rapidly narrowing down to its vanishing point at the Battery, is densely filled in with business buildings, little space being left for residential uses, as liquid fills a retort evenly and completely from the bottom up, as far as it reaches. But from the City Hall upward the island abruptly widens out east and west, becoming twice as wide. It is a walk of a mile from river to river along Fulton street, and of two miles and a half along Houston street. Now, from the point where this widening occurs, business does not monopolize the whole surface of the ground to the exclusion of residences. It skirts the water fronts and the main thoroughfares, like Broadway, and it climbs skyward by means of elevators, leaving in its resistless progress northward and upward vast masses of unassimilated population denser than anywhere else on earth. Here a mission field of unsurpassed richness presents itself to the Church. Children swarm in the streets like rabbits in a warren. Night and day one is confronted by the hideous spectres of prostitution, pauperism, drunkenness, crime. Materialistic habits of thought pervade the thin mental soil of the people. Alien races, often with stiff prepossessions against churches, jostle each other, Latin, Celt, Slavic, Semitic. They behold the spectacle of Protestant churches slowly dying out before their face and eyes. The growth of great ecclesiastical institutions uptown or in the suburbs makes no impression upon them. These people have a narrow horizon. They draw their conclusions from the outward appearance and from phenomena close by. They are overawed by that only which obtrudes. a solid materialistic front, like a great school house, or a

massive commercial building, or gaudy saloons and theatres. The church edifices are in disrepair. The wealth has gradually leaked out of them through the removal of members uptown or to the suburbs, and their appliances for worship are correspondingly weak. This vast neglected population provides the environment and the field for the Institutional Church.

There are three courses open as regards the downtown problem. There is, first, the policy of abandonment, the Church confessing its inability to cope with the forces that converge against it, and withdrawing, little by little, from the field. It then becomes a traveling show. It forsakes just those sections of the city where it is most needed. Vast masses of people are left unchurched. There is presented the singular spectacle of Christendom sending missionaries to the heathen beyond the seas, and contemplating with indifference and hopelessness the extensive and vigorous growth of heathenism in the very vitals of its own country. We pay the traveling expenses for our best men and women to preach the Gospel to foreigners at the ends of the earth, and when these same foreigners come to us of their own accord, paying their own traveling expenses, we turn away from them with antipathy and despair. Italians have a glamor and picturesqueness in Italy, which disappears upon their arrival in America. Like their own olives, they seem to lose their flavor through transportation over sea water.

But these neglected masses in the lower wards of our city have their revenge. They are a constant menace to our distinctive American institutions. We cannot escape them. They cling to our flanks and follow us as we proceed northward on our narrow island. We catch their diseases. They have a saloon on every corner. They outvote us at our elections. A miasma stealing up from the widening social swamps infects our whole municipal life. The wise ostrich endeavors to escape her pursuers by hiding in the sand her too conspicuous head, assimilating her body to the sand dunes around her; but such an artifice will not avail with Christian churches. The difference between the Irishman and the Frenchman, according to Heine, is, that when the Irishman does not like the government he emigrates; but when the Frenchman does not like the government, he makes the government emigrate. The Church has pursued too much the Irishman's policy, fleeing from

adverse environment instead of subduing it. It is like the company of militia that enlisted with the express understanding that they were never to be taken out of the country, *unless it should be invaded.* This policy of retreat is fatal to Christianity, as in dropsy the water rises little by little until it submerges the vitals.

The second alternative is for the Church to cling indeed to the old fields downtown, assuming, however, that the methods of former generations will suffice for the requirements of to-day, instead of readjusting its gearing to the changed conditions.

"New occasions teach new duties."

The masses in New York require our very best preaching, architecture, and music. It is a mistake to try to reach them with cheap and nasty appliances. If I had my way, I would put the most beautiful churches among the homes of the poor, so that it would be only a step from the squalor of the tenement house into a new and contrasted world. The rich have beautiful objects in their homes. They should be content with plainness in church. But when we bring together the poor and the sad, let their eyes, grown dim with tears and weariness, find repose and inspiration in the exquisite arch, and the opalescent window, through which shimmer the suggestive figures of saints and martyrs. Let their ears hear only the sweetest and most ennobling music. Let everything in church be educational and uplifting. If the rich and the poor are ever to meet together for common prayer, it must be in the territory of the poor. Money and locomotion are correlative terms, like heat and motion. The rich must come where the poor are, for the poor cannot go where the rich are. The poor used to be taught to be patient under their sufferings, in hope of a blissful hereafter. But now they are waking up to the fact that the rich, in their refinement of selfishness, propose to get the better of them in both worlds, not only to monopolize the good things of this life, but also to appropriate the things that are supposed to help people heavenward, as the best preaching, and music, and architecture.

It is bad economy to concentrate our religious efforts upon the more favored classes, neglecting those who need us most. Harm comes from such an uneven distribution of the sacred privilege. It is as if a general should focus his heaviest artillery upon the weakest point in the enemy's line. The strongest medicaments of

the Gospel should be injected into the most diseased tissue of the body municipal. Here lies the true missionary spirit. The churches need to feel more of that social compunction which is the high-water mark of modern civilization; that spirit which impels cultivated people to dwell in settlements among the poor in the midst of

> "The fierce confederate storm
> Of sorrow barricadoed evermore
> Within the walls of cities."

The Institutional Church seems to be the only alternative left if we propose neither to abandon the downtown fields altogether, nor to till them with antiquated implements. The Church should cling to her old fields, no matter how hopeless and repulsive her changing environment may become, and not only strongly appeal to the religious nature of the people with her time-honored methods of prayer, and praise, and preaching, but all the while wisely supplement them with a system of institutions, educational and philanthropic, through which she may touch in a helpful way man's physical, mental, and social nature as well. Her best motto is her Master's word: "These things ought ye to do and not to leave the other undone."

But what are some of the social forms in which the life of the Institutional Church will express itself? These should be determined by the character of each individual field. One will learn to study the social situation and feel his way along, like a ferry boat entering its slip. He will all the time be asking himself the question, What social need exists in my immediate neighborhood, which has been overlooked by others, and which I better than others am cut out to meet? The commonest mistake of all is to do the very thing that others are doing. Imitativeness is the besetting sin of social workers. You see some church or society conducting a successful kindergarten. You say, "I will go and do likewise." In doing so, you impair the efficiency of the kindergarten already established, and the kindergarten you project turns out a failure because the kindergarten need in that particular neighborhood is already met. A better course would be for you to send the little children under your influence to the kindergarten already existing, and apply yourself to the task of meeting some entirely different social need. I would not establish a dispensary, with all its expensive and nerve-

wearing machinery, unless I were quite sure that ample provision of this kind were not already made for the sick in my neighborhood.

The longer I live the more delight I take in co-operating with everything good that is going on anywhere near me. The Church assumes its highest efficiency by taking the humble part of an intermediary between the individual sufferer and organized relief. On the one hand you have millions of dollars invested in charitable institutions, and on the other unclassified misery ignorant of the provision made for its relief. I try to keep myself informed regarding all the endowed philanthropies of New York, and when an application for help comes to me at my office hour, I at once ask myself the question whether there is not some organized form of relief that can grapple this particular case more scientifically and efficiently than I; for I feel that the little temporary help that I am able to bestow is a small matter compared with my bringing the sufferer within reach of some organized relief, of the existence of which he was ignorant. But the law of reciprocity requires that the church which undertakes to perform this intermediary function should contribute systematically to the resources of the organizations to which it sends its applicants for relief. Such friendly co-operation between the churches and other philanthropic institutions is the only safeguard against imposition and the overlapping of benefit.

I have not found other societies reluctant to co-operate with the Church in doing good. We keep in closest relation with the Charity Organization Society, and the Association for Improving the Condition of the Poor; our relations are cordial with the churches of the other communions, the Young Men's and Young Women's Christian Associations, the Salvation Army, and Rescue Missions; we avail ourselves of the great hospitals and other charitable institutions that are not far away; we keep up friendly intercourse with the settlements in our neighborhood; the New York Kindergarten Association conducts one of the kindergartens in our building, the other one being maintained by the Board of Education of our city, which also provides in our hall a free lecture for the people once a week; we open our doors weekly to a Damrosch People's Singing Class; the Federation of Churches has a vacation school under our roof. In these and countless other ways we are

alert to emphasize the feeling of solidarity that ought to inspire all who are working together for the common good.

But while the Institutional Church will prize the opportunity of co-operating with other religious and philanthropic organizations, there will still remain much distinctive work for it to do itself. As far as our own work is concerned, of which the editor has asked me to write, besides the religious services on Sunday, every week night, Saturday included, summer and winter, and parallel with these religious services, there is something doing every night in the way of physical, mental, and social betterment, as gymnastic classes for women and girls, gymnastic classes for men, gymnastic classes for boys, boys' clubs, singing classes, sewing school, children's hour with the stereopticon and moving pictures, men's tea on Sunday nights, Young People's Literary Society, and so forth. In summer we do fresh-air work and operate five public ice-water fountains. These forms of work we have gradually adopted as meeting exigent social needs in our own individual field. Other institutions which we were almost the first on our field to establish, we have from time to time relinquished, as they have been taken up by other churches and societies, it being our aim not to overlap the activities of other workers, but rather to supply the social pabulum that is actually needed by the people about us and which is not within their immediate reach. Thus a person coming to our church any night in the week will find in one place a meeting for worship, and in other rooms, under the same roof, opportunities for mental, physical, and social recreation as well as self-development. In this way our whole building is practically occupied at all hours every day and on Sunday, and is never dark and deserted, like many of our costly sacred edifices that are in use on Sunday and perhaps one or two week nights, and the rest of the time are tenanted by mice, silence, and gloom.

In such work one soon becomes inured to small audiences. This is the difference between an *inspirational* and an *institutional* center. In the former instance you face a large congregation once or twice a week, while in the latter you meet the same people in small groups, at close quarters, and many times during the week. The aggregation of all these gatherings will probably be much larger than the audiences which the minister has on Sunday. I submit that character is more effectively molded by frequent

touches. You cannot get an angel out of a block of marble with a stroke of the chisel once a week. Take a single narrow case. An average New York boy comes to Sunday school once a week, and presumably receives a certain impression upon the religious side of his nature. Between the Sundays those impressions are washed away from his mind by the influences of home, and street, and school; and at the end of a long course through all the grades of the Sunday school, when the proper age comes for bidding good-bye to it, as to the day school, his character is the same as at the beginning. The Sundays are too far apart efficiently and permanently to mold the child's character. But suppose every week you touch the same boy, not only on his religious side in an effective way at the Sunday School, but often and regularly between the Sundays you reach him along physical, mental, and social lines by means of a children's hour, boys' club, gymnastic classes and other recreative functions, his cynicism is gradually subdued, he comes to love and respect you, he feels that he has found a friend in you, new ideals spring up in his mind, and you are encouraged by seeing his whole spirit softened and conciliated. I would rather meet ten boys three times a week than thirty boys once a week. The principle thus narrowly stated and exemplified is applicable to the Church in its larger relations and other departments. The passion for bigness is obstructive to the truest social progress. We need to learn the pedagogic value of the little.

In all institutional work there are certain limitations that need to be considered. The Church should be true to its distinctive religious message. Social problems are so difficult and so fascinating that they easily absorb all a minister's time and energy. He neglects his study and the care of his flock. He loses his priestly character and becomes a mere social functionary. In the betterment of humanity one usually works either in the realm of motive or in the realm of environment. Some say, "Improve a man's environment and you make him a better man." Others say, "Strengthen his motives and he will conquer his environment." Both are right. We should be interested both in the improvement of environment and in strengthening character, so that it will be robust enough to subdue and assimilate even an adverse environment, as a tree toughens its fibre by wrestling with the wind. Those who are endeavoring to better environment and those whose aim is to

strengthen character through faith ought to understand each other and work together. While the Institutional Church actively sympathizes with every effort to improve social and physical conditions it cannot afford to surrender its cheerful faith that righteousness is the parent of comfort, and that through the worship of the Eternal the individual is inwardly strengthened to endure the fell clutch of circumstance. All its philanthropy will be suffused with the religious spirit. In its life the churchly will take the precedence of the institutional.

But while the chief emphasis will rest upon the religious side of the work, there can hardly be a greater mistake than the use of philanthropy as a lure to religion. Our kindness to people, in the nature of the case, inclines them to be hospitable to the spiritual message which we desire to impart. But if we are kind with such an end consciously in view, then the quality of our kindness is vitiated. We must be kind for its own sweet sake without any ulterior consideration, or else our kindness loses its essential character. Your church institutionalism must not mean being kind to people with a view to getting them to join your church. Are you kind to a horse in order to get him to join your church? Working men resent exploitation. The minister who engages in social work in order to build up his own church is doomed to disappointment. The last church which a person desires to attend is the one where he sought relief and received it. We do not like to revisit scenes of past misery. I am inclined to think that institutionalism is a handicap to church progress. We are to bend with tenderness over social sores, even when we know that such occupation may, in the immediate future, impede, rather than promote, the growth of our own church. Self-respecting people do not like to attend a church that has come among them to do them good. They prefer to go where they are needed, not where their needs are ministered unto.

Mr. Charles Booth, the great English statistician, in his recent comprehensive work on the religious condition of the poor in London, makes the suggestive remark, "If the churches, instead of demanding how can we help you, were to ask even of the poorest and the worst, how can you help us, a road might open out." His investigations seem to prove that the churches which have made most progress among the submerged tenth have been the ones that have inspired the poor with the thought that they were needed,

not as objects of charity and good will, but for what they can contribute of character and personality to the Christian cause. The distinctive note of excellence and hope in the work of Booker T. Washington is that he represents a movement that originated with the colored race itself, and did not proceed from philanthropists on the outside who proposed to better the condition of the colored people by maintaining churches and schools among them. Somehow or other, people seem instinctively to resent having good done to them, and if we are to succeed among working people we must in some way produce and promote among them the sentiment of self-help, and remove from their minds the impression that we propose to patronize them.

Our message to the working people around us should be, not, you need us, but, we need you. The good fairy type of church does not meet the requirements of modern conditions. This is one of the dangers to be guarded against in church endowment. An ecclesiastical establishment, however magnificent its equipment, and imposing its service, can never really grip the people, unless they feel a sense of responsibility and ownership. Churches in which the gifts of the worshipers are not needed for the support of the worship, but are applied to missions outside, tend to produce a breed of ecclesiastical paupers.

We must constantly be on our guard lest we make the impression on the community that we exist simply to minister to its needs, and are ourselves independent of its sympathy and help. Otherwise we shall repel from us the very people who would form the best elements in a self-supporting church, and will magnetize and attract to our embrace worthless people in whom the religious instinct is rudimentary, and whose desires never rise higher than the loaves and fishes. The tendency is to produce hypocrites and ingrates.

No church that hoists the flag of relief has resources adequate to the clamorous requirements of poverty in a great town, hence bitter disappointment ensues. The applicants for relief feel that somehow they have been deceived. They have asked for bread and have been given a stone. The Church has encouraged them to think that they were to get employment, food, clothes, social recognition, and instead offers them the white fragrant flower of religion.

Working people, in order to be drawn into the churches, must

be made to feel that they are needed there. People lose their interest when they come to feel that they are mere ballast. They are not attracted by expensive establishments in which they feel that their small gifts are of little account. It is not that they do not enjoy beautiful things, but they suspect that they are wanted merely to fill the pews, in order to gratify the minister, and a few rich men, and they decline to be put to that use. They refuse to be mere passengers. No one depends upon them. It gradually dawns upon them that they are like a child in a perambulator, who seems to be driving a horse, but is being guided and propelled by a stalwart nurse from behind. It seems to them that the Church can get along without them. They are not hostile, nor even indifferent. They like to attend little wooden churches where their contributions count.

In this discussion of the Church in its social aspect, I seem to have indicated a steep and thorny path. The local church finds itself sometimes in an unresponsive and even hostile environment. This social phenomenon is apt to occur in the lower congested sections of our great town. The Church under this pressure tends to *institutionalize*. It supplements its ordinary methods with a system of social, educational, and philanthropic institutions with a view to conciliating the community in which it finds itself. These efforts are not directly and immediately promotive of the growth of the Church, but may even impede that growth, weaker natures being attracted by the prospect of social advantage, and stronger spirits desiring to go where they can do good, instead of having good done to them. Such an altruistic spirit, however, on the part of the Church carried on in a wholesale and systematic manner, and persisted in long enough, might in the end remove prejudices existing in certain minds against Christianity. But one would have to live long to enjoy a personal experience of such climatic changes. The Church is a means, not an end. The important thing, after all is not the building up of a church, but the Christianization of the community.

THE CHURCH AND THE WORKING MAN

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The "alienation of the masses" from the Christian Church, the arraying of its power upon the side of the moneyed interests, and its consequent failure as a solvent of the social problems of the age, are now commonplace utterances in the mouths of the majority of the public champions of labor. Many such are earnest men and women who sincerely wish it were otherwise, some of whom are looking for the day when the Church will actively espouse the cause of the laboring man, while others claim to despair of receiving light or hope from that quarter as long as "her members are mammon worshipers or hypocrites or both, her clergy professional posers, whose words are for sale and whose slightest tendencies to free speech are muzzled by the millionaire bondholder who looms large in the front pew."

No lover of his kind should treat lightly such a situation, in so far as it is found to be true. That there should be hatred or at least misunderstanding between organized religion and organized labor should furnish ground for profoundest regret if not the deepest shame. Which party is to blame? What are the causes operating against harmony between the man who with "the temple of the Holy Spirit" earns his daily wage, and those spiritual forces which should inspire him to best endeavor and lead him and his loved ones out into "the liberty of the Children of God"?

If this alienation be radical, we should seek the cause either in the fundamental teachings of religion or in the principles of organized labor. Let us survey briefly the attitude to the cause of labor of that charter under which the modern Church claims to operate—the Bible.

There is scarcely a book of the sixty-six that does not appear to be written from the viewpoint of the people. Men of the soil, the tool and the workbench have a large place in the record. We

hear the hard breathing of men who mingle the struggle for righteousness with the struggle for daily bread. From the industrial preamble of Genesis, "in the sweat of man's face shall he eat bread," to the pronouncement of the Apostle Paul to Timothy, that if a man provide not for his own he is worse than an infidel, we find the principles and problems of labor set forth with blood-earnestness, and the force of moral conviction. Joseph's success in saving Egypt from economic ruin, in Gen. 41, might well be taken to heart by those who handle the world's food supply. We find the first recorded industrial revolution in Exodus, where the oppressed Israelites, under Moses, the greatest labor leader ever born, struck against the oppression of Rameses II, and "walked out" of the bitter bondage of making bricks without straw. Israel's judges were not ermined dignitaries dispensing law from the soft woolsack, but horny-handed, sunburned giants from the furrow and the sheep-trimmed hills. The prophets were men of the people who, clad in camel's hair, broke in upon the luxuries and tyrannies of king or class with terrific denunciation. The pictures of Nathan arraigning David for his murder of Uriah, and of Elijah facing Ahab with his bloody robbery of a poor man's vineyard, should thrill every toiler restive under the aggressions of class privilege. The utterances only of those prophets have survived who were true to their times. Such a man was Ezekiel, who found Church and State leagued against the people. "There is a conspiracy of her prophets—they have taken the treasure and precious things." "Her priests have violated my law—her princes are like wolves ravening the prey, to shed blood and to destroy souls, to get dishonest gain." The prophets were not content with denunciation or with feeble calling of men to worship regardless of personal character. Hosea's message is characteristic: "I desired mercy and not sacrifice." They refused, on the other hand, to launch an economic program of eternal welfare, laying at the foundation of society those moral principles and spiritual motives without which the cleverest social and economic systems are but houses built on shifting sand.

The founder of Christianity was a carpenter. His hand was roughened by the tool and his feet trod the highway of the multitude. His parables dealt with the common experiences of the field, the home, the market-place. His companions were working folk.

His message was entrusted to fishermen and trades-people. A tent-maker proved to be the greatest organizer of His mission. He was the first world teacher to recognize the rights of the child and the potential manhood in the criminal. While organizing the hope of immortality into definite assurance, he brought Heaven down into daily living. "The Kingdom of God is within you." The Hereafter became henceforth the *Here and Now.* "Thy Kingdom come"—where and when?—"Thy will be done *on earth as it is in Heaven.*" Not to men as they are to be, but to men as they are,—in the home, the field, the shop; to parent and child, employer and employed, teacher and student, friend and neighbor—He appealed. His message was based upon the assumption that if there be no heaven in the present life, there is none for the future. If men cannot live on terms of justice and fraternalism in the flesh, they never can in the spirit. If there be no angel in the man as he is to-day, death can discover none such in the Hereafter.

Such is the Bible. As long as the Christian Church builds upon it as her "Impregnable Rock," so long must she uphold the dignity and moral rights of labor. It is the only charter of social rights that has survived the ages as a living word to men of to-day. Surely there is hope in this fact.

Does the fault lie in the past of the Church? What of the history of Christianity as a legitimate social factor?

Christianity was introduced into the world at a time when the efforts of ancient civilizations had crystallized into absolute fixity of social conditions, whereby, under the caste system and through the ascendency of militarism, the lines of cleavage between patrician and plebeian were widened into impassable gulfs. The slave was on friendly terms with his master simply because his wants were few and assured. There was little struggle for bread, no struggle for rights. The only hatreds were political. Social ferment was impossible. The serf brought up his children to look forward to serfdom. It was what Carlyle calls "the brass collar period." One of the miracles of history is that this "religion of slaves," with its doctrines of human equality, fraternalism, the worth of the individual, and the power of moral and spiritual ideals, should have gained foothold during the Age of Might. "Keep to your ignorance," said Emperor Julian, "Eloquence is ours, the followers of the Nazarene have no right to intelligence." Yet the faith spread

in spite of persecution, permeating stratum after stratum of society, until, at the disintegration of Rome, it had entered palaces and claimed the fealty of emperors.

Now came the period of the Church's spiritual decline. Gaining wealth and temporal power, she joined hands with the State, keeping the people content through elaborate ceremonial and inspiring them with fear through her excommunications. During this Age of Authority, the Church maintained her hold on the people, who sought sanctuary within her gorgeous temples, and brought their riches to her feet as those who deck a corpse. The Church survived the period of stagnation and degeneracy without having lost the people, because they had not yet come to self-consciousness. They were yet to win their Magna Charta.

But coincident with the intellectual awakening of the sixteenth century came the Renaissance of morals and the struggle for religious freedom. The Church, purged of corruptions and limited in temporal authority, began to lead in the triumphs of a new era flowering in art, literature, invention and the establishment of popular rights. Thus the line of human progress has run, sometimes above, sometimes below, the organized religion of every age, but never far from it. Historians fail to record any serious breach between the Church and the working man until the dawn of the present industrial era. The Reformation, the Puritan movement, and many another moral and spiritual revival, have kept the Church measurably free from hardening into traditional molds and the conventions of a specifically privileged class.

Until the dawn of the present industrial era labor had not become segregated into a movement, had never stood before the bench and on the forum and at the ballot box with a program and a definite demand. Individual life is short, and the working man must have his answer quickly. He is not concerned with the past or the remote future, but with the living NOW! He requires speedy adjustment of institutions which have taken centuries to ripen. The economic and political worlds stand aghast. The Church likewise, living in an atmosphere apart from the crash of machinery and now taxed with the framing of a program adjusted to the changing order, fails to answer to the satisfaction of the working man. It could not well be otherwise. Institutions do not readily yield to the pressure of readjustment.

Meantime a number of superficial and inadequate answers are being made by current Christianity to the appeal of industrialism. One is the *answer of indifferentism.* It is considered a mark of good churchmanship in certain quarters to ignore the fact and power of the working man's movement, to deny the existence of "the lapsed masses," and to treat with contempt their criticisms of the Church. While arranging a program for a conference of Christian workers some time ago, I suggested to the committee that "Church and Labor" should be represented, but was opposed by a prominent lawyer, who declared that the Church recognizes no class distinctions. "Besides," he said, "*I* am a working man. We are all working people. Why dignify any special class?" He carried his point.

The Boston *Congregationalist* thinks "there is too much talk about the Church's relation to the labor problem, as though Christianity had a peculiar mission to those who labor without having their money employed in the work they are doing." This echoes Phillips Brooks, who once said, "I like working men very much and care for their good, but I have nothing distinct or separate to say to them about religion; nor do I see how it will do any good to treat them as a separate class in this matter in which their needs and duties are just like other men's."

But such blinking by the Church of her social mission will not avail. A published statement by a minister contains this proposition: "The labor movement is a class movement and the union a class organization, while the Church stands for the abolition of all class distinctions, and would cease to be a church the instant it sided with the union." All of which is true enough, but the present unfortunate misunderstanding is not due in any wise to the desire of organized labor to receive such official recognization as that the Church shall "side with the union." As a matter of fact, scarcely twenty-five per cent of the working class of this country belong to labor unions. Besides, the peculiar sensitiveness of churchmen toward the recognition of "a class" has been a trifle overworked. The Church in her missionary and philanthropic work has always recognized classes, following out Paul's principle, "if by any means I may save some." The needs and sins of special classes were recognized by Jesus. He pointed out to the class "Pharisee" the baseness of hypocrisy, to the class "Publican" the evils of extor-

tion, and to the class "rich man" the difficulty of keeping his soul free from the canker of the lust for wealth.

By noting lines of cleavage between class and class, by recognizing with sure and sensitive touch those factors entering into men's lives that make for separation, hatred and oppression, the coming Christianity shall be able to inspire a common enthusiasm for humanity and fuse into one brotherhood through sacrifice and service the manifold hopes and aspirations of the race.

Then again we hear *the answer of preoccupation.* The average clergyman is by no means an idler. His time is occupied in the absorbing cares of parish ministration or pulpit preparation. He has been forced to become a business manager. His work is to "fill pews," "add to the membership," build up a strong church. Financial and ecclesiastical matters come first. The denomination expects him to work upon the theory, latent but imperious, that society must help the Church. A Roman Catholic priest is quoted as saying: "We are all busy administering the sacraments, teaching the commandments, and not doing anything to see that the commandments are being observed." The Archbishop of Canterbury said recently that he worked seventeen hours a day and had no time left to form an opinion as to the solution of the problem of the unemployed. To which Mr. Keir Hardie replied that "a religion which demands seventeen hours a day for organization, and leaves no time for a single thought about starving and despairing men, women and children, has no message for this age."

Yet another answer of the modern Church is that of *ethical timidity.* It is idle for the Church to spend millions in foreign lands while shrinking from the practical application of her doctrines in the destitute places of civilization. The slum is an outstanding indictment against the seriousness and sincerity of the Church's message to the age. Fearless leaders have learned of late years to detect the false ring in much of the demand for "a simple Gospel" that with eye and ear oblivious to the blood oozing from between the cogs of our machine-made civilization, and the cries of the under-fed and over-worked, points to the skies as the only solace for the world-weary refugee from the present social disorder. Subscription to a formal creed, and support of and attendance upon the Church ought not necessarily to insure "good and regular standing." The oppressor of his fellow men through the

abuse of corporate power ought not be regarded more leniently by the Church of Christ than by the Government of the United States. There are many men judged guilty of criminal practices by our law courts who walk in and out of the courts of the Lord proudly confident of their ability to procure a least a Sabbath day's "immunity bath."

The Church has been wont to glory altogether too much in her charitable institutions, leaving the roots of poverty and crime untouched. What would be thought of a physician who contented himself with administering anodynes to his suffering patients? We may not need at present fewer orphanages and poor homes, but when the Christian conscience attacks the roots rather than the branches of social disease, we shall have far less need for such.

What if the Christian Church should seriously address herself to bridging the gulf! It is not so much a question of economic adjustment as it is one of justice, fraternalism, human sympathy. Has the Christian employer done his best to deal on terms of equity, honor and kindness with his employees? Has he been willing to lose money on the experiment? He has made a spurt by putting in a reading room or giving a turkey at Christmas. But some instance of ingratitude or imposition has furnished him a pretext for abandoning the "sentimental method," and return to the old system of armed neutrality. "I've tried it," said a church elder to me, "but it won't work. You have to treat them like animals and show no mercy, or they will override you." But has the occasional employer, who has bent his energies to the uplifting of his employees for five or ten years through ridicule, skepticism and ingratitude, ever failed of his reward? Is it not possible that the Sermon on the Mount has never had a real trial in industrial relations? "Christianity has not been a failure," says one, "because it has never yet been tried." I once attempted to secure a permit to go through a glass factory, the owners of which were prominent church members and supporters of a splendid settlement work near by, but was gruffly refused on the ground of the child labor agitation then in progress. I satisfied myself of conditions by watching the little black gnomes emerging from the glare of the furnaces, lads with pinched, flushed faces and slouchy gait, almost literally staggering under the pressure of the unnatural work and long hours upon plastic bodies, and I wondered whether if these em-

ployers were to spend their church and settlement money on an increase in wages so that the families of these boys could afford to send them to school, it would not be a more practical form of Christianity. The world will not be satisfied with the sincerity of our religious professions until we attack the causes of poverty and disease with the same enthusiasm and persistency that we palliate the symptoms. Almsgiving is ever easier than justice. It is less disturbing for the employer to send his check to some charitable institution than devise equitable conditions for his operatives.

It has not hitherto been a legitimate field for the Christian publicist to insist on such a material panacea as justice in the wage scale. But why stop at the loose proclamation of a principle? The Christian conscience has made itself felt of late in a mighty demand for righteousness in politics. Why not demand in the same way justice in the industrial world? Has not an inequitable factory and mill and department store wage scale directly produced immoral conditions. Ask the matrons of the maternity homes and Magdalene retreats in the mill districts and the great retail centers. Twenty-seven years ago Joseph Cook spoke these brave words before an audience of professional people: "Advocating no socialistic proposition and defending no communistic dream, I yet believe the day will come when the cost of its production will determine the pay of labor. The cost of production includes the support of a family. We cannot give the State the strength of its citizens on any rule that starves men. We cannot produce a skilled class unless we bring our children up well. Unless we have a certain regard for skill as well as the mill, the mill itself will be without skilled operatives. In time there cannot be a fit laboring class provided unless you give such wages as will enable an average head of a family to put among his expenses school books, newspapers, and religion. There must be somewhere a lifting of the income of the lowest paid class of laborers; otherwise we shall have monstrosity after monstrosity and the heart of girlhood wrung until the gutters are full of muddy slime. My theme is, in short, justice as an antidote to the dreams of political heretics. Until justice is held up as a broad shield against the darts of all insane communists and infuriated socialists we shall be pierced again and again with arrows."

The Church can never espouse this or that scheme for the

regeneration of society. It can never endorse a special program for labor any more than a program for capital. Heaven spare us from much of the misdirected effort and exaggerated statement passing off into space these days as Christian Socialism. Professor Shailer Matthews, in making his assertion that no man's teaching has equaled that of Christ's in the magnitude of its social results, speaks of those "modern prophets to a degenerate Church who in sublime indifference to the context, time of authorship, and purpose of a New Testament book . . . have set forth as the word of Christianity views which are but bescriptured social denunciation and vehemence." Nevertheless, the Christian pulpit can, and I am confident in the coming days will, lay the axe at the root of the tree and require an actual demonstration on the part of each Christian of his real value to society. Ruskin has a word in this connection: "Let the clergyman only apply—with impartial and level sweep—to his congregation the great pastoral order: 'The man that will not work, neither shall he eat . . . ' and he will find an entirely new view of life and its sacraments open upon him and them." But more than this, let the spiritual leadership of the age require of the membership the same zest and snap and eagerness in the application of the Golden Rule to their daily living that the non-Christian manifests in violating it. The erection of the ethical test to the same position of importance as is enjoyed by the creedal test would make the Church of to-day irresistible in the mutualization of human interests, and marvelously hasten the dawning of days

> "——of brotherhood, and joy and peace,
> Of days when jealousies and hate shall cease,
> When war shall die, and man's progressive mind
> Soar as unfettered as its God designed."

Lastly, the answer of the Church has been *the answer of suspicion,* due to failure to grasp the tragedy of the struggle now going on.

Religious leaders have been slow to appreciate the fact that the working man is deserving of sympathy because he has been the sufferer in every phase of the industrial revolution. The introduction of labor-saving machines by which the product has been vastly increased has inured almost exclusively to the interests of the

employer. Labor has painfully adjusted itself to the new conditions, entire trades having been wiped out of existence through the process. The employer and not the employee has been in the position to invoke the aid of the state in the framing of industrial legislation and the throttling of remedial measures. Both England and America could fill a chamber of horrors with the wretched results of a half century of unchecked industrial slavery. It is only of late years that both continents have become aroused to the shame of it, and attempted to wipe out the disgrace of one-sided legislation. Again, the specialization of labor by which factory and mill hands operate single machines, reducing them to the position of mechanical slaves, knowing no trade except the accustoming of certain muscles to a few movements, produces a degrading effect upon manhood and womanhood. In other days the workman owned his own tools. To-day he *is* one. Part of a vast machine, he sinks under the benumbing and stupefying influence of the system. It is little wonder he talks excitedly and grasps at socialistic straws after he has wiped the grime from his face and walked the kinks out of his back. It is not astonishing that he is willing to join almost anything promising outlook for the bettering of his daily lot, instead of standing apart in superior indifference or suspicion. The Christian conscience of the day should note the tragic effort of those who serve us with their hands to combine for protection. Whether they be striving against economic principles or industrial methods, the fact is, men and women are sad, wretched and full of bitterness. Would Christ have no vital message to such? Says Bishop Potter: "Until you and I have stood where He has stood, until those who are not working men and women can realize the grim danger that stares them in the face as they are held in the grip of some huge mechanism of capital and machinery, until we can understand what it is to work or to stand idle, not as the impulse to labor or the needs of their families demand, but as the whim of the employer or the condition of the market, bare to-day and glutted to-morrow, shall decide, we are in no condition adequately to appreciate that stern necessity out of which the trades union has grown."

With all the justifiable distrust which trades unionism has engendered in the minds of people, due to acts of violence, repudiated contracts and revolutionary doctrines, it represents the cause

of labor at its best as well as in some of its worst aspects, and deserves to be understood by all those who profess to have the cause of the under-man at heart. A quarter century ago labor unions were supposed to be mere culture beds for socialistic and anarchistic theories. Secret signs, grips and pass-words were then in use. The American working man has repudiated the waving of the red flag, and the chief hope of the revolutionary propaganda lies in the tremendous tides of foreign immigration to our shores. Here is the grave danger. Through stormy seas the cause of labor has plowed, and weathered many a gale raised by demagogical leaders or infuriated capitalists. After a quarter of a century the worst features of the labor movement have been fully exploited, and now the time has arrived for the spiritual leadership of the day to seek out and encourage the best elements of labor's struggle for the new day.

Let us now inquire how far trades unionism is antagonistic to organized religion. It is true that the overwhelming proportion of working men in the cities is entirely out of touch with the churches. But the atheistic bearings of socialism have not met the sympathy of the mass of those infected by even the wildest economic theories. It is well known that working men will hiss the Church at one moment and applaud the Christ the next. They will willingly admit the truth of Christian principles, and claim their struggle to be a religious one at the core.

The preaching in shop meetings of the principles of justice, love, and the worth of the individual, is listened to with respect and often greeted with applause. A minister, after attending a Central Labor Union meeting and in courteous fashion pointing out where the methods of the union violated the principles of Christ, expressed surprise that his remarks met with evidences of approval, to which a big bluff blacksmith replied: "You see, we ain't used to having it handed to us on a silver platter! we generally get it between the eyes in big chunks." Having addressed working men week after week in noon-day shop meetings for years, I find them to be courteous in their treatment, though at first somewhat distant and suspicious, and responding to the Gospel as applied to daily living with as much, if not more, readiness than attendants upon more formal services.

The avowed principles of trades unionism are, according to

John Mitchell: First, the right of association; second, the policy of a living wage earned under fair conditions; third, free speech, self-government, and the dignity of the working man; fourth, mutual esteem and co-operation of capitalist and wage-earner; fifth, far-seeing, open-minded, democratic conduct of industry. It is well, however, to recognize the two trends within the labor movement, one toward co-operation and the other toward conflict. There is certainly a sinister aspect to the problem, the fact that imported and radical socialistic doctrines are rapidly permeating our industrial centers where foreigners congregate. American agitators, quick to learn the catch-words of Continental theories and saturated with the wormwood and gall dripping from the pages of such men as Marx, LaSalle, Bakunin, Haeckel and Nietzsche, are playing cunningly upon the popular discontent, arraying class against class in what they hope will prove an irrepressible conflict. A desperate attempt is now being made to capture the labor movement for extreme socialism. Foreign names predominate among the leaders. While other industrial organizations have been based on the belief that the interests of capital and labor are mutual and can in the end be harmonized, there are probably sixty thousand men and women organized under a constitution, adopted in 1905, a portion of whose preamble reads thus:[1] "The working class and the employing class have nothing in common . . . between these two classes a struggle must go on until all the toilers come together on the political as well as on the industrial field, *and take and hold that which they produce by their labor.*" . . . The ritual of this organization provides that the preamble shall be read at the opening of every meeting, and that the following questions shall be propounded to every new member:

"Do you realize that the working class, who produce all wealth, have nothing, and the capitalist class, who do not produce, have everything?

"Do you agree that the working class and the capitalist class have nothing in common?

"Do you agree, therefore, that labor is entitled to all it produces?

"Do you realize that between these two classes a constant struggle is going on?

[1]Proceedings of Industrial Workers of the World, 1905, p. 247.

"Do you realize that this fight can only end when capitalization is abolished?"

The intent of this old movement under a new and dangerous guise (because it is the first attempt of the socialists in this country to organize a purely industrial movement) is to produce a "class-conscious" hatred of employer by employee. It is calculated to engender a despair of efforts directed toward harmonizing the differences between capital and labor. Officers of organized labor, such as Powderly, Mitchell and Gompers, are called traitors and accused of betraying the cause into capitalistic hands. The words by which the promoters characterize themselves are "revolutionist," "rebel," and "slave."

Their attitude to Church and State is reflected in the following extracts from speeches delivered at recent conventions. Speaking of faith in the ballot box, "It involves a repetition of the methods of the Christian Church, which raises a magnificent ideal in the remote future to be arrived at some time sooner or later, and in the meantime practices all possible wrong."[2] (Applause.) Speaking of craft unionism as opposed to industrial unionism: "It can well be lined up with the Church and brothel, police powers and peace powers; in fact, all of those things which we look upon as necessary for capitalistic stability."[3]

Shocking, is it not? But why more so than the revelations of corporate highway robbery and political debauchery filling the columns of the daily press, due to the following out of the economic doctrine of "enlightened self-interest"? Why should warfare on society be tolerated in one instance and denounced in the other. If President Roosevelt is sufficiently fearless to class both a railroad magnate and a labor agitator as undesirable citizens, why should the collective Christian conscience as represented in the Church be less so? There can be but one answer—because she is afraid to face the world "without purse or scrip," clad only in the apostolic garments of justice, faith and love. She has tried on the armor of Saul and is loath to lay it aside for the sling that shall slay Goliath.

Meanwhile, the working man who has brains and heart to lead his fellows, stands toward the Church in expectant attitude. The violent anti-Christian crusade of Blatchford in England, and the

[2]Chicago Convention Proceedings, I. W. W., 1905, p. 226.
[3]*Ibid.*, p. 137.

similar efforts of the "Industrial Workers" in this country, are not typical, the feeling among the toiling millions being better expressed by such a leader as the English Lansbury: "I often ask working men not to judge Christianity by its modern forms, but to judge it for what it really is. If it stands, as I hold it does, for the bettering of men and women, then those of us who think so, must stand together, and, in spite of all opposition, must make the Church again the Church of the people."

The past decade has witnessed a really remarkable arousal of the Christian conscience in behalf of the toiler. General Booth years ago blazed a way that has been followed by more formal methods. Wilson Carlile, of London, the head of the Church Army, is conducting a marvelous work for the unemployed throughout England, and following the notably successful efforts of the lamented Hugh Price Hughes, People's Churches have sprung up in almost every city and town of the United Kingdom. In our own land the strong, clear voices of such men as Father Ducey, the Reverends Washington Gladden, Charles Stelzle, Graham Taylor, W. D. P. Bliss, Alexander F. Irvine and others are speaking conviction to the hearts of many hearers. A Church Association for the Advancement of the Interests of Labor has been developed by the Protestant Episcopal communion, and a Department of Labor has been organized by the Presbyterian Board of Home Missions. The monster labor meeting on Sunday afternoon in connection with the meeting of the Presbyterian General Assembly, at Columbus, Ohio, last May, when seven thousand persons, mostly working men, filled Memorial Hall, the expenses of the meeting being defrayed by the local labor unions, was a practical demonstration of the great opportunity before the Church. Labor Sunday, the Sunday before Labor Day, is now an institution in hundreds of churches. Labor sermons are printed in the daily press and in many labor organs. Central Labor Unions meet at their halls and march thence in bodies to the churches. Mr. Stelzle, for the Presbyterian Department of Church and Labor, himself a member of a union, recently organized a sixty-day campaign of which this is the record: Four hundred shops entered, five hundred preachers enlisted in the work, one thousand meetings held, fifty thousand gospels distributed, one hundred and fifty thousand pamphlets circulated, and two hundred thousand working men addressed.

To radical Christian Socialists this is a mere "coquetting with labor." They must have a great social program at once, with congresses and swelling deliverances. As Mr. Bliss says: "Let the Church show that our evils to-day spring from the foundation of our American economic life in the basing of industry upon the strife of individuals." This recalls the remark of Theodore Parker: "The trouble is I am in a hurry and God is not."

But what a campaign of education is necessary before the day break! What need of Savonarola-like utterance in our strong pulpits, where prophets stand forth as in old days, fearless of those exquisite tortures that the powerful know right well how to inflict! What need of carrying the lamp of truth into the mine and shop and mill, teaching men the futility of strife in any effort for betterment, and the omnipotence of co-operation, arbitration and fraternalism! What need of showing the folly of making hearts happier by economics divorced from personal righteousness, and the necessity of interaction between character and environment! What need of patience, charity, and a passion for mutual understanding in this time of most momentous adjustment between man and his surroundings! Shall we who love the Church of Christ assist or retard the birth of the new era? A testing more serious and searching than ever in her history is before her. Through the inherent vitality of truth she shall live. She shall cast out the old leaven and henceforth, living not for herself, but for the Kingdom, bring about that divine order of human society in which all shall be members of God's family, all life shall be the practice of religion, all workers shall be worshipers, all labor a sacrament, all earth a heaven.

PRESBYTERIAN DEPARTMENT OF CHURCH AND LABOR

By Rev. Charles Stelzle, *Superintendent,*
New York City.

Fully six times as many men in the labor unions of this country are not touched by the churches as are in all of the Presbyterian churches combined. Add to these the masses of non-unionists not in the Church and one will get some idea of the field in which the Department of Church and Labor is operating. Practically every immigrant is a working man. At any rate, he is in the working man class, using that term in the popular sense. Hence, the whole problem of the immigrant, social and religious, comes within the scope of the department, so far as the practical, every-day side of the question is concerned.

Socialism must be reckoned with by the Church. There are to-day nearly nine million socialist voters throughout the world. In our own country the gain by this party during the four years preceding the late Presidential election was sevenfold. If the increase during the next eight years is in the same ratio, the Socialists will elect a President of the United States. Whatever one may think of the economic value of Socialism or the probability of its success as a political party, this fact remains—Socialism has become to thousands of working men a substitute for the Church. Already in several of our American cities Socialist "Sunday-schools" and "preaching services" are being held, conducted in some instances by deposed or discontented ministers and priests. They have adopted the vocabulary of the Church. They are insisting that Jesus Christ was a Socialist, and that they more nearly represent the teachings of Jesus Christ than does Christianity so-called.

These, then, are some of the problems that confront us as a Church and as a nation. The labor question is fundamentally a moral and a religious question. It will never be settled upon any other basis. Therefore, the Church has a most important part in the solution of this world-problem. And because it is a world-

problem, it must be studied in the most comprehensive manner. No little two by four scheme will solve this question.

It is the aim of the department to make it the best informed office in the world on the subjects which it is studying Into it comes, with almost every mail, from various and world-wide sources, the latest and most exact information affecting every phase of the working man problem, as it concerns the Church. Out of it goes, with even more frequency, by mail, messenger, telephone and telegram, the carefully digested and systematically tabulated information, to pastor and to Christian worker, to student and to teacher. There is a science in business—the result of co-ordinated experience. There should be a science of city missions. Christian workers should be spared the humiliation of blundering experiment. At the service of every minister and every member of the Presbyterian Church, and absolutely without charge, this phase of our work should become of increasing value to the whole Church.

So that both the Church and labor may see each other with clearer vision, the plan of the exchange of fraternal delegates between Ministers' Associations and Central Labor Unions has been adopted. The fraternal delegate goes unpledged to secrecy. He does not have the privilege of voting, but he has the right of the floor on all occasions. In some instances the labor unions have created the office of chaplain for the ministers, and the regular meetings are opened with prayer. Working together, the Ministers' Association and the Central Labor Union may bring about many municipal reforms. Indeed, united, there are few things in this direction which they may not accomplish in the cause of good citizenship, independent of partisan politics. Especially in those matters which involve moral issues—such as the saloon, gambling, the social evil, Sunday work, child labor, sanitary conditions in tenement houses and factories, and everything else that influences the moral life of the community—may these organizations co-operate. In operation in about one hundred cities, the plan is spreading from town to town, until it is hoped that it will become effective in the six hundred cities of our country that support Central Labor Unions and Ministers' Associations. The practical result of this plan has been that there is a more cordial relationship between working men and the Church; first, because the

minister has a broader conception of what the labor movement stands for, and, second, because the labor leader has come to know something of the mission of the Church.

The department has just inaugurated a correspondence course in applied Christianity to meet the needs of ministers who are in difficult fields, especially in industrial centers.

There are over three hundred labor papers printed in this country. The influence of the labor press can hardly be overestimated. As a noted sociological writer recently declared, "The average working man reads his labor paper as the early Christian read his New Testament." Read by millions of working men who are eager for information affecting their interests, these molders of the laborer's opinion are leading on the great mass of men for good or ill. A press bureau, furnishing labor papers with original articles which present our viewpoint of the labor question, and discussing the working man's relation to the Church, is a part of the general plan of our department. In this way we have been speaking weekly to nearly three million trades unionists and their families, thus making an audience of at least ten millions.

Every leaflet sent out by the department has been printed in this series. It has been an inexpensive way of getting information to the working men. If the Board of Home Missions were compelled to print in leaflet form the matter which is being sent to the labor press, and to pay the mail and express charges which would be necessary in order to send it to our workers, it would cost the board more each week than it costs to run the entire department for a whole year. We are sending more literature to the unchurched working men of the United States through these syndicate articles than is being sent out to the same class by all of the tract societies in the United States combined. There are about sixty such organizations. A labor leader of national reputation recently said that the influence of these articles has been such as to completely change the attitude of the labor press toward the Church.

In 1905 the Presbyterian General Assembly passed the following resolution:

"Appreciating the increasing importance of the industrial problem, and realizing that the labor question is fundamentally a moral and a religious question, and that it will never be settled upon any other basis, we recommend that the Presbyterial Home Mission Committees appoint sub-committees

for the purpose of making a systematic study of the entire problem in their respective localities. These committees shall co-operate with the newly-organized working men's department of the Board of Home Missions, thus establishing, in connection with the organized Presbyterianism of every city in America, a board of experts, who may be able to inform the churches with respect to the aims of organized labor, and to inform the workingmen concerning the mission of the Church. These committees shall also assist in the already successfully inaugurated plan of securing for the churches fraternal relationships with workingmen in their organizations; become responsible for the distribution of the literature issued by the board both for the membership of the Church and for the great mass of working men outside of the Church, and to push aggressively whatever methods may bring about a more cordial relationship between the Church and labor."

In accordance with this resolution, the department has in practically every large city of the United States special committees which represent it in the study of local problems. One of the newer features of the work of the department is the directing of great shop campaigns at the noon hour. During the past year the department directed campaigns in six cities, during sixty days, entering 400 shops, enlisting 500 preachers, conducting 1,000 meetings, distributing 50,000 gospels, circulating 150,000 special programs and speaking to 200,000 working men.

Visiting cities requesting his services, the superintendent devotes himself largely to work in the field. Addressing the churches, men's clubs, missionary societies, young people's organizations, conferences, etc., he presents those phases of the work which seem to be most essential, and when it is desired he assists in the organization of definite lines of work which may be helpful in the community. Courses of lectures covering the question of the Church's relation to working men, and kindred subjects, are given to the students in theological seminaries, thus establishing a "traveling chair of Christian Sociology."

Labor unions are visited, mass meetings for working men are addressed in the churches, halls and theatres, the audience sometimes numbering from one thousand to ten thousand, and in every way possible efforts are made in local fields to bring the Church and the working man into closer fellowship. Conferences are also arranged for employers and employees for the discussion of industrial problems.

The pastors of the eleven thousand Presbyterian churches in

the United States are requested by the department each year to discuss some phase of the labor question on the Sunday preceding Labor Day. It is believed that just as Memorial Day and the several "Birthdays" show our appreciation of those who rendered patriotic service, and just as the Church's "Holy Days" do honor to those who have served mankind spiritually, so "Labor Sunday" should be observed by the churches in honor of the millions of toilers who daily serve mankind in the humbler places of life. This plan has the hearty endorsement of the leading central labor bodies of the country and of practically the entire labor press. Literature in the form of leaflets is largely employed, something like forty titles now being used both for the Church and for working men.

The following resolution, adopted by the American Federation of Labor, will indicate how this movement has been received by the highest court of organized working men:

"WHEREAS, The Presbyterian Church in the United States of America, at its last national convention, officially established a Department of Church and Labor for the express purpose of making a systematic study of the labor problem; and

"WHEREAS, It is part of the plan of the department to appoint in every industrial center special committees that may become experts in their knowledge of every phase of the labor movement, so that they may inform the churches with respect to the aims of organized labor; therefore be it

"*Resolved*, That the American Federation of Labor, in convention assembled, indorse this new and significant movement in the Prebsyterian Church; and we further recommend that central labor bodies co-operate with this department and with its sub-committees in every way that may be consistent, in order that the Church and the public at large may have a more intelligent conception of the conditions and aspirations of the toilers.

"*Resolved*, That the American Federation of Labor recommends that all affiliated State and central bodies exchange fraternal delegates with the various State and city ministerial associations, wherever practicable, thus insuring a better understanding on the part of the Church and the clergy of the aims and objects of the labor union movement of America."

MODERN PRINCIPLES OF FOREIGN MISSIONS

By Edward Warren Capen, Ph.D.,
Boston, Mass.

A new day has dawned in the work of the Church at home. There was a time, and not so very many years ago either, when the aim of the minister was the saving of individuals from sin here and from the danger of eternal suffering yonder. His work was frankly individualistic and comparatively little attention was paid to efforts for the betterment of material conditions or the enrichment of life. Patience, not progress, was the watchword. Now, however, it is recognized that the Church and Christians have duties other than those formerly emphasized. There has come a vision of brotherhood, and the great truth now stands out in almost startling clearness that men must rise or fall together, that the great social forces, which often prevent men from full self-realization, must be transformed until they secure for all men the fullest, richest life. The Church cannot rest content if it maintains its regular meetings for worship, or even if it retains its membership without diminution by death or withdrawal, unless at the same time it is reaching out for those without interest in spiritual things. It cannot permit conditions to prevail which condemn children to lives of ignorance or vice. It must be an influence for the infusion into all the life around it of new qualities of aspiration and achievement. It must affect vitally the whole community and be an integral part of the social life around it.

What has been the influence of this change of purpose and method at home upon the work of the Church abroad? We might rather ask the question, What has been the part played by work abroad in changing the spirit of that in the home land? Two beliefs are current. Some imagine that the methods of the foreign missionary are on a level with those of Jonathan Edwards; that while we are living in the day of the limited express train and the automobile, the work of Christians abroad is still in the age of the stage-coach. Others, who are aware of the breadth of the missionary work to-day, nevertheless suppose this to be a very recent

development. The fact is, that our representatives abroad left the stage-coach period long before the wildest imagination dreamed of traveling from New York to Chicago in eighteen hours. In fact, it may almost be said that the missionary leaders abroad never passed through the day of the coach.

President Henry Churchill King, of Oberlin, declared a year ago: "The clearly and consciously enriched conception of missions which belongs to the present day is not simply, perhaps not mainly, the result of changing theological or sociological convictions at home. It is the immediate result of the working out of the Christian idea on the mission field. Dr. Sidney L. Gulick is probably quite justified in saying: 'It would be a mistake to suppose that foreign missions first took on sociological forms of work and international value only after, and because of, the rise of sociological conceptions of man. On the contrary, although foreign missions started from a frankly individualistic theory of religion and salvation, the actual work was from the start practical and sociological. It would be truer to say that the Christian thought in regard to foreign missions has become sociological through observation of and reflection on what missions were actually doing than through the rise of sociological speculation along other lines of thought. Practice has always preceded theory, as it always does in the large. It is probably safe to say that the sociological conception of the function and value of foreign missions is more due to missionary experience than to the general sociological trend of modern science.' "

Not only, as Dr. Gulick puts it, was the work of missions "from the start practical and sociological," but it has been shown that from the beginning it was consciously and purposely so. The religious theory may have been frankly individualistic; not so the purpose. The modern missionary movement is hardly yet a century old in the United States, and those who inaugurated this great undertaking were men of broad vision. Their theology would seem to us to-day crude, to some even barbarous, it may be, but their aim was something far beyond the rescue of individuals here and there; they sought the transformation of whole nations and peoples and the Christianizing of social customs and institutions.

The oldest foreign missionary society in the United States is the American Board of Commissioners for Foreign Missions, which

was organized in 1810, sent out its first missionaries two years later, and within a generation had started work in each of the five great continents as well as in the island world of the Pacific. In what spirit were these men and women sent out? Not in any spirit of antagonism or hostility to other religions, but in the spirit of brotherly helpfulness. The instructions given to the first band of missionaries in 1812 included the following:

"You go, dear brethren, as the messengers of love, of peace, of salvation, to people whose opinions and customs, whose habits and manners, are widely different from those to which you have been used; and it will not only comport with the spirit of your mission, but be essential to its success, that, as far as you can, you conciliate their affection, their esteem, and their respect. You will, therefore, make it your care to preserve yourselves from all fastidiousness of feeling, and of deportment; to avoid every occasion of unnecessary offense, or disgust, to those among whom you may sojourn; and in regard to all matters of indifference, or in which conscience is not concerned, to make yourselves easy and agreeable to them.

"In teaching the Gentiles, it will be your business, not vehemently to declaim against their superstitions, but in the meekness and gentleness of Christ, to bring them as directly as possible to the knowledge of divine truth."

As early as 1837, the ultimate goal was declared to be to "rear up native churches, place them under the care of capable native elders ordained over them, [and] furnish them with ample self-propagating gospel instrumentalities at the earliest possible period." To this end the board explored mission fields, translated, printed, and distributed books, sought to educate people, instruct them in reading, writing, arithmetic, geography, and other sciences, as well as in the doctrines on Christianity. Missionaries to Hawaii were in 1837 told that they were to lead the people up "into a reading, thinking, cultivated state of society, with all its schools and seminaries, its arts and institutions."

It must be admitted that loyalty to these high aims has not been always observed, that narrower counsels have at times prevailed, and that out of the thousands of missionaries sent forth from America, to say nothing of Great Britain, some have been men of too small calibre and too limited training to cope successfully,

upon this broad plane, with the great problems of mission fields. Yet the leaders in the movement have, almost without exception, been men of large views, and sociologists have come to recognize in not a few of the religious leaders in the Orient fellow-workers in the cause of science. A missionary to India declared recently that from three-fourths to nine-tenths of the missionary problem there was sociological.

What, then, are some of the principles recognized by missionary leaders, which show that they are abreast of and in sympathy with the sociological thought of to-day?

They believe that cultures and religions are transferable. There are sociologists who maintain that each nation must work out its intellectual and social, as well as its religious, salvation for itself, and that in this process there should be no interference from without. All recognize the truth which lies at the basis of this. A civilization cannot be plucked up bodily from one country, transplanted to another, and by magic made to take root at once and flourish without modification or change. Only rarely can a full grown tree be transferred to a new environment without danger. Seeds, however, can be made to grow in soils thousands of miles from their birthplace, and by processes of grafting new vigor and beauty may be given to fruit trees. In this manner strawberries have been introduced into North China, and the Gravenstein apple is destined to supplant the beautiful but tasteless Chinese apple; and that, too, it may be added, through the instrumentality of a missionary. So with civilizations. What is our virile Western civilization but the result of grafting upon the vigorous but undeveloped nations of Western Europe the culture of the Roman Empire, while in the comparative decadence of the Eastern churches is seen the result, in part at least, of an isolation which excluded new life from without. Japan itself, that modern wonder of the East, has in the past centuries, as well as within the last generation, shown a marvelous power of grafting into her own civilization elements of strength and variety obtained from others. Buddhism, founded by Gautama in India, spread thence to the East and is now indigenous among millions in Southeastern and Eastern Asia. There is, therefore, no scientific reason for holding that Christianity, which originally came from the Orient, should not find itself again in its own environment.

On the other hand, the missionary leaders clearly recognize that new forms of thought or activity cannot be imposed upon another in any mechanical, external, or superficial way. This is the cause of the failure of the Catholic Church centuries ago to Christianize Indian tribes in the southern extremity of the American continent. All that can be done is to plant the seed, foster it, and let it grow as it will, with the necessary modifications produced by the influence of its environment. This is recognized most clearly by missionary leaders. Western Christianity has been profoundly modified by the habits of thought of the West, as well as by the political and economic struggles of its followers. Its divisions are largely the outgrowth of its dissensions. Its polity is in harmony with the political habits and institutions of its adherents. To try to perpetuate abroad the results of our quarrels at home or to insist that ecclesiastical government shall take forms at variance with the political genius of a people, is a folly equaled only by an attempt to force the cannibals of some savage tribe in the South Seas to govern themselves in the manner of a New England village. Nothing is further from the thought of missionary leaders. It is all but universally recognized that the native Christian Church must ultimately be a self-governing church. Dr. Arthur J. Brown, secretary of the Board of Foreign Missions of the Presbyterian Church in the United States of America, declared a year ago:

"And in the matter of the creed and government of the native church we must more clearly recognize the right of each autonomous body of Christians to determine certain things for itself. . . . In the course of nearly two thousand years, Christianity has undoubtedly taken on some of the characteristics of the white races, and missionaries, inheriting these characteristics, have more or less unconsciously identified them with the essentials. . . . How far is it proper for us to impose upon them our Western terminology and ecclesiastical forms? How far are we to be the judge of what it is necessary for other churches to accept? It is difficult for us to realize to what an extent our modes of theological thought and our forms of church polity have been influenced by our Western environment and the polemical struggles through which we have passed. The Oriental, not having passed through those particular controversies, knowing little and caring less about them, and having other controversies of his own, may not find our

forms and methods exactly suited to his needs. Let us give to him the same freedom that we demand for ourselves, and refrain from imposing on other peoples those features of Christianity that are purely racial. . . . Let the Asiatics accept Christ for themselves and develop for themselves the methods and institutions that result from His teaching. Let us have faith in our brethren and faith in God. . . . We should plant in non-Christian lands the fundamental principles of the gospel of Jesus Christ, and then give the native church reasonable freedom to make some adaptations for itself . . . The Bible was written for Asiatics and in an Asiatic language. Christ himself was an Asiatic. We of the West have, perhaps, only imperfectly understood that Asiatic Bible and Asiatic Christ, and it may be that by the guidance of God's Spirit upon the rising churches of Asia, a new and broader and more perfect interpretation of the gospel of Christ may be known to the world."

No other conclusion is possible. The numbers of the missionaries can never be sufficient to force upon the East views that do not commend themselves to the Oriental mind. Even the few who go farthest in urging upon the Church the duty of sending out large numbers of additional workers, hold up as the ideal one white missionary for every 25,000 of the population, and at present the forces are far below this figure. Suppose that the Buddhists of Siam should send to the city of Philadelphia a force of sixty missionaries to impose their tenets upon that city. This would be the number required to give one missionary to every 25,000. Would there be the slightest danger that the inhabitants of that city, estimated at a million and a half at the beginning of the year 1907, could be led by this small company to adopt generally any views which did not commend themselves as true and beneficial? Yet this is a proportion of propagandists far beyond that of the white Christian workers in the mission fields of the world. Moreover, the task of the Buddhist missionaries in influencing the more or less fickle population of any great American city would be child's play compared with that of the man from the West who tries to lead often a quarter of a million or more Orientals, conservative, suspicious of all that is foreign, and supremely self-satisfied, to adopt strange Western views; and it is equally evident that what success he has will be due in the end to the cordial acceptance of the new truth by its followers. In the elaboration of these views and their

application to local problems and conditions, the missionary is so far outnumbered by the native Christians that he could not, if he would, exert undue pressure upon those who have accepted the new doctrine and have received the new life. Moreover, the missionary does not seek to be the dominating force in the new Christian community. Increasingly it is recognized that the work must be carried on by the native Christians themselves; they are to be the evangelists to their own people. The man from the West is relegated more and more to a position of co-operation or even of subordination. For a time he will in new fields be the dominating force, but as there springs into existence the new Christian community, his influence proportionately diminishes. The work of educational leadership he often retains, but even here there are great educational institutions, notably the Doshisha in Japan, whose president is chosen from the constituency of the college itself. There are some who hold that ultimately the missionary from America will go to Japan or India, at the request of the Christian leaders there, to assist for a term of years, just as men like Gypsy Smith and Dr. F. B. Meyer are drafted into service in this country. Such brotherly co-operation is quite in accordance with the spirit of modern missions.

This view of missionary polity is no mere theory; it is already in practice. One of the best illustrations is in Japan, where the Kumiai churches, the outgrowth of the work of the American Board of Foreign Missions, have come to full self-support and self-direction. For a considerable period the mission has had no control over such churches as could support themselves, although its relation to those which needed help was different. Within the last few months this situation has changed and the support of every new church, which grows out of the efforts of the mission, is assumed by the Japanese Christians themselves. The Kumiai churches and the mission are co-ordinate bodies, working side by side, in cordial co-operation. The mission is doing pioneer work, but so are the native churches, and this they will increase as rapidly as their numbers and financial ability permit. In Ceylon the native churches of the American Board mission are entirely self-supporting and maintain their own missionary societies. The same is true among the Zulus of Natal, South Africa. Progress in this direction would be still more rapid were it not for two factors: the need of

trained native leadership and the frequent disinclination of the people to assume responsibility. No native church can be wisely allowed to assume autonomy unless it has leaders who are educated and trained to act wisely. In some instances the lack of such men has held back the native church for years. Hence it is seen how imperative it is to begin at the very earliest possible moment to train men to become future leaders. The other difficulty arises from the fact that in much of the Orient the people have never possessed self-government and have no desire for this, the dearest of possessions to the American; they would rather be dominated by some one than assume the responsibility themselves. It often takes long-continued, painstaking efforts to bring the Church to the point where, leaving behind the restrictions of childhood, it can emerge into manhood.

Thus the missionary leaders believe that a Christian civilization may become indigenous in Eastern lands, where it has only recently been planted. They also hold theoretically and practically to the broadest conception of what this work of missions implies.

In the home land, as already noted, it is generally admitted that the duty of the Church is not confined to rescuing individuals from evil lives and from the danger of future suffering, but that it should seek the enrichment and transformation of men here and now, as well as the establishment of social relations upon the basis of justice and brotherhood. Hence the churches are entering into lines of activity which are designed to give the community the possibility of broad, normal lives. Kindergartens, gymnasiums, classes of various sorts, lectures, concerts, and other social entertainments are all included among the instrumentalities which are used by the Church. A church which does not concern itself with the interests of its natural constituency and seek to offer to outsiders that which is lacking and which will appeal to their sense of need is rapidly becoming an anomaly. The social ministrations of the Church are recognized as an essential part of its activity, even though the unique function of the Church remains spiritual in the best sense.

What is true in America is equally true abroad. In fact, our new forms of work were long ago seized upon by the missionary as valuable agencies. Dr. James L. Barton, foreign secretary of the oldest foreign mission board in this country, in a public address

a year and a half ago, declared it to be the duty of the missionary to interpret the gospel "into terms as broad as the activities, experiences, and aspirations of men, and make it vital to every phase of human society as well as to the needs of the individual soul." To this end, he maintained, the missionary must preach and propagate the gospel of physical cleanliness and sanitation, of physical perfection, of industry, of a sane, pure society, of brotherly love, of good works, of intellectual development, of justice, equality, and common rights, of human sin, and of redemption for the entire man here and hereafter. This varied work costs money, especially in the beginning, and hence in no one field can all be done that is called for. It is equally true that the needs of Japan, for example, are very different from those of India, and these in turn different from those of the primitive tribes of Central Africa or the South Seas. There is little demand for medical work in Japan, for the Japanese are to-day in the van of medical and surgical progress—though it should be added that modern medicine was introduced into Japan by the missionary. Neither does it need industrial training. On the other hand, the millions in China, among whom there is so much terrible suffering and practically nothing worthy of the name of medical science, call loudly for the work of the physician and nurse, and the outcast hordes of India, forbidden by the rules of caste to enter into any lucrative occupation, may be lifted by industrial training from lives of almost incredible poverty to the plane of comfort.

While the work varies with the field and with the type of worker from abroad, taking the mission field as a whole, we find five clearly defined types of work: that of evangelism, education, industrial training, medical training and relief, and publication; to which might well be added a sixth, that of social service. The evangelistic spirit pervades the whole work, for it is seen abroad as well as at home, that there is need of awakening new impulses, planting new purposes in a man, before he can be led to any high development. At the same time, the peoples in mission lands are held back by burdens of sorrow, evil, superstition, or fatalistic beliefs which can best be removed by the acceptance of the good news and fuller life of the Christian religion. Yet while this is true, increasing emphasis is placed upon the other lines of work.

No community can be what it should be so long as the per-

centage of illiteracy is high and there are no trained leaders. The mission seeks to meet this need and the people of the West are supporting a system of education which reaches from the kindergarten up through the common, the high, and the boarding school, to the college and university. The best educated class in every illiterate country is usually the Christian community, and there have already sprung out of this work men and women who are capable of leading their people to better things. Many of these are Christians, some of them have not nominally changed their religion, but they all, with few exceptions, have their faces turned towards the future and are guiding all those whose intelligence has been quickened and who are willing to follow in the path indicated.

One great curse of most Eastern lands is the low standard of living, the industrial inefficiency of the people, and the unequal distribution of wealth. In Africa and many other regions the men regard manual labor as degrading and are content if they can have wives to till the soil and minister to their wants. Through industrial training the missionary is seeking to remove this curse and to make possible a community which can support itself upon a standard of living immeasurably higher than has ever been known. The value of this work in India is recognized by government, which helps to maintain these agencies for increasing industrial efficiency.

The lack of a medical science worthy of the name entails needless suffering, costs millions of lives, and increases poverty. These results are also brought about by the unspeakably filthy conditions in which millions live. This is another need which the missionary is trying to meet. He relieves suffering through hospital and dispensary, he checks the ravages of plague through vaccination and various measures of sanitation, and he trains native physicians and nurses to do this work for their own people. The graduates in medicine of the Syrian Protestant College at Beirut are found throughout Turkey. The medical missionaries are contributing to medical science and performing operations of which any surgeon in this country would be proud.

It is not enough to teach people to read, they must have something to read; a vernacular literature is a prime requisite for an intelligent community. In many countries the missionary has been compelled to reduce the language to writing, prepare grammars and dictionaries, and begin from the start the formation of a literature

of any sort. In other lands there is a large literature, but quite generally it is in a language unknown except to a few. It is also often the case that much of the present literature, whether in an ancient language or in the vernacular, is of a degrading type, which cannot be tolerated by a Christian civilization. To supplant such literature where it exists and to furnish books of information as well as inspiration is the effort of the missionary who spends time in literary work. It should be noted that the productions of the mission presses and the books and pamphlets prepared by the missionary are by no means exclusively religious. Text books for schools and books of science are constantly brought out, and only lack of funds hinders the preparation of a much broader literature. Best of all, in many places an indigenous native vernacular literature is appearing.

Under the head of social service there can be found abroad nearly every line of work that is seen in the United States. Each mission station is virtually a settlement. The missionary studies conditions and seeks to become a center of helpfulness to all around. In Japan, Miss Adams, of Osaka, went to live in a slum district, and has succeeded, by the use of settlement methods, in transforming the region, according to the testimony of the police and other officials. The apostle of prison reform in this same island empire was a missionary. Missionaries rescue orphans, train the deaf, dumb, and blind, care for lepers and the victims of opium, protest against the prevalence of great moral evils, and secure their restraint or suppression. While scrupulously avoiding all interference with questions of government, they stand everywhere for justice, honesty, and square dealing by government or individual, for the suppression of corruption of whatever sort, and for the principles of the brotherhood of nations. They are often the counselors of native officials who desire the progress of their people. In many instances a mission has taken a people ignorant and degraded and has gradually led them on until they have been actually organized into self-governing Christian communities, which in many respects would put to shame us of America. Uganda is a standing example of what missionary work of the broad sort can accomplish within a generation. Native rulers and government officials constantly testify to the value of the work of the missionary.

Such are some of the principles upon which the great leaders

of the missionary movement are now working. An acquaintance with the social sciences is being insisted upon more and more as a necessary preparation for missionary work, and missionaries are here and there making real contributions to sociology, notably Dr. Arthur H. Smith, of China. The missionary movement abroad, as carried on by the great American mission boards, is increasingly in harmony with scientific principles, and will soon be able to point out the path, if it has not already done so, towards greater efficiency for the Church at home.

SOCIAL WORK OF THE CATHOLIC CHURCH IN AMERICA

By William J. Kerby,
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The social work of the Catholic Church is so intimately bound up with its whole view of life and its normal service of souls that one cannot understand its spirit, agencies or motives unless they are studied in their organic relation to the processes of spiritual life fostered in the traditions of the Church. Doctrinally and historically social service is part of the soul's supernatural life; the development of spiritual emotions concerning one's fellowman is due largely to teaching and practice concerning social service, which have been in the foreground in the life of the Church. Hence, any objective description must take beginning in the estimate of social service to be found in the Catholic view of life. In the exposition here offered, attention is confined to the Church in United States.

By social work may be understood service of the weak by the strong. Whether the relation be direct or indirect, the aim is one—to sustain the helpless weak, to strengthen the hopeless weak, to protect the defenseless weak, and to prevent weakness when possible, making the individual self-sufficient, in advance of falling victim to circumstances which rob him of strength and outlook. Whether weakness is in the individual or in the mass; whether culpable or blameless; whether due to calamity, accident or the merciless evolution of industry, it does not affect the claim of the weak or the motive of the strong in giving aid. The Church is vividly conscious of natural and supernatural solidarity in the race; she accepts Christ's teaching on the dignity and merit of social service, seeing in it an essential section in the supreme law of love. Whatever changes social development may bring into the details of social weakness, the spirit and motive of the Church's relation to it remain unchanged, though, naturally, methods will vary with time and place. In the mind of the Church, then, social service is supernatural in character, motive and result. It is an organic part of religious activity, of the process of individual sanctification.

The service is conceived as distinct from the merit of the recipient, though the wisest traditions of practice impose effective and discriminating restraints on giving. Service must be personal in the most complete sense if it is to be spiritual. It is co-ordinated with prayer and fasting as a highly meritorious supernatural action, as a traditional form of expiation for sin and one of the noblest proofs of consecration to God. Thus, in the Society of St. Vincent de Paul, a highly efficient and progressive lay association devoted to social work, personal social service, is formally represented as a great factor in the work of personal sanctification.

Throughout the history of the Church there have been occasions when some pressing social problem called for relief and personal service. In response to such demands, men and women of intense spirituality and wide-looking charity have felt called on to meet the situation by organizing like-minded persons into religious communities for such service. The members release themselves from basic human attachments by vows and give themselves up to the service of God in social work. Thus the noble estimate of social service found in the Church is met by an equally noble form of personal consecration to it, and in consequence the religious community has been the distinctive agent of social work through the centuries. Once the religious community is organized, approved and active, it becomes a permanent center of religious consciousness, an organ of the spiritualized social conscience and a ready agent for action, its numbers increasing as demands for service multiply.

In the development of the Church the diocese is the unit of organization and growth; the bishop is the leader, organizer, ruler of spiritual life. The diocese is conscious, therefore, of a definite spiritual duty to meet problems of weakness within its limits. The traditions of the Church make the bishop responsible, as far as his circumstances will allow, for the aged poor, the sick poor, the orphans, the fallen. Hence institutions to meet these problems belong to the usual integrity of diocesan equipment. The bishop calls to his aid religious communities, which assume charge of the greater social works undertaken, and appoints, when conditions warrant it, an official diocesan director of charities.

The parish is the unit within the diocese. Its sense of social and spiritual solidarity creates an impulse toward relief of lesser

social problems which touch those who are associated around a common center of worship. Under the direction of the priest, clubs, sodalities, societies arise, one of whose aims is to relieve those who, in any way, are in need.

The development of the city with its distinctive and complex social problems appears to affect somewhat the direction of social conscience. The Catholics of a city tend toward a common sense of relation to problems, since these are city and not parish problems. Hence a tendency, particularly in lay Catholic activity, toward formation of associations which aim to meet common conditions in the city.

Thus the religious community, the diocese, the parish, the city are definite centers of social consciousness which expresses itself in organization for service. Although the religious communities command greatest attention in their social work, lay activity is extensive, sustained and efficient. Religious communities of either men or women, such as now under consideration, may be divided into three classes: (*a*) those which are devoted exclusively to social service, as caring for the aged poor, for fallen women, for the sick poor in their homes; (*b*) those engaged in many kinds of work, including social work, as teaching communities, which also conduct hospitals, orphanages, etc.; (*c*) those whose main work is other than social, but which incidentally and in relation to their chief work do much in social service, as teaching sisters who visit the sick poor and distribute outdoor relief. Lay associations for purposes of social service may be classified in the same way.

Social problems in the last analysis are reduced to terms of the individual; social reform must bear in mind the re-establishment of individuals. Causes of weakness in the individual are more often social than personal. Social work, therefore, may aim to relieve, console and reconstruct individuals, or it may be directed toward general causes. Thus we have relief and prevention, individual and social reconstruction. It may be said, on the whole, that the Church's social work is directed more towards effects than toward causes; toward personal action on the individual rather than on social forces; toward the spiritual more than the temporal. The Church is quick and tender in caring for the aged poor, yet she is not conspicuous in demanding old age pensions; she is watchful of the morals of children and tireless in instructing them, yet

not in advance in dealing specifically with tenement problems; she is sleepless in caring for orphans, yet not particularly aggressive in compelling employers to cover dangerous machinery or in asking society to make stringent laws concerning occupations harmful to health; she is first and strongest in defending the sanctity of the home, yet not remarkable for works in favor of sanitary housing.

Nor is this strange. It may be that the Church is somewhat under the influence of traditions which saw in individuals whole spiritual individuals and not merely social forces. The individual and not the social force is the unit on which in the main she works. In a time when the individual is strong and conscience is uppermost, religion can, in its own right, do much. But the complex organization of society has placed social forces and conditions in the ascendency and has secularized the agents which deal with them. Nowadays we aim to reform by law and public opinion. Causes of social ills are said to be secular and social; religion is made a matter of private concern; law is a matter of politics, and it is preferred that the Church keep out of politics. While religion is welcomed as an ally in acting on public opinion, and churchmen do so act with power, the tendency is growing by force of circumstances to restrict the Church to action of a secondary kind, and to leave to secular power, leadership in reform work. This is the more marked since religions still divide men while their social interests are identical. This action of the Church on victims of social conditions is supplemented by her normal teaching of duty and spiritual truth, and she hopes always that, if her organic teaching be but accepted, she will include, in the beneficent results which follow, all that may be looked for from law.

However, one spirit and aim stand out strongly in all her social work—the maintenance of the family in its integrity. Her normal teaching holds families together when nothing else could, and her agents of reform exhaust every resource before they permit the breaking of the family bond and consequent disintegration.

Although the estimate and inspiration of social work are Catholic and supernatural, on the whole there is found in the work a breadth which extends service far beyond the limits of catholicism. In many of our institutions, if memory be not at fault, no question is permitted concerning the religion of one entering to obtain relief, and no discrimination is made because of religion.

An important asset in the social work of the Church is found in the quick and effective co-ordination among the agents of service by which acute situations may be readily met. The priest is in constant touch with the people in sick calls, visitation, census taking and in answer to appeals. The people of every unfortunate class, as well as others, come to the church for sacraments, for obligatory worship. In distress the Catholic's first instinct is to turn toward his Church. Catholic children are brought to the Catholic school. Teacher and pupil are in personal and confidential relation. In this way information is quickly brought out concerning distress or need, and at once agents are at hand for action. This, together with the formal activity of lay and religious associations, makes possible very efficient service. Naturally, in spite of this, many cases escape notice, but the substantial results of co-operation are large.

As this co-ordination is an important factor in the Church's equipment, an illustration well known to the writer may be cited: A lay organization, the St. Vincent de Paul Society, took the initiative in founding a summer home for poor children near Baltimore. It is one of a number already begun by the society. A teaching community of priests, the Sulpitians, placed fifty acres of woodland, with fine buildings, at the disposal of the society. Sisters of Charity conducted the home for the first summer, Sisters of Mercy for the second, in 1907. Bands of 125 children from the poorest sections of the city are chosen and collected by laymen and brought to the home for a twelve-day visit. All acute cases of illness occurring are cared for at a nearby hospital conducted by Sisters of Charity, sisters, physicians and nurses giving services gladly. All chronic cases of any kind and defects in senses, etc., discovered while the children are at the home are taken up after the children leave and treated to successful issue in the City Hospital, conducted by Sisters of Mercy. Some twenty Catholic organizations in the city, the clergy and numbers of laymen to whom the work appeals, contribute generously. Practically no expense is incurred in administration and management of the home, so that the maximum return in social service is had on funds contributed. Cases of distress or want in homes of the children which come to the notice of the administration are taken up at once by the St. Vincent de Paul Society. Over seven hundred children are received during one season, each child having twelve days' outing. The

home works admirably and with splendid results, but it could not do so were any of the agencies mentioned not at the generous service of the others, without hesitation and practically without expense.

The fundamental problem in social work is the family. There are agencies of relief at hand to serve it and its members. Many societies, both religious and lay, seek out and visit the homes of the poor, nurse the sick, instruct and stimulate all who have need of such aid. Religious communities of all kinds do immense service in distributing outdoor relief and bearing personal ministration to the home, likewise lay associations, chief among which is the St. Vincent de Paul Society. Its rule tells us "No work of charity is foreign to the society, although its special object is to visit poor families." Whatever the agent which acts, hospitals, orphan asylums, homes of preservation are at command when any of them are needed to meet an emergency. Through action of both religious and lay associations, neighborhood classes are formed for cooking, sewing, basket-work and other pursuits much after the manner of settlement work. Day nurseries care for children of mothers who work; summer homes provide outings for children of poor homes; associations provide outfits for newly born infants and offer Christmas joys to the children who otherwise would never know of Santa Claus save as a dream. Employment bureaus are operated in connection with many associations; sometimes we find successful endeavors to provide temporary loans or carry a long-standing insurance policy which otherwise would be lost. In larger cities, homes for destitute children, newsboys, homeless boys are found.

In the main, orphans are cared for in asylums conducted by sisters. Effort is usually made to place the children early in carefully selected homes. Some difficulties are met when state laws shut out children born outside of the state. In many cases industrial schools succeed the orphan asylum, and boys and girls are brought to a condition of independence under institutional care.

Fallen women, either legally committed or voluntarily seeking reformation, are cared for in Good Shepherd or Magdalen homes conducted by sisters. In their work provision is made for every class of inmate. Those who are completely won and desire to remain secluded from the world, form a class by themselves and live a life in retirement, labor and prayer. Children whose morals

are in danger are taken into preservation classes and receive schooling and industrial training.

Insane, feeble-minded, deaf and dumb are cared for by sisters in institutions. Homes for working girls are instituted to give the inmates the security of home and the refinement of association that may protect them.

The sick poor are cared for in their homes or in hospitals. In this connection hospitals are peculiarly organized. Some are entirely for the poor, for indigent consumptives, for cripples, incurables, all conducted by sisters or brothers. The majority of hospitals, however, aim to serve the well-to-do as much as the poor. But, on the whole, through revenues received from the former, the institution and its staff of nurses and physicians of every form of faith, and Catholic sisters are enabled to maintain quarters and give services to the helpless poor, both in the hospital and through widely developed free dispensary work. In many instances maternity hospitals are found where unfortunate mothers may find refuge and their infants are saved from the dangers which usually threaten them.

Work among the colored people and the Indians is extensive. It is to a great extent similar in spirit and scope to the general social work of the Church. Much is done with varying but increasingly hopeful results in the cause of temperance. Parish organizations are found in great numbers, children are pledged on occasion of first communion or confirmation to total abstinence; schools, colleges, academies have active temperance societies. Usually appeal is made to the supernatural, and the thought of the Sacred Thirst of our divine Saviour is appealed to to strengthen children against drink. Local and diocesan organizations are united in one great national movement, the Catholic Total Abstinence Union, which works close to the spirit of the American hierarchy. One thousand and thirty-eight societies are federated in the union.

As on the whole the character and work of religious communities is fairly well understood by those who desire to know of them, no details of organization are now offered. Since no directory of lay social service exists, it is quite impossible to offer any detailed information concerning methods or extent of activity, nor can numbers in societies of men and of women be stated with any accuracy. Societies, based on the bond of nationality or locality, and founded for purposes of mutual benefit, insurance and the like,

incorporate many forms of social service for members, and contribute in marked ways to funds which enable religious communities to accomplish so much. Such organizations are numerous and efficient among those of Irish and of German descent in this country. Within their own circles and beyond them, they show large results in works of relief and prevention.

The St. Vincent de Paul Society is the greatest lay association in the Church devoted, strictly from a general spiritual standpoint, to social service. The unit of organization is the conference in the parish, which meets weekly. The conferences of a city are united into a particular council, which expresses the mind of the society in the city, holds quarterly meetings and provides for general situations and special problems. The particular council usually creates the special works committee which has large powers in dealing with questions. Over the particular council stands the central or superior council, which takes in a section, a diocese or a country. The council general is the highest authority.

Members are naturally those who feel drawn to social work. The chief aim is to visit poor families, defend and maintain them, procure employment for idle fathers and meet with energy and resources all demands for help. The society works always in close relation with priest, bishop and religious community, and has the whole range of institutions in the church back of it in its work. Its constitution and rules permit great elasticity. In New York the society conducts a home for convalescent women, a summer home for poor children, a home bureau for placing out orphans in homes and keeping record of their welfare. It maintains special committees for visiting the poor in hospitals, the Juvenile Court prisoners, for conducting boys' clubs and an employment bureau. In other large cities its work is equally varied and more or less of the same nature.

Modern circumstances have so affected the weak and afflicted, and have so emphasized the material and social aspects of their condition, and civil and social authorities have become so active in positive relief work, that the question of relations among agents of social service becomes one of some importance. The idea of association is developing. Effort is made to co-ordinate all agents of social service in harmony, to prevent fraud and insure best results. From the foregoing exposition the reader may infer that

varying attitudes toward co-operation would be found among Catholics. But the tendency is toward sympathetic exchange of services and recognition of the value of them to all active agents of charity. The International Convention of the St. Vincent de Paul Society, held in St. Louis in 1904, adopted a resolution to the effect that "As American citizens it is our duty to co-operate with charity workers of all creeds in all that pertains to the elevation of our fellow-beings, but in this co-operation we should be always guided by our rules, which wisely forbid the exposure of the misfortune of our poor." In large cities known to the writer, where co-operation with associated charities has been instituted, most encouraging results have been secured. Participation by Catholics in the work of the National Conference of Charities and Corrections has not been without good results.

No records are available showing the range of social service given by lay associations of men and of women. The aggregate is surely imposing. There is on the whole a marked tendency in all charitable endeavor to be mindful of the feelings of the poor, even to the extent of guarding carefully names and amounts given in relief. Thus, in the St. Vincent de Paul Society, some officers have power to receipt for money used in relief and to keep secret the names of those aided. When an effort was made to install an exhibit of Catholic charities at the St. Louis Exposition, although it had highest approval from nearly the whole hierarchy, some opposition was met because merely of an instinctive dislike of any kind of publicity in social work. As a result, only an incomplete exhibit was made, and it was possible to include in it the work of only few lay associations.

It is impracticable at present to attempt to make any accurate statement concerning statistics of religious communities engaged in social work. The official Catholic Directory contains the greatest amount of material available. But some institutions present many features of activity among which distinction is not made in reporting. Thus an orphan asylum or a home for the aged conducted in connection with a Mother House will not show the number of sisters in active social work; in the directory poor patients are not distinguished from pay patients in hospitals; some hospitals report average numbers, while others report whole numbers for a year; some institutions fail to report the number of sisters engaged,

others report them, but not the number of inmates. The works on the whole are so vast that any attempt at an analysis based on the full reports of the institutions themselves would go far beyond the scope of this paper.

On the whole, the traditions of social work in the Catholic Church are marked by a constant desire to let good works be known to God alone. The work is done as a form of consecration to God. It then has the right to be hidden from publicity. Those who have given their lives in this way to service of the weak and sorrowing are slow to welcome and reluctant to understand the publicity which nowadays accompanies social work. A religious community which sent many sisters as nurses in the Spanish war was unwilling to furnish any figures to an inquirer. The superior of a community devoted to nursing the sick in their homes kept no records which would enable a student to find the volume of work done. This spirit is so fixed and consistent that no effort is made in this exposition to present any tables of facts. A few were prepared at some expense of time and thought, but they were so far short of conveying a just impression of the social work of the Church on the whole, that it seemed best to omit them. An inquirer will not understand this work unless he look at it from the standpoint which places it in its relations to the whole Catholic spiritual estimate of life. When so studied, it is easily seen that much importance is attached to the desire not to let one hand know what the other gives.

THE CHRISTIAN SETTLEMENT

By Thomas S. Evans,
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The social instinct or desire for companionship is strong in human nature—people of similar characteristics gather together whenever opportunity offers. Therefore, in every large city we find sections known as "The Bowery," "The Tenderloin," "The Devil's Pocket," "The East Side," "The Neck," etc. These districts are inhabited almost invariably by people who are little known and thoroughly misunderstood. In many cases they are foreigners with whom their neighbors have no relations except in business, and very often they are found even trading only among those of their own nationality. The most casual observer knows that in such neighborhoods the living conditions are unsanitary, the ignorance is appalling, the moral standards are low, the social customs are degrading and the religious life is little more than superstition. These are the districts from which the political boss reaps his harvest with least labor and expense. From such sections a large proportion of the criminals come, and here are found the dens and dives of iniquity in greatest numbers. These few general facts discovered in the routine of city life led to the necessity for doing something to bring about a better state of affairs.

Good impulse under rational control led those who longed to help these people, to a realization that actual life among them must be the means of discovering and meeting their needs. The settlements thus established immediately became the centers of investigation and the sources from which sprang other organizations and efforts for social betterment. A settlement is, therefore, the actual residence of men and women in a neglected district for the purpose of joining hand in hand with those living there to understand and improve their condition in a friendly and natural way. No man can help his brother until he understands him and has his confidence—neither can a group of people help a neighborhood until they know and have the sympathy of those among whom they live.

A settlement is not necessarily an institution, although in some

cases a well-equipped building is essential. A settlement building should, however, be so constructed as to provide a home for the residents and a house where the people of the district may join with their new neighbors in all sorts of good and useful occupations and recreations. The scope of settlement work is absolutely unlimited—it should touch every phase of human life in every department of its being.

Naturally, it is largely a social institution, since we are considering a group of residents who have a social life of their own and at the same time a desire to affiliate with their neighbors and thus develop with them a healthy community spirit of hearty cooperation for better conditions. But while "social" seems to be the word, and is largely the method, it is only a part of the whole fabric of settlement work.

Much of the effort should be individual, and in fact, the most effective service is rendered when a single resident deals quite personally with one of his neighbors. The worker must study every phase of life in his district—physical conditions, moral standards, social customs, intellectual activities and religious spirit. There are the questions of health, sanitation, housing conditions, political methods, labor problems, education, church life, moral habits and various others.

Everything that concerns the people should interest acutely the settlement residents. Some settlements have greatly narrowed their sphere by refusing to tackle the religious question—these workers claim that to introduce religion engenders controversy and destroys the social harmony which is essential in such a center. Superficially and temporarily this is probably true, but in the long run exactly the opposite will result, for social ties without a moral basis will ultimately break down, and there can be no abiding morality apart from religion. On the other hand, religion forms social ties that grow stronger and stronger, although these ties, at first, bind only the few, the masses of people will gradually respond to that which meets their deepest need. This can be found only in religion.

The desire to avoid the religious seems to spring from several imaginary difficulties; in the first place, it is feared by some that to let the people know that a settlement and its residents stand for something positive in religion will, to use a slang phrase, "queer" things and create a chasm between resident workers and the neigh-

borhood people. Genuine religion creates no chasms—but promotes sympathy and love. The chasm is created by lack of religion, no matter how much the worker may profess. Jesus of Nazareth has more devoted friends to-day than any other person, and He stands as the only perfect settlement worker—the originator of the settlement idea and the constant ideal and inspiration for all settlement workers. His spirit and His methods have not been improved upon. It is, therefore, most fitting that settlements should bear the name Christian—an honest acknowledgment of the origin, and a definite expression of the ideal.

Again, religion is left out because it is claimed that the average settlement worker does not know how to handle religious questions properly and tactfully. Granting that this is true, we believe that the headworker should train his associates in religious work as well as in other forms of service, and should choose only those for this department who are qualified to do it. Let me say, however, that simple testimony is sometimes the most valuable religious method.

Though the above reasons are usually given for omitting the religious, the deepest and most likely reason is that many leading settlement workers do not feel it to be necessary—they claim that morality is sufficient—or they think one religion as good as another. Or if they do believe in "religion," it is ethical religion, so-called, with the supernatural left out—the hollow shell without the substance—the result without the cause.

Our position is that morality is the basis of settlement work and all social work, that religion is the basis of morality, that Christianity is the final religion, and that constant conscious fellowship with the living Lord Jesus is the sum total of Christianity and of life. There is no genuine life apart from Him—it is mere existence.

Therefore, the only complete settlement is the Christian settlement. In order to be genuinely Christian the known policy of the settlement must be to apply Christianity to the individual and social life of the neighborhood. The headworkers must not only be so-called passive Christians, but active and aggressive Christian workers, not enthusiasts or fanatics or fools in their methods, but as much like Jesus Christ as possible. Many may work in the various departments of the settlement whose religious life is unknown or undeveloped, but those who have charge of things must agree on

all important matters of policy and, above all, on the religious problems. It is most important to make plain the fact that to be Christian does not tie the settlement to any existing sect, creed or method of work. One of the greatest problems of the Christian settlement is to find out how genuine Christianity can be effectively introduced into the individual and social life of a community blindly prejudiced against anything that bears the name of Christian. The difficult and unsolved condition of this problem involves no reason for avoiding it; it is rather an additional stimulus to those who have learned the process of discovery through the solution of other problems.

Another advantage of the Christian basis is in keeping up the spirit and moral tone of resident workers. The report comes to our ears that in one large settlement beer was served on the table to the workers. It is hardly thinkable that in a Christian settlement the approval of the residents could be placed upon a habit which has such a demoralizing effect upon their neighbors who have not the power of self-control. The Christian basis also prevents the settlement from becoming a place where people get only what they want instead of what they need and should have.

Any distinction between social and Christian work is most unfortunate, since the latter certainly includes the former, but, on the other hand, so long as social work is considered sufficient or one religion thought to be as good as another in this world, Christianity must protest by planting and conducting its own centers. Jesus Christ divided sharply between His followers and others, not because He desired to create social strife, but because He had infinite foresight and penetration and knew that only by this means could He secure thorough and abiding moral results.

A prominent social worker told me recently that he could agree with probably nine-tenths of the things which a certain Christian settlement would stand for, but did not feel at liberty to take an active interest, because he felt that the problem of tackling the religious openly, in view of the difficulties involved and the scant results to be obtained, was too great. He stated a fair proposition, and, apart from the supernatural element in Christianity as an asset, his conclusion was probably correct. The essential difference between a social settlement and a Christian settlement is doubtless to be found in the attitude of the settlement towards supernatural

Christianity. If Christianity is the only true religion and is essential to final completion of character, then the settlement must be Christian, but if other religions or no religion produce as good character results, then any emphasis put on the religious is unwise and the social settlement is both easier and better. Let it be distinctly understood that it is not my wish to say that the lines are clearly drawn in most settlements. I am fully aware that Christian and Hebrew and moralist work together and often as individuals do religious work, but I am discussing the policy of the average settlement and speaking of that for which it stands in its neighborhood. My contention is that there can be no complete neighborhood center without a religious basis, and that this center cannot be in the long run effectively religious without being aggressively Christian.

Most foreign missionaries are really Christian settlement workers, for they take up residence in a city or village and by example and effort set about to make a change in their new environment. And, too, their activities include every variety of service and involve organization in every sphere of human life. They lead the people by example and teaching to be sanitary, to "keep house" properly, to observe good manners, to be honest, to correct political abuses, and, in short, to have for the first time high ideals and a social consciousness. Our settlements in this country could learn much from the practices of those devoted settlement workers in China, Japan, India, and Africa. The Christian settlement and the average church hold each a different place, but the settlement is quite unnecessary in a neighborhood where the Church has adapted itself to modern social conditions and needs. When we realize that hundreds of thousands of dollars are invested in church buildings so poorly constructed that they can be used only a few times each week instead of every day in the year, does it not seem necessary that the settlement should supply what is lacking? A church plant providing gymnasium, baths, playground, athletic field, concert hall, quarters for resident workers, summer camps, etc., would make any nearby settlement unnecessary, since it would do the work quite as effectively, provided only the denominational lines were practically forgotten. Is it not probable that settlements exist only because the Church has failed to do the service which was intended by its Founder, and may it not be the highest mission of the settlement

to awaken the Church to its fuller responsibility as the Y. M. C. A. and Y. W. C. A. are doing in other fields? The great function of the settlement religiously is to win the people to Christianity and then to let the people themselves choose their own form of worship and church connection.

There are many dangers to be guarded against in a Christian settlement; for instance, that of calling it Christian if the spirit and power of the Master Himself is not felt through the resident workers. Any "holier-than-thou" attitude towards the neighborhood people is fatal. A spirit of aloofness from other workers will isolate and hinder the work. A critical spirit means paralysis. Only Jesus Himself is a safe example of what resident workers should strive to be to their neighbors. But while His spirit prevails the sphere of usefulness in a needy district is truly unlimited.

There may be a variety of definite lines of work in a settlement. The children need to be looked after because of their dirty, cramped and wretched homes. A kindergarten conducted if possible by the city Board of Education, with volunteer workers to help, is most desirable. A day nursery in the building is an important part of settlement work and a boon to the babies and their mothers.

The settlement may help to solve the problem of dealing with truants and to enforce the law of compulsory education. The probation officer and "cruelty" agent may be of great help. Child labor is a crying evil, and no agency is so well equipped as the settlement for its overcoming. Night school has its place for the boy and girl who leave school at an early age in order to help with the support of the family.

The mothers of the neighborhood who have grown up in slovenly homes and worked in the mills until the wedding day comes, need to learn the first principles of housekeeping, cooking, sewing, etc. The girls and young women may be induced to spend two or three evenings each week in learning the essential qualifications of a successful working man's wife.

The settlement should manage the athletic sports of the young people, in which recreation and healthy exercise are combined, for it has been proven that the athletic sphere when taken hold of properly may be one of the largest fields of usefulness in neighborhood work, since all classes of people will rally more enthusiastically about athletics than anything else.

Debating societies, political meetings and games like bowling, etc., may be used as a means of keeping the men of a neighborhood out of the saloons. The mothers' meeting may be made a bright spot in the monotonous lives of the homekeepers. All of the people can doubtless be interested in public lectures, concerts, entertainments and athletic match games gotten up by the club members.

A children's playground takes the little tots off the streets and the roof-garden is always a delight on hot summer evenings. Every settlement should have a large athletic field near enough to be reached easily by the people of the neighborhood—saloonkeepers are now providing these fields free of charge, and are even paying teams to play match games. But there is no department of settlement work more important than the summer camps—a week or two in the country during the hot season may mean more to the people whom the settlements are trying to help than months of effort along other lines during the winter, for there is no place where workers and people learn to know each other so well as in a camp where they actually live together day and night. No settlement is complete without those summer camps, and no settlement needs to be without them, for they are neither hard to manage nor expensive, inasmuch as the people will pay a large proportion of the costs.

The settlement should co-operate with the city and all other neighborhood agencies in every possible way, but the settlement itself should do for the people only those things of a personal nature which it can do most wisely and sympathetically. The city and other charitable agencies should be induced to look after *general* problems of environment.

It is plain that those who are to be competent leaders in such unrestrained and unlimited work as that which we have discussed need to be well balanced and well trained. It is, therefore, most desirable that all Christian settlement workers should have, in addition to the fundamental equipment of an earnest Christian spirit, a thorough training in the most up-to-date methods of social work. Mere enthusiasm to "save souls" is not sufficient, for all souls reside in bodies. Jesus healed diseased bodies, unbalanced minds and dealt with the social customs and conditions of His time. He has sent us forth as the Father sent Him, and it is ours to do as He did in His name.

THE SETTLEMENT'S RELATION TO RELIGION

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There exists a general disinclination to discuss the relation of the settlement to religion. This is due primarily to difficulties of definition. There is still no common understanding of the nature of the settlement, and the definitions of religion increase with the years. Where both terms are fluid, the relation between the two may be so variously expressed as to paralyze any hope of coming to a clear statement.

If we think of the settlement as a mission, it is clear we do not regard it as a school, or as a new form of charity. Similarly, if religion be considered a system of duties, it is quite a different thing from the expression of the relation of the individual to God or from the idea of a perfect human society called the kingdom of God. We may find a relation between the settlement and religion if we accept certain definitions, while we may discern no such relation if we employ other definitions. In general, however, we know what we mean by these two terms sufficiently well to express in a rough way the relationship between the two.

The settlement is not a mission, not a school, not a charity, but a group of persons living a common life, learning the meaning of the life by which they are surrounded, interpreting this life to others and acting on what they have learned. And religion in our common thought of it means the framework of life—the outline by which we measure events, that which makes proportion possible, our thought of the whole of things. That which commands the best and the most of us is religion for us. Love, friendship, a hope for a perfect human society, a passion for social justice, a belief in a progressive economic order, a conception of progress in history, the artist's vision of beauty—all these have a religious element in them as they command us and lead us to follow them or desire them.

Democracy is another word which, like religion, is used in this large inclusive way. Democracy is an expansive term, its political

aspects being only one part of its larger meaning. These words, religion and democracy, are then used in the sense of an outline for our deepest thought and desire, and their meaning changes as life and experience, both individual and social, develop. Individuals will have for the most part some such general outline by which their lives are steered. Do groups have the same? May the settlement be said to be religious? That is, does it act with a common motive, is there a common inspiration, a common belief? Or is the settlement a group of individuals, each animated by his own belief and leading his own life unrelated to the others of the group?

In view of the fact that the settlements contain many persons who are identified with religious bodies and many who are indifferent, and some who are opposed to organized religion, one must attempt to see if any characterization such as religious or irreligious be suitable. One might add together the number of all those who are Presbyterians, Unitarians, Methodists or Roman Catholics in the settlements in the United States, but if it should prove that there were 480 Presbyterians as against 390 Methodists, one would hardly say the settlement movement is Presbyterian! One sees at once that any quantitative measure defining the settlement in its relation to basic convictions is quite misleading. Let us rather look at various groups and see what their actual composition is and involves.

Let us examine two forms of homogeneity. We will say that we have a settlement composed entirely of those of one form of religious belief, that all are nominally Presbyterians. But one of these Presbyterians takes his creed historically (that is, does not believe that most of its articles are to be interpreted literally), another is a strictly orthodox believer, another joined the Church as a child and is now totally uninterested in any religious expression. Is there any homogeneity here? There may be, and probably is, but one would not say there was religious likeness, though all called themselves Presbyterians. Yet we might find a Presbyterian group, possibly the very group described, working together, animated by a common belief and having a common aim. Plainly Presbyterianism is not that common element. What is it?

Again we find groups having outwardly every mark of difference in regard to religious or social conviction. We find a group

where there are to be found Presbyterians, Roman Catholics, Methodists, Unitarians and persons who are opposed to all forms of religion. Yet we may find this group to be most harmonious and congenial, working together with a common aim and feeling. What is the common life they lead?

Here it may be well to note that there may be and are settlements that are not properly groups at all, but are mere aggregations of individuals. In this case we may have an aggregation of Methodists, Unitarians, Roman Catholics and agnostics, each one of whom does his own special work faithfully, but whose private conviction leads him to feel little in common with the rest. A similar aggregation may exist where there are varying kinds of social convictions. Such aggregations may find a common basis of work, a kind of *entente cordiale*, that is, there may be pleasantness but no unity. Or, on the other hand, through common experience, a real fusion and community may be developed. In any case, we cannot fail to observe that there can be no profound group conviction or belief that has not been wrought out through experience. Group beliefs are slow in forming and are held tenaciously. It is this that makes the conservatism of democracy.

We see a striking example of group belief in the Church. There we have creeds which would seem to be the test of belief. But, as in the case of those groups which we examined and found to be homogeneous in only a skin-deep fashion, so in the case of the Church, where there is a real belief in common, it is likely to be not the creed professed, but a kind of *sub rosa* creed, the beliefs wrought out in human experience, which, having been put to a common test, have been discovered to be true. Thus it is that real creeds are the product of life itself, and churches must test revelation by life and not life by revelation. Undigested lumps of belief cannot be held by groups. They only appear thus to be held. We cannot fail to see how common convictions arise. They appear as the result of common experience.

The Church often maintains that its social work has an advantage over secular social work through its singleness of purpose. The advantages of group homogeneity are not to be denied. But the claim to this advantage is often made by those very groups which are only apparently like-minded. Thus a group of people all confessing the same faith may claim superiority in being able,

by means of a common point of view, to work more effectively and with least waste. But if it is true, as we have indicated, that group beliefs are wrought out in life alone, then we can readily perceive that the apparent homogeneity of sectarianism is often less real than the actual community of a group with far greater outward differences—that, in fact, the ordinary earmarks of likeness fail to indicate the underlying unities.

But a real unity there must be, otherwise no group can be effective as such, though there may be effective members of the group. To make the work of the group of permanent value that unity must be preserved. There is a sense in which the more varied the individual characteristics, and the deeper the fundamental unity, the more dangerous is the element that fails to solve. The unsolvable lump must be dislodged. The only kind of heretic, then, is he who contravenes the deepest life of the group, and such social heresy must be rooted out.

Before stating the nature of that common conviction which the social group works out for itself, we may note first that in this discussion of a common motive or belief we have considered "belief" either in its religious or in its social aspect. By this we would indicate that we are searching for the deepest thought about life as a whole that is developed by the group. This conviction, as has been noted, may take a religious or social form, or either may involve the other. Secondly, it is necessary to admit that many pseudo-convictions arise based not on experience but on contact with strong personalities or by the simple process of imitation. Thus, in any group where there is a dominant personality holding any point of view very positively, the weaker members of the group will fall in line, and an apparent community will be brought about which is in reality the conviction of one member alone. Various groups are thus often infected or inspired to their detriment or advantage, as the case may be. Such group beliefs are not really to be classed as convictions.

The common creed of the settlement which constitutes its motive power is its faith in democracy as a political system and its serious attempt to realize democracy in social and industrial life. The testimony of the settlements is unanimous on this point, that whatever may be the original bias of the settlement resident, life in contact with the struggles of the working class creates a

lasting sympathy with the aspirations and desires of one's neighbors. The hard conditions under which so large a part of our population live and work will seem unnatural and unbearable when seen day by day, and there arises a determination to do away with such conditions, whatever the difficulties in the path. The settlements whose early leaders were inspired by democratic ideals, thus by their very nature produce democrats. The dominant note of the settlement is, therefore, democracy, and a failure to feel in unison with this point of view is the only kind of heresy for which the settlement can find no place.

What democracy involves, either in the field of religious or of social conviction, is a question by itself, and not under discussion here. To many democracy means a brotherhood of man involving another relationship with the universe as a whole called religion. With others democracy may mean only a fuller and richer appreciation of human society and what it may become. Thus democracy is an inclusive term, and in the settlements, although we find the greatest possible diversity of religious and social opinion, with this passion for democracy there is a common life, sufficient not only as a basis for action, but also as a continual inspiration.

Dissatisfaction with this common ground of democracy as a sufficient motive will come, and does come, both from many religious people and from many who profess a politico-social creed. Neither class will be satisfied till their point of view is actively held by others, and will not feel in sympathy with what they regard as outside their deepest life. On the other hand, both will perceive, as they come closer to the actual life of the settlements, that, whatever their many defects in efficiency may be, they nevertheless are the very fruitful nurseries of faith in the only sense in which that word can have any permanent meaning either in religion or in society.

With democracy as the social settlement's only creed, the questions as to the desirability of a religious or social propaganda come into focus. The questions really mean not what their face value would seem to indicate, but rather this: "Do you in some way give open expression to your deepest common convictions?" As we have seen that the deepest common conviction of the settlement is not technically religious or socially creedal, but rather a somewhat intellectually vague but emotionally profound social

democracy, it therefore cannot be primarily the function of the settlement to hold religious services or to maintain any kind of propaganda. But in some way to express freely and openly their conviction of the absolute necessity for a social as well as a political democracy is incumbent upon the settlements. The form that this expression takes is immaterial.

Finally, it may be asked, is it not conceivable that the settlement group may also have other convictions in common beside that of a belief in and work for social democracy? Is it not conceivable that all the members should be single taxers or Baptists? Certainly, just as all might be interested in trade schools, or boys' clubs. To such groups no free expression ought to be denied. The practicability and desirability of such expression will depend upon local circumstances. The only law to be observed is this—never to contravene the deepest common conviction worked out by the group. This is the test by which the acts of a given settlement must be measured.

This common belief of the settlements in democracy, this religious belief in the largest sense, is beginning to result in a common program, involving the abolition of poverty, an increased consumption on the part of the working classes, an increased physical efficiency, and a new education fitted for the changed social order.

Certain social critics may regard the work of the settlements as "palliative," as "puttering," but no apology need be offered for the many settlement groups now existing in all the large cities of the United States, in so far as they are faithfully interpreting the lives of the working classes and are protesting vigorously against the evil conditions of their life and work.

Nor need apology be made for the co-operation of the settlements with various remedial agencies that are pursuing a constructive program leading to a socialized democracy. Rather should regret be expressed that many of the critics of the settlement are themselves holding aloof from the common task. As for the religionist who does not find religion in the settlement, limited indeed is his view of the actual nature of religion. The only critic the settlement should seriously regard is he who asks for proofs, not of common inspiration or belief, but of efficiency and social utility.

THE SOCIAL WORK OF A SUBURBAN CHURCH

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Suburban communities have a character of their own which differentiates them from the city or the country town, and they are remarkably alike, whether in the neighborhood of London or New York, Boston or San Francisco, whether composed mainly of laboring people, families of moderate income, or of the wealthier classes. The cause of this common resemblance seems to be found in the influence of the divided interest of the suburban citizen, whose home is in one community and his place of business or labor in another. In many cases the inhabitant of the suburb cannot vote in the city where his business is carried on, and he lacks interest in the village which is for him hardly more than a lodging place. The danger is, therefore, that he will fail to exhibit in either place the public spirit of a good citizen and will neglect to exert his influence for community interests anywhere. He may vote in state or national elections, but he is tempted to disregard his duty as a member of the social body in city or town. He settles down in a selfish and narrow routine which seriously affects his whole life, social, intellectual and religious. Jesse Williams, in the August *Century,* comments as follows on this peculiarity of the resident of the suburb: "He devotes the best part of the day to one narrow corner of the city: the rest of the time, not consumed on the train, is in the still more narrowing atmosphere of the suburbs. He neither gets all of the way into the life of the city nor clean out into the country. So his view of things has neither the perspective of robust rurality nor the sophistication of a man in the city and of it. His return to nature is only half way; his urbanity is suburbanity. Much of our literature, art and especially criticism shows the taint of the commuters' points of view." The suburban community cannot, as a rule, compete with the city in its provision for the intellectual life or for the healthful amusement of its residents. The city must be sought for the best of both. Nor are the sympathies of suburban residents appealed to by the need of the very

poor and by opportunities to labor in their behalf. For the very poor are in the city. Isolated towns in which men both live and labor develop a community consciousness which is largely lacking in the suburb. In such towns rich and poor, employer and employee, live in such close proximity that social needs are in some measure realized by all. In no place, on the other hand, more than in the suburb, is it true that "the one-half does not know how the other half lives." Intense poverty is infrequent in the suburb. When it does exist it is in some hidden corner, unrealized by the great majority of the neighboring population. There is thus little appeal to the sympathies of men from the sight of suffering and the cry of distress. The danger is that men hear no call to any kind of social activity and that part of their nature lacks healthful exercise. True, the tramp and the beggar knock at the door of the suburban home, but it is the woman, not the man, who answers, wisely or unwisely, the appeal. The tendency, then, of the suburban community is to devote itself to selfish interests, keeping its evenings for a limited range of amusements, card parties and dances, and confining its activities to clubs, women's clubs and men's clubs, which exist mainly to minister to the pleasures of their members, rather than to promote growth or service.

But over against these disadvantages there exists one great advantage. In suburban communities the Church is the one unifying influence. Probably it is not true that the churches of the suburbs are stronger than the churches in the neighboring city. But it is true that a larger proportion of the citizens in suburban communities go to church than in the city. Mr. Booth, in his "Labor and Life of London," declares that "in London the poor (except the Catholic poor) do not attend service on Sunday," and "the working man does not come to church." But "the residents of the suburbs crowd their churches and chapels, and support with impartiality and liberality all forms of organized religion." Mr. Masterman compares five suburban parishes with one London parish equal to the five in population, and finds that in the suburban parishes twenty-nine per cent attend church, while in the London parish there were but six per cent. No figures are at hand with which to compare conditions in American suburbs, but the statement will doubtless be accepted by anyone who has observed conditions, that similar facts hold true in this country. A consider-

able proportion of the population of suburban communities attend church. But here again the danger is that the suburban influence will tend to confine the activities of these church attendants within comparatively narrow and selfish limits, the cultivation of a comfortable religious self-satisfaction. It is apparently the case that one Sunday morning service measures, for a large proportion of the people, the limit of activity even of those who do go to church. Nevertheless, it is the Church alone which succeeds in getting the people together in any considerable number and with any frequency, in these suburban communities. Obviously, then, the Church and its ministry enjoy a great opportunity, and upon them is placed a great responsibility. The Church is the strongest social organ in these communities. If anything is to enlist the social activities of the men and women, it must be the Church.

And the word church is employed intentionally to represent the whole religious organism of the community. For if the social activity is to be best developed, it must be by the united effort of all the religious organizations. Especially in such a community should the churches co-operate, not only in order to counteract that cliquishness which will otherwise inevitably exist, but so that they may effectively minister to the whole community and enlist all its members in such common activities as are desirable.

What are some of the social activities in which suburban churches may be engaged? Doubtless this is a problem to be decided in each community by local conditions. But it may be helpful to consider what has been accomplished in certain places.

Let us take, for example, a town where there is no local paper devoted to the higher interests of the people. It is feasible, for this has been successfully accomplished, for the ministers of the different churches to constitute themselves a board of editors to conduct a periodical in which the religious, educational, political and social welfare of the community shall be discussed. In one suburban town of seven thousand inhabitants such a paper, published monthly, was carried on for several years by the ministers of the churches, until the citizens were ready to take in hand and support a weekly paper of similar high standard. This paper became the medium through which the most public-spirited citizens appealed to the community for any kind of desired improvement. Not only were the interests of the churches considered and fos-

tered, but by this means the false barrier which too often exists between the Church and the life of the community was broken down. The idea at least was promoted that whatever was for the best life of the people was a matter in which ministers and churches should be concerned. Nor was the co-operation of the ministers of different denominations in such work without effect in fostering harmony among the members of their parishes. And of exceeding value was the opportunity thus offered to enlist the services of the ablest men in the community, gaining them a hearing and spreading their counsel far more widely than otherwise had been possible.

By similar co-operation an organization may be created for the alleviation of such distress as may occasionally occur. For while in such communities there will be no large number of very poor people, yet there may, many times, be need of providing temporary assistance, sufficient to tide over some particular experience of distress. Fire may destroy the dwelling and clothing of a day laborer and his family, who would not ordinarily need assistance, or sickness may overwhelm a household. It is well if there may be in a community at such a time a Friendly Aid Committee, able to provide clothing at once out of its stores, or to furnish the services of a trained nurse. Such a committee, also composed of members from the different churches, would guard against imposture, prevent injudicious assistance that would pauperize those aided, and in general act in the small community in some such way as do the Associated Charities in the large city. Where the person to be assisted is a member of one of the parishes proper officials of the church concerned may be notified, and thus aid may be assured and extended in the quietest and most judicious manner. A district nurse, employed under the direction of such a committee, can be of very great service in any community, giving counsel where other service is not needed and standing ready to help in any emergency.

One of the most encouraging signs of the times is the spread of the village improvement or town betterment movement. This is not a matter of mere esthetic or financial interest, but concerns also the moral welfare of the people. For neatness and the love of beauty do not live in comfortable company with rowdyism and gross vice. One of the strongest influences in some towns against admitting the liquor traffic is the knowledge that the neatness and

beauty which have been fostered for years would be besmirched by such business. The spirit which fosters village improvement is a healthful influence with which to surround children and youth. Ministers, therefore, and the Church, in such ways as are feasible, may wisely instigate and cherish any movement which is intended to promote the beauty and cleanliness of a town. But the modern movement includes anything which is for the betterment of the community, the enrichment of the public library and its use as a social center, the promotion of a good lecture course, the purchase of a public playground, the development of school gardens, the placing of historic memorial tablets. All of these and other similar efforts which are for the welfare of a community should receive the earnest support of the ministry and the churches.

One of the strongest influences in forwarding the social work of the Church is, undoubtedly, the men's club in the church. Here is an organization which has sprung into vigorous existence in recent years and is multiplying with amazing speed. It is especially adapted to the suburban church. Here are men of ability, business men, professional men, young and old, the most important latent force in the community. How shall their services be enlisted? The men's club answers the question. It is not technically a religious organization; that is, it does not exist primarily for the purpose of leading men to study the Bible, or inducing them to speak on religious themes in the meetings of the Church. It is primarily a social club. It gathers the men together and enables them first to become acquainted with each other and then to act together for any cause in which they may become interested. Some of these clubs have a beneficiary feature and hold a portion of their dues in a fund for the benefit of their members in case of sickness or death. It would seem that such a plan might wisely be more widely adopted. "Permit me to ask," says Dr. Reuen Thomas, "whether every Christian congregation ought not to be a mutual aid society? Why should men and women who want to make some provision against sickness and death and to secure old age pensions be obliged to join fraternities outside the churches? Why should they have to become Freemasons and Foresters and Odd Fellows and I know not what else in order to get the provision they need? Why should not the mutual aid of which I have been speaking organize itself into some practical force as a part of our Church

life?" In fact, this form of social activity in the church, especially where there are large numbers of working men, has been very successful. But, apart from this, the men's club may become an agent for imparting information concerning all kinds of social work and for the furthering of social reformation. Men are beginning to realize that the forwarding of the Kingdom of God is not simply a matter of establishing missions and holding religious services. That end is also being attained when men are helping to Christianize social conditions, destroying slums, abolishing sweat-shops, rescuing children from health-destroying labor in mines and factories, diminishing crime; when they are promoting right relations between employer and employee, guiding the conduct of business into fair and righteous ways, cultivating justice, peace and good will among men.

Men's clubs are doing good work in these ways by getting acquainted with social conditions in their own communities, and in the cities in which their members labor, by getting in touch with civic leagues, good government clubs, children's aid societies, associated charities, and other similar organizations. One such men's club in a suburban church devoted all its meeting for one year to gaining a better understanding concerning all the departments of the city with which they were connected, in order that they might better comprehend the local problem of good government. The discussion of industrial, economic and social questions by such men as compose the membership of the congregations of suburban communities is one of the most fruitful methods by which the social work of the churches is promoted.

And in many such suburban communities there is one fact which should never be forgotten. They are largely composed, very often, of men who have moved out from the city to the suburban town. Still more often they are almost entirely composed of men whose business interests are in the city. In each case they owe a debt to the city. The suburban churches should give hearty and generous support to the various kinds of social work undertaken in the metropolis to which they owe so much. They should have a share in the activities of the institutional churches, social settlements, civic leagues, and other organizations which are seeking to promote better social conditions in the city. These organizations are in great need of workers. And the suburban churches are in

great need of work. It is a serious misfortune for any church to lack activities which appeal to the generosity, self-sacrifice and personal service of its members. Let the men from these favored communities, where so little personal work is needed, lend their aid to those in the cities who are staggering under heavy burdens. It is no credit to the Protestant churches that they have so uniformly moved out of the densely crowded sections of our large cities. The error can be remedied only when they who have moved to the suburban churches, where there is so little poverty and suffering, send back some of their superfluous energy to help perform the great tasks undertaken by the heroic souls who remain at the post of duty.

These are some of the ways by which churches in suburban communities may engage in social work for the welfare of others, and at the same time counteract those selfish and narrowing tendencies which, in the nature of the case, threaten their own welfare.

THE SOCIAL WORK OF A CHURCH IN A FACTORY TOWN

By Rev. Daniel Evans, D.D.,
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The primary mission of a church is the worship of God and the social service of man. The first part of this great mission is not to be discussed in this paper. It is well, however, to bear it in mind, for the church does a noble work when it gives expression to the religious aspirations of the soul, makes clear the sanctions of the moral life, maintains a worthy ideal, and keeps alive the immortal hopes which make us men. The realization of its great ideal necessarily impels it to enter upon the service of man.

There are two ways in which different churches seek to do this service. Some try to build themselves into great institutions or to maintain their authority over the institutions they found. Others endeavor to inspire and urge the men and women identified with them to work for social betterment through institutions and in connection with movements which are not under direct ecclesiastical control. The aim of the one group of churches is to make ecclesiastical workers, the aim of the other group is to make social servants.

The latter was the ideal which the minister had when he became the pastor of the church, which he had the honor to serve for eight years. The community in which it was located was a typical New England factory town. The chief industry was the manufacture of shoes. There were a half dozen larger factories which employed several hundred men and women. There were small stores and markets, and the usual clubs and organizations. The church attendants and members were working people, the business men of the town, and the clerks and men who did business in Boston, and several school teachers. The intellectual and moral character of the place was up to the average standard of such towns. There were four churches, a Catholic, Methodist, Unitarian and Congregational.

The first task that presented itself was the creation of intellectual interests in the life of the young people. From the minister's own experience previously as a workingman he knew full well that

one of the best ways to save young people from the pursuit of frivolous pleasures and to make their leisure hours opportunities for culture, rather than temptations for vain things, was to create in them an earnest desire for the best things of the mind. He addressed them one Sunday evening on the joys of reading, and to his great delight some of them asked him to give them more specific suggestions concerning courses of reading, and methods of study. He volunteered to be their leader and pursued this method: The best essays or books of certain authors were chosen for the month's reading at home. They then met together, had a paper on the life of the author, and a discussion of the selected book or essay. They had nine meetings a year. During the years of his pastorate they studied, in this way, the greater American authors, some English writers of the nineteenth century, some plays of Shakespeare, the "Divine Comedy" of Dante, the history of art, and some of the great cities of the world, as Athens, Rome, Jerusalem, Alexandria, etc.

Two or three results were realized: the young men and women had serious interests in life, they began the formation of private libraries, and made larger use of the public library, they carried new and vital thought into their religious services, and brought their minds to church. The reality of their interest is proved by the fact that the reading circle continues to this day, and has a larger number in it than at its formation seventeen years ago.

The second social task that presented itself was the creation of a sympathetic relation between the forces of capital and labor. This is a difficult problem in a small town, where the employers and employees are attendants or members of the same church, but the difficulty is offset by the opportunity their presence in the church gives the minister. The same conditions obtained there as elsewhere. Some of the employers had had their sorry experiences with unreasonable labor leaders, which made them bitter towards labor unions and working men. The working people had their prejudices against the employers. The problem was to make prevail the kindlier relations of human brotherhood. In a small community it is easier to do this than in a city. The men meet more frequently, are in the same lodges, and go to the same churches. They know one another as human beings as well as industrial classes.

Frontal attack in times of strikes may be necessary now and again. When the community faces a grave moral crisis the preacher must speak or else forever after hold his peace. But these crises are infrequent, and the frontal attack not often necessary. The better way is to take advantage of natural occasions for the enforcement of great truths. No Labor Day ever passed by without the preacher taking advantage of the occasion for the presentation of some phase of the industrial situation and the duties of employers and employees. And the usual ministration from Sunday to Sunday, when one has a social message to preach, affords sufficient opportunity for the creation of a new feeling of brotherhood.

The question of license or no license made its appearance annually. The town had only recently voted no license. It was a hard struggle to make this social gain. The task before the churches and temperance forces and good citizens was the enforcement of the law which was the expression of the will of the majority. This was most difficult. The margin for no license was not large, and there was hope on one side and fear on the other that the town would go back to license. The ordinary officers were lax in their duty and the courts resorted to small fines when convictions were gained.

The first thing was to combine all the men who were opposed to the saloon. It was no easy task to get the extreme temperance folk to concentrate their efforts on this objective. There was much splendid union work of all the churches in the several parts of the town. The leading citizens, irrespective of their church affiliations, united and worked for the enforcement of the law. It fell to the clergy to secure the facts of the violation of the law. It would have been better if the laity had done more of this. Here the social work was not new. There was no special initiative on the part of this church. It worked with others, and asked no questions as to priority of suggestion. It requires much grace to do this. In spite of some local interests, party bosses and cruel cupidity, the temperance problem was solved as far as no license and vigorous enforcement of the law can do this.

The problem of the right administration of charity confronted the church and the minister. The current need for relief was not great, though in exceptional years when there was little work, the need increased. There were, in addition, the usual cases of the

sick, the unfortunate, the children without adequate care, and the persons who needed some help in addition to the income derived from their own efforts. There was an abundance of charitable sentiment and generosity. There were numerous King's Daughters' Circles and large-hearted men in the community. The only need was to direct this in the right way. There was no little overlapping by the circles, churches and individuals. The minister was fortunate enough to have received instruction under Professor Tucker, then in Andover Seminary.

While it was not thought necessary to create additional machinery for the wise distribution of relief, the spirit and methods of the Associated Charities were put into operation with good results to all parties concerned. Another social task was the co-ordination of the church and the other institutions and social forces of the community. This is one of the most necessary things, and yet seldom done. It is also one of the most delicate things to do. The churches are often indifferent, or suspicious, or antagonistic to other social agencies.

There was, in the first place, the problem of getting the church and the lodges in sympathetic relations. Some good people thought these lodges the agencies of Satan. Some in the lodges thought their order the greatest institution in society. These two classes of people make it difficult to coordinate the church and the lodge. The first thing necessary was to see the real good in these orders, the social ends they served and the good work they did to their members in times of sickness and trouble. Whenever the minister had the opportunity to speak, either in private or in public, it was his custom to urge the members to live up to the ideals of their lodges. He never become a member of any lodge, but he was in sympathetic relation with all of them. A kindly feeling between the church and these orders was created and frequently there was practical cooperation in social work for persons in need.

Again, there was the public school, with which the church should be in closest relation. Coordination here was brought about by the recognition that the public school cannot do everything. It is not intended to take the place of the home and the church and the will of the individual. The minister in New England has always felt, when true to the best traditions, that he must stand for the best possible public school. Here, as nowhere else, his calling and

his citizenship have been in close agreement. One was only following in the footsteps of worthy predecessors, therefore, in going to the town meeting and urging adequate school appropriation and fair treatment of the teachers. As a preacher he always rejoiced in the opportunity the opening or the closing of the schools gave him to speak from the pulpit of their service to the community, and to urge the parents to keep the children at school as long as possible, and to fire the boys and girls with the ambition to go through the high school and not stop with the grammar grade, and if they went through the high school to take a collegiate course. Perhaps the fact of his having done the same under much difficulty had some influence in creating a trend toward the colleges, which has increased with the passing years.

The church and the political forces were brought into closer relation. The church could not, of course, enter into relations with particular parties, even though it were the Prohibition party. The church, as an ecclesiastical organization, cannot, or rather should not, enter politics. History has many things to teach on this matter. Yet the social work of the church must in some way be related to the civic duties of men and their organized political efforts. The task of the church is to make the political forces clean and constructive. This is no easy matter. Oftentimes the party leaders are in the church. They are most sensitive to the criticism of their party. It is hard for them to see the faults of their own party, while they readily see the faults of the other.

The first thing to do was preach fearlessly against moral evils in any party. This was the first condition for influence. The preacher must prove his fearlessness of the politician. Then he insisted that the men of his church who belonged to the different parties should do their political duties. He urged their attendance at caucuses; excused them from church services to attend; and frequently changed the hour of church services that he might attend himself. In like manner, he urged the duty of going to the town meeting. While the church did not become a power in the politics of the town, the church people did.

Another task was to get the churches into right relations with one another. The churches in a small town are often kept apart by jealousy, fear, prejudice, family troubles and doctrinal differences. Yet the union of the churches is most necessary for effective

social work. The ministers of the Protestant churches felt the first thing to do was to try to get their churches to know one another better, and they agreed to preach to their respective congregations on a specified Sunday on the good they found in the other churches. The people were surprised at the rich discoveries. It was afterwards easy to hold not only union Thanksgiving services, but also union services on the great calendar days of the Christian year. And on one occasion all the churches, both Protestant and Catholic, united in the interests of temperance, in a great mass meeting, in the largest hall. It was a great occasion, and did much good not only for the cause of temperance, but also for good brotherly feeling. A new spirit took possession of the people, with the result that when the A. P. A. movement struck the town it found only a few supporters. The community was immune to this undemocratic and un-Christian evil.

Here the record of social work for eight years ends.

SOCIAL WORK AND INFLUENCE OF THE NEGRO CHURCH

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The term "Negro Church" is here used to designate that portion of organized Christian teaching which is conducted exclusively by Negroes among the members of their race. In their Church relations the Negro race is perhaps more distinctly separate from the people at large than in any other important social relation, the mass of them being members of organizations managed and supported entirely by the members of their own race, often with but little co-operation with the rest of the Christian world. Being so separated, there is no institution among Negroes which lends itself to more thorough and profitable study. In this paper I shall touch briefly upon the social work and influence of the general church and of the local church, and shall point out some lines along which more effective work might be done.

I. *The Social Work of the General Church*

(1) One of the indications of influence is membership. The figures of the twelfth census are not available; but, according to the eleventh census, taken in 1890, there were 2,673,977 communicants of Negro churches, or about thirty-six per cent of all the Negroes in the country, and about forty-nine per cent of those of ten years of age and over.

These figures, however, represent a smaller number than the aggregate Negro membership of the Christian Church in the United States, for many thousands of Negroes were not reported: some, members of distinctively Negro churches, such as Baptists in the North, and some Methodists, and others, members of churches not distinctively colored, such as Episcopalians, Presbyterians, Congregationalists, Catholics, etc., especially in the North. It is probable that forty per cent of the Negroes of the country were members of churches in 1890, and the same percentage may hold for to-day.

(2) *Organizations.*—Churches have existed among Negroes in America from the seventeenth century, and Negroes have had their separate local churches from the middle of the eighteenth century. But the first general church organization was in 1816, when the African Methodist Episcopal Church was formed, at Philadelphia, by sixteen delegates, representing churches at Philadelphia, Baltimore, Md., Salem, N. J., and Attleboro, Pa. In 1820 the African Methodist Episcopal Zion Church was formed at New York by representatives from Negro congregations in New York, Philadelphia, New Haven and Long Island. The Colored Methodist Episcopal Church was formed from the Methodist Episcopal Church, South, in 1870, at Jackson, Tenn. The Baptists formed a general organization called the National Baptist Convention in 1892. There are more than a dozen other minor Negro church organizations. The strength of the principal ones is shown in the following table, taken from the eleventh census and from the Budget of the African Methodist Episcopal Church for 1902:

Denomination.	When Established.	Churches.	Communicants, 1890.	Churches, 1902.	Members, 1902.
African Methodist Episcopal	1816	2,481	452,725	5,904	762,580
A. M. E. Zion	1820	1,704	349,788	4,106	575,271
American Union Methodist	..	40	3,475	250	16,500
Colored Methodist Episcopal	1870	1,759	129,383	1,649	209,972
Regular Baptists	..	12,946	1,384,861	..	1,615,321

These organizations do not differ materially in doctrine and polity from similar denominations among whites. They were formed largely because the white Christians did not permit their Negro brethren to take equal part with them in the feast or sacrament of the Lord's Supper and in the government of the Church. They are governed entirely by Negroes. The Methodist bodies have their general conferences every four years and elect their executive officers. At present the African Methodist Episcopal Church has thirteen bishops elected for life and eleven general officers, the African Methodist Episcopal Zion ten bishops and seven general officers, the Colored Methodist Episcopal Church has seven bishops. The Baptist churches are independent of any control; but the National Baptist Convention elects officers to supervise various general activities, such as missions, education, etc.

(3) *Work and Influence in Education.*—The most conspicuous

general social work of these churches is in education. The Church was the pioneer in the educational field among Negroes. The first school established for higher training of Negroes was Wilberforce University, in Ohio, in 1856. In 1863 this school became the exclusive property of the African Methodist Episcopal Church, and its first president was Daniel A. Payne, a Negro, who was forty years a bishop in the African Methodist Episcopal Church. Since then this church has organized an educational department and spent nearly two million dollars for the education of the race. Most of the leaders in this movement, and the founders of the Negro schools named below, were ex-slaves, and many of them came to manhood without the ability to read and write. The attempts of these people, utterly unused to culture, and knowing chiefly by hearsay the value of education, form one of the brightest pages of the early history of the South after the Civil War. The exact number of schools maintained by Negro religious denominations has not been obtained, but the following list of those established, maintained and managed by the African Methodist Episcopal Church will give some idea of what Negroes are doing through their churches. In 1902 there were 25 schools, having 160 teachers, 51 buildings and 1,482 acres of land, valued at $658,000, and an average attendance of over 4,500. The principal schools are:

Name of Principal Schools of the A. M. E. Church.	Location.	Established.	Teachers.	Pupils.
Wilberforce University	Greene County, Ohio	1856	20	311
Morris Brown College	Atlanta, Ga.	1880	17	350
Allen University	Columbia, S. C.	1880	8	351
Paul Quinn College	Waco, Texas	1881	8	223
Edward Waters College	Jacksonville, Fla.	1883	5	220
Shorter Institute	Little Rock, Ark.	1887	4	110
Turner Normal Institute	Shelbyville, Tenn.	1887	?	?
Kittrell College	Kittrell, N. C.	1886	14	214
Wayman Institute	Herrodsburg, Ky.	1891	?	?
Campbell College	Jackson, Miss.	1897	117	9
Western University	Quindaro, Kans.	..	10	214

Beside these institutions, there are also normal and high schools in Indian Territory, Louisiana, South Carolina, Alabama and Georgia; the Payne Theological Seminary, established in 1891, at Wilberforce University, Ohio, and theological departments in Morris Brown College and Allen University.

In most cases the churches are doing the work of the state. They are furnishing very little theological training for their ministers, and but little real college training. Most of their work corresponds to that done in the public graded and normal schools. In Atlanta, Ga., for instance, a Negro church school, styled a college, has over a thousand pupils, most of whom are primary and intermediate grade pupils who really belong in the public schools of the city. But when it is known, for example, that Georgia furnishes facilities for the teaching of less than half of her Negro children, one easily sees why the Church must do the state's work, however inefficiently. In many cases the state and Church co-operate, as in Ohio and Kansas.

In these Negro denominational schools the grade of teaching varies greatly. Wilberforce University, the best one, ranks among the best Negro schools of the country. Its faculty is excellent and its graduates have made the senior college class at the University of Chicago, graduating with honorable mention.

(4) *Other Intellectual Influences.*—The first Negro newspaper of which we have knowledge was edited by a Negro minister. The oldest one now in existence is the *Christian Recorder,* the chief official organ of the African Methodist Episcopal Church, established in 1852, eleven years before Lincoln's emancipation proclamation went into effect. The oldest and largest Negro magazine is also published by the African Methodist Episcopal Church, and was established in 1882. The African Methodist Episcopal Church publishes the following periodicals, all edited and controlled by Negroes: The *Christian Recorder,* at Philadelphia, Pa.; the *Southern Christian Recorder,* Columbus, Ga.; the *Western Christian Recorder,* the *African Methodist Episcopal Review,* Philadelphia; the *Sunday School Monitor,* Nashville, Tenn.; the *African Methodist Episcopal Sunday School Quarterly* (junior and senior), at Nashville, Tenn. There are about twenty periodicals published by the Negro church organizations. The editors and publishers of these organs are among the very few Negroes in America who draw high salaries for journalistic work exclusively. Besides these regular organs of influence, there are such gatherings as the National Negro Young People's Congress, held at Atlanta and Washington; the various literary congresses of the African Methodist Episcopal Church, and numerous "Normal Institutes," Sunday

school conferences and conventions which shed enlightening influences. The most largely attended gatherings of Negroes in the country have been the Young People's Congress, the National Convention of the Baptists and the General Conference of the African Methodist Episcopal Church.

(5) *Economic.*—Besides being religious denominations, the churches are great business enterprises. They owned in 1890 over $25,000,000 worth of property, and to-day own probably $40,000,000 worth. They give employment to a large number of departmental managers, called secretaries; to hundreds of teachers, typewriters, stenographers, printers, bookkeepers, clerks, teamsters and general workers, paying salaries from $3.00 per week to $3,000 per year. One printing house in Nashville, operated by the Baptists, employs more than one hundred and twenty persons, and does business in nearly every state in the Union. The financial department of the African Methodist Episcopal Church, being the general treasury of the organization, which is an incorporated body, has had for the past ten years an annual income of more than $100,000 from its "Dollar Money Fund." The Church Extension Department, under a separate manager, or secretary, loans money to churches for building, buying or repairing, and thus saves the local churches from large interest and fees which they must sometimes pay, and, at the same time, keeps interest and profits inside the organization. The Connectional Preachers' Aid Association is an insurance society principally for the insurance of ministers and their families. Being co-operative, it hopes to make better terms than ordinary insurance companies. The Sunday School Union publishes all the Sunday school literature of the Church. This literature is written, printed and sold by Negroes.

At the General Conference of the African Methodist Episcopal Church in 1904 the bishops sent forth a signed statement that in the African Methodist Episcopal Churches for one year (1903) the amount of money raised was $3,679,471.06. If this be true, then the contributions of Negroes to Negro churches must be about $10,000,000 per year.

(6) *Political Influence.*—It is thus seen that the Negro Church is the largest and most powerful institution among the race to-day. The Negro bishops as a group are without doubt most influential members of society. It is but natural that such an organization

wields much political influence. There is, however, no political machinery in the Church. But it is possibly not mere accident that the two Negroes who hold the highest political positions in Washington are very active members of the two largest Methodist organizations. Cut off, as Negroes are, from free political activity in the states where most of them live, there can be no doubt that many of those who might have entered the politics of the state have tried to satisfy their political ambitions for leadership in the Church. This one result of disfranchisement of Negroes is not calculated to make these great democratic ecclesiastical bodies more circumspect in the quality of their leadership.

II. *The Local Church*

The chief work of the Methodist denominations has been the building of a strong central organization, and much that might have been hoped in the way of social work by the local church has been omitted. On the other hand, the very independence and isolation of Baptists has retarded their social work. Preaching, teaching and prayer have been the principal work of the Church, except as it was forced into other things in order to sustain itself, such as giving concerts, sociables, etc., not so much for the social uplift, as to raise money to carry on the religious work.

(1) In relation to the community, however, all churches do not stand alike. *The rural church* is perhaps the least influential from the social point of view. The people are far apart and are generally densely ignorant and poor. The demands of larger centers are so great, and the compensation of the rural churches so small, that, as a rule, well prepared ministers are difficult to obtain. In only a few cases are there more than two services per month, with now and then a poorly attended prayer meeting. The pastor is often a non-resident, and if a resident must give his attention chiefly to farming or some other occupation. There are some notable exceptions, where rural ministers are well equipped and are able to do good work on Sunday and in the homes of the people during the week, but by far the majority of rural Negroes, so far as higher religious, ethical and social training is concerned, are quite neglected, and here the Church has least real influence.

(2) *The Small Town.*—Here perhaps the Church is strongest

in its influence. In the small town generally every one who lays claim to respectability is a member of the Church, or at least attends it. Often it is the only public place owned by Negroes or entirely at their disposal. It serves, in consequence, as the place of general meeting, a kind of general social club, with many minor organizations. It is the amusement bureau and the general censor of things social as well as religious. The pastor and his wife are generally the social leaders, and if they be of intelligence and high purpose, wield a most helpful influence. The church serves as the place for the introduction of strangers; it finds, presents and encourages new talent in music, dramatic art and other fields of endeavor. To the pastor is often due the sending of the bright young girls and boys off to high schools and colleges. The church serves as a kind of bureau of charities. In an unofficial way it cares for the sick and makes provision for the poor who die and the orphans. Attached to it are often benefit societies, orphan homes, and families who will take orphaned children. In the South the minister in the small town often takes the important place of the Negro lawyer. He stands for his people in court and between them and their white neighbors, and in times of racial trouble is a most valuable person in helping to restore order. Because of this influence of the church the minister wields influence in politics and business to a very great degree. He is administrator of estates, bondsman, member of boards of directors, etc. The first independent Negro bank was started in Montgomery, Ala., by an energetic Baptist minister, who, because of his position as pastor of a church, had been frequently called upon as an administrator of funds of various kinds.

(3) *The Large City.*—The Church is dominant in the small town largely because of its monopoly. In a large city things are different. The Church has no monopoly; there are larger and finer auditoriums than it can offer; there is better music than its choir can give; there are better trained men than its pastor; there is more or less of a breaking away from the traditional theology. There are one-cent newspapers, five-cent theatres and a lack of home restraints. There are public high schools, well equipped; free lectures, free libraries. There is, above all, the hard, nerve-racking struggle for existence; a greater difference between rich and poor; and for Negroes, there is often unsteady employment and

high rents. The saloon is often dominant in politics, and the forces of vice can be of more immediate pecuniary aid to the poor than those of the Church. In many cases, instead of having a monopoly on the Sabbath day, it must compete with theatres, skating rinks, baseball games, saloons, pool rooms, race tracks and amusement gardens, as well as with Sunday labor and Sunday picnics and society functions. Still, it is exactly under these conditions that we have the largest and apparently most successful Negro churches. In New York, Chicago, Philadelphia, Baltimore, Washington, New Orleans and other cities there are Negro churches whose membership is from 1,000 to 2,500 persons, and in more than one of them scores of people are found standing every Sunday. While many are complaining of not being able to reach working men in the large cities, Negro churches are composed almost entirely of working men, and there is not room enough. In Chicago, for example, in certain districts, Negroes have bought, since 1900, seven churches formerly owned by whites, paying as high as $30,000 for one of them.

The large Negro churches are filled, not because of social work, but almost invariably because of the personality of the pastors and their peculiar method of preaching. As a rule, these churches have men of strong and magnetic personality. They know their people better perhaps than any one else, and know what will draw them. They seldom lack a large following. But in many cases the following is only personal, and with a change in pastors there has often been an almost entire change in personnel of the congregation.

These churches have, one would think, a very large opportunity for social work. But there is but little systematic work of that sort among them. They give alms, help bury the dead, care for the sick, take part in politics, have numerous concerts and entertainments; many have social clubs; some have libraries, and all are to some degree employment bureaus. They do an immense amount of unsystematized charity and social work, but it is largely done to secure money to pay Church debts and not for the social uplift. These churches are run chiefly on the small town church plan, with everything proportionately greater than in the small town. The ministration is chiefly of the same sort as in the small town; but the city minister is as a rule the superior. The result is that the

great mass of Negroes who are migrating to the large cities (and twice as many Negroes as white in proportion to population are going to the large cities) are attracted to the Church, which is a part of their old environment transplanted to the new place. They join the church and fill it. But as they become accustomed to the life of the city, as the new factors begin to influence their living, they begin to fall away from the Church. But this falling away goes on unnoticed by the casual observer, who sees only the large congregations gathered each Sunday. The fact is that as fast as the old members fall out newcomers to the city take their places, and they are not missed. A good illustration of this is afforded by one of the largest Negro churches in Chicago, which six years ago had about 1,300 members; during the six years over 1,800 new members were received, but at the present time it has about 1,500 members. The other 1,600 are accounted for by a few deaths and removals, but chiefly by the dropping out of those who have felt the force of the new city environment. In the same city a pastor of a large congregation said that after being away from the church three years, he finds upon visiting it that very few of the faces are familiar to him. The large accessions to the churches are from the newly-arrived immigrants.

One easily sees that there is an increasing and largely untouched problem of the old inhabitant and the native born city Negro. Of this latter class—the native city Negro—there are not large numbers. At present the city Negro is chiefly the Negro born in the rural districts or the small town. Only a few churches have, therefore, attacked the problems of the real city Negroes. Seven years ago the African Methodist Episcopal Church made a definite attempt to minister to the city environment through the specially established Institutional Church in Chicago. As the name implied, the object of this church was to so combine social and religious work as not only to reach the newcomers to Chicago, but all classes, and to serve its local community regardless of the church affiliations of the individuals making it up. Its ideal was that of social service rather than emotionalism and mere unorganized enthusiasm. But from the beginning there was a clash of ideals, and the undertaking was looked at with scant approval by those who still held the small town ideals.

That the wisest of the leaders of the Negro churches in the

large cities see the need of ministering to the larger social needs of the Negroes who flock to their midst there is increasing evidence. The following sketch of one church which has been foremost in social work in Philadelphia will illustrate a tendency. The church is the Berean Presbyterian Church, established in 1880. Its pastor and founder is a graduate of Oberlin College and Princeton Theological Seminary, and was for two years a graduate student at Yale. His church has been from the beginning outside of any one of the city's "black belts," but its work has reached every portion of Philadelphia. Besides its regular church, Sabbath school, missionary and young people's religious work it has attacked in a most sensible and admirable manner some of the economic problems of Negro city life. In 1884 its free kindergarten was started and has been maintained ever since. In 1888 the building and loan association was started to give assistance in one of the most important phases of Negro city life. The association has now over 550 members and has issued 6,558½ shares of stock; has assisted in the purchase of 145 homes at an average value of $2,100; has paid back to stockholders $84,450 on matured stock. The present assets are $122,326.80, while the value of real estate owned by stockholders and acquired through the association is $304,500. Not only the housing question has been thus successfully dealt with, but the work question—probably the most serious problem of the city Negro. One of the Negro's chief difficulties is lack of training and lack of opportunity to secure it. To meet this, the Berean Manual Training and Industrial School was established on a small scale in 1899, enrolling fifty pupils the first year. Now it has more than two hundred pupils, and gives instruction in carpentry, upholstering, millinery, practical electricity, plain sewing and dressmaking, stenography, cooking, waiting, tailoring and some academic branches. There are twenty officers and teachers, more than one thousand students have attended and seventy-five have graduated. Another activity has regard to securing work. In 1897 the Bureau of Mutual Help was established, whereby employer and employee could be brought together without extra expense to either. Through this bureau many workers in domestic service and many housekeepers have been benefited. Another step in this direction was made in 1906, when the Berean Trades Association was formed to seek out and aid Negroes qualified in the skilled

trades. Besides these activities, there are the Berean Seaside Home, a resort near Asbury Park, N. J., for respectable colored persons; the Berean Educational Conference, established in 1900, and the Berean Seaside Conference, established in 1904. All of these activities grew out of the work of the Church, are fostered by it, bear its name, but are separate and distinct from it, making it possible for any one to secure benefit from them without obligating him to the Presbyterian creed. The object seems to be to serve men, rather than to get members, and though the church proper has only 250 members, its solid influence has been seen in the lives of thousands of citizens who have been helped to respectability and godliness.

III. *The Need of Social Work*

The necessity for social work among Negroes does not need to be established. Take Philadelphia as an example, with its 80,000 Negroes. Half of these are without home attachments, and many of them live in furnished rooms. Here and in the vicinity are 40,000 domestic servants more than half of whom are women. Here is an excess of women and an unusually large number of unmarried persons. On the work side there is need for training, and much of it; there is need for opening opportunities for trained Negro men, many of whom have the doors closed to them merely on account of color, and there are a hundred other needs. On the leisure side there is the amusement question. The dance halls and the pool rooms are far more popular than the Sunday school or the class meeting or Christian Endeavor, and the dance halls and pool rooms are as a rule in the hands of bad men. The church concert, which is so popular in small towns, is not attractive when compared with the cheap theater; the saloons are open from twelve to eighteen hours a day, providing music, lunch, reading matter, tables, toilet, telephone, pen and ink and many conveniences to this homeless city lodger; but the church is closed tight, except for about one hour during the day—the pastor's office hour—and two to three hours at night. On the physical side, there is no gymnasium for 40,000 Negro men in Philadelphia, and the Young Men's Christian Associations of most large cities bar Negroes from their gymnasiums; there is no swimming pool, and at least 20,000 Negroes in this city bathe in wash basins and small laundry tubs. Then there

is the great social danger in the transition from small town and rural life to city life, which threatens the moral ruin of those making the change.

I do not urge that Negro churches should go into the dance hall, pool room, gymnasium, employment bureau, trade school, night school and bath house businesses, but, having the ear and heart at least of the newcomers, the Church, with its leaders, who have the confidence of these people, can do much to better conditions. It can do so first by realizing its situation in a great city and the transition through which it and its members are going, by always holding up and contending for the highest religious and social ideals, by helping the municipal government to see its social duty and creating a desire for higher things in their communicants. Next to the teaching of high ideals, the churches can put some of them into practice. There is no doubt that the Church must revise its teaching regarding amusements and adopt not merely a negative but a positive position. The Negro church in the city might well take lessons from the Young Men's Christian Association.

There are, however, many obstacles to the best social work. In the first place, there is the rapidly growing Negro city population, causing churches to be easily filled and thus blinding many to the lack of real progress. Then there is the poverty of the Negroes, who already contribute enormous sums to their churches, many of which are greatly in debt. The cost of active, systematic city social missionary work is practically prohibitive. Another hindrance lies in the difficulty of securing co-operation between the various denominations. The Baptists keep largely to themselves, the African Methodists to themselves, the Zionists to themselves, while the Presbyterians and Episcopalians are largely working in isolation from the rest. Concerted action, such as is needed in a great city, is almost impossible. Another difficulty is the religious ideals of the mass of Negroes, which are chiefly emotional and connected so much more with heaven and hell than with earth and daily life, that they look with dissatisfaction upon anything in the Church which merely pertains to earthly affairs, or in which emotional enthusiasm does not predominate. This is the problem which is most difficult for progressive Negro ministers in charge of large congregations. Another difficulty, especially in the Methodist churches, is the brevity of the pastor's tenure. The itinerant

system makes any extended social work impossible; hence there is probably less of this work in the local Negro Methodist church than in any other.

In the rural districts the need is chiefly for men and leisure. For a long time to come these men must have other support than that which the poor communities can give them. Otherwise, they will not be able to exist. As a rule, Negro laymen are receiving more and better educational training than Negro ministers. The churches themselves put ten times as much stress upon general education as upon the education of their ministers, if we are to judge from the financial aid given their theological and other schools. The lack of special training, together with the increasing opportunities for Negroes in other and more lucrative employments, threatens to make the ministry, and consequently the Church, proportionately weaker, socially, if not indeed spiritually, in the future than it has been in the past.

THE CHURCH AND PHILANTHROPY

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To outline the functions of any organization and to fix their exact limits would be difficult. It is better, perhaps, that lines of demarcation cannot be definitely and accurately drawn. An efficient organization must be capable of such adaptations as will enable it to meet the needs and to profit from the opportunities which each new age thrusts upon it. Stereotyped forms cause endless harm and hamper progress. They become obsolete and must finally be discarded. Our institutions must remain elastic; otherwise their capacity for good declines. What have the custom-bound nations of the earth taught us, if not the need of this very quality of elasticity to render effectual the work of human agencies striving to attain certain specified ends? The Church in its relations to society and to philanthropy has developed a set of problems to which mathematical rules cannot be applied and which must be studied in their relations to present, not past, social conditions. Whatever be the current opinion in regard to the special mission of the organized Church or to the advisability of its entering the varied forms of philanthropic work which it has undertaken, one rule of action cannot be violated without its becoming the subject of legitimate reproof. This rule requires the efficient performance of the services it has volunteered to render. Unfortunately, the philanthropic work of the Church is precisely the department against which serious charges have been made which indicate tardiness to comply with the recent demands of progress.

The medieval Church provided the starting point for the present attitude. When scientific method was opposed and untaught, wasteful and incongruous measures were naturally adopted. The kindness and philanthropy born of impulse and pure sentiment do not abolish or allay distress. In the middle ages European countries suffered constantly from the plague of indiscriminate, emotional and irrational giving. No wonder that the mendicant was emboldened in the practice of his deceits!

Two important ecclesiastical agencies for the administration of relief had sprung into existence—the parish church and the monastery. The latter institution proved particularly to be a hindrance to that vast army wavering on the borderland of independence and self-respect. The world has been learning that when almsgiving has for its chief purpose the benediction of spiritual peace to the donor its efficacy is sadly marred; but the horizon of the monk was little beyond the circle of self. A large dependent class, therefore, arose and spread out over the regions commanded by the monasteries. The social parasites drifted to the rich valleys and localities with ample capacity for supporting them, and preyed with impunity upon an indulgent people. The neighborhood of London, Rome, and many regions of west Germany were especially affected. The dissolution of the English monasteries during the reign of Henry VIII first opened the eyes of a blindfolded people to the actual conditions prevailing in their own land. Professional vagrancy began to be understood. In fact the Reformation unconsciously mirrored forth many of the vicious results of inconsiderate almsgiving, much to the benefit of mankind. The parish church likewise had not grasped the scientific principles of relief and frequently blundered as opportunities were given. As the civil power separated itself from the ecclesiastical machinery it began to organize more effectually the different systems of relief. Where the priest, however, was still invested with the civil power in respect to relief measures this separation unfortunately was not accomplished. The growth of nationalism checked the Church somewhat in its indiscriminate giving. The doles meted out to foreign wayfarers and undeserving strangers were diminished, and thereby the subjective influences operating in favor of more rational methods were increased. The ways of the village preacher whose "pity gave ere charity began" became less common although continuing to usurp a large portion of the field.

The Reformation, on the other hand, complicated the problem of philanthropy, and from its intricacies the Church has not yet disengaged itself. Protestant emphasis upon faith as contrasted with works, upon the next world instead of this one, upon spiritual or soul-life and the measurable disregard of the material which it induced, together with its emphasis upon the rights of individuals—prevented the new sects from perfecting rational systems of relief.

Problems were too numerous and could not all be solved. The growing spirit of democracy gathering impetus from the lessening subjection to authority co-operated to hinder the installation of definite long-sighted and permanent aims. The Church accordingly failed to study faithfully the influence of giving upon the recipient of alms, but its emergency relief measures were less harmful than those calculated to give permanent aid.

These are among the causes which have united to remove from the sphere of the Church certain classes of relief problems; for example, the care of defectives, of which the state has almost complete charge at the present time. A vast field is, however, yet open to the operations of the philanthropic work of the Church, and the present wide ramifications of its labors is still an astounding fact. Even a volume could not adequately cover the ground, and in this paper the author proposes to point out certain features only: The Church in its relation to material out-door relief and to constructive work.

It has sometimes been observed that the relations between the churches and efficiently controlled charitable societies are not altogether friendly. The causal influences to which we have called attention have, however, not yet ceased to operate, and due weight should likewise be given to the spirit of conservatism which dominates the church. Certain modern experiences would indicate that the officials and workers in philanthropic societies are sometimes animated with motives repugnant to the principles of the Church, but do we find group infidelity among the social workers of to-day? Is it true that they are anti-religious and unsafe guides likely to follow forbidden paths? Happily Rev. W. D. P. Bliss answered this question so impressively some time ago that the reply may bear a partial repetition here.[1] Out of 1,012 workers in regard to whom information was sought, 753 were reported as having church connections—74 per cent of the entire number. But the facts relating to 134 were not reported. If any of these were communicants a larger percentage would obtain. Of those reporting from charity organization societies 92 per cent were church members; social settlements followed with 88 per cent, while other societies showed somewhat lower figures. It is interesting to note that the group most inflexible in method heads the list. The same writer also

[1] See The Outlook, Vol. 82, pp. 122 ff.

ascertained interesting facts in regard to the proportion of membership in the various denominations and its relation to the numerical importance of the entire denomination. Worked out upon this basis the Protestant Episcopal Church with 20 per cent of the social workers should have contented itself with 2; the Presbyterians should reduce their quota from 16 to 5 per cent; the Congregationalists need 2 but have 16 per cent, while the Methodist Church with 14 per cent ought to have 20, and the Baptists with only 6 are entitled to 17.

These figures are a rough indication of tendencies, although they must not be accepted with their harshness of mathematical proportions as an exact picture of denominational attitude. Churches characterized by certain methods show a preponderance, while differently constituted Churches are weak in their representation among social workers. The cause for complaint is somewhat weakened, however, when due recognition is given to the latter Churches for their valiant service in many lines,—among the pioneers in the wilderness, upon the mission field, in behalf of temperance and even in training men for the ministry, who are subsequently lost to other Churches. Admitting all these statements, one cannot, on the other hand, escape the idea that these figures have their significance. Is it not true, therefore, that valuable resources are being wasted? Shall not the churches give increased attention to the various lines of social activity, study them comprehensively, and utilize their membership to the best advantage?

In considering the actual or attempted co-operation of Church and societies of organized charity, the personnel representing the latter group cannot be overlooked. They are quite uniformly affiliated with some denominational church. They are considered worthy, have good morals, profess high standards of life, and are laboring for a higher level of average citizenship, no less than for the general betterment of human kind. Apart from their life-work they are reputable citizens—and church members. Affiliate them with their labors—there's the rub.

Real co-operation between the Church and modern philanthropy finds its best and most successful example in the experience of the City of Buffalo, New York. The story of this rather novel experiment is a part of the history of the charity organization society of that city for the last ten years. The plan of co-operation

was projected in 1895. Steps were then taken to carry it into effect. Accordingly the city was divided into a large number of districts, 195 having been made. The control of one was to be given to each one of the co-operating churches, 66 districts were accepted. Churches of all denominations combined in this work, including Protestant, Roman Catholic, as well as one Jewish church. Entering voluntarily, they came in the true spirit of co-operation, and much progress has been made within the decade since the auspicious beginning of the movement. In 1906 the number of co-operating churches had risen to 122 and included nearly all the important churches of the city. The changes that have occurred and the advance that has been made may be observed in the following table:[2]

Table of Co-operating Churches.

Denomination.	1896.	1906.
Congregational	5	11
Protestant Episcopal	7	18
Methodist	9	18
Lutheran and Evangelical	8	10
Presbyterian	11	16
Roman Catholic	4	16
Hebrew	1	1

There has been a decided movement upward in every one of the important denominations mentioned. Furthermore, the minor churches are also represented. What a commentary upon the possible achievements of the Church is afforded by such unified effort in solving problems of philanthropy!

The character of the work outlined for each church is practically as follows: When a needy family is discovered it is at once referred to its own church, the one in which one, or more, of the family hold membership. Perhaps the church does not provide for the family. It is then referred to the church which is responsible for all cases within the district in which the family is located. Relief along denominational lines is given preference so as to obviate causes of friction. This failing, sectarian differences are discarded and common humanity is allowed to assert itself. As a consequence Protestant churches are called upon to minister to

[2]See Annual Report of C. O. S., 1906.

Catholic families, and Catholic churches to members of the former denominations.

The district church is invested with three chief duties: Care of the neglected, the giving of relief, and the furnishing of district visitors. The district of which a single church is given charge is comparatively small, and can easily be covered under ordinary conditions. Many of the districts comprise the region in the immediate locality of the church itself. This is a comparative advantage, but it is a practice that cannot be uniformly followed. The struggling churches in the poorer sections of the city would be forced to bear a burden entirely disproportionate to that which the wealthy church would carry. A large number of the latter have, therefore, accepted districts where the proportion of poor is much larger than in their own immediate vicinity. A greater equalization of the burden is thus provided.

It is claimed that the Buffalo system has had marked success. Many obstacles have not yet been removed, and successful co-operation among more than one hundred churches of many denominations is no easy eask. Among the problems to be solved, according to officials of the society are the following: Weaker churches have proven themselves in need of additional educational work. The records of associated charities could with advantage be utilized to a greater degree. District visitors are needed to carry on investigations. The churches not carrying heavy burdens sometimes become listless and indifferent, and effort is required to retain them as supporters of the plan. Recalcitrant churches must be dealt with, although drastic treatment is avoided. Education, thorough education in the principles of relief—that is the great need and the chief assurance for the salvation of the plan.

Not all of the work of the constituent churches is done in a satisfactory manner. Few organizations or societies anywhere can justly claim perfection in work and method. Investigations by the society showed that in 1904 only about 20 per cent of the churches were more or less inefficient in their services, but these control little more than one-half that proportion of cases. Great efficiency is now secured by a change which has made district visitors directly responsible to the society rather than to the district church. The assistant secretary of the society, Mr. P. E. Lee, has pointed out the definite limitations placed upon the work of organized charity

before the present scheme was inaugurated. First, distrust of the work of the society prevailed; second, concentration of effort was lacking, overlapping was common, and little constructive work was attempted; third, the problem of adequate relief was a difficult one; and fourth, friendly visiting was not practised. In every respect except in the third case, he continues, wonderful improvement has followed; the charity organization is now trusted, many friendly visitors have been secured, and constructive work has multiplied. It has proven an education to all, and some of the churches formerly given to unwise measures of relief have learned the value of methods designed to achieve more permanent results.

Buffalo's experiment is of sufficient importance to justify the lengthy consideration which it has been given. It illustrates how immeasurably better it would be if similar co-operation could be introduced in other towns and cities. We cannot now calculate the loss and waste occasioned by the slip-shod methods often used. In some of our cities many of the churches have begun to employ intelligent effort in reducing the problem of out-door relief to definite far-sighted methods, but little more than a beginning has been made. In a few cities, such as Portland, Ore, and Cambridge, Mass., considerable faithful work has been done. The by-laws of the Brooklyn Bureau of Charities state that among the general objects of the organization is "the promotion of cordial co-operation between benevolent societies, churches and individuals." Founded many years ago, the society has not yet achieved this purpose, and only within the last few years have a considerable number of the clergy availed themselves of this opportunity.

Spasmodic co-operation with organized charity has, however, occurred in many places from time to time. The occasions have usually been those of great difficulties when relief problems pressed heavily upon a community. Such exigencies have been met by a temporary union or co-operation of the various agencies for relief. When these conditions prevail the charity organization society sometimes serves as a "clearing-house" for the other associations and agencies. Business is expedited and the problem handled more efficiently. Such alignments are themselves a recognition of the value of advanced and consistent methods. They are usually temporary, however, the relief problem in ordinary time being for each constituent church at least a comparatively minor matter.

Significant of her attitude is the statement of a member of the National Conference of Charities and Corrections, who, although himself sympathetic with the Church, remarked, in describing such a temporary combination, that "Even the churches and labor unions got into line."

The amount of co-operation among the churches with organized philanthropy is increasing. The words of an eminent authority, however, although written some years ago, still hold true: "To a considerable extent churches pursue an antiquated, short-sighted policy, giving relief from sentimental motives without personal knowledge of its effects upon those who receive it. . . . " Recent experiences in one large American city unblushingly portray the difficulties against which the social worker must contend. In one city it was proposed to bring about greater co-operation between the churches and the charity organization society. The officers of the latter hoped that this aim might be achieved and that better systematization of the work might follow. After due deliberation an appeal was made to a large number of pastors of all varieties of Protestant churches, both large and small, urging the advisability of greater co-operation, and suggesting the inauguration of certain plans of work. Both precaution and discretion were employed in carrying on this campaign. Carefully written statements were first sent to the pastors of the different churches and time was given for reflection over the contents. Later delegates from the society visited the clergymen, brought the matter to their attention in a more personal way and discussed it freely with them. The results obtained through this effort are very significant and indicate what a variety of positions is held and how much remains unaccomplished before churches as a whole will reform their methods of granting relief.

The experiment just mentioned unearthed four distinct classes of clergymen. First, one class was found which already co-operated with the society with rare fidelity, which availed itself of the services and advantages which the society possessed and adopted the methods of the latter as far as was expedient and possible. One of the pastors representing this type of clergymen, in relating his own experiences, pointed out the inestimable advantage of co-operation with a society which studies as its chief business the very problem which in the Church receives but minor consideration. The

story of several cases coming under his observation further illustrates the impregnability of his position. For example, a certain woman coming to him for assistance claimed that she needed a specified sum of money for a certain particular purpose. This amount of relief had formerly been granted to her on the ground of reputed physical disabilities. Prior to a continuation of the case an investigation revealed that no money was ever used for the specific purpose for which the relief was granted. A premium had been placed upon dishonesty until a readjustment of the case placed it upon a rational basis, and the discontinuation of relief emphasized the importance of character. Another woman applicant was reported who was receiving relief for an identical purpose from a number of churches. None of them were aware that other contributors were in existence, nor had pains been taken to ascertain the facts. Great harm had been done, but her case was subsequently simplified and right social relations established. Pastors of this type welcome the greater facilities which the society possesses for a study of its cases and the broader perspective which it is enabled to give. Intelligent relief and assistance and not the debasement of applicants for aid are among the acknowledged benefits of closer co-operation. The utilization of the society does not mean the discontinuation of relief, but it implies discrimination. Pernicious generosity is as sinful as hopeless stinginess.

A group of men asserted themselves who had not come into close connections with the society, but who are actuated by a feeling of obligation to square themselves with the social currents of the day—a fairly hopeful class and filled with potentiality for good. Work and effort will eventually array them on the side of the society, but the ruts are deep and a severe jog or jolt will accompany the new departure. Men of this type, although lacking enthusiasm and fire, agreed to work in the direction of the society's hopes and gave its delegates cause for considerable encouragement. Measured by the actual subsequent results much remains unaccomplished. One clergyman, although very sympathetic, criticized the society for a lack of aggressiveness and for the absence of measures which would promote its publicity. Few people knew about it and its methods. Yet how great would be the benediction to proclaim its own immaculateness in the fashion of the Pharisee and to cry aloud to attract attention! Well may fears arise if such should

be the mode of propaganda. With one other method of judging the work of a society this may well be compared; the attitude of a few "practical business" men who measure the amount of work done and of good accomplished by a statement of receipts, expenditures and cash balance. What is the value of a human soul, of a life restored to conscience and to character? But such opinions do not gain the ascendency, and a large percentage of the clergy apparently looked with favor upon the movement.

A third class consisted of men who reluctantly agreed to consider the problem and finally to arrive at some conclusion satisfactory to themselves. These men are probably hopeless. The seed has fallen upon stony ground. They are apathetic, though not directly antagonistic, yet we must depend upon the next generation to carry out the hoped-for reforms.

The last class deserves considerable attention. It is not only not friendly to organized charity but distinctly prejudiced against it. A number of pastors were discovered whose attitude augured anything but success for the society in its campaign. These men look with distrust or disfavor upon such efforts. Possibly their attitude is a survival of old fears of the Church against entrusting certain forms of work to purely secular societies. For the pastors of two prominent chuches to decline even to consider the problem with the delegate of the society is a position which still remains unexplained. The experience of this charity-worker, exasperating in the extreme, would, if related, only engender and ignite feelings which should be repressed. However, if an attitude of contempt for the society can still maintain itself in the mind of a prominent clergyman, does not the problem of co-operation continue to remain a difficult one? Irresponsiveness is unfortunate; to ignore completely is to condemn to a hopeless situation. Rejection of the plan need not be accompanied by discourtesy.

The prospect is therefore not altogether pleasing. We find the active and progressive pastor educating his congregation into saner methods of out-door relief and reconstructing the charitable work of the Church. In Buffalo he has aided in allaying distrust and in keeping the churches in line. We have sympathetic men not yet spurred on by the new vision. We have something to fear from the social backslider, but the chief hindrance is due to men of the type last described whose influence is commensurate with

their position. When such men belong to the two strongest Protestant denominations the danger is doubly great. The chief consolation gained is that the movement is in the right direction. Only a part remains to face the setting sun.

How do the more conservative churches carry on their relief work? No simple answer can be given, for various methods are employed. A fund—often called the deacon's fund—must first be provided. Strangely enough difficulty is often experienced in securing the needed contributions for this purpose. A dawning consciousness of better things is being felt. Better methods, it is hoped, will obtain funds adequate for the purpose. Custom in regard to disbursement of relief varies to such a degree that particulars need not be given. The matter may be in the hands of the pastor, deacons or other officials, sisters, a particular society of the church or philanthropic committee. Some of our larger churches have several committees, each dealing with a special phase of social work. Were the parties in charge trained in methods of relief, then consistent effort toward progressive work should be expected. Too often this is not the case and the intricacies of the problem are not considered. Sometimes a sort of grim humor obtrudes through the statement included among the table of church activities: Adequate relief provided for the poor within the Church, or Church prefers that no society grant aid before consulting with Church authorities.

Visiting committees or friendly visitors are a frequent feature of Church work. Their ministrations are to the poor to whom they bring cheer and inspiration. Not within the sphere of material relief, it is less provocative of harm and actually promotes good will and better living. These committees need an enlargement of membership, and more families should be visited. Here the ideal of the Church and of organized charity tends to coincide, and earnest social workers will applaud every effort of the Church to use this important measure as a means of enriching the barren life of the poor. It is a step in the right direction, and only needs to be poised by experience and zeal.

This hasty review of the relief work of the Church suggests the question whether preliminary training in this department is required of the clergy to whom the task of supervising the work is eventually entrusted. Having resolved to remain in the field of philanthropy, the Church should logically require from its servants a studious

acquaintance with social problems. What are the facts? Is the theological student versed in the nature of the problems which affect the life, health, social and moral welfare of our people? Has the farmer learned to plow, or the lawyer studied Blackstone? Let us stop to consider.

The progressive language of a writer in one of our theological journals should sound the keynote for the present era. "The ethical nature of the movements now agitating society calls for acquaintance —the wider the better—with sociology." Call it by what name you will, a study of social life and its manifestations is required to fit men adequately for the pulpit of to-day. Many men have not secured this training in the schools, but that is the logical place for the present student to equip himself with the added resources and power which a knowledge of these subjects affords.

A glance at the catalogues of the more important theological schools of the various denominations is less encouraging than we could hope for. But progress has been made. Yet until recently social subjects were quite generally neglected. Attention was formerly paid to Hebrew and Greek, to the biblical literature and interpretation which they involve, to Church doctrine and creed, to ecclesiastical history, homiletics and pastoral theology. The last named subject, it is true, often covered problems of relief and questions of a social nature arising within a congregation. The view-point, however, was that of the pastor and theologian, not that of the sociologist or social worker. Special courses in these subjects were hardly thought of. A study of general principles and a deep insight into the nature of our social ills was neglected. The instructor trained specifically in economics and social science was absent.

In recent years certain transformations have occurred which will leave an indelible impress upon the future curriculum of the theological school. The work of several institutions has contributed to this result. Chicago Theological Seminary, with a broad-gauge social worker at its head, has for years granted to students unexcelled opportunities for studying humanity in the concrete—in the group and in the individual. The theological institutions connected with some of our larger universities have united in sounding their adhesion to the future. The Divinity School of the University of Chicago enjoys the great opportunities of its tremendous city laboratory. Instruction in sociology forms part of the regular

course, and a widely-known sociologist occupies a place upon the teaching staff. Harvard affords certain advantages. More conspicuous has been the recent expansion in the institution first mentioned and at Yale where notable extensions of the department of sociology into the domains of theology are being made. Insistence upon the knowledge of certain phases of practical sociology is demanded. The subject has assumed sufficient importance to justify the demand that every student become acquainted with its elements and have some comprehension of current social problems. Other theological schools give instruction in these subjects, but in some cases a mere smattering knowledge is obtained.

Several classes of schools do not specifically provide for the subject among their courses. If attached to a university or college the seminary may allow it as an elective, or if the school is entirely independent but in the neighborhood of some university, arrangements for the pursuit of certain university work is often provided for; for example, a number of theological schools in and about New York City enjoy such privileges, and their students are admitted to courses in various subjects, including sociology. In such cases, however, the probability that the large proportion of students will avail themselves of this comparatively difficult opportunity is extremely small. If the divinity school has no such course in its prescribed curriculum and is not directly affiliated with an institution which does offer them, the mass of the student body fail to receive this needed training. Recognizing this need, one important denomination has recently organized a corresponding school of sociology for the purpose of training its clergy and widening their grasp of human relations.

Progress has been made, yet some institutions have made no attempt to align themselves to the new movement. What agency, however, is more fitted or adapted to training men and women for the task of solving the problems of human and social betterment? Is a tardy recognition of this fact excusable? Should not the Church lead rather than follow? It is no exaggeration to say that the majority of students trained in theological schools pursued no such courses while attending such institutions, and that the only similar instruction received was while undergraduates, and consisted of elementary courses found in the college curriculum. Unfortunately some men have escaped the training entirely.

Turning to the practical activities of the Church, we find that a multitude of lines of social work have been undertaken, not, however, by a denomination as a whole, but by individual churches. In such pulpits the glorification of Abraham and of David has been superseded by more modern discussions, and these include attention to laws of social service, to the human and ethical problems of city life, to the social needs of a community which will contribute to right and better living, and to practical subjects of many kinds.

The Church has numberless agencies engaged in out-door relief work. It may maintain them itself or receive a subsidy to carry on this work. The City of New York alone will pay out about three millions during the present year to denominational institutions. In all large cities, moreover, many churches, either through the logical expansion of their varied activities, or on account of the influence exerted by the institutional church idea have commenced a comprehensive program of positive constructive social work. Nor is the program of the Church on paper only; living men and women are reaping the benefits of these forms of benovolence.

The philanthropic work which is carried on can be best illustrated by the use of several concrete examples. A certain Boston church, besides the varieties and forms of activity normally found in different churches, engages in the following enterprises: A free kindergarten has been established for little children; a day nursery lessens the task of mothers; an industrial school meets every Saturday morning and the instruction given includes classes in printing, cobbling, millinery, dress-making, sloyd and basket-weaving. A summer vacation school gives certain opportunities, and a school of music permits the study of that art. A total abstinence guild works for temperance reform; free reading rooms, baths, and Saturday night concerts are provided. Free legal advice is given, and an employment bureau is in daily operation. The woodyard, rug-weaving and printing afford an opportunity for the employment of both men and women, if applicant's order is signed by a person who in turn will pay the church. Such work, if faithfully and earnestly carried on, cannot fail to accomplish great good. Another Boston church conducts a tuberculosis class. Instruction by a physician is given weekly. A class for the treatment of nervous diseases is also provided for.

Trinity Church has a charitable society, organized in 1834,

a dispensary for women and children, summer gardening, and a house laundry which employs fourteen women steadily, and is a training school for laundry work, using additional skilled labor.

The range of social activity among the Protestant churches of the old City of New York comprises the following features:[3] Social settlements of which at least eleven are, or have been, directly connected with some church; fresh-air work in which about thirty are engaged; fifty kindergartens are maintained; and nearly forty sewing classes; twenty-nine employment societies and bureaus endeavor to help all, or certain classes, of the unemployed, and at least one wood-yard is intelligently conducted. Industrial, trade and manual training schools number thirty or more, and four night schools are in operation. Twenty churches have a gymnasium each, and nearly half of these have classes in gymnastics. Eleven kitchen-gardens are operated and eighteen penny provident funds are reported. Seven day nurseries and two lodging houses are also controlled; besides the forms of philanthropy mentioned, the work includes the operation of dispensaries, clinics, flower and fruit missions, coal clubs, libraries, reading-rooms, baths, summer homes, working classes, laundry schools, burial societies, and athletic clubs. The medical aid and legal aid societies are both represented as well as the soup booth and coffee house. The nurse and deaconess, on the other hand, have formed a definite part of the church organization of some denominations for many years. The variety, amount and precise direction of this philanthropic endeavor are constantly shifting but a large number of churches are gradually being drawn into the stream.

Europe has brought new ideas and methods to our shores. The Inner Mission, imported from Germany, has gained a foothold. In its native land, since its origin more than fifty years ago, it has been a powerful agency for social improvement. Not content with purely religious work, it has carried on a program of amelioration and construction. By adapting itself to American conditions its usefulness here can be largely extended. Last summer an eminent British Methodist layman came here to advocate his plan of using

[3]Charities Directory of New York City, 1907. Also see Religious Movements for Social Betterment, by Josiah Strong, pp. 80-1. Mr. Strong's figures vary somewhat from the above. Although compiled some years ago, they credit the churches with operating seventeen day nurseries, four lodging houses and forty-eight industrial schools.

the Church for social betterment. His scheme related to four measures—emigration agencies to facilitate mobility, employment bureaus, old-age pensions and savings institutions. The wisdom or unwisdom of his plans is little to the point. The value lies in arousing the Church to the new needs which must be met, and the newer forms of social service which must be rendered.

Co-operation by the Church with organized charity has broadened the scope of the former's social activity. Under the new régime, Buffalo has made much progress. The men's clubs of many churches in some of our cities are formative forces for good. If controlled by enlightened individuals the numerous urgent social problems within easy striking distance of the Church are brought to light, and a campaign of education instituted. Common interest in human welfare is increased thereby. The program of one such club for the coming winter includes a discussion of the institutional Church as an evangelical force and as a social center, the relation of the Church to the city's children, and public movements that should be supported. Again, particular societies often interest themselves in some phase of social work, accomplish good results themselves, and sow the seed for a harvest of future effort.

The relation of the Church to philanthropy cannot be adequately summarized in a few words; the details are too intricate; the subject too extensive. Furthermore, shifting relations measured in time and space do not permit an accurate statement. However, an approximate survey of the situation can be given. A great distrust of the methods and work of organized charity continues to prevail. The latter, it is believed, lack sympathy and mercy, are unpitying, and neglect the magic human touch. But does not the personnel of our workers render this position an untenable one? The methods of the Church itself are a legacy of other days. Voices of the past still speak in its councils. Many forms of relief work have been abandoned, but in its out-door labors it still holds a large field. A measurable amount of scientific method is now employed, but to a large extent obsolete and irrational systems are still in vogue. For this reason there are able advocates of the plan involving the withdrawal of the Church from this sphere of charitable effort. On the other hand, if rightly conducted it would give the Church an opportunity well worth the effort. Will she rise to meet the crisis? There would open before her a range of personal influences,

where new men could be formed and characters created. Society will eventually demand right methods or entrust these functions to the most capable agencies. The social training of the clergy in the seminary is not adequate for modern needs, but this fact is being recognized, and theological schools are beginning to conform with the tendencies of the age—but not all of them, yet why not? Should not the ministry and divinity school be a superior recruiting ground from which the vast bulk of social workers could be drawn? Would this were true. Conditions in the country are bad and the rural clergy have not risen to the demands of the situation. Social science still has fields to conquer. The constructive work of the Church is, on the other hand, rapidly gaining ground. It is covering a variety of social activities and adding to the wealth and dignity of life. Our hope is that the churches that continue to slumber may, before it is too late, awaken to the needs of the hour and rush into the struggle for the upliftment of mankind in a way that will accomplish results. The task of the Church to regenerate the human heart still remains; but the formula is not a simple one. We cannot send missionaries to the Mohammedan Arab and also accept the latter's ideal of almsgiving. The relation of the Church to modern philanthropy permits of additional modification.

EFFICIENCY IN RELIGIOUS WORK

By William H. Allen, Ph.D.,
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The money changers were not chided, exhorted, vituperated or petitioned; they were driven from the temple. There were probably those among them who were shocked at the spectacle of religious work directing itself to "politics" and to "sensational reform." But the public which looked on received more inspiration from this applied religion than from a thousand sermons on Christian citizenship delivered under the auspices of the money changers.

The efficiency of Christ's ministry—as distinct from its inspirational power—has received too little attention. Sometimes it seems as if those outside church organizations read the parables with more reverence and greater appreciation than the very expounders of the Gospel. The rigid standard with which the alleged irreligious man measures the avowed religious man is one that could advance religious work incalculably if only religious workers would adopt it for themselves. That measure is the efficiency test—the consistency test—the setting side by side of pretense and practice, faith and work, effort expended and results obtained. The application of this efficiency test to Christ's life and teaching gives that teaching an ever higher place in the lives of men. If religious work is losing devotees, if the Church is losing influence, it is because leader and follower fail to apply the efficiency test to their living, their teaching, their parish work, their Christian citizenship.

New York City pays liberal salaries to hundreds of preachers. In addition, millions are given for Y. M. C. A. buildings, missions, institutional church work, parish houses, etc. In exchange for these gifts, preachers and pastors are to preach the gospel and to organize the forces of righteousness. To the pleasure given by preaching, well-to-do audiences at least apply result tests; if the sermons are uninteresting, the preacher is asked to find another post. To the preacher's personality definite tests are applied; if he is uncongenial, unrefined, uninformed as to "the world's ways" of speaking and acting, he is not retained in a fashionable church.

He may be forgiven if a poor manager, and provided with assistants who can organize clubs and collect funds. But the results of the preacher's sermons upon his auditors, the results of his week-day efforts upon his parish, the results of his ministry upon the neighborhood of his church are not set side by side with his opportunity, and the church deficit computed. If you ask one hundred prominent religious workers what the church deficit is, they will reply "About $2,500," or "We came out even." Wherever efficiency tests are applied to religious work, *deficit* means not the difference in money between receipts and disbursements *but the difference in results between the moral influence the church might have exerted and the influence actually exerted.*

The need for efficiency tests may be indicated by comparing the thousands of religious workers who are paid to give their entire time to inspirational, gospel service, with the number who are paid to give their entire time to driving out money changers and preventing their return. I spoke recently to a group of pastors on the subject "Social Injuries Caused by Inefficient Government." They had felt that the subject would be more attractive if written "Institutional Vice and Public Officials." I explained to them why I did not wish to speak of vice: that little good ever came of discussing vice unless the causes of vice were aimed at. If vice is regarded as in a large measure due to social, industrial and governmental conditions, then the intelligent, efficient way to reach it is to correct the government and industry of which vice is an unfortunate product. The combined salaries of these pastors, not including any other salaries or church expenses, aggregated about $100,000. The salaries of all the pastors in their city exceeded $250,000. This sum was gladly given by their city to insure a constant flow of religious light and inspiration. But not one salary is paid in that city to insure a constant testing of the results upon the community of the constant ministry of this regiment of earnest workers.

After a Sunday evening given to warnings against vice and appeals for a life of chastity, young people go out upon the streets where policemen grow rich by abetting and protecting vice. Young girls go into homes that are worse than the deplorable factory conditions of the week to follow. Overcrowding, underventilation, uncleanness bring them up. Their minds cannot hold, even if they receive, the message given at church because their bodies are weak

and crave stimulant, drug or other excitation. A beautiful sermon, aided by electric lights, will help the tenement girl to live an open, beautiful life. Perhaps, if compelled to choose, the sermon would be better than the electric lights, but there is reason to doubt it. Fortunately, both are possible if pastors will only apply result tests to their work.

The ignorant mother is told repeatedly by newspapers and nurses that her baby dies not because a chastening Providence wishes to touch her heart or hold her hand, but because milk dealers and dairymen are permitted by lax officials—for pay or favor or ease—to sell impure milk. Shop girls know that the tempter most to be feared is not in their hearts but in their working and living conditions. Efficiency in religious leadership requires that these working and living conditions be made fit to work in and to live in. Christ never asked a throng to listen to His message when hungry, in a storm, in a tumult or in the presence of active evil forces. It is inconceivable that He would dismiss a congregation into a saloon or into streets leading directly to saloons violating Sunday laws, liquor laws, the laws of health and of decency. It is inconceivable that He would avoid such subjects as misgovernment, preventable sickness, deficient school facilities, unclean streets, police protection for brothels and gambling dens, on the ground that they were political, not religious.

We can never know what it has cost humanity that Christ's teachings have been made to bolster up such doctrines as that good intention or one step in the right direction will be accepted in lieu of effort and achievement in proportion to opportunity. The parable of the lost sheep, like that of the talents, has been perverted to mean that one is not strictly accountable for the efficient administration of his Christian effort. As a matter of fact, there is nothing in this or any other parable to warrant the belief that it would have been worth while for any shepherd to spend time looking for one lost sheep known to be at the west, if the same effort might have recovered ten lost sheep known to be in the east. The particular case in question was never intended to place in the balance one unit of any kind, whether sheep, dollar, soul or week's work, and teach the untruth that this one unit is worth ninety-nine units of the same kind. The steward who had the use of one talent was condemned, not for hiding his talent, not for failing to bring back

some return, not because he did not try, but because he did not earn with his opportunity at least the current rate, one hundred per cent. The virgins were not permitted to focus attention on their lamps, but were rather censured for having no oil at the particular time when it was needed. The prodigal son was feted not for running away, not for repentance, but in spite of the older brother's goodness fallacy, for the definite act of returning. Miracles were performed, not to show wonders but to meet need adequately, feed *all* of the out-door congregation, *cure* palsy, *raise* the dead, not turn him over in his grave. Dives went into hell, not in that direction or to a sermon about it.

Efficiency tests are now applied to many branches of religious work; they can be extended to all branches. Medical missionaries must know physiology and medicine. They are not chosen for their intention but for their ability to do good. Training schools exist for deaconesses and parish visitors in many cities, who are chosen not because they are good but because they have shown ability to get good results. Preachers must show ability to talk well. Tests of talking are easy to apply. So it is easy to test ability to get together clubs of boys and girls. Whether money enough is contributed, whether each member is doing his share, can and should be found out; it is just as easy to test the work of the Church as an organized body of Christian citizens. If Christian citizens who pass the contribution plate own premises that are being used for disreputable and illegal purposes, the fact can be ascertained by them and by their fellow religious workers. If, within the district of which the church is a center, milk that poisons is being sold, or if streets are dirty and hospitals mismanaged, the fact can be positively ascertained and the conditions corrected. If government officials are padding payrolls, wasting taxes, granting special privileges or otherwise manufacturing dishonesty or criminality, the fact can be proved and stopped. If children are improperly taught at school, and turned out physically, mentally and industrially unfit to do their part as Christian citizens, the fact can be ascertained positively and the conditions corrected.

The American Sabbath is fast losing ground; young people do not attend church as did their parents; even the institutional Church has failed to stem the tide of growing irreligion; young men of large capacities are less willing than formerly to enter the ministry; it is

increasingly difficult to obtain funds for maintaining not only missions but even old established churches. Are these statements true? I do not know. They are solemnly affirmed by leaders in religious work. Whether true or not, however, it is a most serious matter, deserving the kind of investigation that would be given a railroad management whose dividends decreased or whose road bed was greatly in need of repair.

Efficiency tests of religious work have not hitherto been applied sufficiently, because religious leaders have not felt responsible for unsanitary living and working conditions or for misgovernment that causes distress and vice and inability to comprehend and heed the gospel message. The men and women who are identified with religious work could abolish misgovernment if they would work together for definite visible ends in their communities. When they fail so to work together their religious work is inefficient. Whether they do it and what community work is left undone can be positively learned if they will look for conditions that make Christian living unnecessarily difficult for the strong and impossible for the weak.

If the religious worker cares to know about the efficiency of his church or mission or Christian Endeavor society, he will find such questions as the following helpful: Are the streets clean? Are milk shops properly inspected? Do weights and scales defraud the poor of the parish? Are demoralizing influences unchecked or unattacked? Is he exerting any appreciable influence to make the public opinion of the good who desire good government stronger than the private opinion of evil men who desire bad government?

These essentials of the efficiency test are simple and can be applied by the intelligent worker to himself, to the society of which he is a responsible officer, to the church and to the allied Christian forces of his community. The elements of this test are: Desire to know; unit of inquiry; account; comparison; subtraction; percentage; classification; summary. All Sunday-schools have weekly, monthly and annual reports. In most instances these reports show whether the Sunday-school is growing larger or smaller. There is no reason why the same method of analysis should not be applied to the influence of that Sunday-school and to children not attending who ought to attend, to parents not interested who ought to be interested, to evils existing in its neighborhood that ought not be permitted to exist, to community work not done that ought to be done.

The religious world needs as much as does the business world to have the *desire to know* what are the results of its efforts. The unit of inquiry depends upon what the church or church worker is trying to do. Any effort which has no definite purpose and has no unit of inquiry will not be of serious consequence. There are so many efforts that are not yet compared with results and so many units of inquiry requiring religious work that church bookkeepers will be kept answering them for some time to come. If any religious worker has difficulty in selecting the units that should be counted first, let him make a list of the things that worry him, or seem to worry his co-workers or parishioners. If the religious worker is not worrying at all and has no unanswered questions in his mind, that is a pretty sure sign that he is not doing his work efficiently. Goodness, spirituality, religious fervor, should not be permitted to manufacture evil or to waste opportunity to do good. Efficiency tests prevent a worker from undertaking tasks to which he is unfitted; efficiency tests use to the utmost, character, good intention and religious fervor by adjusting burden to capacity and by requiring effort commensurate with opportunity.

THE SALVATION ARMY—A CRITICISM

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The extraordinary development of the Salvation Army during the forty years of its existence, not alone in England and the United States, but in many other countries of the civilized world, has stamped it in the minds of a majority of people as a successful enterprise whose policies have been justified by its widespread success and whose work does not, for that very reason, require the careful scrutiny to which other charities should be subjected. How far this popular attitude is due to the worship of success and how far to the attitude of the Salvation Army's officers it is difficult to determine. It is doubtless true, however, that the Salvation Army fosters the impression that this is a different kind of philanthropy to which the usual tests should not apply.

It is the purpose of this paper to question the wisdom of this attitude on the part of the giving public toward the work of the Salvation Army, and to point out certain tests which may very well be applied to any large charitable enterprise and by which the success of the Salvation Army also should be measured.

The contributors, subscribers, or donors to any charity, in short, that part of our community by means of whose gifts an enterprise continues to exist and to grow, and which in the case of the Salvation Army has caused it to grow to national and international dimensions, have a responsibility in any philanthropic undertaking which but few of the donors realize. The donor is not swayed as much as in times past with the benefit he himself derives, but even now his motives are not singly for the interest of the charitable beneficiary; he still considers his own interest or his soul's welfare. This generation has, however, made great progress in applying tests to determine what benefits will result, and it has learned to keep such control of many an enterprise as will ensure its careful administration and adaptation to the needs of the day. In the ultimate analysis the donors to the Salvation Army must get

much of the credit for the good results which General Booth's family has been able to accomplish with the funds placed at their disposal, and likewise must, to a considerable extent, be held responsible for any evils that may have resulted or for their failure to place their money in other hands where it might have done even more good.

Perhaps a philanthropist is still entitled to the privilege of establishing such an enterprise as is dear to his heart and of lavishing upon it his thousands or millions granting that it is clearly for a moral purpose, although an increasingly large number of thinking men and women would place even such individual enterprises under the supervision of a governmental agency. The giving public is, however, less and less ready to give large funds unless they can be placed in the hands of trustees who work without pay and who give an account of their stewardship to their constituency every year in such terms as will make it clear to the contributors where the enterprise stands.

To what extent does the Salvation Army answer these simple safeguards? The work of the Salvation Army in the United States is carried on through three distinct corporations:—The Salvation Army, incorporated under the laws of the State of New York, May 12, 1899; The Salvation Army Industrial Homes Company, also incorporated in 1899; and The Reliance Trading Company, incorporated November 29, 1902.

The organization of the Salvation Army is as follows: Miss Booth is President; William Peart is Vice-President; William Conrad Hicks, Treasurer; Gustav H. Reinhardsen, Secretary; Madison J. H. Ferris, Legal Secretary. The directors are the above-named officers with the exception of George A. Kilbey, who is substituted in the place of Mr. Reinhardsen. This is then clearly not a board of trustees in the usually accepted meaning of the word in charitable enterprises but more like a board of directors of a financial corporation, each director and officer being an employee of the company.

The Salvation Army Industrial Homes Company and the Reliance Trading Company are New Jersey corporations, of both of which Miss Evangeline Booth, Commander of the Salvation Army, is President, and Ransom Caygill, a capitalist, who is not officially connected with the Salvation Army, is treasurer and business manager. A number of the directors of the Salvation Army

are also said to hold a considerable amount of preferred stock of their business philanthropies.

Donors of old clothes, shoes, furniture, magazines, newspapers and books, give them not to the Salvation Army but to a corporation which pays six per cent dividends on preferred stock guaranteed by the Salvation Army. Housewives have generally supposed that the salvage as far as it could be used went direct to the poor instead of being sold for a profit, and that magazines and newspapers and books were distributed to hopitals, prisons and the homes of the poor instead of being baled for profit to pay interest on a loan with which to finance the corporations. Likewise, the profits from the sale of the "War Cry" and the "Post" fountain pens go not to the Salvation Army, but to the Reliance Trading Company.

In England a much more critical attitude has been taken on the part of the general public toward these business philanthropies, and in well-informed circles the financial policy of the Salvation Army has been watched with considerable concern. Under the title of "The High Finance of Salvationism," Mr. Manson, in his recent book,[1] gives a chapter of interesting information regarding the Army's financial history during the last twenty years. The earliest large enterprise of its business philanthropies was the Salvation Army Building Association, Limited, formed in 1884. Its object was principally the negotiation of loans to advance the aims and objects of the Salvation Army. The management of the enterprise remained independent of the Army, and on this account, it seems, trouble arose which led to its liquidation. "The directors were not willing to lend their shareholders' money to the Army on the conditions as to interest or security to which the Army might have been prepared to agree."[2]

In "Darkest England," General Booth had among other plans proposed the founding of a poor man's bank, but when the Reliance Bank, Limited, was founded, the original design of lending money to the "little" man had become altered to that of borrowing money from him. The bank lends money to the Army. In its balance sheet for March 31, 1904, one-third of its apparent assets consisted of "loans on mortgage of Salvation Army house, shop and hall property."

[1] "The Salvation Army and the Public," by John Manson, Routledge, London, 1906.

[2] Manson, "The Salvation Army and the Public," p. 76.

The arrangement then amounts to this: General Booth is substantially the Reliance Bank, Ltd. As banker he borrows money from the public and lends a large proportion of it to himself as general of his religious organization; as general he receives from public contributions to his corps, money wherewith to pay himself interest in the capacity of lender, and it is this money which enables him to pay his investors their interest at the starting point.[3]

The bank has not been able to find enough capital for the Army, so the Salvation Army Assurance Society, Limited, was incorporated. The bankers of this society are the Reliance Bank, Limited, which again is General Booth. About five-sixths of the society's 293,108 policies in force in 1903 were industrial and 54 per cent of its premium income was swallowed up in management expenses and agents' commissions. As long as investors keep their confidence in business philanthropies that maintain no safeguards but the personal honesty of General Booth and his associates and successors, the enterprises may remain prosperous. But will this confidence last?

The Salvation Army is apparently as much a church denomination as the Methodist Episcopal Church, the Church of Christ, Scientist or Dowieism, with whose doctrine of faith-healing General Booth's Church has much in common. There is this important distinction that the Salvation Army members do not bear the total expense of its maintenance, and therefore the general public is asked to contribute. This "people's church" has a religious and social programme. By means of the latter it has succeeded in interesting a large segment of every other church denomination, and has obtained large funds, part of which are used in the furtherance of its religious plans with which, however, many of its largest donors have little or no sympathy.

The amount of money expended in the religious work of the Army in the United Kingdom during the last fifteen years is estimated at $30,000,000 while only about $2,500,000 has been expended upon social work, a ratio of twelve to one. If an accurate statement of each of the two departments of the Army's work could be made, and an accounting for moneys expended in each department could be rendered, any unfair criticism that may now be current regarding the use of the funds gained by means of the

[3]Manson, "The Salvation Army and the Public," p. 82.

"social" appeal, would disappear. So far the public have not been given the proper means of judging of the efficacy of the organization's work in proportion to its cost, and therefore the question naturally arises whether the Army's hesitation to give accurate figures is a necessary part of its plans.

For some years the Salvation Army has published "annual statements" of its three corporations. These contain balance sheets of the various departments of the New York and Chicago headquarters. Annual statements for 1906 were audited by The Audit Company of New York City, 43 Cedar Street, and mark a large advance over those of previous years. They are, however, but a fragment of what the public should have. They give even those accustomed to examine financial reports but a slight notion of what has been done during the year with the money that has flowed into its treasury, and they are quite unintelligible to the average person who may get a chance to see them. No annual report containing an account of the work the Army has accomplished during the twelvemonth is published. No detailed statement of the contributors and the amounts of their contributions or of the detailed expenditures, is made public. To the large majority of the intelligent public, the "annual statements," with their formidable array of figures serve but to hide the true state of affairs of the Army.

The nearest approach to an "annual report" is a little pamphlet called "Where the Shadows Lengthen," published by the Reliance Trading Company in 1907. This contains various groups of statistics, but, with the exception of the Prison Gate Mission, nowhere tells the period to which these statistics apply. If the Salvation Army is not willing to state with accuracy the time during which this work has been done, can it blame the public if the reliability of its figures is questioned?

Important as an adequate and intelligent statement of its work and an annual statistical and financial report is, the Salvation Army should, in the second place, be judged as other enterprises are judged, by the purposes it is aiming to accomplish and the measure of its success in carrying them out.

What and how much is the Salvation Army actually doing with the human beings for whose benefit it was called into existence? As before referred to, it has two aims, to reach both body and soul. Its doctrine of salvation promulgated in large measure in its

daily meetings is, however, not the basis of its appeal to the general public, but rather its social work, and it is because of the Salvation Army's social efficiency that large and small contributions come to its support from outside of its own ranks.

It is not an easy task to get a correct estimate of the work of any large enterprise even where careful reports are available, but in the case of the Salvation Army, with the divergent character of its work in different places, its inadequate statement of results and its unsatisfactory statistics, this is almost impossible. But one can certainly not be blamed for taking a critical attitude toward an enterprise which has stood so much in a class by itself.

We shall prefer to attribute the establishment of the rather shaky business philanthropies and the weaknesses in administration to the necessity of borrowing large lump sums for which General Booth believed the public would furnish the interest through their annual contributions but which he could not hope to obtain as gifts. General Booth undertook a large scheme and his ambitions fostered by the devotion of his staff officers and many of the rank and file outran his resources.

It is, however, reasonable to suppose that a "people's church" like the Salvation Army has reached its position of confidence which enables it to appeal successfully year after year without making full, accurate and intelligent accounting, because it has also on the credit side of its ledger a large measure of beneficent, religious and social work which has satisfied the community's rough-and-ready test in individual cases. The community has learned that while possibly the "Salvation lassie" could not boast of college training or foreign travel, her garb was the symbol of a life of simplicity and devotion; it has learned that the enthusiasm and self-sacrifice and devotion of its men and women, with an optimism that overcomes obstacles, often led them into hovel, gutter or brothel from which others would hold aloof, but from which they would now and then win back some sinking soul to decency and self-respect. Some of its rescue homes for women are among the most effective, and some of its lodging houses for men are among the best that can be found in their class.

But while we give credit for a large measure of self-sacrificing work, is it unfair to inquire what the Salvation Army is doing with a group of more or less clearly defined social tasks, or if its

activities have not run in these channels, to consider what other social tasks it has set itself to do. One of these tasks with which the Salvation Army has come in contact is to find an effective means of dealing with that most unsatisfactory of human beings, the homeless man. With few exceptions, the homeless belong to the vagrant class which live from hand to mouth, avoiding honest toil in every possible way, to whose mischief the officials of railroads ascribe many wrecks, loss of many lives, and untold expense, and of whom police courts are full every day on account of serious or trivial offenses. For at least twenty years the Salvation Army has had these homeless ones in their lodging houses and has provided them bed and board at nominal expense. The physical and moral condition of thousands has come intimately to their notice. Has the Salvation Army recognized its problem? Has it sought to stem the tide of homelessness by taking steps or considering ways and means to dry up the stream at its source? Has it even to any great extent given the men good, cleanly care?

To ascertain what was done with the homeless in the various cities of this country inquiries were sent some little time ago to persons in Boston, Buffalo, Washington, Cincinnati, Cleveland, Chicago, Grand Rapids, St. Louis, Minneapolis, Kansas City, Denver and Seattle, to men who were intimately acquainted with the activities of organized charitable work. From one of the cities came this reply: "The Army maintains what they call the Working Men's Hotel, a typical lodging house which, in the judgment of well-informed people here, accentuates rather than assists in solving the problem of homeless men and boys." This from another of these cities: "The Salvation Army lodging houses are of no assistance in solving the problem of homeless men and boys; gathering them together without inquiry they unwittingly increase the tramp problem and add to the burden of the other charities of the city." And yet another writes: "The Salvation Army lodging house, as conducted in this city for the past four or five years, is the worst we ever saw. A committee of our board of trustees has investigated and found the conditions indescribably bad. We do not consider their efforts in behalf of homeless men of the slightest value." The correspondents from other cities but echo these criticisms.

In justice to the Army it should be said that the Salvation Army Hotel, Chatham Square, New York City, is a clean twenty-

five-cent lodging house, and its appointments and management suggest what each community should expect the Salvation Army to do if it undertakes to provide for the vagrant class. The People's Palace in Boston is a splendidly equipped lodging house having many of the features of a well equipped Young Men's Christian Association building. The minimum price for rooms is twenty-five cents, and for that reason it does not reach many of the vagrant class.

In the summer of 1906 two women, who were anxious to learn for themselves what the problem of work with homeless women implied, spent a night in the Salvation Army's Women's Lodging House of New York City. The change of scene might account for the sleepless night they spent, but the filth, vermin and lack of ordinary sanitary conveniences they found were extreme. No effort was made to befriend the women or to bring religious or other uplifting influences to bear.

The Salvation Army appeals for funds on the plea that it is lodging thousands of the homeless. Should not the giving public insist, if it is asked to contribute toward the maintenance of these lodging houses which, according to the "annual statements" of 1906, are all but self-supporting (in 1905, according to the statement filed with the Secretary of State of New York, there was a balance of $21,730.12), that no houses be maintained that are not sanitary, and where the congregating of men and boys or of women may become demoralizing.

The further interest that the Salvation Army has in remedying the problem of homelessness is best expressed through the work of the sixty-five industrial homes. During 1906, 8,552 passed out of these homes after a stay of from six to eight weeks. They are said to have passed out to "permanent positions," but as a "permanent position" is defined as one taken by the week, and the Army has no statistics that would show how many stayed at least a week, or how many came back to the homes, there is grave question as to whether the Salvation Army has taken more than the first step toward solving homelessness. Does not the giving public expect the Salvation Army to join hands with those who are addressing themselves to the task of ending vagrancy and homelessness?

A second type of social work in which the Salvation Army has been interested for some years is in the relief of needy families. In this most delicate of charitable tasks, namely, that of providing

proper and ample relief under the best social control, the helpfulness and effectiveness with which this task is accomplished is generally measured by the extent to which all charitable agencies work together. In charity, co-operation spells efficiency. In fifteen of the large cities of the United States from which inquiry was made, it was learned that the character of the Salvation Army relief work varied in proportion to the intelligence, devotion and experience of individual officers, but in ten there was no co-operation; in four, slight; and in but one (Buffalo, N. Y.), good co-operation. The correspondent from one city writes: "We are not able to learn that the Salvation Army in its relief work co-operates with any charitable agency. Though a portion of their Christmas list was sent us, the volume of their co-operation is unworthy of mention." From a second city: "The Army has no desire to co-operate with other helpful societies or agencies." From a third: "The Salvation Army absolutely declines to co-operate with other agencies."

A former private secretary at headquarters explained this lack of co-operation by attributing it to a fear that the Salvation Army had of "being frozen out" unless it did relief work, the need for which would disappear through intelligent co-operation with other agencies. The notion that the Salvation Army deals with families that do not come to the attention of other charitable societies, both before and after becoming known to the Army, has no foundation in fact. For these reasons one is forced to the conclusion that instead of being willing to profit by the success and mistakes of other agencies, the Salvation Army remains unwilling to prevent duplication and is content to work at cross-purposes rather than to join hands with others, for fear of indirectly subjecting its work to others' scrutiny.

An enterprise that co-operates so slightly with other charitable agencies may be expected to have organized its own thrift agencies, such as fuel or stamp-saving societies, its own model pawn shops, its own campaigns for clean milk and for cleaner, safer and sunnier tenements, its anti-tuberculosis committees and camps, that it may do all that modern philanthropy deems essential in social work. Perhaps work of this sort is done, but the public is not made aware of it and the impression is current that the Salvation Army does not fail to advertise thoroughly all of its enterprises.

It is obviously unfair to test the efficiency of any social enterprise by laying down certain specific lines of development to which it must conform in order that it may be called a success. It is reasonable, however, to expect a large national enterprise which has assets of several million dollars to turn its face in the direction of preventive measures, to dry up the sources of crime and poverty, and to reduce the number of deaths and the amount of sickness, working along lines which science is clearly pointing out.

The Salvation Army points to its farm colonies as such an enterprise. General Booth has regarded them as the foundation stones of its regenerative social work, and large sums of money for its various forms of activity have flowed into Salvation Army coffers because of this experiment. The farm colony at Hadleigh, England, was to be the prototype of a large number which the Army hoped to establish in all parts of the United States and Canada. General Booth's statement that the proper solution of the problem of poverty is to place the "landless man" on the "manless land" is appreciated more as an epigram than as a remedy. The twentieth century still waits to see how that can be effectively done with men who lack capital, initiative and character, for it is such that make up the pauper class in every land. Of the three colonies which were started with an imperfect knowledge of American conditions the one at Fort Herrick, Ohio, has ceased to be a farm colony and is now used as an inebriates' home. The colonists at Fort Amity, Colo., and Fort Romie, Cal., have in most instances become self-supporting and have acquired a considerable equity in their homesteads, but no data are adduced as proof that they were, just prior to the period of colonization, dependent upon public or private charity; on the contrary there is a considerable amount of proof that few, if any, belonged to that group which corresponds to what William Booth calls "the submerged tenth," for whom the farm-colony was hailed as a panacea. It is not surprising, therefore, to find the department committee of the English Parliament appointed to consider H. Rider Haggard's report on the Salvation Army colonies in America, saying, with regard to Fort Romie and Fort Amity, "the settlements, then, do not prove that, so far as colonization is concerned, unskilled and untrained persons can be taken from towns, put upon the land and thrive there."

The enthusiasm of the colonists at Fort Romie and Fort Amity,

is easily explained. Their industry is to be commended and they are to be congratulated for having been the fortunate ones with which to try this "experiment." American colonists who have "certificates of both physical and moral soundness," and who have a desire to till the soil, will succeed where land is provided on easy terms. It is impossible, however, to understand how Mr. Haggard could see in it a solution for England's difficulties with its pauper class.

There are other enterprises which the Salvation Army has undertaken, and among these is one that deserves a large measure of commendation and support, namely, the establishment of its rescue and maternity homes. In a number of the cities of this country these are among the most effective of their kind. We fear, however, that the claim that 93 per cent of the fallen women who passed through them are "restored to lives of virtue" is a statement born of optimism and ignorance of results.

Our communities are grateful for the Salvation Army's interest in the welfare of children, but we have not learned that the Army has taken any part in such important movements as the agitation against child-labor, or that in favor of the establishment of city playgrounds, recreation piers, seaside or city parks.

The Salvation Army preaches temperance and points out in vivid colors the effects of the curse of drink. It has an inebriates' farm at Fort Herrick. Has the Salvation Army also considered searching out preventive measures by which the moribund thousands may be kept from sinking prematurely into drunkards' graves?

By means of its national organization and its wide-spread corps the Salvation Army is peculiarly well fitted to make itself felt in urging questions of moral reform and agitating for such appropriate legislation as will strengthen the hands of those who are bringing about better civic and moral conditions. There are, however, no data at hand that in these directions this large national organization, doing social work, has taken any part in such reforms, national or local, or has at any time tried to bring about a better social condition by proposing more stringent laws or by taking any part in actively supporting such measures as may be proposed by others.

Instead of striking at the root of social evils, the Army is too frequently inclined to take part in remedies that catch the applause of the unthinking public, but are apt to be shallow and rather sensa-

tional. When, in the winter of 1905-06, the newspapers misrepresented certain statements of Mr. Robert Hunter's, so as to make him say that 70,000 children in New York were going breakfastless to school, the Salvation Army at once, without a study of facts, causes or social consequences, opened breakfast rooms. To their credit it should be said that these were closed as soon as it became apparent that few children came and the parents of most of those that came were amply able to provide their children breakfasts. In the spring of 1907, the Salvation Army established its anti-suicide bureau with similar haste, and the Sunday newspapers got material for a new story. Meanwhile others were making a careful study of causes of suicide, and when it became apparent that the poverty and loss of employment had but little to do with the suicides' deed in these prosperous times, the anti-suicide bureau came to the end of its career.

As before mentioned, the public is not inclined to require that the Salvation Army shall undertake all or a majority of these tasks outlined, but it may reasonably expect that an organization that has been entrusted with millions, and is constantly emphasizing its social work, should have performed some of these well, and that it should have begun to study causes, and attack the evils at their source.

A rather intimate knowledge of the Salvation Army's work leads one to the conclusion that the rank and file of the Army's officers and members who are actively engaged in the social work are a devoted group who make up much in devotion for what they lack in intelligence. They do not realize that society is a complicated organism whose elements must be well understood in order that constructive work can be done and that the social worker needs a well-trained mind as well as a good heart and good intentions. That General Booth recognizes the value of these requirements is attested by his desire to establish a "University of Humanity," for which, it may be noted, at least four of the American universities have already provided through their courses in practical social work.

It is also quite apparent that the Salvation Army's field of social work has thus far been restricted. It has resourceful leaders, however, and large support, and it may be expected that the Army will become increasingly useful in the future.

The Relation of the Municipality to the Water Supply

A SYMPOSIUM

Chicago.—Frederic Rex, Assistant City Statistician, Chicago, Ill.

Philadelphia.—Henry Ralph Ringe, Philadelphia, Pa.

Baltimore.—Henry Jones Ford, Baltimore, Md.

Cleveland.—Edward W. Bemis, Superintendent City Water Department, Cleveland, O.

Buffalo.—Prof. A. C. Richardson, Buffalo, N. Y.

San Francisco.—Murray Gross, University of Pennsylvania, Philadelphia, Pa.

Cincinnati.—Max B. May, Cincinnati, O.

New Orleans.—James J. McLoughlin, New Orleans, La.

Detroit.—Delos F. Wilcox, Ph.D., Secretary Municipal League, Detroit, Mich.

Washington.—Daniel E. Garges, Secretary to the Engineer Commissioner of the District of Columbia, Washington, D. C.

Providence.—Frank E. Lakey, Boston, Mass.

Duluth.—W. G. Joerns, Duluth, Minn.

CHICAGO

By Frederic Rex, Assistant City Statistician, Chicago, Ill.

Chicago's earliest efforts to provide a satisfactory water supply for its citizens date back to November 10, 1834, when the board of trustees appropriated the sum of $95.50 for the digging of a large well, which was to supply the families adjacent and the community in case of fire. Owing to the inadequacy of wells as a source of supply, water carts were operated by private individuals, who sold lake water to the inhabitants at from five to ten cents a barrel. In January, 1836, the state legislature granted a charter for a period of seventy years to the Chicago Hydraulic Company, with authority to construct and operate a water works system in the infant city. The construction of the system, such as it was, was delayed for a period of four years, active operation not being effected before 1840. Water was obtained from an

intake pipe running into Lake Michigan about 150 feet and distributed through about two miles of wooden mains. Inasmuch as the area of the city at the time was about ten and one-half miles square, it is evident that but a small portion of the city was supplied with water by this concern. Four-fifths of the population was still supplied with water by wells and the crude cart system.

By a legislative act passed February 15, 1851, the Chicago City Hydraulic Company was incorporated as a part of the city government, and placed in charge of an elective board of water commissioners. Power was given the commissioners to purchase the tangible and intangible property rights of the Chicago Hydraulic Company, and to borrow $250,000 through a bond issue upon the credit of the city. Later additional power was granted the board to issue bonds for $150,000 and $100,000 in 1852 and 1854, respectively. The question of taking over the works of the old private company was submitted to the voters, 2,688 ballots being cast in favor of the purchase of the same by the city, while 513 electors voted negatively. The beginning of Chicago's municipalized water system may be said to date from this act of its citizens.

Work on a pumping station was begun, and a pumping engine with a daily capacity of 8,000,000 gallons installed. (It may be of interest to note that this engine, erected in 1853, was in continuous service until replaced by one of the modern high pressure pattern in 1904.) Water was secured through a 30-inch wooden inlet pipe extending 600 feet into the lake.

Operation of the new plant was commenced in February, 1854. It consisted of one reservoir, holding about 500,000 gallons, the pumping works and eight and three-quarter miles of iron pipe. During the first four months water was supplied but nine hours a day, and none on Sunday, except in cases of fire. Thereafter the supply was continuous throughout the twenty-four hours. The entire cost of the system up to December 31, 1854, was $393,045.32. The daily supply of water was 591,083 gallons during the first year. The average daily per capita pumpage was 8.9 gallons.

To meet the demands of the phenomenal increase of population and the rapid expansion of the city's area, the capacity of the water works required nearly constant augmentation. In 1858 a daily capacity of 20,000,000 gallons was thought sufficient to meet the requirements of a population of 84,000. In 1868 the capacity had been made 38,000,000 gallons, while the population had reached a quarter of a million. The total revenue at this time amounted to $420,686.00 as against a revenue of $102,179.00 in 1858. Where there were 72.4 miles of water pipe and 4,666 taps in the city in 1858, the year 1868 showed a total of 208.6 miles of pipe and 20,915 taps. In 1877 the capacity of the engines was further increased to 104,000,000 gallons, the population being 422,196. The number of taps was 59,369, of which 1,623 were metered. There were 424.6 miles of mains, and the revenue had reached $908,509.00. In 1889, by an addition of about 134 square miles to the city's area, making the population by 1892 nearly double that of 1888, it was necessary to give the water works system a capacity of 357,000,000 gallons to meet the new demand imposed upon it. The number of taps in 1892 was 203,954, while the miles of pipe in service was 1,402. The total revenue had become 2,738,434.10.

To-day Chicago's water supply is taken from Lake Michigan through five intake cribs situated from two to four miles in the lake and made accessible to the consumer through thirty-eight miles of tunnels and 2,075.50 miles of mains. There are ten pumping stations which pumped an average total of 436,954,473 gallons daily in 1906, or 204 gallons of water per capita each day. The number of taps in 1905 was 345,174, of which it is estimated that approximately 250,000 are in use. Twelve thousand three hundred and one meters were in service in 1906.

Owing to the vast amount of water wasted by the consumer through leaky mains and in various other ways, the problem of an adequate supply has become of serious and recurring importance to the city's engineers. The average daily per capita consumption has increased from forty-three gallons in 1860 to 204 gallons in 1906. To-day the pumpage per capita is five times greater than it was forty years ago. Although the present daily capacity is about 600,000,000 gallons, nevertheless, if the growth of the city be considered for the next ten years, the municipality will be forced to enlarge its plant over thirty-seven per cent within this decade. In the past ten years the average expenditure by the city in making needed extensions to its plant has been $700,000 annually, being for tunnels, pumping stations and machinery for pumping, exclusive of the distribution system. The city engineer advisedly estimates an average annual outlay of $600,000 for the next ten years as absolutely necessary in order to supply an expanse of territory which is taxing our pumping stations to the utmost.

It is evident that this strain upon our water works could be greatly abated by the prevention of unnecessary waste. Fully seventy-five per cent of all water pumped is wasted according to the city engineers. This waste is accomplished by reason of defective pipes and house plumbing, faucets left open to prevent freezing in winter and in summer to keep water and other matter cool. Mr. Joseph Medill Patterson, in a report made by him as commissioner of public works, on the subject of water waste and the manner of checking the same, said: "The only method yet known to stop waste is to install meters. And the necessity for installing meters cannot be over-emphasized. There are many things to be done to the Chicago water works in order to make it perfect. By far the most important and the easiest, the cheapest and the quickest thing to be done is to introduce extensive metering. When meters have been generally established and the waste reduced to a minimum we can unquestionably sell water to all consumers for five cents a thousand gallons, and not improbably for four and one-half cents a thousand."

In 1904 the amount of water pumped in gallons was 146,028,637,950, of which 21,717,046,000 gallons were pumped through meters. The revenue derived in this year from unmetered water was $2,218,076, while the sum of $1,616,464 was realized from metered taps. From this it is apparent that although only fifteen per cent of the total water pumped is registered through meters, forty-two per cent of the entire revenue received is from water sold through meters. Where the average revenue received for all water pumped was 2.628 cents per thousand gallons, the average revenue received from metered water was 7.44 cents per thousand gallons. While the cost to the city of 1,000 gallons of all

water pumped is 2.28 cents, it is selling unmetered water to the consumer at 2.25 cents per thousand, or .03 of a cent less than cost. Thus the desirability of placing the water works upon a business basis, equitable to the consumer and the city alike by the introduction of meters is palpable from the fact that the entire profit accruing to the municipality from the sale of water is from its metered water. As the average amount of water supplied through each unmetered tap is 430,000 gallons per year, it is argued that by extensive metering, after allowing a maximum per capita consumption of 100 gallons a day under meter control, the saving effected in water pumped would be 215,000 for each tap annually, which would mean a total saving of 2,150,000,000 gallons, or sufficient to meet the needs of an increase of population of 60,000.

By the installation of meters it is far from the purpose to make any restriction in the legitimate use of water. It must be clear that the buying and selling of water by measure is cheaper and more just than the present method. In lieu of a present daily per capita consumption of 204 gallons, metered service would easily reduce this to 100 gallons per day, due allowance being made for reasonable waste and leaks. A metering of but forty per cent of the taps in use means a saving to the municipality of at least $500,000 a year. Even though the installation be gradual at the rate of four per cent a year for a decade, the total pumpage at the end of this period would still be much less than it is to-day. Our water works system could be kept at its present capacity and maintain its present service without building additional tunnels and pumping stations. This is borne out by the experience of Milwaukee, where, the supply, being under meter control, no additional pumping machinery has been added for the last ten years, and the service is better than it was when the city first put in meters.

Water rates for taps not controlled by meters, are fixed according to a scale provided for by city ordinance. Such assessments are entirely dependent upon the frontage and height of buildings as well as the uses to which the same are put. These frontage rates are fixed upon a minimum basis. Extra charges are made for additional fixtures which involve the use of water for special purposes. All premises, where the frontage rates and charges for special fixtures aggregate $40.00 per annum or more, are subjected to meter control. A flat rate of seven cents per 1,000 gallons is charged metered consumers.

In considering Chicago's water supply from a sanitary point of view, one has but to revert to the time when the city discharged its sewage into the lake with the result that the source of the water supply at the intake cribs was polluted, and in consequence endangered the lives of its citizens. By the construction and opening of the sanitary and ship canal in 1900—also known as the drainage canal—part of the sewage was diverted from the lake to the canal, but not until the final completion of the huge system of intercepting sewers now being built, some of a width of twenty feet, will the danger of contaminating the water supply have been surmounted. These sewers are nearing completion in all parts of the city. Those in the southern division are now practically finished, while the partial completion of the north side system during the year will then entirely prevent the further flow of sewage into the

lake. This system of intercepting sewers, begun in 1898, and entailing an expenditure of $5,000,000, will, when completed, have been wholly paid for out of the net earnings of the water works.

The beneficent effect of the drainage canal in the purification of our water is abundantly proved by comparing the number of deaths from intestinal diseases, typhoid fever and such diseases whose origin can be laid to impure drinking water, for the two decades from 1885-1894 and 1895-1904. In the ten years from 1885-1894, typhoid fever caused 7,844 deaths, being a rate of 7.7 per 10,000 population, while in the decade from 1895-1904 there were 5,392 deaths, or a rate of 3.3 per 10,000, a reduction of fifty-one per cent. Where in 1891 the typhoid fever death rate was 17.38 per 10,000—being the highest of any city in the civilized world—the rate in 1905 was 1.65 per 10,000, or a reduction of ninety per cent.

Diarrheal diseases maintained a death rate of 25.6 per 10,000 population between 1885-1894, while from 1895-1904 the rate was 15.0, or a reduction of 41.4 per cent. This decrease in the number of deaths from intestinal diseases, Dr. Charles J. Whalen, until recently commissioner of health, attributes to: "Constant supervision of the water supply, with publicity of its daily condition; the regulation of lake dumping; securing sewage diversion from the lake; the correction of more than 100 local defects in tunnels and pumping stations in a single year; the promotion of the drainage canal and a vast amount of work for the sanitary district in the chemical and biologic examination of the streams between Chicago and St. Louis—are among the agencies which have reduced typhoid and diarrheal death rates—practically to the vanishing point for typhoid." Fully ninety-seven per cent of the water received from each of the ten pumping stations daily during 1906 was pronounced "safe" after being subjected to chemical analysis at the city laboratory.

The total cost of the water works system of Chicago from the date of its inception in 1854 up to December 31, 1906, is $42,156,989.19, the appraised net valuation of the entire plant at present being approximately $37,000,000. The amount realized in 1906 from assessed rates, metered service and miscellaneous earnings was $4,520,979.60, being an increase over 1905 of $301,417.16. The total cost of maintenance in 1906 was $2,060,249.12, an increase of $12,853.99 over 1905.

During the past year a number of pumping stations were equipped with modern pumps and boilers. A number of improvements are now under way, such as the construction of new tunnels, pumping machinery and boilers. Chief among these is a land tunnel, ten miles in length and varying from nine to fourteen feet in diameter, which is considered the largest of its kind in the United States. It will be 120 feet below the level of the lake and of sufficient size to supply three pumping stations of a daily capacity of 100,000,000 gallons each.

In accordance with a broad and ascertained plan all pumping centers are being provided with a capacity of 100,000,000 gallons daily each and placed about six miles apart. This will render it necessary to force water through pipes over an area not greater than three miles in either direction, thereby

vastly improving the local water pressure and causing a saving in the cost of pumpage on account of the low friction heads obtained in the water mains. It may be stated here that the total cost of pumping 1,000,000 gallons of water one foot high in 1906 was $3.89 against $4.25 in 1905.

Extensive coal testing experiments were conducted in 1906 and notwithstanding the increased quantity of water pumped during the year a saving of $43,214.91 was effected in the city's coal bill. By an ordinance of the city council the city engineer has been given complete control and sole responsibility of the water works. Where formerly the property owner under meter service was forced to install a meter on his premises at his own expense, the city council has relieved him of the burden and placed it upon the city. In pursuance of a general progressive policy the water department has installed an entirely new system of accounting constructed along the lines of the most approved railroad accounting.

With the general metering of taps achieved in the near future, and its consequent happy effect upon the water works system from a financial and an engineering point of view, Chicago can then point with pride to a municipal water plant first in the purity and health sustaining qualities of its product, in the reasonableness of its rates and in its general freedom from misgovernment and corruption.

PHILADELPHIA

By Henry Ralph Ringe, Philadelphia.

The City of Philadelphia is particularly indebted to its founders for their wisdom in selecting a site at the confluence of two large rivers, the Delaware and Schuylkill, where there is running water in abundance, and the drainage is excellent. The early settlers depended upon wells and springs, but as population increased these sources were polluted, and it became necessary to devise some method whereby the pure water could be brought into the city.

This most important question of pure water was aroused in the public mind by Benjamin Franklin, who deserves much credit for presenting the most feasible and least expensive plan for water works. It was Franklin's plan to bring the water of the Wissahickon Creek to the city by gravity—this recommendation appeared in his will of 1789. Had he not died in 1790 this project would have been consummated, and the great yellow fever epidemic of 1793 would probably have been averted.

It was not until 1797 that the first petition for the introduction of pure water into the city was presented to councils. After much discussion and the presentation of many schemes, Benjamin H. Latrobe was appointed, in 1798, to investigate the entire subject. In the latter part of the same year Latrobe presented his report, and declared in favor of the Schuylkill River, because of its "uncommon purity," and summarized the proposed schemes as follows:

1. To complete a canal immediately which would run through the city

and from which the water might be drawn through pipes into private cisterns in the cellars of the houses.

2. To carry out Franklin's plan of conducting the water of the Wissahickon to the city. (Had this been carried out the city would have had a daily supply of about 60,000,000 gallons, a quantity not required until 1880.)

3. To erect water works to be driven by one of the two rivers.

4. To collect water in impounding reservoirs from any practicable source, and thence conduct it in wooden or iron pipes to the city.

5. To construct a reservoir in Center Square (the site of the present Public Buildings) with an elevation of forty feet, at an estimated cost of $75,000.

Due consideration having been given his plans, they were finally adopted and the first water works were accordingly erected and operated by steam at Chestnut Street wharf, on the Schuylkill, and at Center Square, with Latrobe in charge of the building. To meet an inadequacy of funds, councils authorized a loan of $150,000, all subscribers to which received three years' supply without charge from the date of initial operation in 1801. The two steam engines installed were the first and largest pumping engines in the United States, having a capacity of raising 3,000,000 gallons fifty feet high in a day.

The cost of running the engines, the trouble of keeping them in repair, and the uncertain supply of water led councils, in 1811, to direct the "Watering Committee" to make another examination and inquire into a better method of supplying the city. They reported after a short time in favor of a steam works at Fairmount. These works were immediately begun, and turned over to the city in 1815, the Center Square works then being discontinued.

Up to this time the city was receiving no direct pecuniary benefit from the water works, in fact a sufficient amount was not realized from water rents in any one year to pay for the fuel and running of the engines. The cost of the Schuylkill and Center Square works, with yearly expenses from March, 1799, to September, 1815, was $657,398.91, while the entire gross receipts were but $105,351.18, leaving a deficit of $552,047.73, without interest. The new works erected at Fairmount were also expensive, and as the population was very rapidly increasing great difficulty was experienced in maintaining a sufficient supply. The problem was ultimately solved in 1818, when the city purchased the dam and locks at the Falls of Schuylkill and in the next year commenced a dam 1,600 feet long across the Schuylkill River at Fairmount in place of the steam works, which were abandoned at the completion of the dam in 1822.

The completion of these works marks the beginning of the present water supply system of the city, and although the subsequent works were run by steam, as is shown in the following table illustrating the growth of the system, the Fairmount works are still running, with the one variation of having turbine wheels in place of the old wooden breast wheels.

Pumping Station.	When Started.	How Operated.	Daily Average in Gallons Pumped.				Aggregate Capacity in Gallons per day. 1905.
			1855.	1875.	1895.	1905.	
Fairmount	1822	Water	7,611,756	23,833,072	20,786,830	19,265,734	33,290,000
Spring Garden	1845	Steam	4,178,096	5,641,688	138,915,593	129,091,769	170,000,000
Delaware and Frankford	1851	Steam	1,556,197	2,214,340	12,911,930	36,852,752	117,000,000
Twenty-fourth Ward Works*	1855	Steam	103,606	.....	.....	.....	.....
Belmont	1870	Steam	.....	8,371,254	23,116,379	43,572,768	65,500,000
Germantown†	1851	Steam	.....	.....	.....	.....	.....
Roxborough	1872	Steam	.....	2,487,354	17,029,941	26,494,369	35,500,000
Chestnut Hill	1873	Steam	.....	92,033	82,824	2,246	750,000
Mount Airy	1887	Steam	.....	.....	1,595,825	44,018	3,000,000
Queen Lane	1895	Steam	.....	.....	359,276	72,075,051	80,000,000
Belmont Auxiliary	1895	Steam	.....	.....	160,319	2,277,779	7,000,000
Roxborough Auxiliary	1895	Steam	.....	.....	865,322	13,148,278	40,000,000
Frankford Auxiliary	1900	Steam	.....	.....	.....	647,804	7,000,000
Total	.....	.....	13,449,655	42,639,741	215,824,239	9,343,472,568	559,040,000

*Abandoned in 1870 at completion of Belmont Works.

†Private concern; came into hands of city 1866. Abandoned in 1872 at completion of Roxborough Works.

The number of reservoirs has increased in proportion to the growth in the demand for an increased water supply, as the following illustrates:

Date.	No. of Reservoirs.	Capacity in Gallons.
1875	9	123,783,000
1890	11	848,447,000
1905	21	1,548,397,000

The relative increase in the quantity of water used has been as follows:

Date.	Total Amount of Water Pumped into Reservoirs. Gals.	Average Daily Consumption. Gals.	Average Daily Consumption per capita. Gals.
1875	15,097,160,069	47,639,741	56
1890	51,698,508,699	141,639,749	132
1905	125,367,447,176	326,630,253	227.2

The supply at present is quite adequate, the pumping stations having a total daily capacity of 559,040,000 gallons, whereas the average daily pumpage is only 343,472,567 gallons, or over 200,000,000 gallons less than the present capacity of the pumps.

The charges to the consumers are in the form of water rents, which are regulated by the city councils, who establish a minimum rate proportionate to the size of the connection to the main. The water rents are paid to the city treasury. As a usual thing dwelling houses have but one water attachment, while stores, office buildings and manufacturing establishments may have more than one connection when necessary, it being provided that the amount of annual water rent by schedule rates for every ferrule connection charged to any person shall not be less than certain specified minimum rates, which are:

½-inch ferrule	$5.00
¾-inch ferrule	26.00
1-inch ferrule	40.00
2-inch ferrule	160.00
4-inch ferrule	640.00
6-inch ferrule	1,440.00

The use of the water meter has not been very successful. Meters do not work equitably, and are merely optional with the consumer. In 1905 there were but 1,735 meters in use in manufacturing plants, a decrease of 28 from the preceding year. These are only installed when formally requested by the owner of any premises not a private dwelling, where there is an excess of water used beyond that charged for by the fixture or ferrule rate. No meter can be removed without notice to the bureau. Those violating this rule are charged by meter rates for the entire ensuing year. The rate to all places not charitable institutions is 30 cents per 1,000 cubic feet.

The minimum meter rates are:

½-inch ferrule	$5.00
¾-inch ferrule	13.00
1-inch ferrule	20.00
2-inch ferrule	80.00
4-inch ferrule	320.00
6-inch ferrule	720.00

Charitable institutions are charged 4½ cents per 1,000 cubic feet. All the meters are the property of the city, and no rental is charged unless the meter is unduly damaged.

The earnings of the bureau of water have been materially increased since the adoption of the present system in 1822. For the year of 1905 the total receipts were $3,790,447.26 and the total expenditures were $1,746,025.71, of which $945,389.16 were for current expenses and $800,636.55 were for extensions and improvements, leaving a profit of $2,044,421.55 for the year 1905. The net earning of the bureau since the installation of the works in 1799 to December 1, 1905—was $91,232,768.65. The total expenditures for maintenance and construction, improvements, etc., for the same period were $72,213,364.19, making a net profit since 1799 of $19,019,404.46.

Adequate as the facilities have been the water supply has not been of the best up to the last few years owing to the great pollution of the Schuylkill River before it reaches this city, and as a consequence much typhoid fever has resulted. This, however, is slowly being eradicated by the great filtration system which has been in process of construction since 1898. This system, when completed, will unquestionably be the greatest of its kind in existence, and although politics have very unfortunately entered into the work to such an extent that all work was stopped for one year pending a political investigation, still, the time of completion is within sight. The work of Major Cassius E. Gillette, U. S. A., and the others in charge will be a lasting monument to their skill and patience in time of difficulty.

Up to 1905 there has been $22,500,000 appropriated from loans and direct taxation for the impovement, extension and filtration of the water supply, and it is estimated that before final completion it will cost at least $30,000,000.

The four filtration plants and their respective capacities are as follows:

Section.	Estimated Capacity of Filtered Water when Completed—gals.	Daily Average in 1905 of Filtered Water —gals.	Cost per 1,000,000 Gallons in 1905.	Water taken from	Started.
Lower Roxborough. . .	12,000,000	9,627,000	$3.69	Schuylkill.	1903
Upper Roxborough. .	20,000,000	10,096,000	4.56	Schuylkill.	1903
Belmont	40,000,000	26,252,000	4.13	Schuylkill.	1904
Torresdale	248,000,000	. . . . .	. . . . .	Delaware.	. . . . .
Average	. . . . .	45,975,000	$4.13	. . . . .	. . . . .

Together with these there are the Shawmont and Lardners' Point pumping stations, the former of which is connected with the Roxborough filters and the latter with the Torresdale filter. At the Torresdale station, unless some unforeseen condition arises, there will be filtered a volume of water larger than the entire consumption of London and two and one-half times the combined capacity of the filtration work at Berlin and Hamburg. It will supply a population of nearly 1,100,000, and will represent nearly five-sixths of the entire water supply of the city. At present only West Philadelphia, Germantown, Chestnut Hill, and Manayunk are supplied with filtered water, the daily average quantity of filtered water being 45,975,000 gallons, which cost $4.13 per million gallons.

The effect of this filtered water upon these sections of the city in comparison with the sections which use unfiltered water, in regard to the elimination of typhoid fever, is very noticeable, as is illustrated in the following table compiled by the filtration bureau in 1905:

Locality.	Population.	Cases.	Per 100,000
City of Philadelphia	1,491,247	6,451	8.32
[1]21st and 22d Wards (filtered)..	113,755	192	3.51
28th and 38th Wards (unfiltered)	89,142	289	6.74
West Philadelphia (unfiltered).	181,941	562	6.05
Wards, 23, 25, 33, 35 (unfiltered)	144,968	2,105	27.59
Filtered water district in West Philadelphia	41,424	215	0.71

The works at present are in a generally satisfactory condition, but owing to the rapidly increasing population in certain sections of the city, it is almost impossible for the supply to keep pace with the demand. Many improvements already contemplated, such as new pumping stations, engines and boiler houses and large distributing mains are being delayed because of the lack of sufficient appropriations, but in spite of these hindrances it is an agreed fact that when these various improvements have been completed the localities suffering from an inadequate supply and pressure will be relieved and the City of Philadelphia will enjoy the benefits of a splendid system.

BALTIMORE

By Henry Jones Ford, Baltimore, Md.

The water supply of Baltimore City is owned and operated by the city government. The department is managed by a board of five commissioners, appointed by the mayor and confirmed by the second branch of the city council, as in the case of other municipal appointments. The president of the board is the water engineer, who is a salaried officer. The remaining

[1] The average in the Twenty-first and Twenty- second wards may seem a little high, but this is due to the fact that many of the people residing in this section are occupied during the day in other portions of the city which receive unfiltered water.

members of the board are unpaid, this being the usual manner in which the executive commissions in Baltimore administration are constituted.

The city water department dates back to the appointment in 1852 of commissioners to acquire water rights belonging to the Baltimore Water Company and others. A 6 per cent loan of $1,350,000 was issued for the purpose, and with that investment the public service was organized. The water board was organized under an ordinance passed in 1854. With the growth of the city the service has gradually enlarged and extended. At present there are two sources of supply: Gunpowder River, with an average daily flow of 710,000,000 gallons, and Jones' Falls, 35,000,000 gallons. There are two impounding reservoirs: Loch Raven, on Gunpowder River, and Lake Roland, on Jones' Falls, having a capacity respectively of 410,000,000 and 400,000,000 gallons. In addition there are seven storage reservoirs, with an aggregate capacity of 1,328,875,000 gallons. In 1906 the daily average of consumption was 66,863,925 gallons, a per capita of 119 gallons.

Water meters may be introduced as the water board considers it expedient. During the last seven years 2,711 new meters have been put in service and meter revenues have increased from $206,844 a year to $318,377 in 1906. The law authorizes the board to meter certain classes of property in which consumption is likely to be large, and consumers avoid meters if possible, as license charges are low and meter charges are almost invariably heavier. The flat rate on dwelling houses is only $2.50 a year for a house not exceeding 12 feet front; $4.00 over 12 but not over 13 feet; $5.00 not over 14, and so on. On an 18-foot front house the charge is $12.00, and on a 25-foot front $17.00. There is no extra charge for dwelling houses except for closets, $2.00, and urinals, $1.50. No charge is made for bathtubs in private dwellings. There is a list of special charges applying to business establishments and for the use of water motors, etc. By meter the rate is 45 cents per 1,000 cubic feet ordinarily, but is 60 cents for hydraulic elevators.

The supply comes to the city by gravity flow, but there are high service reservoirs for which pumping stations are maintained. The purity of the supply is guarded by vigilant inspection of the water shed, but it has not been found necessary to resort to filtration. The ample supply of clear water kept in storage is sufficient to provide pure drinking water.

The area of Baltimore prior to 1888 was 13.202 square miles. By annexations made in that year an area of 16.939 square miles was added, and service to the new districts will require extensions that the water board is now planning to carry out at an outlay of about $5,000,000, for which bonds will be issued. Larger impounding capacity will be required on the Gunpowder River, as while the average daily flow of that river was over 263,000,000 gallons in excess of the average daily consumption, yet there have been times when the daily flow was less than the maximum daily consumption. The water shed is, however, adequate to all requirements now calculable, and the continuance of the present policy of steady improvement seems all that is required by the situation.

The receipts in 1906 were $961,630, and the expenditures were $928,813, leaving a surplus of $32,816, which, in accordance with the governmental sys-

tem here, was turned over to the Commissioners of Finance as an unexpended balance. The statement of assets and liabilities to December 31, 1906, shows total assets of $16,818,094, against which were liabilities amounting to $9,539,616, of which $9,500,000 were for water loans. The Baltimore water department supplies water at low rates to consumers, and it is managed with a view to public service rather than earning profits. Indeed, it is stated that the annual surplus is only nominal, and all that is really sought is that the department shall pay its way.

CLEVELAND

By Edward W. Bemis, Superintendent City Water Department, Cleveland, O.

The necessary brevity of this article forbids a full account of the history and present conditions of the Cleveland water works, but a few facts may be of interest. The city began pumping water through the plant that it constructed itself in the year 1856, and has continued to operate the plant ever since. Prior to that time there were no water works in the city, and attempts had been made by the city government to induce a private company to undertake the work, but the inducements had not been considered sufficient.

The following table will give some idea of the growth of the department:

Year.	Connections in use.	Gallons of water pumped.	Meters in use.	Net receipts from water.
1870	3,893	1,126,228,500	....	$70,411.18
1880	10,013	3,725,683,021	402	202,377.92
1890	30,938	10,142,312,796	1,794	502,954.11
1900	53,473	24,487,098,808	2,810	765,511.95
1906	67,519	21,552,886,258	56,168	848,746.87

The supply is taken from Lake Erie through a tunnel nine feet in interior diameter and five miles in length, extending out to a steel crib four miles in a direct line from the shore. This tunnel has a capacity of over twice the present maximum daily pumpage. The new pumping station has a daily capacity of 110,000,000 gallons, while the maximum consumption is only 80,000,000 gallons, and the average is only 59,000,000 gallons. Reservoirs with a capacity exceeding the maximum daily consumption equalize the pressure and are a still farther safeguard to the city.

The charge for water to all consumers, large and small, is very low, being 5 1-3 cents per 1,000 gallons, which is the same as 40 cents per 1,000 feet. This is a lower rate than any private water company charges, and for the ordinary house consumers is a lower rate than any municipal plant, with possibly one or two exceptions. In fact, those possible exceptions probably do not exist if account is taken of the fact that to enjoy the low meter rates in these two or three other cities, the consumer must purchase and set

his own meter, while in Cleveland that expense is entirely borne by the water department.

Three-fourths of the houses that are metered pay a minimum of $5 a year, and the other one-fourth pay a minimum of $2.50. Over half of all the residences and tenement houses in the city averaged for the six months ending in April, 1907, only $2.48 per building or service connection.

With the introduction of meters, everyone was given the wholesale rate above mentioned of 5 1-3 cents per 1,000 gallons, which had hitherto been given to only a few hundred besides the large consumers, practically no others being metered. The reduction given to the 51,700 buildings or service connections that had been metered since 1900 amounted in April, 1907, to 40.56 per cent below what had been paid on the assessment or flat rate basis. This has meant a reduction of about $200,000 a year in the revenue of the department below what it would have been without meters. It would not have been possible for the department to have stood this loss in its revenue had not the introduction of meters checked the rapidly growing increase of waste and of expenses which had previously prevailed.

The pumpage had increased during the six years, 1888 to 1894, from 8,491,091,152 gallons to 14,414,534,830 gallons, or about 70 per cent. The increase from 1894 to 1900 was 10,072,563,978 gallons, or again 70 per cent, while there has been an actual decline in the annual pumpage during the last six years of 2,934,212,550 gallons, or 12 per cent. In none of these cases is allowance made for slip of the pumps, which would not materially affect the general conclusion.

In spite of the reduction in pumpage, there was so great an increase in the population of the city and in the number of consumers, the latter increase being over 26 per cent, that the operating expenses and ordinary repairs increased 12 per cent from 1900 to 1906. This, however, was small compared with the increase of 60 per cent in such expenses from 1888 to 1894, and of 62 per cent from 1894 to 1900. This excellent showing was not entirely due to metering. The introduction of a business method of administration modeled after the English municipalities, and the completion of some new pumps, contributed to the result.

The head of the department, thanks to the hearty co-operation of Mayor Johnson, has been allowed to make all appointments and removals without interference from anyone, and in ignorance of the politics of all employees.

If the operating expenses and repairs had increased 61 per cent during the last six years, which was the average increase of the two previous periods, the total expense would have been $443,354.81 in 1906. The actual expenses were $135,725.87 less than this. The interest and depreciation on the meters was not half as great as it would have been on the additional machinery and mains that would have been necessary had the department not invested about $800,000 in 5/8-in. and 3/4-in. meters during the last four years.

If the department had not spent $800,000 on these meters, it would have had to spend $1,600,000 for other extensions in addition to what actually was spent. Seven per cent on this extra $800,000 would be about $56,000. Those additional amounts of fixed charges, together with the $135,725 saving

in operating expenses, just mentioned, make a total saving through the meters and other improvements in 1906 of over $190,000. This has all gone to the people in reduced charges for water.

The city obtained its water from an old tunnel extending only one and a third miles from shore prior to 1904. The increasing discharge of sewage into the lake from the rapidly-growing city so contaminated the water supply that the tunnel now in use was undertaken. It should have been finished in 1902, but the contractors, who were losing money on the contract, had not extended the tunnel a single foot for eleven months when the water department took direct charge of the work at the close of 1901 and completed the job by direct labor by the beginning of 1904. Immediately the deaths from typhoid per 100,000 population declined so rapidly that in 1906 there were only fourteen cities with a lower death rate from this cause among the thirty-eight cities having over 100,000 population. The death rate from typhoid in 1906 was 20.2, or less than one-third that of Cincinnati, Pittsburg or Philadelphia.

The plant has a structural value, according to careful computation, of about $11,000,000, and a bonded indebtedness of $4,441,000. The rest of the plant has been paid for out of earnings. During 1906 the earnings of the department were over $200,000 in excess of interest on the bonded indebtedness and such allowance for depreciation, to wit: 2 per cent on the structural value, as the experience of the last fifty years has shown to be necessary.

A private company would have paid taxes of about $100,000, which the public plant did not pay. On the other hand, a private plant would have charged for water for fire purposes, street cleaning and sprinkling, public parks and playgrounds, schools, and other public buildings, fountains, etc., over twice this amount.

Of the 70,000 services in use, about 57,000 are now metered, and the department has just bought 10,000 more meters, which it will set during the ensuing twelve months.

Large extensions of street mains are also well under way.

Bacteriological analyses of the water are made daily, and every effort is being put forth to make the department a model for other municipal undertakings, such as electric light, garbage works, street railways, etc., as the city is now undertaking, or may undertake in the near future.

BUFFALO

By Prof. A. C. Richardson, Buffalo, N. Y.

The first company which undertook to supply the citizens of Buffalo with water was the Buffalo and Black Rock Jubilee Water Company, which was organized in 1826 and incorporated in 1827. Before 1832 it had laid sixteen miles of wooden pipes, which were simply logs bored through from end to end, with one end sharpened to fit into the next log. Some of them are still dug up occasionally. The source of supply was the Jubilee Springs, on Delaware Avenue, near Ferry Street, and as this was higher than any

part of the district then supplied, no pumps were necessary. The Jubilee Water Works continued in existence, with commissioners of its own, in addition to the system next to be described, down to about 1898, and the land containing the springs belonged to the city as late as 1902.

This system supplied but a small part of the city, and in 1849 the Buffalo City Water Works Company was incorporated with a capital of $200,000, which might be increased to $500,000. There was trouble at first about raising the capital. The common council voted to subscribe $100,000, but this action was reconsidered, and the subscription was refused. At last, however, two Philadelphia contractors subscribed for enough of the stock to ensure the construction of the works, with the tacit understanding that the contract for the construction should be given to them. The work was begun in 1850, and completed in 1851, and the works were formally opened January 2, 1852.

The water was taken from the margin of the Niagara River, the inlet being situated on Bird Island Pier; and a tunnel about four feet in diameter and 330 feet long, running under Black Rock Harbor and the Erie Canal, connected this inlet with the wells under the pumps. Of these latter, there was but one at first, built in 1851, with a capacity of 4,000,000 gallons in twenty-four hours. Another was added in 1866, having a capacity of 6,000,000 gallons. The water was pumped into a reservoir which would hold 11,000,000 gallons, built on the block bounded by Niagara, Connecticut, Vermont Streets and Prospect Avenue, and was then distributed to the city by 33.9 miles of pipe of various sizes. This plant was the nucleus of the present water works, which have been extended and improved until they are now among the largest in the country. The pumping station is the largest under one roof in the world.

The charter of the company gave the city the right to acquire the plant at any time within twenty years from the date of incorporation, and in 1868 it was deemed necessary to do so. Accordingly, on May 7th of that year the legislature of the state authorized the city to issue bonds to the amount of $705,000 for this purpose. The purchase was consummated and the city, by three commissioners, one of whom was the then mayor, Chandler J. Wells, took formal possession of the plant August 17, 1868.

The systems above described were supplemented by a large number of wells in various parts of the city, and an old-fashioned pump with a long iron handle was a not uncommon sight on the street corners when the writer came to live in the city in 1883. All these, however, have long since been abandoned and filled up.

By the time the city took over the works in had become necessary to take measures for obtaining a more ample and a purer supply of water. Accordingly, in 1870, plans were made for extending the tunnel, duplicating it, and erecting a new inlet pier further out in the river. This work was completed and the water let in December 27, 1875. The new pier was located at a point in the river where the water is about sixteen feet deep and the current flows at the rate of seven to fifteen miles an hour. The two tunnels connecting it with the shore wells are about 985 feet long, and

together have a capacity of 350,000,000 gallons a day. There are now in the pumping station nine steam pumps of various makes and one electric pump, which together have a capacity of 212,000,000 gallons per day. Another large electric pump, for which bids have been received, will probably be added soon.

A new reservoir, on the block bounded by Best, Jefferson, Dodge and Masten Streets, was begun in June, 1889, and completed in July, 1894. It has a capacity of over 116,000,000 gallons when filled to a depth of thirty feet, and the surface of the water is then 113 feet above the level of the water at the inlet pier and 685.23 feet above mean tide at New York. As soon as the new reservoir was in use the old one was abandoned and shortly afterward pulled down. Its site is now occupied by the armory of the Seventy-fourth Regiment, N. G. N. Y., one of the finest and most imposing buildings in the city.

According to the reports of the water department the average per capita consumption of water was 319 gallons a day in 1903-04, and 336 gallons a day in 1904-05. This is an enormous consumption—greater than in any other city in the world. The calculation of it is based upon the plunger displacement of the pumps, with an allowance of 10 per cent for slip, or imperfect working of the pumps. But a special commission on water supply, appointed by the mayor in 1905, expressed in its report the opinion that the pumpage thus calculated is largely in excess of the actual pumpage, basing this opinion on the results of meter measurements on one of the larger pumps. If, however, a deduction of 20 per cent is made from the gross measurements, the average daily consumption per capita in 1903-04 would be 280 gallons, and in 1904-05, 300 gallons; and this is enormously greater than that of the largest cities in this country. New York, for instance, pumps 113 gallons per capita daily, Chicago 161.5, Philadelphia 221.9. It is quite certain that a very large part of the water pumped is wasted without doing good to anybody. For instance, in the fiscal year 1904-05, 7,795 buildings were inspected, in which 7,312 leaky fixtures were found; and the repairing of these fixtures made an actual saving by meter measurement of over 4,000,000 gallons a day. Last year a similar inspection of 3,131 buildings disclosed 2,849 leaky fixtures, the repair of which caused a saving of over 2,000,000 gallons a day. It seems likely, therefore, that if all waste could be eliminated the present supply would be not far from sufficient for the city at the present time.

Where meters are not used, the charges vary according to the size and frontage, from $2.50 to $9.00 a year, besides a special charge for each bath tub, water closet, hose-sprinkler, etc. The meter rate is six cents a month per thousand gallons for the first 22,500 gallons, and for all over that amount two cents a month for each thousand gallons; but no meter will be furnished unless the annual amount per meter is at least $5 for a ⅝-in. meter, $10 for a ¾-in. meter, and so on in proportion for larger meters.

"The change in our meter ordinance," says Buffalo's official report for 1905-06, "making a lower rate for the smaller meters, has put us in position where the smaller meters could be installed, and we have therefore placed

more meters than in any year previously; but we have still been hampered for lack of funds, or we should have placed a great many more. We have installed during the year 315 new meters, and now have 2,001 meters actively in use.

"The experience of all water departments is that a liberal use of meters causes a reduction in water used and makes a more equitable distribution of the water rates. . . . It does not reduce the legitimate use, but does stop the unnecessary waste, and almost invariably reduces the amount paid for the use of water, and thus becomes a benefit to all concerned."

The special commission above mentioned also says in its report: "While we believe that by a thorough and efficient system of inspection much of the unnecessary waste of water can be prevented, we also feel that this can be but a partial remedy, and that the only perfect remedy is the installation of a meter on every service, not only to limit waste in house services, but to exact equitable rates for water consumed, and to aid in the detection of leaks from street mains and service pipes.

"Yet we recognize that there is a strong prejudice against meters in the minds of many people, and therefore believe it to be better, instead of installing meters on all services at once, to proceed gradually, confident that before long the good sense of the people of Buffalo will indicate clearly to them that it is the proper system to adopt for the distribution of water and collection of water rates, just as it is in the case of gas and other supplies."

To quote again from the report of the special commission above named: "We believe that under ordinary circumstances the water supplied to the city through the present intake and tunnels is wholesome and good, but the evidence is conclusive to our minds that there are times when it is polluted to a degree which imperils the health of the city, and that the causes which produce this pollution are increasing in effectiveness, so that in the not distant future the water from the present source will become much more dangerous. . . . . The present intake is sometimes very seriously interfered with by ice, which checks and has almost stopped the flow of water to the pumps, causing great inconvenience to many consumers and a dangerous condition as regards fire. The objections to the present source of supply, intake and tunnel are so great that a new source of supply should be determined upon, adopted and brought into use at the earliest date possible."

The intake and tunnels have been already described. As has been said, there are nine steam pumps and one electric, the last named having been added to the plant in 1905. Most of the others are old, have seen their best days, and are expensive to run. They are housed in a building 640 feet long and 102 feet wide, located at the foot of Massachusetts Avenue, with the Erie Canal on one side and the New York Central Railroad on the other. This entire building has just been rebuilt entirely fireproof. There is a high-pressure service and a low-pressure service, both of which are connected directly with the pumps, which maintain a pressure of about fifty pounds per square inch at the pumps for the low-pressure service and seventy-five pounds for the high-pressure service. Besides this, the large reser-

voir, above mentioned, is connected directly with the former and supplies the mains when the consumption causes a lowering of the pressure from the pumps.

Besides the objections to our present water supply system which have been named above, there is the very serious one that it is the only one we have, and that there is no reserve plant to use in case of accidents. And the possibility of accidents was brought home to us forcibly in 1905 by the fact that a large lumber barge broke away from its tow, floated down the river and was wrecked on the Inlet Pier. It took many weeks to get her off, and many more to repair the damage to the pier. "The damage was worse than we had anticipated," says the last official report of the water bureau, "and very few people realize how close a call they had to having their source of supply cut off completely, so that it would take months to resume its use."

The special commission before mentioned was appointed in 1905 to devise remedies for the defects of the existing system; and in accordance with their recommendations plans have been made and contracts let for the construction of a new pumping station at the foot of Porter Avenue, a new tunnel and inlet large enough to supply 400,000,000 gallons daily to the pumps (this with an eye to the future growth of the city), the inlet to be located in the Emerald Channel, where pollution has been shown by a long series of observations and experiments to be impossible, and a branch tunnel connecting the new station with the old so that the new inlet can supply both. Then, when the new plant is completed and in use, the old intake and tunnels are to be closed so that no water can reach the pumps from them, while the old plant is to be kept as an auxiliary and reserve. The new system, it is estimated, will cost $2,800,000, and its construction is already under way.

The charter requires the water department to be self-supporting. It must pay all running expenses, including extension of mains and principal and interest of bonds issued for its benefit, out of its own revenues. The extension of the pipes is somewhat hampered by this necessity, as there is always a lack of funds for this purpose. All other obligations must be met first. For instance, there are about eight miles of pipe to be laid, the money for which has not yet been earned. If any surplus were left after meeting these obligations it would be turned into the general fund. But this state of things, according to an official in the comptroller's office, has never occurred since the city has taken possession of the water works.

SAN FRANCISCO, CAL.

By Murray Gross, University of Pennsylvania, Philadelphia.

The City of San Francisco does not own a municipal water plant but is being supplied by a private corporation, viz., The Spring Valley Water Company.

Up to the sixth decade of the past century, San Francisco received its domestic supply of water from watering carts, wells and springs. Supplies for the hand fire-engines were drawn either from the bay or from large

cisterns built at street crossings and kept filled for the use of the volunteer fire department. The serious fires which occurred during the fifties demonstrated the inefficiency of the fire protection, but as the credit of the city did not permit construction of municipal water works, a law was framed, known as the law of 1858, to encourage private enterprises to embark in the business of supplying cities and towns in California with water. For the purpose of regulating the price at which water ought be sold, the law provided that rates should be established by a commission.

Under the protection of the law of 1858 a company was organized with two million gallons daily, but the rapid growth of the city and the increasing demands for water led to the creation of a new company, under the name of the Spring Valley Water Works, by local citizens. This company secured considerable tracts of land and water rights in secluded mountain forests in San Mateo County. On the first of the year, 1865, both companies became one under the name of the Spring Valley Water Company.

Between 1865 and 1905, the population and consumption of water in San Francisco steadily grew. Water was required and demanded everywhere and at elevations varying from sea level up to five hundred feet above tide. With this growth, the reservoir, pumping and pipe system kept pace, so that by the end of 1905, the distributing system showed a net mileage of four hundred and forty-one.

The water sources of the Spring Valley Water Company, as at present developed, may be divided into three separate groups:

First, the Peninsular Reservoir supply, in San Mateo County, comprising three storage reservoirs, with capacities of about 950, 5,500 and 1,900 million gallons, respectively. The water product from these three reservoirs flows by gravity into the distributing system of San Francisco.

Second, the Alameda Creek system. No storage reservoir has as yet been constructed. The present supply drawn from this source is about 15 million gallons per day.

Third, Lake Merced, in San Francisco County, with an area of 400 acres. The average net yield of the lake is about 3 million gallons per day. During the period of four decades from 1865 to 1905 facilities have been developed necessary to bring the daily water supply up to 35 million gallons.

The following table shows the population of San Francisco in round figures for even years from 1870 to 1900, inclusive, and an estimate for 1910:

Year.	Population.	Daily Consumption of Water in Gallons.	Daily per capita Consumption
1870	150,000	6,040,000	40
1880	234,000	12,670,000	54
1890	300,000	20,430,000	68
1900	343,000	25,470,000	72
1910 (estimated).	455,000	34,900,000	80

In 1877 the board of water commissioners entered into negotiations with the Spring Valley Water Company for the purchase of its plant, offering the sum of $11,000,000, but the company declined this offer as not being

within several million dollars of the true value of the works. In Article XII of the new state constitution, adopted January 1, 1880, it became the duty of the board of supervisors of San Francisco to fix the compensation to be collected by any person, company or corporation engaged in the business of supplying water for the use of city, county or the inhabitants.

Section 19 of Article XI of the constitution, as amended in 1885, granted the right to persons and corporations to use the public streets for supplying water to the inhabitants on condition that the legislature shall have the right to regulate the charges.

The legislature of the state at its session in 1881 passed an act providing for the carrying out of the objects of Article XIV by imposing upon the board of supervisors the duty of requiring all persons or corporations engaged in supplying water to file statements each year, showing the names, residence and the amount paid by each rate-payer during the preceding year; the revenue derived from all sources and an itemized statement of the expenditures made for supplying water during the same time. The same act further provided that false statements or refusal by water companies to make statement should be held a misdemeanor; that water rates were to be equal and uniform; and that excess in charging rates should forfeit franchise.

In the year 1900, the new charter of San Francisco went into effect, a very prominent feature of which was a clause providing for the acquisition of a municipal water works system and another empowering the board of supervisors to fix and determine by ordinance the rate of compensation to be collected by any person, company or corporation for the use of water, heat, light, or power, and to prescribe the quality of the service.

As preliminary to fixing and establishing water rates under the provisions of the new charter, the city has had annual estimates made by its engineer as to the value of the properties and works of the Spring Valley Water Company. According to the statements of the company, its properties and works, at the beginning of the year 1901, when the first appraisement was made by the city authorities, should have had a minimum value of $26,932,485.

In the following table for five years ending 1906 is shown the valuation of the properties of the company by its own officials and by the public officials together with the taxes paid by the company:

Year.	A. Beginning year, 1901.	B. Expended by Company for Betterments.	C. Sum of A + B. Beginning of year.	Valuation by City Engineers. Beginning of year.	Valuation by Supervisors at beginning of year.	Taxes paid by Company during year.
1901*.....	$26,930,000	.....	.....	$24,667,800	$22,939,722	$203,257
1902†.....	.....	$974,732	$27,904,732	24,468,210	23,914,454	236,828
1903‡.....	.....	735,594	28,640,326	28,024,389	24,124,389	321,537
1904§.....	.....	718,939	29,359,266	24,673,212	23,121,502	348,222
1905.....	.....	462,438	29,821,704	25,001,441	.....	.....
1906.....	.....	510,751	30,332,455	25,450,327	.....	.....

* Municipal Report, 1901–2, p. 787. † Municipal Report, 1902–3, p. 942.
‡ Municipal Report, 1903–4, p. 509. § Municipal Report' 1904–5, p. 499.

It will be noted that the company expended for betterments during the five years from 1901-05 $3,402,455, but on the other hand that the valuation by the city engineer increased during this period only $782,527, or less than one-fourth of the sum expended. It may also be seen that while the valuation by the city engineer increased only $3^1/_{10}$ per cent, the taxes paid by the company during 1905 show an increase over taxes paid during 1901 of $82^1/_{10}$ per cent.

The water rates established by the board of supervisors upon the basis of its valuations have been constantly opposed by the company as being below its needs for operating expenses, taxes, interest and essential improvements, and on several occasions their application has been prevented by injunction.

CINCINNATI

By Max B. May, Esq., Cincinnati, Ohio.

Since June 25, 1839, the City of Cincinnati has owned and operated its own water works. Prior to that time water was supplied by private enterprises. The first settlers in 1799 were supplied by Griffin Yeatman from a common well in his garden at twenty-five cents for each family, payable every Monday morning.

In 1802 there was a rival private water works, which consisted of a large cask hauled on a sled. In 1805 water was supplied from a large hogshead on wheels. The first water works were operated in 1820 and consisted of a small wooden reservoir about six feet above the street, which was supplied by a chain pump operated by horse power, and the water was distributed from the tank to casks which were hauled away by consumers.

In 1821 the owner of the water works, which in the meantime had been improved by the laying of wooden mains, offered to sell them to the city for $30,000, but this was rejected by the popular vote of 294 to 25, and in 1835 a proposition to buy the water works, which in the meantime had been much improved, for $275,000, was defeated by a vote of 1,274 to 956. Finally in 1838 the city voted to buy the water works for $300,000 by a vote of 1,573 to 321.

In 1842 Nicholas Longworth urged council to provide a site for a higher reservoir, and offered his Eden Park property at $500 an acre. Council refused this, but later bought the property for $30,000 an acre.

Prior to 1896 an agitation was started for a new water works which should be built, and in that year the legislature authorized a commission of five to construct a new water works and to expend $6,500,000. The commission, consisting of August Herrmann, Maurice J. Freiberg, C. M. Holloway, Leopold Markbreit and W. B. Mellish, secured the opinion of experts, whose report provided for the location of the new water works plant at the village of California, on the Ohio River, about twelve miles from the center of the city. The main plans of the new water works are as follows: A low-service pumping station and intake situated immediately below the village of Cali-

fornia, with an intake tower on the Kentucky side of the Ohio River connecting the same with the pumping station by a tunnel to be driven under the river bed. The water from this station is delivered through two 60-inch diameter force mains to two large subsiding reservoirs, located on high grounds back of the village of California. These subsiding reservoirs have a total capacity of 300,000,000 gallons of water. Adjacent to these reservoirs are coagulating basins. Thence the water by slow gravity enters sand filters, from which the water enters a clear well water reservoir, and thence through another tunnel, through which it is delivered to the high-service pumping station, which is located about four and one-half miles west of the intake. From this station it is pumped into the present Eden Park reservoir and distributed throughout the city. It is expected that filtered water will be furnished by January 1, 1908, latest.

It was soon found that the original cost of $6,500,000 would not be sufficient, and additional legislation was secured authorizing a further expenditure of $3,500,000. It now appears that it will require about an additional million dollars to complete the work, and a committee of citizens has recently reported in favor of legislation providing this additional amount.

The supply at present is, of course, adequate, and will be for very many years to come. It is difficult to estimate the charges to consumers, inasmuch as various businesses gave different rates. The average dwelling house consists of from nine to twelve rooms, and costs about $6.50 a year. Of course factories, bakeries, laundries, etc., have special rates which it is impossible in this brief report to state. Meters are furnished and consumers are charged 7½ cents per 100 cubic feet, irrespective of the quantity consumed, with a minimum rate of 2 cents per day.

The average daily per capita consumed under the old water works was 140 gallons. This was due to the condition of the old pumps. Under the new water works the average daily per capita consumed is about 125 gallons. The experience with water meters has not been satisfactory. This is due to the fact of the charge of the minimum 2-cent rate per day. The average consumer using the meter finding that he has to pay this minimum charge, wastes as much water as he did without the meters.

Prior to January of this year water was furnished from the old pumping station on East Front Street, the water there being much contaminated by sewage which enters the river many miles above. This naturally caused much typhoid fever throughout the city. Since the water has been pumped by the new works at California, the intake of which is above the city, the number of cases of typhoid has greatly decreased, and it is expected by the health authorities that when filtered water is furnished there will be an additional decrease of this dread disease. Of course the present condition of the works, which have just been completed, is excellent and will undoubtedly remain so for many years.

The water works pays its own expenses, and also provides a sinking fund for the redemption of the $10,000,000 water works bonds now outstanding. The estimated receipts for the water works department for the year 1908 from all sources will aggregate close to $1,100,000. Out of this sum

there is used $354,955 as interest on $10,000,000 of bonds, $21,295.75 old charges. One hundred and forty thousand dollars are put aside annually for sinking fund purposes. The approximate cost of operating and maintaining the new plant, including the filter, will be $275,000, and the costs of the controller, assessor and collection division, repair and extension department about $220,000. Within forty years therefore at the present rate the entire water works should be paid for.

NEW ORLEANS

By James J. McLoughlin, Esq., New Orleans, La.

The water supply system of New Orleans is at present in a state of transition, and it is somewhat difficult to present a satisfactory summary of the situation.

The present system was constructed by a private corporation which had been granted a fifty-year monopoly that would expire in 1927. But some seven or eight years ago, the company's extortions, unfairness and general inefficiency were so unbearable, that a suit was brought which resulted in the forfeiture of the company's charter, and the abolition of its monopoly. The company is now in the hands of a receiver, and its property will soon be sold at public auction to effect a final liquidation. When that is done, the present water supply system will cease to exist. As a matter of public order and necessity, the receiver is operating the system by sufferance of the municipal authorities, as all realize that it would be a public calamity to shut off the city's water supply.

The city is at present busily engaged in constructing a water system, under a special tax levied to pay for the same. This system will be owned and operated by the city, and will be in operation by the end of 1908. Until then, the present inadequate pipes of the receiver will have to be utilized. When our water system was first devised, some seventy-five years ago, it was established as a private monopoly; operating as such for some thirty years, it was then bought out by the city, and for about ten years the city ran it. The disastrous results of the Civil War, and the ten-fold more disastrous afflictions of the reconstruction period, so exhausted the city's ability to make needed repairs and improvements to its municipal utilities, that in order to have the system kept going, in 1877 the water system was transferred to a private corporation with a fifty-year monopoly right. The corporation took charge of a system of some sixty miles of pipes, and from the very start adopted a system of "get-all-you-can" out of its franchise, instead of a wise extension of facilities. When its charter was forfeited, after thirty years of profitable operation, its pipe mileage had increased only seventy miles, and it was still supplying the raw muddy water of the Mississippi River, without filtration or even settling. The supply was totally inadequate to the needs of the population. The charges to the consumers were grossly extortionate, and discriminative, some consumers paying one-half what others, less favored, had

to pay for similar service. Water meters were not allowed unless to large consumers, and then the meter had to be installed at the consumer's cost; but the meter measurement was a farce, because, as was shown on the trial for the forfeiture of the company's charter, the meter registered in cubic feet, and to one consumer, the company would bill the supply at eight gallons per cubic foot, to another at ten gallons, and to some unfortunates twelve gallons per foot. The city had no control whatever over the charges, or the accounts, of the company. True, a minority of the board of directors was composed of city officials, but in practice these city members were ignored, or else neglected their duties. In fact, the water supply for this great city, on the banks of a great river, with an inexhaustible supply of good water, was grossly inadequate. Therefore, simultaneously with the enactment of the legislation which resulted in the forfeiture of the company's charter, the people of New Orleans, by proper taxation, issued sewerage and water bonds to the extent of twenty-four millions of dollars, which fund is being spent in sewering and draining the city, and in erecting a modern water system. Work was begun some five years ago, and is now well on toward completion.

This paper is not concerned with the sewerage and drainage improvements, which are now in partial operation, to the great satisfaction of the people, and I will not devote any space thereto, beyond saying that they form parts of one comprehensive whole, whose completion will make of New Orleans one of the most desirable cities in America for the health and comfort of those who dwell therein.

New Orleans is situated on both sides of the Mississippi River, and draws its public water supply from that river. Under the plans now being carried out, there will be a system of 453 miles of pipe, that will supply pure, filtered water throughout the city. The capacity of the works will be sufficient to provide for a per capita consumption of 100 gallons of filtered water. Water meters will be supplied to consumers who desire them. The rates for water must be fixed at such a price as will furnish the water at cost, as no profit is to be made by the city from the sale of water. Water for the sewerage system will be supplied the householder free.

The cost of this system is fixed at $6,718,945.20. Of the 453 miles of pipes 145 miles have been completed, or are now nearly completed, and contracts for 308 miles will be let this year. The machinery for the main distribution and filtration station has been bought, and that station is in course of erection. With the completion of this comprehensive set of plans, New Orleans will have one of the best water systems in the country. The water of the Mississippi River is well known for its freedom from impurities—the sand, or silt, which forms so great a part of its volume not being rated an impurity,—and after it is filtered to remove the mud, or sand, it becomes pure and limpid. The volume of water is so great, that we will never fear diminution of supply. And we need no extensive watershed to collect into our reservoirs the water required. With so favorable a situation, the people of New Orleans congratulate themselves that they have solved to their complete satisfaction that greatest problem of modern cities—a pure and adequate water supply.

DETROIT

By Delos F. Wilcox, Ph.D., Secretary Municipal League, Detroit, Mich.

The public water supply of Detroit has been under the management and control of the city from the beginning. A board of trustees was first appointed by the common council on February 24, 1852. In the following year a special act approved by the common council was passed by the legislature establishing the "Board of Water Commissioners of the City of Detroit." This board was to consist of five members appointed by the common council, the first commissioners to serve for three, four, five, six and seven years respectively, their successors to be appointed for terms of five years. According to this arrangement one new commissioner would be appointed every year. This plan has been followed up to the present time, except that the appointment of the commissioners was some years ago transferred from the council to the mayor, but subject to confirmation or rejection by the council.

During the fifty-four years since the board of water commissioners was established forty-two different individuals have served as commissioners. During the last twenty years comparatively few have been reappointed at the expiration of their terms, but in the earlier days the continuity maintained in the personnel of the board was remarkable. During the first year of the board's operations, 1853, Mr. Edmund A. Brush was chosen president. He was re-elected every year until 1868, when Alexander D. Fraser, who had served on the board continuously from 1855, was elected president. Mr. Fraser served for three years. In 1871, Mr. Jacob S. Farrand, who had been a member of the board since 1865, was elected president, and served for one year. He remained on the board, however, and was chosen president again in 1880, and served continuously in that capacity until July 9, 1890. From 1872 till his death, in 1885, Chauncey Hurlbut served as president of the board. He had been a member of the board for four years prior to his election to the presidency. Since 1890 the board has had fourteen different presidents.

Under the act providing for the board of water commissioners this department of the city government is rendered almost altogether independent of the common council and the mayor. While it is true that the common council has authority to remove any water commissioner by a two-thirds vote upon charges and after a hearing, the water commissioners are not required to submit their estimates to the common council or board of estimates, nor to report their financial transactions to the city controller. The debt of the water board is independent of the general city debt, and is not included in the statutory debt limit. The city pays to the water board a lump sum of $75,000 every year for interest and sinking fund and in return receives without charge water needed for public purposes. Out of this fund and the receipts from water rents the department itself takes care of the water debt, both principal and interest, and pays the current expenditures of the department.

The water supply is taken from the Detroit River, and is unlimited in quantity. All the conditions are favorable for low rates, as the site of the city is almost level and only a few feet above the level of the river. The following are the rates charged to consumers:

For Metered Water.

Minimum rate $1.75 per quarter, $7.00 per year. For first 30,000 gallons used, per quarter, the minimum rate. All in excess of 30,000 gallons, per quarter, 2¼ cents per thousand gallons.

Assessment Rates per Annum.

For each family for general household purposes, $2.60; for one bath-tub, $1.00; for each additional bath-tub, 60 cents; for automatic water closet, $1.60; for each additional closet, 60 cents; for each hand wash basin, 48 cents; for hose bib or connection, premises 30-feet front or less, 60 cents; for hose bib connection, premises 30-feet to 60-feet front, 80 cents; for hose bib connection, premises 60 feet to 100 feet, $1.60; for livery and private stables, for each horse, $1.20; for dray and team horses, each, 60 cents; for cows, each, 60 cents; for stores and offices, $1.00 to $12.00; for bakeries, average daily use for each barrel of flour, $2.00; for grocery and provision stores, from $3.00 to $50.00; for saloons, $6.00 to $50.00; for bar with faucet, from $8.00 to $50.00; for fish houses, from $6.00 to $50.00; for beer pumps, $2.00; for barber shops, for each chair, $2.00; for hotels and taverns, in addition to family rate, for each room, 60 cents; for boarding schools, $4.00 to $50.00; for butcher stalls, each, not less than $3.00; for workshops, for ten persons or under, $3.00; for workshops, for each additional ten persons, $1.00; for boarding houses in addition to family rate for each roomer or boarder, 40 cents; for building purposes, for each one hundred yards plastering, 5 cents; for each perch stone, 1 cent.

Special rates are given for green-houses, slaughter-houses, printing-offices and lawns of more than 100 feet frontage. Street sprinklers have to pay $50.00 each wagon. Fountains pay from $5.00 to $20.00. Where more than one family live in the same house and are supplied through the same faucet, the second and each additional family has to pay $1.40 a year for water for general household purposes.

The average number of gallons pumped per day during the fiscal year ending June 30, 1906, was 61,357,019, of which 18,239,174 was metered and the balance unmetered. The estimated number of persons supplied was 383,697, making a total per capita consumption of 159.9 gallons per day. This includes all of the water pumped, whether used for public purposes, for manufacturing, for hotels, for ordinary family use, or for any other purpose. The board supplies several outlying villages with metered water. The board lays the mains, but the expense is paid by the village authorities. The village authorities also pay for the water, and collect from individual consumers as they see fit. The average amount of water supplied in this way to outside villages was 500,657 gallons per day. The average daily pumpage has increased from 1,030,866 gallons in 1853 to 61,357,019 gallons in 1906, while the population of the city has increased from 20,000 in 1850 to approximately 263,000 in 1906, which shows that the pumpage of water has increased more than three times as rapidly as population. The average amount pumped for each family supplied in the year 1853 was 70,868 gallons. This average increased to 271,607

gallons in 1906. The pumpage per family reached its highest point in 1888, when 390,098 gallons were furnished on the average.

The total number of families supplied in 1906 was 80,848. The total number of meters in use was 6,346. As a general rule all business places are supplied with meters, and meters are installed in private residences wherever there is evidence of great waste. Of the total pumpage approximately two-sevenths passed through the meters. The revenue from metered water amounted to $0.0285 per thousand gallons while the balance of the revenue gave only $0.019 per thousand gallons of unmetered water.

The water supply of Detroit is exceptionally pure and wholesome. Taken from a deep, broad river only a short distance below Lake St. Clair, which is supplied from the Great Lakes Huron, Michigan and Superior, Detroit's water supply would be among the best in the world, if it were absolutely protected from pollution by the cities, villages and summer resorts along the Detroit River and Lake St. Clair. The city has recently annexed a suburb to the east mainly for the purpose of controlling its sewage. The board of health feared that even the slight amount of sewage drained into the river from this village might possibly contaminate the city's water supply. The total death rate per thousand estimated population during the year 1906 was eighteen. The average typhoid fever death rate during the past five years has been twenty per one hundred thousand population.

The present condition of the Detroit water works is, generally speaking, excellent. The total receipts, exclusive of loans, during the last fiscal year amounted to $676,604.80, of which $501,351.44 was from water rates and $75,000 from the general tax levy already mentioned. About $55,000 was received from outlying villages for laying water pipes. The total expenses for the year as reported by the secretary were distributed as follows:

Operation and maintenance	$156,195.36
Interest on debt	46,278.00
Purchase of real estate	21,156.85
Bonds paid off	189,000.00
For construction	370,937.68

The total amount of water bonds outstanding July 1, 1906, was $966,000. In addition to this, $1,834,000 had been redeemed or refunded since the establishment of the system. The estimated valuation of the property of the water works is as follows:

Real estate	$ 462,828.60
Pumping station, including buildings, tunnel, intake, machinery, etc.	2,633,815.95
Water pipe in use	4,836,451.79
Meters in use	110,966.48
Furniture and fixtures in offices	9,466.01
Tools and materials	119,319.66
Total	$8,172,848.49

There are now 683 miles of water mains in use; 8,014 gates; 4,355 fire hydrants; 558 fire cisterns and 73,699 service taps. The average head against the pumps is 120 feet. The average pressure is 52 pounds on the low service and 62 on the high service. About nine-elevenths of the water is supplied through the low pressure system.

There are at present no large plans for improvement on foot so far as water works construction is concerned. The city proposes, however, to build an intersecting sewer to take care of the sewage of the village of Fairview, recently annexed, so as to avoid any possible danger of contaminating the city's water supply.

On the side of the management and supervision there is a movement on foot to require the water board to submit its estimates and to report its financial transactions to the city authorities just as all other departments do. For some reason the board of water commissioners is very jealous of its financial independence and thus far has successfully resisted the attempt to reduce this department to the same organic relations with the city sustained by the public lighting commission, the board of health the board of education and other departments of municipal work.

WASHINGTON, D. C.

By Daniel E. Garges, Secretary to the Engineer Commissioner of the District of Columbia.

The water supply of the City of Washington is brought from the Great Falls of the Potomac River, in the State of Maryland, about twelve miles from the City of Washington. The first steps towards furnishing the city with water were taken about the year 1852, when an appropriation was made by Congress for the necessary surveys. The first appropriation was made towards the work in 1855, and was for the construction of the necessary conduits and reservoirs. The work was completed about 1858. It was originally contemplated only to supply buildings of the United States Government located in the City of Washington, which, until that time, had been supplied with water from wells. By an act of Congress, approved March 3, 1859, however, Congress provided that the inhabitants of the corporations of Washington and Georgetown should be allowed to lay the necessary mains in the streets of the two cities and levy a water tax therefor, and to connect these mains with the mains belonging to the United States. Authority was also given the corporations to make regulations regarding the distribution of the water and to establish a scale of annual rates for the supply and use of same, provided no expense devolved upon the United States, and it was further provided that when the supply of water was found to be no more than adequate to meet the wants of the United States Government, the supply to the citizens should be cut off.

This is the arrangement under which water is at this day supplied to the City of Washington. The control of the source of supply and the conduits,

reservoirs, and appurtenaces, is under the chief of engineers of the United States army, acting for the United States Government, and the distribution of the water to the citizens of the City of Washington and District of Columbia is under the control of the commissioners of the District of Columbia. There has recently been constructed a filtration plant, through which all of the water supplied passes before it is delivered to the authorities of the District of Columbia for distribution, and this plant is under the jurisdiction of the chief of engineers. The pumping station of the District is located adjacent to the filtration plant, and the water is delivered to this pumping station and distributed from it to all points in the city and District. This station is controlled by the district commissioners.

The cost of bringing the water from Great Falls to the city was $12,000,000, and the expense was borne by the United States. The cost of the distribution system was about $8,000,000, and was paid for entirely from the water taxes and water rents levied upon the citizens of Washington. The cost of the filtration plant was about $3,000,000, and it was paid for one-half by the United States and the other half from revenues of the District of Columbia. The capacity of the filtration plant is 75,000,000 gallons daily, and the average consumption is 68,000,000 gallons daily. While the supply is adequate at the present time, it is dependent upon one conduit, which brings the water from Great Falls, and in case of anything happening to this conduit, which was built about half a century ago, the water supply would be cut off. Both the chief of engineers and the commissioners have urged upon Congress the necessity for the construction of an additional conduit, but no appropriation has yet been made for the purpose.

The average daily per capita consumption is 200 gallons. This is palpably excessive, and is due in part to leaks and wastage. In order to prevent such wastage and also to establish a more uniform system of water rates, the commissioners are installing water meters. About 4,000 of such meters have been installed in private residences, and they have been required for a long period in business and manufacturing establishments and other establishments using large quantities of water. At present, however, and until the installation of water meters in private residences is completed, the charges to the consumers are based on the number of stories and frontages of the houses.

On all premises two stories high, with a front width of 16 feet or less, the charge is $4.50 per annum, and for each additional front foot, or fraction thereof, there is an additional charge of thirty cents per annum. For each additional story, or part thereof, the above rates are increased by one-third. This system of charging for water has never been satisfactory, however, and is abandoned as meters are installed. The rate for water supplied through meters is three cents per hundred cubic feet.

The experience of the city with water meters in business and manufacturing establishments and in private residences as far as they have been installed, has been very satisfactory, both as to preventing unusual consumption and as forming a better basis upon which to make charges to consumers. The regulations as to the installation and use of water meters are

given below.[2] In this connection it should be stated that the meters in business establishments are installed and paid for by the owners of the property, while those in private residences are paid for out of the water revenues. These revenues are made up from rentals received for the use of water and assessments levied for the laying of mains. The rate of assessment is $1.25 per front foot of property abutting on the main, and this frontage is considered as serving the lot to a depth of 100 feet. All frontage of corner lots over this amount is assessed as additional frontage.

The distribution system is supported entirely from the water revenues and by provision of law the revenues shall not exceed the cost of furnishing water, so that there are no profits on the system. The rates to consumers are adjusted, however, from time to time, and recently were increased 25 per cent in order to pay for necessary extensions of the water system to the outlying sections of the District. With this increase, however, the rates are lower than in other cities with a population equaling that of Washington.

As before stated, the conduit bringing the water to the City of Washington is old, and a new conduit is very badly needed. The balance of the system, however, both of supply and distribution, is in excellent condition, and the only improvements contemplated are the extension of the supply to places, where water is not at present furnished.

[2]Rules and Regulations of the District of Columbia Concerning Water Meters.

Authority is vested in the Commissioners of the District of Columbia by acts of Congress.

I. The supply of water shall be determined by meter to all manufacturing establishments, hotels, swimming baths, and all premises for business purposes on which the water rent, according to the schedule of rates, is twenty-five dollars or more per annum.

II. Every water meter before being placed shall be sent, with a memorandum of the owner's name and the location of the premises where the meter is to be used, to the water department, for testing.

III. Consumers are required to keep their meters and appurtenances in repair at their own expense.

IV. All meters and appurtenances shall be placed at the consumer's expense.

XI. No water from the mains shall be introduced or used on premises supplied through water meters excepting that which passes through the meter.

XIX. The rate to be charged for water supplied through meters shall be three cents a hundred cubic feet.

XX. A minimum rate of four dollars and fifty cents ($4.50) per annum, to be charged quarterly, will be made against all premises supplied with water by meters.

Attention is invited to the following act of Congress:

"That any person who, with intent to injure or defraud the District of Columbia, shall make or cause to be made, any pipe, tube, or other instrument or contrivance or connect the same or cause it to be connected with any water main or service pipe for conducting or supplying Potomac water in such manner as to pass or carry the water, or any portion thereof, around or without passing through the meter provided for the measuring and registering the Potomac water supplied to any premises, or shall without permission from the Commissioners of the District of Columbia, tamper with or break any water meter or break the seal thereof, or in any manner change the reading of the dial thereof, shall be deemed guilty of a misdemeanor, and upon conviction shall be punished by imprisonment not exceeding six months or by a fine not exceeding two hundred and fifty dollars."

The above rules went into effect August 17, 1906.

Prior to the installation of the filtration plant it had been claimed that the Potomac water was the cause of the greater proportion of the cases of typhoid. After the plant was installed and put in operation there was not a very perceptible decrease in the number of cases, and the medical authorities looked around for other causes. An investigation by the United States Marine Hospital service showed that the fifty shallow wells which were located in various parts of the city and suburbs were polluted, presumably from sewage contamination, and all these wells have been recently closed. Another cause was claimed to be the milk supply, and steps have been taken to regulate the cleansing of cans, utensils, etc., at the dairy farms and to prevent the use of water from polluted wells for this purpose.

PROVIDENCE

By Frank E. Lakey, Boston, Mass.

The water supply of Providence has never been furnished by private enterprise. Prior to the installation of the present system of public water works, several firms and families combined to obtain a water supply, but no agreement to supply the whole city from private sources has ever been attempted.

The history of the establishment of municipal water works is a brief one. During the sixties (1869) the Pawtuxet River was tapped, and, notwithstanding the growth of the city, still furnishes an abundance of really good water. The establishment of Hope, Fruit Hill and Sockanosset reservoirs gives sufficient head, while the installation of high-pressure services (composed of ninety-two flush hydrants), protects the numerous manufacturing plants against fire.

The water is pumped from the Pawtuxet River on to slow sand filters, situated on the opposite side of the river from the regular pumping station. It is carried under the river to the pumping station by gravity. It is pumped into a storage reservoir located upon a hill about one mile distant and 181.75 feet above the river. From this reservoir it flows into the city by gravitation, directly supplying a second storage reservoir within the city limits, and also that portion of the city which is of sufficiently low elevation to be served by gravitation. To supply that part of the city of too high an elevation to be served by these reservoirs, a third reservoir is located in the town of North Providence. The water is pumped by supplementary pumping machinery from the second reservoir above mentioned, or from the mains, into the high-service reservoir. This supplementary pumping machinery can also supply the high-service district, if the reservoir should be out of service, by pumping directly into the mains. In addition to the regular distribution pipes there is an independent high pressure fire system (deriving its supply from the high service) for protecting an area of about one-half of one square mile in the center of the business portion of the city.

The supply seems to be adequate for all demands for many years.

Other streams within twenty miles can be drawn on later if necessary, and use could be made of the salt water of the bay for fire purposes if urgently needed. The present filthy condition of the water in the upper bay, known officially as the Providence River, makes this last use one to be employed only in the last extremity.

The receipts for water rents for 1906 were $708,747.93, an increase over the previous year of $20,875.22. The net cost of the water works for construction from November 8, 1869, to January 1, 1907, is $7,228,867.84, upon which there has been a revenue for water sold of $13,273,770.12. The net debt September 30, 1906, was $4,072,915.52. The excess of receipts over management and interest in 1906 was $22,867.13.

The charges to consumers for all water consumed through a single tap up to $600 in value is two cents per 100 gallons. If in excess of $600, one and one-half cents per 100 gallons, provided that in no case where a meter is used the annual charge shall be less than $10.

The use of meters has reduced the waste 85 per cent. The average daily consumption is sixty-eight gallons per capita. The average daily use per service pipe, of which there are 25,094 in use, has been 600 gallons in 1906, or 15,005,600 gallons. Twenty-one thousand eight hundred and fifty-two meters are used by a population of 219,800, of which the estimate for the city is 203,000, and for the suburbs, 19,800.

The public health of Providence has been excellent for years. Since 1884 the superintendent of health has kept very full and accurate statistics of the cases of typhoid fever. In the twenty-three years last past, one outbreak has been traced to polluted city water. This occurred in 1888. In November, 1891, an outbreak was suspected to be due to the infection of the city water supply, but this was not proven. The supply is taken below a number of manufacturing villages, containing many foreigners, whose habits are sometimes open for criticism. Since 1855 the highest ratio (149 in 100,000) was in the year 1865, at the close of the Civil War. The next highest was in 1882 and 1883 (122 and 109), and the third in 1888 (83). Since that date the ratio has steadily fallen. Hence the superintendent, in his report for 1903, says: "It is improbable that the source of the water supply has been specifically contaminated except on three or four occasions, and that on the whole it has furnished an excellent supply. The fall in the death rate from typhoid fever may be fairly attributed to the introduction of city water." During 1906 the city water has been filtered. The beds are now being covered by wooden frames for the good of the service.

The following table shows the removal during the year of 97.3 per cent of the bacteria of the river water forming the water supply:

MONTHLY AVERAGE OF BACTERIA PER CUBIC CENTIMETER.
(48-hour counts on 10 per cent gelatine media.)

MONTH.	RIVER WATER.			FILTERED WATER.			Percentage Removed.
	Max.	Min.	Ave.	Max.	Min.	Ave.	
January	3,250	400	1,068	264	6	38	95.4
February	5,200	400	1,572	180	8	52	96.
March	3,500	250	723	215	7	54	92.5
April	2,800	400	1,019	164	5	31	95.5
May	4,000	400	1,915	119	3	12	99.2
June	3,100	200	1,633	91	3	16	98.3
July	1,500	500	1,047	31	2	7	99.2
August	7,500	400	1,450	129	2	10	98.7
September	5,000	250	1,302	190	2	12	98.8
October	5,000	600	1,636	181	2	18	98.5
November	4,800	600	1,776	135	5	25	98.5
December	2,000	300	1,016	99	6	24	97.2
Averages	.....	.....	1,346	.....	.....	25	97.3

The present condition of the works is satisfactory. Electrolysis is causing damage in certain localities. In some cases meters have been destroyed and service pipes damaged through this evil.

The profits are paid into the sinking fund. This fund, on September 30, 1906, amounted to $360,084.44. The profits since the installation of the service have been $1,887,563.14. For the past ten years the profits have been:

1897	$87,074.95	1902	250,582.95
1898	88,638.42	1903	260,507.58
1899	100,959.64	1904	275,961.55
1900	127,357.47	1905	125,900.73
1901	252,761.38	1906	22,867.13

The great shrinkage in the past year has been due to the very costly improvements made.

DULUTH

By W. G. JOERNS, Duluth, Minn.

The ANNALS of January, 1906, contained an article by the present writer on the gas service of Duluth under municipal management. As the gas service of Duluth is operated by the municipality in connection with its water service and was acquired by purchase from the private interest in connection with the water service, as one transaction, a description of one necessarily contained much that pertains to both. Reference is therefore made to the article in the January ANNALS aforesaid for a general history of the establish-

ment of the water supply of Duluth as well as to details of management, and here again attention is called to this plan of management, unique in many of its features, as a valuable source of suggestion to any municipality contemplating the municipalization of any public utility. Suffice it to say here, that the record of the private company was one of poor service, extortionate and discriminating charges, an impure water supply which became a serious burden on the health of the community, and a most corrupting influence in the political life of the community. The fight against the unsatisfactory and predatory private interest by the patriotic and more enlightened part of the community was a long and bitter one. The plant was finally municipalized in 1898; and the record since then, under municipal management, has been an unbroken line of successes. The source of supply was immediately changed and the people of Duluth have, under municipal management, been furnished water that in its excellence and purity challenges all comparison. Vast extensions of the system have been developed. The pipe lines have been more than doubled, the reservoir capacity increased sixfold since the city took charge of the plant, and the rates have been reduced to practically one-half the rates that were charged under the private management. The cost of service extensions and other incidental charges have likewise been reduced in proportion. The gas and water plant combined was originally purchased by the city for $1,250,000. The present bonded indebtedness of the city on account thereof, as shown by the last annual report, is $2,866,000. Both gas and water plants have at all times been maintained in a high state of efficiency and repair. Old pipe and machinery have been replaced by new, and the plant entire is to-day in the highest possible state of preservation. Attention is also called to the further important fact that, notwithstanding the reduction in rates and other savings to the consumer, there has been accumulated a surplus of approximately $140,000; and this surplus, instead of being allowed to lie idly in a sinking fund, has been expended upon the extensions of the plant. The combined water and gas plant was, in the last annual statement, inventoried at $2,955,000.

The present reservoir capacity of the plant is approximately 30,000,000 gallons. The average daily consumption is about 5,500,000 gallons, supplying approximately 50,000 consumers. The pumping capacity is four times the present rate of consumption, one-half thereof being in the shape of a steam, the other in the nature of a newly installed electric pumping plant.

The experience of the department with water meters has been very satisfactory, and it is seeking to extend the use thereof as much as possible. In fact two-thirds of all newer extensions are metered, and as fast as opportunity offers the older consumers are placed on the meter basis. It is the rule of the department that, once so placed, they are not permitted to return to a flat rate basis; and this rule has been upheld in the courts.

Under the careless and insolent management of the private company, the water supply became contaminated and a deadly menace to the public health. Epidemics of disease were directly traced to the contaminated water supply, and this fact had much to do with the creation of the public sentiment which finally resulted in a purchase of the plant by the municipality.

One of the first steps, under the municipal control, was to provide a pure water supply by the building of an extensive supplementary system. The water furnished the consumers since that time has been absolutely wholesome.

As before stated, the present condition of the works is first class. When first the plant was acquired from the private company it was in a run-down condition; but old and defective pipe and machinery has been replaced by new and modern material, and that part of the plant is to-day in a condition immeasurably superior to that in which the city found it when first acquired. Indeed it is the aim, as it has been the custom, of the department to maintain the entire works in the highest possible state of present efficiency and to make all renewals, repairs and substitutions with this aim constantly in view. It might be well to suggest at this point that about seven miles of force main, from the present pumping station to the main reservoir, is of 42-inch steel pipe construction. Serious question has, in doleful voice, been raised from time to time as to the probable life of this steel pipe, and the prophecy, in this regard, of the divergent special interest and of those financially and constitutionally opposed to municipal ownership, has been particularly dire. Recent investigation has, however, disclosed that this pipe, though nine years in the ground, is apparently answering every expectation of a long life, with the possibility of comparatively easy repair as occasion from time to time may demand.

The department has accumulated a surplus of approximately $140,000, which has been expended in extensions of the plant. This surplus was accumulated in the face of a reduction of the rates by one-half and a saving to water consumers in nine years of municipal service of over a half million dollars.

The topography of Duluth is peculiar in that very unusual heights of elevation are to be supplied. The main plant and reservoir system aims to supply all territory up to 290 feet above lake level. A secondary system, called the hillside system, is being installed which will supply an additional territory to the height of 550 feet above the lake level, and will require a repumping from the reservoirs. A still higher system, called the Hunter's Park system, and supplying a suburban residence section of the community, has also been installed. This system supplies territory to a height of 700 feet and requires a second repumping.

To sum up, Duluth, under municipal management, has developed a water and gas system second to none in the country as to plan, efficiency and substantial results. It would well repay any student of municipal economics to give the municipal plants of Duluth and their record a personal investigation.

BOOK DEPARTMENT

NOTES.

Abbot, H. L. *Problems of the Panama Canal.* Pp. xii, 269. Price, $1.50. New York: Macmillan Company, 1907.
See "Book Reviews."

Alexander, E. P. *Military Memoirs of a Confederate.* Pp. xviii, 634. Price, $4.00. New York: Charles Scribner's Sons, 1907.
See "Book Reviews."

American Economic Association. Papers and Discussion of the Nineteenth Annual Meeting. Pp. 266. Price, $1.00. New York: Macmillan Company, 1907.

Barker, E. *The Political Thought of Plato and Aristotle.* Pp. xxii, 558. Price, $3.50. New York: G. P. Putnam's Sons, 1906.
Reserved for later notice.

Bond, B. W., Jr. *The Monroe Mission to France, 1794-96.* Pp. 104. Baltimore: Johns Hopkins Press, 1907.

Bruce, Philip A. *Economic History of Virginia in the Seventeenth Century.* Two vols. Pp. xxv, 1281. Price, $5.00. New York: Macmillan Company, 1907.
Students of American economic history have long since come to regard Mr. Philip A. Bruce's work on the "Economic History of Virginia in the Seventeenth Century" as a standard treatise. The two-volume work first appeared in 1895, and was carefully reviewed in Vol. VII of THE ANNALS, by Professor Henry R. Seager, who stated, among other things, that "every page testifies to the patient research and scholarly accuracy of the author and entitles the work to rank with the best production of this age of historical investigation." The researches of historians during the past twelve years have tended only to confirm Professor Seager's estimate of Mr. Bruce's work. It is interesting to note that a reprint of the two volumes has become necessary. The new edition is the old one reproduced without change. Revision was unnecessary.

Bullock, C. J. *Historical Sketch of the Finances and Financial Policy of Massachusetts, from 1780 to 1905.* Pp. 144. Price, $1.00. New York: Macmillan Company, for American Economic Association, 1907.

Butler, J. W. *Mexico Coming into Light.* Pp. 101. Price, 35 cents. Cincinnati: Jennings & Bryan, 1907.

Butler, N. M. *True and False Democracy.* Pp. xii, 111. Price, $1.00. New York: Macmillan Company, 1907.
Reserved for later notice.

Clarke H. B. *Modern Spain, 1815-1898.* Pp. xxvi, 510. Price, $2.00. Cambridge University Press.
Reserved for later notice.

Doyle, J. A. *English Colonies in America.* Vols. IV and V. Pp. xvi, 447, and xvi, 497. Price, $3.50 each. New York: Henry Holt & Co., 1907.
Reserved for later notice.

Forrest, J. D. *The Development of Western Civilization.* Pp. xii, 406. Price, $2.00. Chicago: University Press, 1907.

Griffis, W. E. *Corea.* Pp. xxvii, 512. Price, $2.50. New York: Charles Scribner's Sons, 1907.

Guide Social, 1907. Pp. 363. Price, 2 fr. Paris: V. Lecoffre, 1907.

Guthrie, W. V. *Socialism before the French Revolution.* Pp. xviii, 339. Price, $1.50. New York: Macmillan Company, 1907.
Reserved for later notice.

Hadley, A. T. *Standards of Public Morality.* Pp. 158. Price, $1.00. New York: Macmillan Company, 1907.
Reserved for later notice.

Hull, W. H. (Ed.). *Practical Problems in Banking and Currency.* Pp. xxvi, 596. Price, $3.50. New York: Macmillan Company, 1907.
Reserved for later notice.

Hume, Martin. *Through Portugal.* Pp. xiv, 317. Price, $2.00. New York: McClure, Phillips & Co., 1907.
Typography, illustrations and diction combine to make the reading of this book a pleasure. The author takes us on a leisurely saunter through one of the most picturesque of European countries, one as yet unappreciated by the great stream of pleasure-seekers and which, on that account, is the more enjoyable. The easy, flowing style of the book takes one from one scene to another without effort, and the vivid descriptions enable the reader to "see without traveling." The peculiar charm of the Iberian countries is felt, and admirably portrayed. The pride in the past, the decadence of the present and the contrast of contented indolence and sturdy industry are everywhere present in Portugal.

Thirty-two excellent reproductions of studies in water color brighten the pages of the book. These also have caught the "atmosphere" of the country.

Illinois, Railroad and Warehouse Commission of the State of. Pp. 509. Springfield: Illinois State Journal Co., 1906.

Illinois, Special Report of the Railroad and Warehouse Commission of the State of, 1902-1906. Pp. 402. Springfield: Illinois State Journal Co., 1906.

Industries Céramiques. Pp. xvi, 232. Brussels: J. Lebègue et Cie, 1907.

Jacob, Robert Urie. *A Trip to the Orient.* Pp. vi, 392. Price, $1.50. Philadelphia: The John C. Winston Co., 1907.

Essentially a revised and elaborated personal journal of the happenings incident to a seventy-day tour of the Mediterranean districts. The title itself is rather unfortunate, as the Orient and "a Mediterranean cruise" are terms not commonly applied to identical localities.

The book itself is likely to interest few, if any, outside the restricted circle of those who happened to take the same tour or are planning to take a similar one in the future. Too much space is given to the mere chatter of everyday pleasantries. In this way are buried the good points for the sake of which the average person might want to read the book. The difficulty is the same as in most other personal journals, even with the most skilful editing they prove uninteresting and tiresome to all except those intimately concerned.

The book has lost much through the inferior quality of the illustrations. The original photographs seem to have been well taken, but the lack of clearness in reproduction, amounting almost to a blotchy appearance, in some cases, detracts greatly from the effectiveness which they might otherwise have. The book is printed on enamel-finished paper, which in no way adds to its value.

Jacobstein, M. *The Tobacco Industry in the United States.* Pp. 208. Price, $1.50. New York: Columbia University Press, 1907.
Reserved for later notice.

Kalistu, K. *Die Hausindustrie in Königsberg in Prussia.* Pp. 57. Price, 1.40 m. Leipzig: Duncker & Humblot, 1907.

Kelynack, T. N. (Ed.). *The Drink Problem.* Pp. viii, 300. Price, $2.50. New York: E. P. Dutton & Co., 1907.
See "Book Reviews."

Kirkpatrick, F. A. *Lectures on British Colonization and Empire.* First series (1600-1783). Pp. xvi, 115. Price, 2 s. 6 d. London: John Murray, 1906.
This little book represents the literary first fruits of the League of the Empire. It is the initial step in the educational scheme of the League to familiarize the public with the origin, development and extent of the vast dominions included in the British Empire by means of lectures and pictorial illustrations. Each lecture is adapted for pictorial illustration and for public delivery within the space of an hour. This first series which brings the story of colonization and empire down to 1783, contains six lectures. Each lecture is to be illustrated by about forty slides, and lists of slides for each lecture are given in the preface.

It is the business of the first four lectures to trace the path of empire in the West by giving a good résumé of the founding and growth of the thirteen original colonies; of the struggle with France for the control of Canada, and of the picturesque struggle of Spaniards, Dutch, French and English for a foothold in the West Indies. The fifth lecture treats of the spread of British influence and dominion eastward into India, and the sixth

with the causes of the struggle which led to the split of the British empire in America into two by the revolt of the American colonies.

The story of empire is well told, and with the aid of the slides to illustrate, these lectures should prove of interest and instruction to an audience.

Kropotkin, Prince. *The Conquest of Bread.* Pp. xiv, 281. Price, $1.00. New York: G. P. Putnam's Sons, 1907.

Reserved for later notice.

Lawson, W. R. *American Finance. Part I. Domestic.* Pp. vi, 391. Price, $2.00. New York: Macmillan Co., 1906.

The temper of the author of this book is indicated by a sentence from his Introduction: "The United States is manifestly destined to be phenomenal in all things—in prosperity and adversity, in its booms and its blizzards, in its virtues and its defects." In true journalistic style, the author proceeds to treat his subject from the standpoint of its news value. Apparently he has taken a volume of statistics from the Treasury Department, selected all the big figures, set them down as chapter headings, and then told us with constant reiteration how big they are and how truly "American."

The book seems to want a definite purpose. The writer betrays a lack of economic training and judgment, and at the end one is in doubt as to what Mr. Lawson really thinks about our monetary system and financial methods. Its value as descriptive material is vitiated by bad arrangement and incoherence.

In his chapter on our monetary system entitled "Its Three Billion Dollar Currency" (one rather expects to see three exclamation points following), the author closes thus: "The real vice of the three billion currency is its unwieldly bulk. This strikes one at first sight, and the more we see of it the more it impresses us. The first and last criticism it provokes is amazement at the quantity of it. Its materials are all the best of their kind, and the only question is if quite as good results might not be achieved with smaller quantities of them. Currency can be economized as well as food or any other commodity. But this is the last lesson in monetary science that the Americans are ever likely to learn, much less to practice." This is an adequate summing up of a chapter in which the reader looks in vain for a discussion of the really vital points in our currency system. The absolute amount of a currency is of small importance, and even the per capita amount (in which the United States stands third in the list of nations, with less than France for example) is scarcely sufficient as a basis for final judgments. We must conclude that this book is not indispensable to the student of finance, and that it will serve to confuse rather than enlighten the ordinary lay reader.

Leiter, F. *Die Verteilung des Einkommens in Osterreich.* Pp. 567. Leipzig: W. Braumüller, 1907.

Le Rossignol, J. E. *Orthodox Socialism.* Pp. 140. Price, $1.00. New York: Thos. Y. Crowell & Co., 1907.

This book represents an attempt to place before the public a scientific criti-

cism of socialistic doctrine. It is a conservative's attempt to judge socialism conservatively. The author instinctively shrinks from accepting any of the doctrines which the socialist advances. But in the latter part of the book, he virtually admits that the premises of the socialist are correct, for he accepts the idea of the need of an evolution from our present conditions, although rejecting the socialist principle of a revolution.

The book is negative in that it admits the existence of bad conditions, and then dissects and criticises the theory of regeneration without attempting to put anything in its place, except to suggest, in the closing pages, that a labor party would be of value to the laboring population. "We aim at progress, and this is had only by building. Destruction achieves nothing."

Lewis, A. *Rise of the American Proletarian.* Pp. 213. Price, $1.00. Chicago: Chas. H. Kerr & Co., 1907.

In vivid and at times almost lurid colors, the author tries to show the conditions of our modern industrial world. He traces all of the ills from which we suffer to one cau-e, which, to his mind, is "the greater capitalism," which has developed since the time of the Civil War. A strong undercurrent of thought has run through a number of recent books and it is perhaps best expressed by the phrase, "Socialism or Empire, a danger." The author is constantly pointing to the thought that modern tendencies ought to be wholly socialistic, but, in spite of that, we are going in the direction of empire because that is the turn of affairs which the "greater capitalism" desires.

The Civil War and all of the evils of our modern system are described as though they were the result of deliberate premeditation on the part of the capitalists. In this the author goes far beyond the bounds of common sense. Although the modern trade union is attacked, and the downfall of the American Federation of Labor is predicted, and although the book is centered around the rise of capitalism and proletarianism, the author nowhere shows in a distinct manner that the American proletarian is prepared to rise, nor does he suggest any plan of concerted action or any field of action for the proletarian should he decide to rise. On the whole, the book is negative, and its chief interest lies in the interesting construction which the author places on certain historical epochs.

Lindsay, T. M. *A History of the Reformation.* Vols. I and II. Pp. xvi, 528, xvii, 631. Price, $2.50 each. New York: Charles Scribner's Sons, 1907.

Reserved for later notice.

Marx, K. *Capital.* Vol. II. Pp. 618. Chicago: Charles H. Kerr & Co., 1907.

von Mayr, G. *Allgemeines Statistisches Archiv.* Pp. 388. Tübingen: H. Laupp, 1907.

McBain, H. L. *De Witt Clinton and the Origin of the Spoils System in New York.* Pp. 161. Price, $1.50. New York: Columbia University Press, 1907.

Reserved for later notice.

Meyer, M. *Statistik der Streiks und Aussperrungen.* Pp. 252. Price, 5.60 m. Leipzig: Duncker & Humblot, 1907.

Mischler, E., and **Wimbersky, H.** *Die Landwirtschaftlichen Dienstboten in Steiermark.* Pp. 27. Graz: Published by the authors, 1907.

Montgomery, H., and **Cambray, P. G.** (Editors). *A Dictionary of Political Phrases and Allusions.* Pp. 406. Price, $2.00. New York: E. P. Dutton & Co., 1906.

English politics is the background from which this compilation has been made. Mention of political phrases of other countries except as they affect English foreign policy is rare. Numerous catch phrases of recent political campaigns are discussed which surely do not deserve a place in a one-volume work of this character, and even the allusions to strictly English politics are not treated with comprehension of their relative importance. Instances of this fault could be given almost *ad libitum*. A single example being the assignment of twelve lines to the subject "Customs duties" and forty-two lines to the "Cass case," an incident entirely without importance. But the worst fault of the book is the lack of judicial attitude. Almost every page is tinged with a national prejudice which warps the discussion so as to largely destroy its value. This is especially true when the authors discuss subjects relating to the United States such as the Behring Sea dispute and the Trent affair. A quotation will illustrate this characteristic. On page 357 we read that the Venezuelan award, "given in October, 1899, gave Great Britain all she claimed with the exception of two small points. Venezuela claimed 500,000 square miles and she received 200." Statements such as this clearly "against common knowledge" destroy confidence in the work as a whole.

Moore, Frederick. *The Balkan Trail.* Pp. 296. Price, $3.50. New York: Macmilian Company, 1906.

A book without preface or introduction is not common in these days. Yet this characteristic of "The Balkan Trail" is, in a measure, a keynote to the tone of the whole book. The author's task is that of setting forth the conditions of, and generally the causes for, things as they exist in the Balkan district. The story throughout is as straightforward and as thoroughly to the point as could be desired. There is no pretension, the facts are told in simple style, readable and interesting from beginning to end.

The book does not aim so much to give an elaborate exposition of the political situation as it does to offer an account of the country and the people. Here and there the diction verges too closely on colloquialism, while occasionally there seems to be reason for suspecting slight exaggeration in order to make a good story. But the book as a whole gives a better idea of the life in the Balkan region than any other similar volume yet published. In securing this effect not a little is added by a large number of excellent photographs.

Morgenroth, W. *Die Exportpolitik der Kartelle.* Pp. 119. Price, 2.80 m. Leipzig: Duncker & Humblot, 1907.

Munro, W. B. *The Seigniorial System in Canada.* Pp. xiii, 296. Price, $2.00. New York: Longmans, Green & Co., 1907.

Reserved for later notice.

National American Woman Suffrage Association, Proceedings of the Thirty-ninth Annual Convention. Pp. 165. Warren, O.: William Ritezel & Co., 1907.

Nebraska, State Bureau of Statistics. Bulletin No. 5. Pp. 128. Lincoln, Neb.: J. L. Claflin, 1907.

New York City Visiting Committee of the State Charities Aid Association. Pp. 146. New York: United Charities, 1906.

Ober, F. A. *Amerigo Vespucci.* Pp. 258. Price, $1.00. New York: Harper & Brothers, 1907.

The sixth volume of the series, Heroes of American History, follows the career of Amerigo Vespucci. The author has made the most of the meager details known about this eminent geographer, and with the aid of voluminous quotations from Marco Polo, Toscanelli and Vespucci, manages to put together a very readable book. Scholars will object to his interesting but irrelevant digressions on the commercial status of Venice, the relations between Columbus and Toscanelli, the sketches of the lives of the Pinzons, de la Cosa and Ojeda, and above all, to the long imaginary conversation between Columbus and Vespucci. One takes up eagerly the chapter on The Debatable Voyage, to be pleased with the exhaustive discussion but disappointed that the author reaches no conclusion and throws no new light on the controversy.

The book is illustrated by two portraits and four maps. It is a real contribution to popular history, and the author's ardent defense of Vespucci will tend to place Amerigo in higher repute with the people of the continent named after him.

Ober, Frederick A. *Ferdinand Magellan.* Pp. 301. Price, $1.00. New York: Harper & Brothers, 1907.

Yet another volume has been added to the "Heroes of American History" series, this latest one being on Ferdinand Magellan. By the use of such authoritative material as the journals of Ramusio, Francisco Albo and Pigafetta, eked out with a good deal of what is picturesque but merely probable, Mr. Ober has succeeded in putting together a very readable book for boys. Over half the volume is very properly given to the great circumnavigating voyage during which occurred the Portuguese leader's tragic death when almost attaining his grand ambition. The book is an instructive and interesting one to add to a boy's library.

Ogden, R. (Editor). *Life and Letters of Edwin Lawrence Godkin.* Two vols. Pp. 600. Price, $4.00. New York: Macmillan Co., 1907.

See "Book Reviews."

Paine, Ralph D. *The Greater America.* Pp. xiii, 327. Price, $1.50. New York: The Outing Publishing Company, 1907.

The West, especially that portion of our country beyond the Mississippi, has had many prophets and interpreters. The writings of few, if any, are more vivid than those of Mr. Ralph D. Paine in his "The Greater America." So astounding are the statements and comparisons that one often cannot resist

the impulse to stop to analyze what the author has said, under the suspicion that he has caught some of the "breeziness" to which the native-born westerner is proverbially addicted. The suspicion is justified but seldom, as the facts are taken from easily verifiable sources, and surprise the reader only because the large figures presented in our usual reports have lost all meaning to us from the lack of a standard of comparison.

The author gives us not a detailed description of resources and their development, but a series of panoramic views as they impressed themselves upon his mind during an extended journey through the country he describes. We are first taken up the Great Lakes to see the tremendous ore traffic, then through the "Soo" Canal, which Henry Clay thought an absurd and useless undertaking—where now the yearly volume of traffic far exceeds that at Suez; then to the iron and copper mines, the great wheat fields, and on into the country where new railroads are being laid at the rate of two miles per day to bind the West to the East. The most important of the developments that are transforming the wilderness into habitable territory are all reviewed in turn. Descriptions of the advance in California and Alaska show the possibilities of our farthest continental possessions.

To read the book is to get a new appreciation of the greatness of America, the greatness of her present and the possibilities of her future.

Parloa, Maria. *Home Economics.* Pp. xii, 416. Price, $1.50. New York: Century Company, 1906.

Reserved for later notice.

Phyfe, W. H. P. *Napoleon: The Return from Saint Helena.* Pp. 97. Price, $1.00. New York: G. P. Putnam's Sons, 1907.

It was the great Corsican's wish that his ashes should repose upon the banks of the Seine in the midst of the people he loved so well. The author tells us in a very pleasing way of the ceremonies incident to the removal of Napoleon's remains from Saint Helena to France in 1840, together with a description of his tomb in the Hotel des Invalides in Paris.

Plumb, C. S. *Types and Breeds of Farm Animals.* Pp. 563. Price, $2.00. Boston: Ginn & Co., 1906.

The author justifies the publication of this somewhat extensive work on the breeds of domestic animals by pointing out that no such work has been given to the public since 1882, and that since that time marked changes and developments in this regard have come to pass. Two classes of live stock, asses and milch goats, which have never before been dealt with in a similar work, are given consideration.

The book gives the origin, importance and general utility of the various breeds of live stock, and many mooted questions of actual identity and nice differentiation are discussed. Considerable experimental data as to relative breed efficiency and merit has been secured from the race course and experiment stations. The striking records in speed and production, which have been made up to the present time, are given along with brief sketches of the winning animals. The book is fully illustrated with photographs of typical animals.

Rauschenbusch, W. *Christianity and the Social Crisis.* Pp. xv, 429. Price, $1.75. New York: Macmillan Co., 1907.

Reinsch, P. S. *American Legislatures and Legislative Methods.* Pp. x, 337. Price, $1.25. New York: Century Co., 1907.
See "Book Reviews."

Root, Elihu. *The Citizen's Part in Government.* Pp. 122. Price, $1.00. New York: Charles Scribner's Sons, 1907.
Reserved for later notice.

Roquenaut, A. *Patrons et Ouvriers.* Pp. 181. Price, 2 fr. Paris: Victor Lecoffre, 1907.

Rosegger, H. L. *Das parlamentarische Interpellationsrecht.* Pp. 112. Price, 2.8 m. Leipzig: Duncker & Humblot, 1907.

Rosenhaupt, K. *Die Nürnberg.* Pp. 219. Berlin: J. G. Cotta, 1907.

Rouget, M. F. *L'expansion Coloniale au Congo Français.* Pp. 942. Price, 10 fr. Paris: E. Larose, 1906.
This is a very admirable detailed study of the growth and organization of French government in the Congo. The opening chapters deal with the historical facts of French expansion in Central Africa from 1842 to the present, including an account of the intricate international negotiations leading up to the present settlement. This is followed by a description of the physical characteristics and the vegetable and animal life of the district.

The third part of the book, which is the most important, both in size and in the interest of the author, deals with the present political organization of the colony, and French policy in controling tropical African possessions. No well-planned policy has been consistently followed out, but through all changes that have taken place the French have "judiciously refused to this unfortunate colony the right to think for itself." The present organization is based frankly upon the belief that good administration is the chief end to be sought, and that the abstract political rights of the inhabitants are a matter of comparative unconcern. Consequently a native legislature does not enter into the scheme of government. The colony is not represented in the French legislature except by a delegate without a vote, who represents its interests in the upper house. The immense extent of territory to be controlled and the scant economic resources of the country demand that the governmental authority should be concentrated in the hands of as few men as possible, so there shall be no conflict of authority, and that the expense of government may be kept at a minimum.

A commissary general, with wide powers of initiative and control, is entrusted with the internal administration. To advise him there is a council of five officers of the smaller governmental districts and representatives of the concessionary companies who hold charters for the exploitation of the colony's resources. This body meets at least once a year. For matters of secondary importance there is a smaller council chosen from the membership of this same body.

The governmental divisions under the commissary general comprise several "regions" divided into "circles," which are again divided into "sections." In these latter local units the native sultans are made use of as the easiest means to control the people and to make them feel the connection between their own people and the central government. The resources of the government are obtained through a system of direct taxation, the payment being made in rubber, ivory, woods and other native products. Imports in some cases, even when of French origin, are also taxed. The legal system is personal rather than territorial. Natives are judged by native law, and Frenchmen by the French. In cases involving both classes the court of the defendant prevails. The natives may choose to be tried under French law if they wish.

The study as a whole is admirable in its detail and clearness of exposition. It is written from the point of view of the administration, and at points lacks independence in criticism, though suggestions for improvement are freely made in many chapters. The numerous illustrations are unfortunately not executed with a skill proportionate to the merits of the work.

Schmidt, B. *Uber die völkerrechtliche clausula rebus sic stantibus.* Pp. 226. Price, 5.60 m. Leipzig: Duncker & Humblot, 1907.

Schmidt, P. *Bibliographie der Arbeiterfrage für das Jahr 1906.* Pp. 84. Berlin: L. Simon, 1907.

Schmoller, G. *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft.* Pp. 480. Price, 11 m. Leipzig: Duncker & Humblot, 1907.

Smith, J. A. *The Spirit of American Government.* Pp. xv, 409. Price, $1.25. New York: Macmillan Co., 1907.
See "Book Reviews."

Smith, P. *Luther's Table Talk.* Pp. 135. Price, $1.00. New York: Columbia University Press, 1907.

Starr, Frederick. *The Truth about the Congo.* Pp. 129. Price, $1.00. Chicago: Forbes & Co., 1907.

Professor Starr wrote the series of articles published in this book to tell just what he saw of the people of the Congo and the government under which they live. So much highly colored literature has recently been given to the public picturing the barbarity of the concessionaires that it is a relief to read this account by an impartial observer who believes that after all hysteria has inspired most of the condemnation of the Belgian government and its agents. The motive lying back of much of the writings also, is partly political—the desire of England to complete her Cape to Cairo holdings. Professor Starr says: "Of frightful outrages such as I had expected to meet everywhere, I may almost say there was nothing." "On the whole—things in Congoland are not so bad." "Nowhere did the people seem to show fear, hostility or the effects of bad treatment." Interesting sketches are given of social and economic conditions.

Steiner, Bernard C. *Maryland during the English Civil Wars.* Part I. Pp. 81. Price, 50 cents. Baltimore: Johns Hopkins Press, 1906.

This study is a continuation of a previous one by the same author, published in 1903 under the title, "Beginnings of Maryland," and carries forward the history of the province from 1659, the date at which the former work concluded. Since this narrative covers only the years 1639-1642 it is hoped Dr. Steiner will fulfil his design of producing a third monograph completing the history to the end of the period of the English Civil Wars. Among the subjects of especial interest covered by the present study are the early troubles with the Indians and the labors of the Jesuits among them, several important meetings of the General Assembly [from the fourth to the seventh], the new commission sent to Governor Leonard Calvert in 1642, and Baltimore's struggle, with the Jesuits. From this last episode, the author points out three interesting survivals in the laws of Maryland to-day: Ecclesiastics may not sit in the General Assembly; the transfer of land or goods, either as a gift, sale or devise, to take effect after the death of the donor or seller, is ineffective unless ratified by the General Assembly; and Maryland is the only state of the Union to require a religious ceremony for the completion of a marriage.

Mr. Steiner's work is based mainly upon the Maryland archives, the publication of which has been in progress for a number of recent years. It is well written and adds much to our knowledge of the early internal history of Maryland.

Steiner, B. C. *Maryland During the English Civil Wars.* Part II. Pp. 118. Baltimore: Johns Hopkins Press, 1907.

Tenney, A. A. *Social Democracy and Population.* Pp. 89. Price, 75 cents. New York: Columbia University Press, 1907.

Terlinden, C. *Guillaume Der et L'Eglise Catholique.* Two vols. Pp. xxi, 987. Brussels: A. Dewit, 1906.

Reserved for later notice.

Tower, Walter S. *A History of the American Whale Fishery.* Pp. x, 145. Price, $1.50. Philadelphia: University of Pennsylvania, 1907.

Dr. Tower is to be congratulated upon having produced an exceedingly valuable work. To compress within a volume, one hundred and fifty pages in length, the comprehensive account of an economic institution whose history extends back to the sixteenth century and to make that account an interesting narrative is indeed a literary triumph. Historians will find the work indispensable to a complete knowledge of American History. Economists will prize the full data in the book regarding the trade in whaling products and the relations of that trade to the economic development of our country.

The elaborate tables contained in the appendix give comprehensive information regarding the shipping engaged in whaling from every port of the United States, and also present full information concerning the products of the whale fisheries and the trade in those products. Every library will

desire to own this book, and economists and historians will wish to have the volume upon the shelves of their private collections.

Washington, B. T. *Frederick Douglass.* Pp. 365. Philadelphia: G. W. Jacobs & Co., 1907.

See "Book Reviews."

Williamson, C. C. *The Finances of Cleveland.* Pp. 266. Price, $2.00. New York: Columbia University Press, 1907.

REVIEWS.

Abbot, Henry L. *Problems of the Panama Canal.* Pp. xii, 269. Price, $1.50. New York: Macmillan Co., 1907.

The merit of General Abbot's book on the Panama Canal is attested by the fact that a second edition has been necessary within two years after the first edition appeared. As the first edition did not receive notice in THE ANNALS an estimate of the book seems desirable at the present time. The first sixty pages of the volume give a history of the project from the beginning of the French enterprise at Panama up to the adoption of the Panama location by the United States Government. Although this account by General Abbot is brief it is a clear statement of the more important facts. Those desiring a fuller history of the subject will consult the "Report of the Isthmian Canal Commission for 1899-1901," which contains an admirable "History of Interoceanic Projects and Communications," that was prepared by Hon. Samuel Pasco, a member of the commission.

General Abbot's description of the physical conditions on the isthmus, his discussion of the Chagres River problem, and of the difficulties of disposing of the floods in the upper and lower Chagres Valley, constitute a most valuable treatise of those difficult engineering and hydrographic questions. He has the good fortune of being able to present technical problems in non-technical language. The last chapter of the book gives a description and critical estimate of the projects for the canal that were developed by the New Panama Canal Company, by the Isthmian Canal Commission of 1899-1901, and of the project that was recommended by the board of consulting engineers in 1906. The modifications of the design of the canal and in the details of the project that have been made since the beginning of 1906 are also pointed out.

Like nearly all of the distinguished American engineers who have studied the Panama Canal project, General Abbot favors the construction of a canal with locks. His views on this important and much debated question are stated as follows in the closing paragraph of his book: "In fine, well-established facts demonstrate that the conception of a sea-level construction is incompatible with the actual topographical and hydraulic conditions existing upon the isthmus. Forced upon the first French company by the commanding influence of M. de Lesseps, a diplomatist and not an engineer, it entailed financial ruin upon his associates. Revived, largely through the efforts of

Mr. Wallace, it has caused the loss of precious time since the work passed under the control of the United States. With abundant financial resources and unlimited time for construction, it may be considered 'feasible' from an engineering point of view to construct a sea-level canal, but when completed it must always remain inferior as a transit route, to the lake-type adopted."

Students of the canal project in its historical, political, economic and technical aspects will find General Abbot's work one that it would be well to read in connection with the more comprehensive and complete discussion contained in the "Report of the Isthmian Canal Commission for 1899-1901" and in the "Report of the Board of Consulting Engineers for the Panama Canal, 1906." These two official reports are accompanied with numerous maps and charts which greatly enhance their value.

EMORY R. JOHNSON.

University of Pennsylvania.

Alexander, E. P. *Military Memoirs of a Confederate: A Critical Narrative.* Pp. xviii, 634. Price, $4.00. New York: Charles Scribner's Sons, 1907.

To a layman this book appeals as little short of epoch making in the history of military criticism. It gives detailed accounts of the battles and movements of the Army of Northern Virginia and of the battle of Chickamauga, in which the author, a brigadier-general in the Confederate army and chief of artillery, took part. He lays down the chessboard, places his men, and points out the moves that were made and should have been made with such consummate skill that one is strongly tempted to follow him in every detail. This, too, in a game of war when the movement for peace is so strong.

One of the most striking features of the book is its entire freedom from animus or partisan bias. It is very pleasing indeed to find an old soldier who, if he ever carried in his heart any of the bitterness of defeat, has lost it all and can now review the struggle as he might review the battle of Waterloo or the siege and storming of Port Arthur. If criticisms are meted out to all—and scarcely a man on either side escapes—it is not because of a desire to be impartial in their distribution, but because the author can see mistakes and has the courage to point them out.

The same man is not always at fault. If Stonewall Jackson is under a "spell" in the seven days' fighting, that does not dim the luster of his valley campaign and the masterful strategy of the second Manassas. If McClellan was a poor fighter, he was a splendid organizer. Perhaps Pope's general incapacity is hardly to be offset by the fact that he was a past master at boasting. The faults, as well as the virtues, of Longstreet are freely pointed out. He hardly suffers as much at the author's hands in the Gettysburg campaign as he has at the hands of others. On the whole, the author concludes that the loss of the battle, if any other result was ever possible, was mainly the fault of Lee, not because Lee took the blame on himself, but because a study of the battle has revealed his errors, mistakes which "he himself would have [pointed out] had he lived to write

his own memoirs. No more intimate idea can be gained of his personal character than can be had from a study of his attitude upon such occasions. . . . . Surely there never lived a man who could more truly say:

'I am the master of my fate,
I am the captain of my soul.'"

DAVID Y. THOMAS.

University of Arkansas.

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von Bernhardi, F. W. *Cavalry in Future Wars.* Pp. xxviii, 305. Price, $3.00. New York: E. P. Dutton & Co., 1906.

The commander of the Seventh Division of the German Army has given us a timely contribution to army literature. The work is prepared with especial reference to the conditions in the German forces.

It is almost needless to say, however, that the use to be made of cavalry, or any other arm of the service, is so affected by surrounding conditions that rules cannot be laid down that will be equally applicable to one place as to another. The book must, therefore, be read with discrimination and judgment. The cavalry of the future will always have a most important part to play in war, and while "shock tactics," or the use of cold steel in battle, may under some conditions, be justifiable, it will be so only against other cavalry or the most disordered infantry. The range, accuracy and volume of fire of the modern rifle has given to good infantry a confidence and steadiness that cavalry cannot disregard. The important functions of cavalry in keeping the commanding general advised of the strength and movements of the enemy are more important now than ever. When the commanding general has reliable information on these points his task is comparatively easy.

This is the age of specialists, and it is scarcely to be expected that the ordinary man, who forms the bulk of an army, can be made proficient in the use of the saber or lance, and also become a good marksman with a rifle. It takes time to make a good infantry soldier, it takes longer to make a good cavalryman. The importance of a cavalry leader is dwelt on at considerable length, but cavalry leaders are not made to order. Great cavalry leaders, like great generals, are born, not manufactured. That army is lucky that possesses one.

The need of a well-organized, well-equipped and well-drilled cavalry, particularly in the first days of a war, is recognized as of the utmost importance, and the lack of it is nowhere more keenly felt than in Europe. But it is necessary to use the branch carefully and not expect too much from it, for its losses cannot be readily replaced. The author of the work is an experienced cavalryman, and eminent in his profession. His views are entitled to more than ordinary consideration, even though in all his conclusions we may not concur. Perhaps there is no other German soldier so well equipped for handling this subject.

PETER C. HAINS.

Washington, D. C.

Bisland, Elizabeth. *The Life and Letters of Lafcadio Hearn.* Two vols. Pp. viii, 1035. Price, $6.00. Boston: Houghton, Mifflin & Co., 1906.

Though Lafcadio Hearn is primarily a literary artist and poet, his rare insight into race psychology, especially into the mysterious realm of the sub-conscious and inherited elements, has made his works of great value to students of ethnic development. To such, his letters will be especially welcome, for in them, aside from their literary charm, they will frequently encounter in a more direct manner the personal views of the author upon the people among whom he lived at the various times of his life. For a time, Hearn interested himself in the negro race, and his little volume, "Two Years in the West Indies," is the most intimate study we have of the rich, though primitive, psychology of the peoples of Africa, influenced by a new geographical and ethnical environment. But Hearn had not found his life work, before his own inclination and the advice of friends had taken him to Japan. He is *par excellence* the interpreter of the ideals of the older Japanese civilization. Being himself essentially a poet, the simple though elusive poetry of original Japanese life deeply impressed him; being by nature inclined to dwell upon the mysterious and startling facts in human psychology, he revelled in the folklore and the current beliefs of a society which has made the spirit of the dead within us, the motives and impulses of the past, the leading element in its view of life.

To him it appeared that there was an amazing difference in the psychology of the Japanese and the Western races, a difference which made sympathy and friendship almost impossible. This attitude of Hearn's has evoked much criticism in the Japanese press, and it was there charged that it is simply Hearn's insufficient knowledge of Japanese as well as his very retiring nature which made the Japanese so mysterious to him. Yet it must certainly be admitted that the results of his main work do reveal very striking differences of racial psychology. It is strange that one who has discovered so much of poetry and interest in the Japanese mind should in a way be repelled by it. In a letter in 1895, he says: "You can't imagine my feeling of reaction in the matter of Japanese psychology. It seems as if everything had quite suddenly become clear to me, and utterly void of emotional interest; a race primitive as the Etruscan before Rome was, or more so, adopting the practices of a larger civilization under compulsion,—five thousand years at least emotionally behind us,—yet able to suggest to us the existence of feelings and ideals which do not exist, but are simulated by something infinitely simple." He says: "The sympathetic touch is always absent. I feel unhappy at being in the company of a cultivated Japanese for more than an hour at a time. After the first charm of formality is over, the man becomes ice—or else suddenly drifts away from you into his own world." Modern Japanese education, of which Hearn saw a great deal, filled his mind with doubts. The university, being a gate to public office, affording a start in life, has, in his view, little inner power. The high schools seem to him to be "ruining Japanese manners, and therefore morals." "Men cease to be lovable, and often become unbearable," which makes Hearn long for a great reaction. Intrigue, which, in the Orient, has been cultivated as an art for ages, as no doubt it has been in other countries, fills the life of the Japanese capital. "The result of the

adoption of constitutional government by a race accustomed to autocracy and caste, enabled intrigue to spread like a ferment, in new forms, through every condition of society." "Tokio takes out of me all power to hope for a great Japanese future." One of the main characteristics of the Japanese is "a tendency to silence and secrecy in regard to the highest emotions." In another letter he says: "That the Japanese can ever reach our aesthetic stage seems to me utterly impossible, but assuredly what they lack in certain directions, they may prove splendidly capable of making up in others. Indeed, the development of the mathematical faculty in the race—unchecked and unmodified by our class of aesthetics and idealisms—ought to prove a serious danger to western civilization at last. Japan ought to produce Napoleons of practical applications of science." Hearn considers the difference in sexual feeling the basis of the fundamental divergence between Japanese and western aesthetics.

Of current contemporaneous events we find comparatively little mention in these letters. The Chino-Japanese War Hearn looks upon as the last huge effort of the race for national independence. "Under the steady torturing pressure of our industrial civilization, Japan has determined to show her military power to the world by attacking her old teacher, China." In another letter he says: "But let no man believe Japan hates China. China is her teacher and her Palestine. I anticipate a reaction against Occidental influence after this war, of a very serious kind. Japan has always hated the West—western ideas, western religion. She has always loved China." Hearn regarded the check placed upon Japan by the three powers in 1895 as being rather in the interest of foreign residents, and as also likely to benefit Japan in the end. "She will be obliged to double or triple her naval strength and wait a generation. In the meantime she will gain much of other power, military and industrial. Then she will be able to tackle Russia." Hearn agrees with the view expressed in Pearson's "National Character." Orientals can so much *underlive* Europeans, the physical cost of existence is so much less to them, that probably "the future is not to the white races."

Hearn's mind in viewing his surroundings was ill at ease because he saw "the destruction of a wonderful and very beautiful civilization by industrial pressure." With Spencer, he fears the "coming slavery." He says: "The charm of Japanese life is largely the charm of childhood, and the most beautiful of all race childhoods is passing into an adolescence which threatens to prove repulsive. Perhaps the manhood may redeem all,—as with English 'bad boys' it often does." He especially disliked the official world with its narrow administrative criteria, its airs, conceits, and imitation of foreign ways. Yet he is often consoled by some new glimpse of the poetry of the older Japanese life. "I felt as never before how utterly dead old Japan is, and how ugly new Japan is becoming. I thought how useless to write about things which have ceased to exist. Only on reaching a little shrine, filled with popular *ex-voto,* it seemed to me something of the old heart was still beating,—but far away from me and out of reach." In another letter we read: "I felt as if I hated Japan unspeakably and the whole world seemed not worth living in, when there came two women to the house to sell ballads. One took her *samisen* and sang, and people crowded into the tiny yard to

hear it. Never did I listen to anything sweeter. All the sorrow and beauty, all the pain and the sweetness of life thrilled and quivered in that voice; and the old first love of Japan and of things Japanese came back, and a great tenderness seemed to fill the place like a haunting." Often still does he encounter the refinement of the old spirit so delicate and frail that a brutal civilization is crushing it out. For Hearn Japan had moved too fast. In her effort to make herself strong to protect her national life and independence, she had been forced to harden herself and to turn her back upon the sweetness and refinement of her old life. The tragedy which Hearn saw was that the spirit of life for which apparently all these sacrifices were made was itself crushed under the machinery created to defend it. The westernizing had been too successful, Hearn wanted an Oriental Japan.

PAUL S. REINSCH.

University of Wisconsin.

Gorst, J. E. *The Children of the Nation.* Pp. x, 297. Price, $2.50. New York: E. P. Dutton & Company, 1907.

The growing amount of attention given to the physical welfare of school children in America is partly due to the inductive processes of American observers, such as the heads of city schools, health departments, and relief agencies, but chiefly to the flood of literature on this subject that has come to us from Germany, France, and Great Britain.

The book under review is serviceable because of its analysis of the conditions involved in child health rather than for the remedies proposed for physical defects, such as free meals, free eye-glasses, free everything hitherto associated with parental responsibility.

Each chapter is full of practical suggestions for teacher, parent and citizen in American school districts, rural as well as urban. For example, the discussion of school hygiene begins with a proposition that should be self-evident,—"If you take the children out of the pure air of the country, or even the less healthy air of the streets and parks of towns, you must take care not to put them into air unfit to breathe in your school." It seems that in England, as in America, that the main fault is not so much in the defective construction of buildings as that "teachers, managers and inspectors refuse to make proper use of the ventilation provided."

In speaking of provision for water, lighting, desks and playgrounds the author shows how common it is for schools actually to manufacture physical defects.

It is worth while for those impressed with the author's argument for free lunches, free eye-glasses and general state interference, to reflect that the fact basis of his reasoning is very slight,—as he himself admits. The European cities have discovered an alarming amount of what is called physical deterioration, but which might be proved to be a relative improvement, —though an absolute defect. Seeing clearly a need, they have hastened to remedy the symptoms. It is due to the Scotch sanitarians such as Dr. Chalmers, of Glasgow, and the medical officers of Edinburgh and Dundee.

Fortunately, conditions are not so aggravated in America as in the British cities (where, by the way, the distressing situation cannot be attributed to immigrants), and, as the author suggests, the thorough physical examination of school children begun at once and followed up consistently may obviate the necessity for the state socialism that Alfred Mosely deplores and condones in the case of Great Britain.

It is worth while to call attention to the workmanship on the book. The chapters have sub-headings significant and interesting. For instance, Children's Ailments (Chapter VII), their running page headings and frequent use of italics in topical divisions, of indentation, numbering paragraphs, index, and other devices all serve to bring out the author's message.

WILLIAM H. ALLEN.

New York.

Hamilton, Angus. *Afghanistan.* Pp. xxi, 562. Price, $5.00. New York: Charles Scribner's Sons, Importers. London: William Heinemann, 1906.

The lack of a comprehensive study of Afghanistan and its conditions has been at length supplied by Angus Hamilton in his large volume recently issued, and imported by Charles Scribner's Sons. The work required two years to be spent in its preparation and the result is most satisfactory, as the book contains much information under historical, geographical, ethnographical, commercial and political groupings. The climate, country and towns are well described, the railroad approach is accurately and minutely dwelt upon, as are also the products and minerals, exports and imports. The author, by special permission, dedicates the volume to Lord Curzon, of Kedleston, "who, by the splendour of his gifts and the wisdom of his rule has left an indelible and memorable impression upon India."

The relations of Russia to Great Britain and Afghanistan, and all borderland encroachments, are plainly set forth. The situation of Afghanistan as a buffer state, an entrance to India, will probably lead, the author believes, to encounters in the future as it has in the past. Meanwhile, despite existing treaties, the author regards His Highness Habib Ullah, Amir of Afghanistan, as an uncertain quantity in the problem of Anglo-Afghan affairs.

The illustrations are numerous and interesting, a picture of Lord Curzon being the frontispiece. A map on a generous scale serves to elucidate the text.

Philadelphia. LAURA BELL.

Hamilton, C. H. *A Treatise on the Law of Taxation by Special Assessments.* Pp. lxxv, 937. Price, $7.50. Chicago: George I. Jones, 1907.

With the exception of the work of Mr. Welty, in 1886, in which he devoted two chapters to street improvements and assessments, and cited only one hundred and seventy cases, this is a pioneer work upon the subject of special assessments. The necessity for a work of this kind is found in the fact that street improvements have become a necessity, and experience shows that the

only way to successfully prosecute such work is to require abutting property owners to pay for the special benefit received.

The merit of a text book is:

1. Its thorough, concise and lucid exposition of the decisions of the courts of various states and the deductions of the legal principles underlying such decisions.

2. An index which enables one to find what he wants.

Mr. Hamilton has met these conditions and is to be congratulated especially upon the fact that he has furnished an index which enables one to know where to find the law bearing upon his subject. An examination of the cases shows that while an assessment is a tax in that it is an enforced contribution from the property owner for the public benefit, yet it is not a tax in the sense that it is a burden, since the property owner receives an equivalent in the shape of the increased value of his property. The overwhelming weight of authority is, therefore, to the effect that the word "tax" as used in our constitutions does not relate to special assessments, but that the legislature, in the exercise of its sovereign authority, has the right to authorize these special assessments for street improvements unless prohibited by the organic law.

So then, unless the legislature is prohibited from authorizing street improvements and requiring the abutting property owners to bear a portion of the expense upon the theory of special benefits, it has the right so to do.

An examination of the cases cited by the author and the principles deduced therefrom clearly shows that the right to assess abutting property owners for the special benefits which they receive by reason of permanent improvements in front of their property is thoroughly intrenched in American jurisprudence, and as to urban property, the "front foot" method is the best practical method by which these benefits may be ascertained. The state that adopts any other policy will find itself far behind in the march of municipal progress.

This book of Mr. Hamilton's is a meritorious one and deserves the careful attention of students of this branch of constitutional and municipal law.

JOSEPH A. MCCULLOUGH.

Greenville, S. C.

Kelynack, T. N. (Ed.). *The Drink Problem in Its Medico-Sociological Aspects.* Pp. viii, 300. Price, $2.50. New York: E. P. Dutton & Co., 1907.

The above work is a contribution of the greatest value to the scientific study of the liquor problem. On account of the complexity of the effects of alcoholism in modern society, the plan of the work has been to have a specially qualified medical expert treat of each phase of the problem. The result is a book, which, while not homogeneous in character, has a unique value in that the opinions presented under each topic are those of a scientific expert.

The chapters range from "The Pathology of Alcoholism" to "Alcoholism and Legislation." The general trend of the conclusions reached by the

several experts is all that any advocate of temperance could desire. The position of Professor Sims Woodhead, who writes the chapter on "The Pathology of Alcoholism," that alcohol is a protoplasmic poison, is in general maintained throughout the book. The question whether alcohol can ever be considered a food or not is not directly discussed, but the implication is that it cannot. In several places it is definitely stated that alcohol is not a stimulant, but always a narcotic; its use even as a medicine, therefore, is very limited, and is justifiable only "as a temporary expedient to overcome a crisis."

Concerning these and other medical points in the work the reviewer did not feel competent to judge. Accordingly he submitted the book to a medical friend, who keeps abreast of the latest developments in the medical sciences. The judgment of this man, who is in no way identified with the temperance movement, was: "The book is all right. It is scientific and up-to-date. It would be a good thing if every man could read it. Up to a few years ago I also taught that alcohol was useful as a medicine in the case of certain diseases, but recent experiments, tests with blood-pressure instruments and the like, seem to disprove this."

Upon the purely social aspects of the liquor problem the book is not as complete as one could desire. In general, the statistics cited are not as full and complete as they should be. This is especially true of the chapter on "The Criminology of Alcoholism." Foreign statistics are rarely referred to; for example, the extensive and valuable work of the "American Committee of Fifty to Investigate the Liquor Problem" is scarcely mentioned. Also one or two absurd statistical errors have crept into the text. For example, on page 4 this statement occurs: "At present we [Great Britain and Ireland] use about fourteen gallons of absolute alcohol a year, per individual." On page 131, however, we are told that the amount of absolute alcohol consumed annually per inhabitant in the United Kingdom is only 8.17 liters. Such errors may cast unjust suspicion in the minds of some upon an otherwise extremely careful and conservative piece of scientific work.

On the whole, then, the work will be found exceedingly valuable for the scientific student of the liquor problem, and will furnish a mass of useful and reliable facts for the practical temperance reformer.

CHARLES A. ELLWOOD.

University of Missouri.

Ogden, R. (Editor). *Life and Letters of Edwin Lawrence Godkin.* Two vols. Pp. 600. Price, $4.00. New York: Macmillan Co., 1907.

It has rarely been our pleasure to read a work at once so interesting and valuable as this. Two volumes on the life of the famous editor of *The Nation* and *The Evening Post* (N. Y.). Mr. Ogden has performed his work with notable success. He has told, in a really charming way, the life of Godkin through his letters. And these letters cover such a wide range of life, thought and experience, and in such an interesting and vigorous manner, that

it was only necessary to collect and edit them to present to the world a remarkable picture of a most remarkable man.

Mr. Godkin was born in Ireland, in 1831, and died in 1902. For more than forty years of his varied, full and rich life he lived as a citizen of the United States. Educated at Queen's College, Belfast, trained in the law in London, at the age of twenty-one he began his real life work—Journalism.

In 1856 he came to New York, and from this time until his death he was a vital part of our life. He entered upon the practice of law in 1858, but soon gave his entire attention to journalism—to good government and high standard of thought and literature. Very soon after landing in New York he made a trip through a number of the southern states, for the London *Daily News* and other business reasons. His letters to this paper, written during December, 1856-April, 1857, are very remarkable for their profound insight into the manners, customs, and thought of the southern people. His portrayal of their peculiar thought and feelings, and especially of their one great institution—slavery—is indeed notable for its clearness, vigor and moral tone.

After his return to New York in the spring of 1857, Mr. Godkin continued to write for the *Daily News*. Through this source he was a powerful spokesman to Europe for the North during the Civil War. But his greatest work was yet to be. The founding of that weekly journal of "politics, literature, science and art"—*The Nation*—in 1865. To create and for many years to give life and power to such a high-class journal was a very remarkable work. From its birth until its sale to *The Evening Post* (N. Y.), in 1881, Godkin was truly *The Nation*. His connection with *The Evening Post, The Nation* now becoming its weekly edition, as associate editor, 1881-83, as editor-in-chief, 1883-99, gave to the world a wonderfully great service. During all these years the *Post* was the champion of all good causes in government, morals, literature, and was the inveterate enemy of all bad men and measures.

And during all these years Mr. Godkin wrote a number of magazine articles and books. His *Problems of Modern Democracy* and his *Unforeseen Tendencies of Democracy* are books of a high rank.

Through all his writings we find clearness and vigor of style and accuracy of judgment. We know of no saner judgment of Lincoln than that given by Godkin just after the assassination of our great war President. Godkin wrote, in 1865: "The loss of Mr. Lincoln at this juncture would, under any circumstances, have been a terrible blow to the North. It is doubly terrible now, when the soldier has about finished his work, and that of the pacificator has to begin. The United States might be searched in vain for a man who could bring such qualifications to the task as Mr. Lincoln—so much firmness, so much caution, so much gentleness, such profound sympathy with liberty, such hearty respect for labor, and such rare and almost infallible comprehension of the character, aims and need of his countrymen." How wonderfully accurate was this estimate forty years have confirmed!

CHARLES LEE RAPER.

University of North Carolina.

Paullin, C. O. *The Navy of the American Revolution: Its Administration, its Policy and its Achievements.* Pp. 549. Cleveland: Burrows Brothers' Co., 1906.

The political scientist as well as the historian will doubtless welcome the appearance of Mr. Paullin's book. The history of the navy of the American Revolution "written from the point of view of the naval administrators," throws valuable light upon the framework of the revolutionary governments, and treats admirably a much-neglected aspect of the revolutionary struggle. To reconstruct the naval administrative machinery created by the Continental Congress, to review the naval legislation of that body, and to write for the first time the history of the state navies—these are the main objects which the author has had in view. Prolixity has been avoided by the selection of typical instances and a careful summarization of results.

The history of the Continental navy, which occupies more than one-half of the book covers about a decade commencing with the organization of the naval committee in October of 1775. As a congressional committee it was responsible for the adoption of rules of discipline, the making of appropriations, the establishment of admiralty courts. As an administrative body it purchased and fitted out ships and had control over all "Continental" vessels except Washington's Boston and New York fleets and Arnold's fleet on Lake Champlain. Though fairly successful it was absorbed early in 1776 by the marine committee which consisted of one delegate from each state.

The powers and duties of the marine committee corresponded closely with those of its predecessor. It had to contend with extraordinary difficulties, more especially in the scarcity of seamen and the lack of discipline, tradition and *esprit de corps*. The committee proved "slow, cumbrous, inexpert and irresponsible," and after about three years gave place to a board of admiralty, which proved "slower, more cumbersome and less responsible" than even the marine committee. When at last the "concentrative" school had its way, and in September, 1781, Robert Morris, as agent of the marine, was placed in full control. Whatever the shortcomings of the navy during his term of office they "did not spring from the lack of an efficient executive."

The account of the continental navy concludes with two chapters on "The Naval Duties of American Representatives in Foreign Countries."

In the history of the state navies, we come to what is certainly the most original and for that reason perhaps the most valuable portion of the book. All the states with the exception of New Jersey and Delaware owned and operated armed vessels. They greatly exceeded in number the vessels of the continental navy. Massachusetts, Connecticut, Pennsylvania, Maryland, Virginia, and South Carolina all possessed respectable fleets, and each of these here receives separate treatment, the vessels of the other states being grouped for consideration as the minor navies of the North and South. The naval administrative machinery of the states presents in many cases great similarity to that of the Continental Congress. Mention must not be omitted of the useful lists of naval officers and armed vessels and the extensive critical bibliography which are appended to the book.

In closing let it be said that this book is in all respects admirable, and

that the author may be congratulated upon the possession of the painstaking industry and ripeness of judgment which disarm the most captious of critics.

HERBERT C. BELL.

University of Pennsylvania.

Reinsch, P. S. *American Legislatures and Legislative Methods.* Pp. x, 337. Price, $1.25. New York: The Century Co., 1907.

This book is a middle term between a monographic study and a popular discussion, and profits by the advantages of the two extremes. The author writes from the background of a thorough technical knowledge, but weaves into the presentation a wealth of incident and illustration that make the book readable without destroying its critical character.

The field covered includes both national and state legislatures, but the discussion of the first division adds comparatively little to the knowledge of the student of American legislative action. The discussion of the state legislatures, however, is a distinct contribution to a much-neglected subject. The book is a searching analysis of the methods of organization and action of legislative bodies, not as they exist on paper, but as they exist in fact, an attempt to look behind the formal reports of proceedings to analyse the shortcomings of our legislative bodies and to see the causes underlying these deficiencies. This effort is a distinct success. Lack of space prevents a detailed review of the various subjects presented.

The scope of the volume may be appreciated by an enumeration of the chief chapter headings which are, Legislative Committees, Procedure in State Legislatures, Legislative Apportionments and Elections, The Perversion of Legislative Action, Public Forces Influencing Legislative Action, and The Legislative Product.

The review of the actual working of the American legislature is not encouraging, though it does not present a hopeless prospect. There is but little theorizing in the volume except when deductions and suggestions are drawn immediately from the experiences of the various states as presented. Professor Reinsch has preferred to adopt the academic standard of allowing the facts themselves to convince the reader rather than resort to detailed argument. After studying the shortcomings and difficulties of the legislator from various points of view the reader clearly realizes how great has been the disappointment of those who looked for the millenium through popular government. Yet the facts martialed by the author do not lead to the belief that the failure is complete, but rather that too much has been expected of legislative bodies. An aroused public opinion, greater care in selection of candidates, greater use of expert guidance, both in organization of the membership and in the drafting of bills, and perhaps an adoption to some degree of the principle of representation of interests rather than of numbers, may yet redeem "government by discussion" and restore the legislature to public confidence. As a whole the book is the best presentation of this subject in limited space which has yet appeared.

LUTHER F. WITMER.

Philadelphia.

Recent Works on Transportation.

Ripley, W. Z. (Ed.). *Railway Problems.* Pp. xxii, 686. Price, $2.25. Boston: Ginn & Co., 1907.

Parsons, Frank. *The Railways, the Trusts and the People.* Pp. v, 544. Price, $1.50. Philadelphia: C. F. Taylor, 1906.

Parsons, Frank. *The Heart of the Railroad Problem.* Pp. viii, 364. Price, $1.50. Boston: Little, Brown & Co., 1906.

Meyer, B. H. *A History of the Northern Securities Case.* Pp. 132. Price, 60 cents. Madison: University of Wisconsin, 1906.

Webb, Walter Loring. *The Economics of Railroad Construction.* Pp. viii, 339. Price, $2.50. New York: John Wiley & Sons, 1906.

McClelland, C. P., and Huntington, C. C. *History of the Ohio Canals: Their Construction, Cost, Use and Partial Abandonment.* Pp. viii, 181. Columbus: Ohio State Archæological and Historical Society.

A collection of papers dealing with the various phases of the relation of the railways to the public was needed, and Professor Ripley has performed a valuable service in bringing out the volume on *Railway Problems.* The compilation of this set of papers was made for two purposes: "To render more easily accessible to the interested public valuable technical material upon the question of paramount interest and importance at the present time," and "also to facilitate the work of the college instructor in the economics of transportation." Professor Ripley does not intend the volume "to be used alone in the conduct of courses, but in connection with some standard treatise upon the economics of transportation."

The compendium comprises twenty-seven chapters, more than half of them consisting of slightly condensed reprints of the decisions of the Interstate Commerce Commission regarding relative and reasonable rates, the long and short haul clause, the southern and transcontinental rate systems and freight classifications. The first chapter following the introduction contains a valuable selection from Charles Francis Adams's book, "A Chapter of Erie." Among the other papers by individual investigators is one on "Standard Oil Rebates," by Miss Ida M. Tarbell, the "Building and Cost of the Union Pacific," by Henry K. White, the "Southern Railway and Steamship Association," by Henry Hudson, the "Theory of Railway Rates," by Professor F. W. Taussig, the "Northern Securities Company," by Professor B. H. Meyer, the "Interstate Commerce Act, as Amended in 1906," by Professor Frank H. Dixon, the "Doctrine of Judicial Review," by Dr. Harrison S. Smalley, and the "English Railway and Canal Commission of 1888," by Professor S. J. McLean. Professor Ripley has wisely included two of his own recent studies: "The Trunk Line Rate System" and "Economic Waste in Transportation."

Professor Ripley introduces the volume with an excellent analysis of the railway problem. He discusses briefly rebates, discrimination, pooling of traffic, the problems of reasonable rates, government regulation and European

experience. The significance of each of the chapters included in the compendium is made very clear by this admirable introduction to the volume.

"Railway Problems" is by far the best compendium of papers on railway transportation that has yet been made. Senior and graduate students in American universities, railway officials, and public officers, entrusted with the regulation of railroads, will all feel indebted to Professor Ripley for editing and publishing this volume.

The scope of Professor Parsons' volume, *The Railways, the Trusts and the People,* is concisely and accurately stated in the author's preface: "The book is in two parts. The first consists of twenty chapters full of vital facts from the railway history of the United States, showing the dangers and abuses that have developed and that have created the railroad problem of our day. The second part consists of ten chapters analyzing the railway problem, giving the history and results of various systems of railway management and control in other lands, discussing broad questions of policy, capitalization, safety, economy, rate making, treatment of employees, political, industrial and social effects of public and private railways, and the remedies that have been proposed for the abuses and difficulties that beset our transportation system in this country to-day. The second part, in short, aims at the causes and the remedies for the transportation ills described in the first part and further elucidated by the additional facts brought out in the second division of the work."

As a source of information Professor Parsons' volume is a rich mine. The author has acquired wide knowledge of his subject by extensive personal investigations in different parts of the United States and in numerous foreign countries. He has interviewed a great many prominent railroad and public officials; he has gone through the voluminous reports of public investigating commissions and committees, and he has attempted to summarize, in a single volume, this host of details acquired by his studies. The effort has been only partially successful, because of the author's inability to exclude all but the most important details. In his preface Professor Parsons speaks "of the great temptation pressing on a writer to tell all the strong facts he has at command, and the ease with which every one of the chapters in this book could be expanded into a volume." Those who read Professor Parsons' book will become convinced that the author has not been able to resist the temptation to include all facts that seem to him important. The result is that the book is wearisome to a degree. It is unfortunate that so valuable a work should suffer so from the author's lack of literary discretion.

The Heart of the Railroad Problem is an expansion of chapter three, dealing with "Discriminations" in the larger work on *The Railways, the Trusts and the People.* Each of the most striking forms of discrimination is given a separate brief chapter. The volume ends with a full and suggestive discussion of the remedies for railroad discriminations. This book, like the larger work, was completed early in 1906, shortly before the passage of the railway rate act of June 29, 1906. Had the volume appeared a few months

later the discussion in many instances would doubtless have been largely modified.

Professor Parsons states that "As these studies progressed, the writer became more and more convinced that the 'heart of the railroad problem' lies in the question of impartial treatment of shippers." This is a very true generalization, but is in no wise a new discovery. The author, however, should be given credit for understanding the railroad problem with great clearness. The author is widely known as an advocate of government ownership and operation of railroads, and his discussion of remedies naturally includes an argument for state ownership instead of public regulation. Professor Parsons states that "England, with her rigid control, has not been able to stamp out railroad abuses, and the lesson of English railroad legislation is that the subjecting of private railways to a public control, strong enough to accomplish any substantial elimination of discrimination and extortion, takes the life out of private railway enterprise along with its evils. Even Germany, with all the power its great government was compelled to exert, could not eliminate unjust discrimination until it nationalized the railways." Accordingly, the author believes that national ownership and operation of railways in the United States must be the ultimate solution of the railroad question in this country. As he suggests in the concluding paragraphs of his larger work on *The Railways, the Trusts and the People:* "The public must have a just and impartial service exercising public functions for the public good, and not for private profit. The only way to accomplish this is through public ownership under good political conditions. It is the only way to make railways do their full part in the production of true manhood and right human relationships; the only way to stop extortion and favoritism, and secure the due diffusion of wealth and power; the only way to establish the needful dominance of public interest in the field of transportation, and remove the antagonism of interest between the owners and the public which is the root of railway abuses."

Professor Parsons believes in radical methods. As a practical man, however, he is aware of the political difficulties in the way of the immediate nationalization of American railroads. He says: "This is a practical world, however, and the practical facts are that the difficulties in the way of public ownership of railways in this country at present are very great, and that much good may be accomplished by judicious regulation" (page 307). The final conclusion of the author is that "The economic and governmental changes necessary to make public ownership safe and successful constitute the essence of the ultimate railroad problem."

It is fortunate that the greatest attempt to effect railroad consolidation should have had so able a historian as Professor B. H. Meyer, now a member of the State Railroad Commission of Wisconsin. Professor Meyer's monograph on *The Northern Securities Case* was begun in 1903, and the first six chapters were ready for the printer in January, 1904. Those chapters take the history of the holding company through its formation and its experience in the United States Circuit Court. The first decision of the Supreme Court was rendered in March, 1904, but the final decree by that court was not made until

March, 1905. The last four chapters of the monograph were written after the final decision of the Supreme Court, and cover the history of the Northern Securities Case in the Supreme Court, and in the two circuit courts to which Harriman and his associates resorted for the purpose of preventing the carrying out of President Hill's plan of winding up the affairs of the Northern Securities Company.

Professor Meyer's monograph consists chiefly of a summary of, and brief commentary upon, the record of the Northern Securities Company in each of the courts where the case was tried. The decision of each court is also summarized. At the beginning of the monograph there is a list of the records, briefs and decisions in connection with each trial. These are the sources of information drawn upon by Professor Meyer. There are ten appendices which include a number of instructive documents.

It is interesting to note that Professor Meyer's exhaustive study of the application of the Sherman Anti-Trust Act to the Northern Securities Company leads him to conclude that the act ought to be amended so as not to apply to railroads. His conclusion on this subject is as follows: "I also wish to repeat, what I have expressed before, that I regard the application to railways of the Sherman Anti-Trust Law, of 1890, as one of the gravest errors in our legislative history. It is demonstrable that if railway companies had been permitted to co-operate with one another under the supervision of competent public authority, and the Trans-Missouri and Joint Traffic cases had never been decided, the railway situation in the United States would to-day be appreciably better than it is. However, this is speculation. Nevertheless, even to-day some legislation which will enable companies to act together under the law, as they now do quietly among themselves outside of the law, is imperative. The American public seems to be unwilling to admit that agreements will and must exist, and that it has a choice between regulated agreements and unregulated extra-legal agreements. We should have cast away more than fifty years ago the impossible doctrine of protection of the public by railway competition."

Mr. Walter Loring Webb, formerly assistant professor of civil engineering at the University of Pennsylvania, has endeavored to present the *Economics of Railroad Construction* briefly within the compass of a volume of 339 pages. The book is written particularly for students taking engineering courses, and will doubtless be appreciated by teachers who desire to give engineering classes a general survey of the problems which have to be considered by those who are concerned with the location, construction and operation of railroads.

The book is divided into three parts, dealing in turn with the financial and legal elements of the problem, the operating elements, and the physical elements. The first part of the book contains a very partial summary of the facts regarding statistics, organization, capitalization, valuation and volume of traffic of railroads. This part of the book deals with what ecomomists have come to call railroad economics. It is to be hoped that the introduction to that subject contained in the first part of Professor Webb's book will lead students to study other works in which railroad economics are more adequately treated.

A more accurate and descriptive title for Professor Webb's book would have been "The Technical Problems of Railroad Construction and Operation." The volume is not intended to be an engineering work, but rather a work for engineers, written to state some of the problems with which engineering science must deal. Considered from this point of view the book must prove useful in spite of the fact that it contains but a brief, and in the main non-technical, discussion of the complicated questions of operating expenses, motive power, car construction, tracks, train resistance, grades, curvature, etc.

The *History of the Ohio Canals: Their Construction, Cost, Use and Partial Abandonment* is an excellent piece of work. The Ohio State Archæological and Historical Society is to be commended for bringing about the preparation and publication of this volume. The work is divided into three parts: (1) History of the Ohio Canals, (2) Financial Management, (3) The Value to the State. Parts one and three were written by Mr. C. C. Huntington, and part two by Mr. C. P. McClelland. Mr. Huntington was a graduate student in the University of the State of Ohio, and Mr. McClelland was a member of the senior class at the time the volume was written. Both gentlemen worked under the direction of Dr. J. E. Hagerty, Professor of Political Science and Economics in the Ohio State University.

Such studies as this are much needed. The history of transportation in the United States has been as yet only partially covered. Fortunately, numerous young men are at work on different parts of the subject, and it is to be hoped that their work will result, in the not-distant future, in the publication of a large number of monographs similar to this one on the Ohio canals.

Every reader of this volume will be interested in the conclusions reached as to the future of canal transportation in Ohio. Mr. Huntington, the author of the concluding portion of the book, does not commit himself definitely to recommended that the state retain and enlarge its canals, but in discussing the question of whether the state should sell out or improve its waterways, he very clearly leans towards the retention and improvement of the canals by the state. He says: "The demand for transportation is increasing faster than facilities for transportation. Along the canal route are thousands of acres of coal undeveloped, besides many mines in operation. The uncertainty of our waterways hitherto has prevented the development of many industries." . . . "It is probable, however, that two routes, one at the west and the other probably through the middle of the state or in the eastern part, would best accomplish the desired results."

EMORY R. JOHNSON.

University of Pennsylvania.

Smith, J. Allen. *The Spirit of American Government.* Pp. xvi, 409. Price, $1.25. New York: The Macmillan Company, 1907.

In this volume Professor Smith undertakes to establish the thesis that the government of the United States under the Constitution is aristocratic or non-democratic. He asserts in effect that the constitutional convention of 1787 was a conspiracy to circumvent or prevent the free exercise of the

popular will. He declares that the method of amendment provided in our great charter is obnoxious to democracy. Our government was designed so that wealth might control or the aristocratic classes could dominate its machinery. Our Supreme Court has usurped powers and exercised them to the defeat of the public will formally expressed by statute "inasmuch as laws cannot be enacted without the consent of a body over which the people have practically no control" (page 101). Our much lauded "checks and balances" are rocks on which true democracy breaks. Our parliamentary procedure in Congress is impudently autocratic or oligarchical. "Our constitutional arrangements are such as to deprive the people of effective control" over parties (page 211); but even if not so, our political bosses, rings, or machines can by disposal of the patronage "grant or revoke legislative favors." Our parties, like our government, are dominated by wealth and privilege. The same defects or defaults he finds in our state constitutions and governments. In cities the right of self-government has been lost—indeed, the city or municipality is merely "a creature of the general government of the state" (page 264). In short, we do not live in a democracy. Neither do we enjoy republican institutions. The flag floats over an aristocracy with oligarchies chiefly in charge.

Professor Smith's narrative and discussions are interesting and are lucidly and vigorously presented. Every page shows evidence of much investigation and reflection and earnest analysis. Nevertheless, we are certain that his argument will from start to finish prove not only unsatisfactory but exceedingly exasperating to those who believe and insist that a democracy must be safe, sane, and stable as well as adjustable; that it must protect property as well as persons; that it must safeguard the rights of the minority as well as the majority, or, rather, the dominant faction of the major party. This volume should have been entitled—and the reviewer means no disrespect—"An Academic Plea for Mob Rule."

The fundamental fallacy vitiating the entire narrative is the author's misconception of the nature of democracy, due primarily to his non-appreciation of the inexorable necessities of a sovereignty. A democracy, if it is to be efficient, requires precisely the same sort of governmental machinery that is found in a monarchy. The distinctive difference lies, not in the devices of administration, but in the method of control and in the different apportionment or assignment of the benefits and burdens of government. In order to get democracy and justice we must enforce law and order. These desiderata exact the establishment and maintenance of the executive, legislative and judicial functions and structures. Of necessity they are equipotent and in their separate spheres exclusive. If democracy is not to issue in mob rule and lynch law, we must so coordinate them as to secure equilibration. The processes of government must be cooperative and definite. Deliberation and delay, definitive decisions of judicial tribunals are essential. Mobs are not always violent or disorderly and sporadic in development. They sometimes are systematically aroused into being by demagogues and sentimentalists and operate by means of ballots and legislatures, and life, liberty and the pursuit of happiness are put in jeopardy unless the private

citizen can appeal to the courts against the injustice of their acts. Constitutional law, as we know it in the United States, is designed to deal with Philip drunk as well as with Philip sober, peaceful and just.

F. I. Herriott.

Drake University, Des Moines, Ia.

Takekoshi Yosaburo. *Japanese Rule in Formosa.* Pp. xv, 342. Price, $3.00. New York: Longmans, Green & Co., 1907.

This book is a composite product partaking of the characteristics of a critical work on colonization, a government report and a traveler's note book. It is marred at points by the introduction of discussions irrelevant or too detailed to deserve a place in a work of this nature. This does not prevent the volume from giving an excellent picture of what Japan has accomplished and wishes to accomplish in Formosa. The latter is at times overemphasized, giving the book administrative bias. In other instances the polite, formal style in which the author writes and the finality with which the statements of various writers on colonial problems are quoted, are such as to make the reader smile.

Mr. Takekoshi writes from his personal experience in two extended tours through the island and his ability to see the contrasts and similarities in the peoples and the economic and geographical conditions make the book not only informing but entertaining.

Japan's mission as the bearer of western civilization to her eastern neighbors has thoroughly impressed itself on the author's mind. To him Formosa seems but a stepping stone, a proving ground in which the ruling country is already showing her fitness for the work she is called to do. From this point of view he proceeds to the examination of the island. "The basis of all development is peace," has been the theory upon which Japan has proceeded since her acquisition of the island in 1895. Mistakes in the measures to bring about order were made at first, and not until 1902 were conditions such as to give the island a chance for normal development. Before that time the military had been the preponderant influence, and had not succeeded in crushing out the spirit of disorder due to the unsuitability of the regular levies for fighting in a country where the brigands were expert in guerrilla warfare. Viscount Kodama, who was placed in control in 1902, made all military power subject to the civil, and did everything in his power to obtain the goodwill of the natives. They were made to feel that the Japanese Government had come to stay and would protect them against the brigands who were terrorizing the country. With the spread of this spirit the task of restoring order became much less difficult, for the people became willing to aid the government where formerly they had hindered it through fear of the consequences to follow when the punitive expeditions had withdrawn.

As an aid in restoring order and as means to maintain it the government engaged in numerous branches of work for the improvement of life in the islands. Railways were rapidly built, the cultivation of sugar and

the production of salt were aided, telegraph, telephones, and roads were undertaken. Opium and camphor were made government monopolies, the use of the former being greatly restricted. The legal systems, especially the land laws, were remodeled, steamship lines were subsidized, schools started, and, perhaps as important as any other feature, an excellent system of sanitation was established which made the towns formerly hotbeds of tropical diseases bear favorable comparison with any of the cities located in similar climatic conditions. Notwithstanding the great expense attendant upon these improvements, the economic resources of the island have recovered so rapidly that Japan is no longer forced to contribute to the maintenance of the colony.

The latter portion of the book contains numerous valuable statistical tables relating to the resources, population and trade of the islands, an extensive bibliography and a good map. The illustrations are clear and well chosen.

CHESTER LLOYD JONES.

University of Pennsylvania.

Washington, B. T. *Frederick Douglass.* Pp. 365. Philadelphia: G. W. Jacobs & Co., 1907.

Mr. Washington is already familiar to the American public, not only as one of the greatest educators and constructive statesmen of our times, but also as one of our most popular authors. This time he appears in the rôle of biographer of Frederick Douglass, perhaps the most remarkable personage of the negro race of the last century.

After a hasty and necessarily limited narrative of the early life of Douglass we are ushered in upon his public career, which began in 1838, soon after his escape from slavery, at the age of twenty-one.

Douglass, having been born a slave, and having suffered all the horrors of the system, was the one man for whom the abolitionists looked, and as a "human argument" he was always convincing, whether in Europe or America. Not only the strong sympathy and earnest zeal of Mr. Douglass are depicted, but most strikingly, his broad grasp of the whole situation, and his general good judgment. He was the last great abolitionist to stay by John Brown; the leader and inspirer of the free people of color in the North; a director, and his home in Rochester, N. Y., a chief center of the underground railway, and a chief advocate of the necessity for negro soldiers in the Union army. It is significant that Mr. Washington, himself the uncompromising advocate of industrial education, should pay tribute to Douglass who advocated the same training years before the birth of Mr. Washington.

The book is exceedingly clear and simple in its style. Quotations, especially from Mr. Douglass' own writings, are used in abundance. One might wish that Mr. Washington, bringing his own wide experience with the problems bequeathed to him and his by those of Douglass' day, might have passed more decisive judgment upon some of the actions of his subject. But the author appears not as a hero worshiper or a critical judge.

R. R. WRIGHT, JR.

University of Pennsylvania.

Wendell, Barrett. *Liberty, Union, and Democracy.* Pp. 327. Price, $1.25. New York: Charles Scribner's Sons, 1906.

This is in many respects a remarkable book. Even those who disagree fundamentally with the brilliant generalizations of the author cannot deny the bristling suggestiveness of every page. The breadth of view and acuteness of analysis which characterize this book give it an unique place in our political literature. Briefly stated, it is an attempt to present the fundamental characteristics of American political psychology. As such it ranks far above the efforts of Boutney, Klein, Hanet and the other French writers who have attempted to present the race psychology of the American people.

Mr. Wendell has made a conscientious effort to reach the foundations of our national character. In his view we must look to the Englishmen of pre-Revolutionary England (1620-25) for the origin of those traits which are characteristically American. In a few paragraphs the author brings out clearly the contrast between the Englishman of 1620 and the Englishman of 1775. The idealism of the first period was inherited by the early settlers in America and was most marked in the New England colonies. "The origin of our national character can be traced to the instinctive idealism of pre-Revolutionary England, strengthened by the intensely orderly idealism ingrained in those who faithfully accepted the Calvinistic creed." This strain of idealism has persisted in American character in spite of our extraordinary industrial prosperity. To superficial observers we may seem materialistic; to the careful student of American life our national character, while seemingly material, is in reality idealistic.

In the chapter on "Liberty" the author traces the conflict between the two concepts which prevailed in the United States prior to the civil war, that of individual liberty and national unity in the North and that of local self-government in the sense of state sovereignty in the South. The tragedy of the conflict which ensued is eloquently described. The chapter on "Union" is devoted to an examination of the gradual growth of the spirit of national unity as finally expressed in the results of the Civil War.

In his treatment of "Democracy," which forms the subject of the final chapter, Mr. Wendell shows the marked differences between the American and the European concepts. "However fervently Americans may have believed that all men are created equal, they have never gone so far as to insist that all men must remain permanently so." The Napoleonic watchword, "Careers open to talents," has occupied quite as prominent a place in the American mind as the belief in equality.

This very brief summary gives an inadequate idea of the value of Mr. Wendell's essay. There is at present a widespread tendency to sneer at these attempts to encompass national psychology within a series of brilliant generalizations. When, however, these generalizations are as suggestive as those presented in this little book they well deserve and must receive the attention of every student of political science.

L. S. Rowe.

University of Pennsylvania.

INDEX OF NAMES

ABBREVIATIONS.—In the index the following abbreviations have been used: *pap.*, principal paper by the person named; *b.*, review of book of which the person named is the author; *r.*, review by the person named.

INDEX OF SUBJECTS

[Titles of articles are printed in small CAPITALS.]

SUPPLEMENT TO
THE ANNALS OF THE AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE
SEPTEMBER, 1907

IMPERSONAL TAXATION

A discussion of some rights and wrongs of Governmental Revenue

BY
CHARLES HERBERT SWAN
Of the Massachusetts Bar

QUIS CUSTODIET IPSOS CUSTODES NISI IUSTITIA?

PHILADELPHIA
THE AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE
1907

FOREWORD

The question of governmental revenue is not only important in itself, but has an added importance in a country professing to be actuated by a devotion to human rights and personal freedom, lest the government may violate the very right which it professes to maintain. This importance must be the excuse for the following pages on a well-worn topic. There is no new thing under the sun. Probably most of the thoughts herein contained have been both heretofore and better expressed. In fact, one of the vital ideas of these pages was written six hundred years ago. But just as a worker in mosaic may use the most ancient pebbles to make a new picture, so a writer may use the most ancient thoughts to present his view.

It is in no spirit of dogmatism that these pages are compiled, but rather as an attempt to find some path of consistency, reason, and justice, in a chaotic subject vitally related to the rights of every man; as to which rights an editorial in the Boston *Herald* of June 26, 1906, contained the following suggestive passage:

> Men are coming to think as men rather than as denizens of some particular spot of earth. Views are broadening. The human relation in the world of affairs has a larger meaning than it ever had before. But it does not follow, by any means, that socialism, solidarity, communism, collectivism, or whatever among forty names may be given to the act of mortgaging society to government, is the goal and summit of civilization. Mankind is a very great and wonderful thing, but, after all, it is made up of men. And it is only by the higher development of the individual man that men are led by loftier routes along their march to destiny. The socialists may disdain the individual man, but none the less they must reckon with him. He is the bar to their plans.

From the earliest times the questions of public revenue have furnished the themes for animated discussions and the occasions for bloody and momentous conflicts. In the ancient despotisms its collection was a matter of mere force, but in the middle ages there began to be a gleam of right feeling in the professed relations between princes and their peoples, and in modern times the note of equality has been loudly sounded as the just consideration.

Accordingly, innumerable statutes have been devised to pursue this assumed ideal along ever more rocky paths of apparent human perversity. Yet the creation of equality by statute implies, in the last analysis, quite as much as the ancient régime of force, that the private individual has no rights which collective society ought to recognize, and which, with Herbert Spencer, we may designate under the name of freedom. The following pages contain an attempt to deal with the fundamental rights and wrongs of public revenue on a basis consistent with the professions of a freedom-loving nation, so that we shall not forget the thought which Emerson has uttered on behalf of all:

> For what avail the plow or sail,
> Or land or life, if freedom fail.

CONTENTS

Chapter I

INDUSTRIAL FREEDOM

It is probably true, as President Eliot suggested in an address before one of the labor unions at Boston, that at the present time the passion for personal freedom is less ardent than in the middle of the nineteenth century, but perhaps this cooling of the feelings is not on account of any lessening of the love for real freedom. It may rather be on account of an uncertainty in many minds as to the scope of freedom or a haziness of definition as to what it may or may not include.

To be untrammeled, to be unrestrained, is the first thought of freedom, and this idea of absence of restraint is the starting point of freedom as a general term, but when we come to specific kinds of freedom we find that absence of one kind of restraint does not necessarily imply absence of all kinds of restraint. Thus a man in prison may be free from physical pain, and a man out of prison is nevertheless forbidden to steal; for it is an ancient doctrine that one man's freedom must not encroach on another man's right.

So when we come to consider freedom in an industrial sense we cannot say that it is merely the absence of restraint, but rather the absence of some particular kind of restraint. We prevent a child from playing with fire or dangerous tools and we do not feel that we are invading the child's freedom by so doing. The child is clearly in danger of injuring himself and it is for the child's benefit to be restrained. We seek to prevent the turbulent man from making an assault and battery on his neighbor and we do not feel that we are invading the turbulent man's freedom, but rather that we are protecting the neighbor's freedom. It is for the neighbor's benefit that the turbulent man should be restrained. But when a man is by force and threats restrained from seeking his own best good and driven to labor for another at that other's behest, or is deprived of the fruits of his labor at the option of a master, we have an entirely different situation. This is depriving a man of

the chance to make the best of himself. This is the exercise of a proprietary claim over a human being. This is slavery, and the purpose of it is not for the benefit of the slave, but for the benefit of the master.

We may thus classify restraints under three heads:

1. Restraint for the benefit of the restrained.
2. Restraint for the benefit of another.
3. Restraint for the benefit of the restrainer.

These may be called respectively the tutelary, the protective, and the proprietary dominions.

An example of the first is guardianship. The second appears in the usual processes of the civil and criminal law for the protection of life and property and the punishment of injuries. Either the first class or the second may be unjust and oppressive in a case not reasonably necessary for the protection of some preëxisting right. It is the third which particularly violates freedom, for freedom in an economic sense is the chance to make the best of one's self, and a restraint for the benefit of the restrainer is the exercise of a proprietary interest over a man, which is inherently inconsistent with that man's chance to make the best of himself. It is perfectly true that in a specific case the subject might, if free, choose to do the very work or service required by the master and for no greater compensation, but the wrongfulness of the exercise of a proprietary interest over a man is not in the specific acts of hardship involved, but in taking possession of the man himself. As Dr. Lyman Abbott has expressed it in his "Rights of Man," it is an invasion of personality. It is the perversion of one man's life to the uses of another. "The injustice of slavery did not lie in the fact that the slaves were ill-fed, ill-clothed, or ill-housed. . . . The evil of slavery was not that families were separated. . . . The injustice was not in specific acts of cruelty. . . . The wrong of slavery lay in this: that personality was invaded; the product of the man was taken from him; he had put a part of his life out into the world and he was robbed of it. Whenever and however society does this, it does injustice." ("Rights of Man," page 105.)

The failure to take account of the different classes of restraints perhaps explains the uncertainty in the minds of many as to the rightfulness of freedom in any sense except as a favor conferred which may be withdrawn. A misapprehension of the economic

basis of freedom as an economic means toward an economic end may cause us to deny the existence of a right to freedom in the presence of misapplications of it. Take for a specific instance freedom of contract, or the doctrine that a man has a right to sell his goods or his labor for such compensation as seems good to him. Shall we say that by virtue of freedom of contract he may once for all sell himself into slavery? By no means. Freedom of contract is an economic means toward an economic end. It must be exercised for an economic purpose, but slavery is the contravention of the highest economic purpose, as it destroys the chance of the slave to make the best of himself. We must distinguish, however, between an economic purpose and an adequate return. Freedom of contract implies that a man may exercise his judgment or his sentiment in a trade and may take a totally inadequate compensation in a specific case. He is following an economic purpose in exchanging his goods and labor, even though his judgment may be poor or his sentiments may lead him to give his property away; provided always that he does not go to such an unreasonable extent as to require a guardian. So long as a man is following an economic purpose, freedom of contract is essential to the chance to make the best of himself, even though he may not yet understand how best to use the chance. It may be difficult to say where the economic purpose ends, but beyond that limit freedom of contract ceases to operate and the man may be justly restrained, for his own benefit when he threatens his own rights disastrously, or for the benefit of others whose rights are endangered.[1]

Nevertheless, in applying the restraints of the first and second classes, for the benefit of the restrained or for the benefit of others, we must always be careful that we do not encroach upon the third

[1]The converse of this analysis in its application to the principle of guardianship the present writer discussed in an article on "Child Labor in the United States of America," in the Revue Économique Internationale of Brussels for July, 1906, and described it as the guardianship of persons who for the time being are incompetent to take care of themselves without inflicting on themselves a greater amount of injury than the probable benefits which might come from the experience would justify. The principle of freedom of contract was considered by the present writer, in an essay on "Monetary Problems and Reforms," published in 1897, as the starting point for the development of a healthy monetary system. For an exhaustive study of the developmental treatment of economic subjects the reader is referred to a recent work by Dr. Rudolf Kobatsch, of Vienna, "Internationale Wirtschaftspolitik. Ein Versuch ihrer wissenschaftlichen Erklärung auf Entwicklungsgeschichtlicher Grundlage." Wien, 1907; Manzsche Univ. Buchhandlung.

class, restraints for the benefit of the restrainer, for such a restraint is a violation of freedom, the chance to make the best of one's self. Accordingly, we may say that there is always a strong presumption against governmental action until that action clearly appears to be outside the third class of restraints, lest the organized state may be in the position of restraining, not for the benefit of the restrained nor for the benefit of third persons whose rights are threatened, but merely for the benefit of itself; for although within its own sphere the government must surely govern, yet the organized state is after all only an enlarged and artificial or juridical person, and as such person should be held to the full regard for the rights of others. This presumption against governmental action appears in the English common law as the presumption of innocence in criminal matters. If the English-speaking peoples had never done anything else and never should do anything else except to teach this doctrine of the presumption of innocence, they would nevertheless be entitled to the gratitude of mankind.

But in dealing with governmental restraints we must further distinguish between two kinds of restraints. One is the case in which the state by its own motion or decree assumes for its own benefit to invade the personality of some man or to deprive him arbitrarily of a right which a private person would not be allowed to take away from him. This is the normal type of an attempt to exercise a proprietary interest over him and comes within the condemnation of the general rule. The other case is only apparently similar and arises when the state as the owner of some antecedent property or right seeks to protect that property or right from invasion as it would do for the property of a third person. In this case the state acts for itself, not as itself, but as if it were a third person because of the absence of any stronger power to which it may appeal for the protection of its right, for the state as a large artificial person organized to serve certain legitimate ends is entitled as well as any other person to hold, acquire, and conduct any property or business of public interest, provided the state has means of paying for and a reasonable prospect of using the same successfully. But though as a great artificial person the state is thus endowed with the same rights of acquiring ownership as a natural person, it ought, like a natural person, to observe a scrupulous regard for the rights of others and ought not to claim or exercise any such proprietary interest

as in the hands of a natural person would be an invasion of the rights of another natural person. Accordingly, it ought not to enslave its people or assert proprietary claims over them in economic matters. We may say with Aristotle that man is naturally a political animal, but we need to beware of assuming that, because the formation of political entities is a natural human function for natural human purposes, it involves the abrogation of personal freedom. Rather should we say that the true purpose of making political entities is to promote that freedom, and that governments should exist for the benefit of the people and for the benefit of each and every individual in the people.

It is perhaps by a perception of these distinctions that we may explain the apparent anomaly that the country of Washington and the party of Lincoln feel justified in holding colonies in distant seas and exercising government without the consent of the governed. The belief in liberty may be as great though the confidence in the tools used may be less. The experiment of giving suffrage to the Negro has not been so successful as to inspire the most perfect confidence in the wisdom of giving razors to children. Industrial freedom is not the perfunctory copying of fixed machinery in political matters, however valuable that machinery may be in favorable conditions. A well-managed monarchy may give a nearer approach toward freedom than an ill-managed republic, for although there is a presumption against governmental restraint lest it may be an interference with freedom, yet when once the justness of a project as a field of governmental action is established, then the best results will follow from the most efficient action, and true freedom can never require inefficiency.

These seem like stale thoughts in this age of the world, but it can do no harm to rehearse them at the present day when many seem almost ready to assert that man has no rights at all except such as are graciously conferred on him by an omniscient hydra-headed state, and others are loudly proclaiming by voice and pen and the assassin's bullet that governments have no right to exist at all. We shall be better able to avoid both the one and the other extreme, if we bear in mind the different kinds of restraints, the presumption against governmental action lest a restraint may be an interference with freedom, the position of the state as an enlarged economic person, and the value of efficiency within the proper

public field—always remembering that the assertion of a proprietary interest over a human being, whether by planter, prince, parliament or people, is fundamentally and inherently inconsistent with the chance to make the best of one's self, and is a denial of freedom. It is in this sense that we may say that economics, dealing with wealth or well-being, should be the science of industrial freedom, the science that defines, exemplifies, and conserves that freedom.

Chapter II

FEUDALISM

Sir Frederick Pollock, in his essay, "English Law Before the Norman Conquest" (Appendix to "The Expansion of the Common Law"), describes the condition of Saxon society as follows: "There were sharp distinctions between different conditions of persons, noble, free, and slave. We may talk of 'serfs' if we like, but the Anglo-Saxon 'theow' was much more like a Roman slave than a medieval villein. Not only slaves could be bought and sold, but there was so much regular slave trading that selling men beyond seas had to be specially forbidden.

"Among free men there were two kinds of difference. A man might be a lord having dependents, protecting them and in turn supported by them, and answerable in some measure for their conduct; or he might be a freeman of small estate dependent on a lord. In the tenth century, if not before, every man who was not a lord himself was bound to have a lord on pain of being treated as unworthy of a free man's rights; lordless man was to Anglo-Saxon ears much the same as 'rogue and vagabond' to ours. This widespread relation of lord and man was one of the elements that in due time went to make up feudalism. It was not necessarily associated with any holding of land by the man from the lord, but the association was doubtless already common a long time before the Conquest, and there is every reason to think that the legally uniform class of dependent free men included many varieties of wealth and prosperity. Many were probably no worse off than substantial farmers, and many not much better than slaves."

The essential and fundamental idea in feudalism was a pyramidal arrangement of society from the king down to the lowest rank of the population so that every man of an intermediate grade was subject to some other man of a higher grade and in turn might be entitled to a subjection on the part of some other man of a lower grade, while the king or emperor was subject unto God, and a slave

was at the bottom of all subjection.[2] As a slave was totally bereft of all rights to use and dispose of himself to the best advantage and was in effect an article of property to his master, so every man of intermediate rank was partially bereft of rights to use and dispose of himself to the best advantage and was in effect subjected to the proprietary rights of the rank above him. And so it was, up to the king, who was held to be endowed with his power in trust for his people, and answerable to God alone, unless the king should violate the terms of the trust. For it was supposed that the multitude of interlocking subjections was founded upon and justified by a series of reciprocal protections,—that every man in his partial weakness had sold himself in whole or in part to a stronger for protection, and this supposition was the human justification for the system.

We must not be too ready to condemn feudalism. In an age of force and brutality, when the rightfulness of property in human flesh was scarcely disputed, it was only natural that the partial recognition of personal rights should be qualified by a partial recognition of the proprietary claims of superiors, and it was at least an advance from the dead level of universal subjection in the autocratic Roman Empire that there should be a theoretic human basis for society, that some at least should have a partial freedom rather than that all should have no freedom,—that all should have at least some theoretic rights which even the king ought not to restrain rather than that all should be at the mercy of a universal despotism.

The glory of feudalism was in the fact that it was a step, a blind and staggering step, but yet a step toward freedom. The vice of feudalism was in the fact that it recognized and asserted the rightfulness of a proprietary claim over a man. But feudalism contained the seeds of its own decay. The notion that the king or the government was bound to give protection easily developed into the notion that he or it must give it as a matter of right to all men. It is the function, the very reason, of the government's existence

[2]Bracton, in his monumental work, "Of the Laws and Customs of England," speaks thus of the king (Bk. 1, Ch. 8): "There are also under the king freemen and serfs subject to his power, and every person is under him, and he is under no one, but only under God. He has no peer in his own kingdom, for so he would forfeit the precept, since equal has no power over equal. Likewise much less ought he to have any superior or more powerful person, for so he would be inferior to his own subjects, and inferiors cannot be equal to their superiors. But the king himself ought not to be under man, but under God and under the law, for the law makes the king."

to give protection, not to sell it for base subjection and servitude. It is the right of the rich and the poor alike, in spite of their poverty, and irrespective of their riches. Thus spoke the barons at Runnymede, and King John replied, "We shall sell justice to no man and deny it to none."

What, then, were some of the manifestations of feudalism? First and fundamentally was the idea that every man must have a lord, so that a "lordless man" was almost outside the law. And from this came the name and the ceremony of "homage" by which the subject acknowledged himself as the man of the lord. Then again there was the notion that the lower ranks of society ought in some degree to be tied down to the soil or restricted to some limited district, so that in comparatively modern times in England it was illegal for a working man to seek to better his life by migration,—a doctrine logically dependent on the theory that the superior might justly claim a proprietary right over the inferior,—that by an act of conquest or an act of more or less voluntary homage countless generations might be doomed or sold into partial or complete slavery. On this same proprietary theory rests also the doctrine of perpetual and interminable allegiance. These are some of the personal manifestations of feudalism. But although the feudal relation of lord and man "was not necessarily associated with any holding of land by the man from the lord," yet feudalism, as it name implies, reached its most elaborate and intricate development in connection with land-holdings. How then did feudalism manifest itself as applied to the land?

Blackstone, in his Commentaries (Book 2, Chapter 4), says of the establishment of the feudal system of land tenure, that it originated from the military policy of the northern nations who "poured themselves in vast quantities into all the region of Europe at the declension of the Roman Empire." It was introduced by them "in their respective colonies as the most likely means to secure their new acquisitions; and to that end, large districts or parcels of land were allotted by the conquering general to the superior officers of the army, and by them dealt out again in smaller parcels or allotments to the inferior officers and most deserving soldiers. These allotments were called *feoda,* feuds, fiefs, or fees; which last appellation, in the northern language, signifies a conditional stipend or reward. Rewards or stipends they evidently were, and the condi-

tion annexed to them was that the possessor should do service faithfully, both at home and in the wars, to him to whom they were given; for which purpose he took the *iuramentum fidelitatis*, or oath of fealty, and in case of the breach of this condition and oath, by not performing the stipulated service or by deserting the lord in battle, the lands were again to revert to him who granted them."

But this was not a mere naked condition from which the landholder could purge himself by surrendering the land at his option. There was by the oath of fealty the bond of personal subjection to the lord, and Blackstone tells us that in addition to the oath of *fealty,* "or profession of faith to the lord, which was the parent of our oath of allegiance," the tenant must also do homage, by which "openly and humbly kneeling" before the lord, the tenant professed that "he did become his *man,* from that day forth, of life and limb and earthly honor." Bracton, in speaking of homage (Book 2, Chapter 35, Section 2) says, "Likewise homage is contracted with the good will of each, of the lord as well as of the tenant, and through the contrary will of each is it dissolved, if each has wished, because nothing is so agreeable to natural equity than that everything should be loosed by that principle by which it is bound (*unumquodque dissolvi eo ligamine quo ligatum est*). For it does not suffice if only one has wished this." And in regard to the tenant who disavows his service to his lord, Bracton says a little later, "And the lord in this case is entitled to two remedies, as it seems, either that he should claim the tenement of his tenant, which he ought to hold of him in domain, because he is disavowed by the tenant, in whose person the obligation fails, or that he should claim the service, on the ground that the obligation holds good in his person, and should remit of grace to the tenant the tenement." After the homage of the tenant, Blackstone continues, "The next consideration was concerning the service, which, as such, he was bound to render in recompense for the land that he held. This, in pure, proper, and original feuds, was only twofold; to follow or do *suit* to the lord in his courts in time of peace, and in his armies or warlike retinue when necessity called him to the field." This was the original military tenure of feuds, which, "as they were gratuitous, so also they were precarious, and held at the will of the lord who was then the sole judge whether the vassal performed his services faithfully." In time the custom arose to bestow the feud of a dead

vassal upon a male heir who could perform the services, and later the feuds were granted to a man and his heirs. "But the heir when admitted to the feud which his ancestor possessed generally used to pay a fine or acknowledgment to the lord, in horses, arms, money, and the like, for such renewal of the feud, which was called a relief," because it *raised up* and "reëstablished the *inheritance.*"

From the original nature of the military tenure it followed "that the feudatory could not aliene or dispose of his feud, neither could he exchange, nor yet mortgage, nor even devise it by will, without the consent of the lord." The feudatories, however, early developed the practice of subinfeudation, by which parts of a feud were divided up among inferior tenants under services to the holder of the larger feud. "But this at the same time demolished the ancient simplicity of feuds, and an inroad being once made upon their constitution, it subjected them, in course of time, to great varieties and innovations. Feuds began to be bought and sold, and deviations were made from the old fundamental rules of tenure and succession, which were held no longer sacred when the feuds themselves no longer continued to be purely military." In closing Chapter 4 Blackstone describes the character of the development of the feudal tenure in the following manner: "But as soon as the feudal system came to be considered in the light of a civil establishment, rather than as a military plan, the ingenuity of the same ages, which perplexed all theology with the subtility of scholastic disquisitions, and bewildered philosophy in the mazes of metaphysical jargon, began also to exert its influence on this copious and fruitful subject: in pursance of which the most refined and oppressive consequences were drawn from what originally was a plan of simplicity and liberty, equally beneficial to both lord and tenant, and prudently calculated for their mutual protection and defense."

Blackstone (Book 2, Chapter 5), in discussing the varieties of English tenure, classifies the feudal services into *free services,* or such as in a military age might be supposed to be assumed voluntarily in the first place, and *base services.* "Free services were such as were not unbecoming the character of a soldier or a freeman to perform, as to serve under his lord in the wars, to pay a sum of money, and the like. Base services were such as were only fit for peasants or persons of a servile rank, as to plough the lord's land, to make his hedges, to carry out his dung, or other mean employ-

ments." Both free and base services were, as to amount, further divided into certain and uncertain, and by the combination of these elements, on the authority of Bracton, he gives four main kinds of tenure, two in freehold and two in villenage. Of the freehold tenures, one class was "where the service was *free* but *uncertain,* as military service with homage"; this was the military tenure or tenure by knight service. The other class of freehold was "where the service was not only *free* but also *certain,* as by fealty only, or by rent and fealty"; and this was called free socage.

The more honorable, as it was esteemed, and also the more burdensome species of freehold tenure was the tenure of knight service, which drew unto itself seven great burdens or consequences by the gradual encroachments of the lords and their interpretations of the feudal service. These burdens were: aids, relief, primer seisin, wardship, marriage, fines for alienation, and escheat.

1. *Aids* were principally three; first to ransom the lord's person, if taken prisoner; second, to contribute funds to make the lord's eldest son a knight; third, to raise a marriage portion for the lord's eldest daughter.

2. *Relief* was "incident to every feodal tenure, by way of fine or composition with the lord for taking up the estate," after the death of a tenant, "thereby in effect obliging every heir to new-purchase or *redeem* his land."

3. *Primer seisin* was an additional relief payable by the king's tenants in chief and not by those who held of inferior lords.

4. *Wardship* took the place of relief and primer seisin if the ward was a minor. By wardship the lord had the profits of the land and the custody of the minor during the minority, and on coming of age the ward must pay a fine for the possession of the land.

5. *Marriage* was the right to receive a commission for negotiating a marriage of the ward, even if the ward refused the alliance.

6. *Fines for alienation* were payments to the lord "whenever the tenant had occasion to make over his land to another," but only by the king's tenants in chief.

7. *Escheat* was "the determination of the tenure" if the tenant "died without heirs of his blood, or if his blood was corrupted and stained by commission of treason or felony." The land then "fell back to the lord of the fee."

In view of the large degree in which these burdens depended on asserting a proprietary claim over the body or personal services of the tenant by virtue of the feudal bond of personal subjection to a superior, the term "freehold" seems almost a mockery, and must be taken as referring not so much to the condition of the holding as to the supposed voluntariness of its establishment. The services of the military tenure, says Blackstone, "were all personal and uncertain as to their quantity or duration. But the personal attendance in knight-service growing troublesome and inconvenient in many respects, the tenants found means of compounding it; by first sending others in their stead, and in process of time making a pecuniary satisfaction to the lords in lieu of it." This payment was called *scutage* in English, or *escuage* in Norman French. "Hence, we find in our ancient histories that, from this period, when our kings went to war, they levied scutages on their tenants, that is, on all the landholders of the kingdom, to defray their expenses, and to hire troops: and these assessments, in the time of Henry II, seem to have been made arbitrarily and at the king's pleasure." This became a great abuse which parliament many times sought to remedy. "Hence it is held in our old books, that escuage or scutage could not be levied but by consent of parliament; such scutages being indeed the groundwork of all succeeding subsidies, and the land-tax of later times."[3]

Blackstone further observes "that by the degenerating of knight-service, or personal military duty, into escuage, or pecuniary assessments, all the advantages (either promised or real) of the feodal constitution were destroyed, and nothing but the hardships remained. Instead of forming a national militia composed of barons, knights and gentlemen, bound by their interest, their honor, and their oaths, to defend their king and country, the whole of this system of tenures now tended to nothing but a wretched means of raising money to pay an army of occasional mercenaries. In the meantime the families of all our nobility and gentry groaned under the intolerable burthens which (in consequence of the fiction

[3]Kenelm Edward Digby, in his treatise, "An Introduction to the History of the Law of Real Property," Oxford, 1876, at page 36, says that the service of the military tenure was due to the king direct and not to the immediate lord of the fee, unless the lord himself personally attended the king. Digby says: "This is the distinguishing characteristic between English and Continental feudalism, and was fraught with consequences of the most vital import to the growth of the English Constitution."

adopted after the Conquest) were introduced and laid upon them by the subtlety and finesse of the Norman lawyers. For, besides the scutages to which they were liable in defect of personal attendance, which, however, were assessed by themselves in parliament, they might be called upon by the king or lord paramount for *aids,* whenever his eldest son was to be knighted, or his eldest daughter married; not to forget the ransom of his own person. The heir, on the death of his ancestor, if of full age, was plundered of the first emoluments arising from his inheritance, by way of *relief* and *primer seisin;* and, if under age, of the whole of his estate during infancy. And then, as Sir Thomas Smith very feelingly complains, when he came to his own, after he was out of *wardship,* his woods decayed, houses fallen down, stock wasted and gone, lands let forth and ploughed to be barren, to make amends he was yet to pay half a year's profits as a fine for suing out his livery; and also the price or value of his *marriage,* if he refused such wife as his lord and guardian had bartered for, and imposed upon him; or twice that value, if he married another woman. Add to this, the untimely and expensive honor of *knighthood,* to make his poverty more completely splendid. And when by these deductions his fortune was so shattered and ruined, that perhaps he was obliged to sell his patrimony, he had not even that poor privilege allowed him, without paying an exorbitant fine for a *license* of *alienation.*"

"A slavery so complicated, and so extensive as this, called aloud for a remedy in a nation that boasted of her freedom." But in spite of palliatives from time to time it was not till 1660, in the reign of Charles II, that a remedy was reached in a statute by which, with certain trifling exceptions, "the military tenures, with all their heavy appendages, were destroyed at one blow, and turned into free and common socage," which was the second species of freehold, and may be called the civil tenure as distinguished from the military tenure. A similar reform was acomplished in Scotland in the reign of George II.

"Socage, in its most general and extensive signification, seems to denote a tenure by any certain and determinate service. And in this sense it is by our ancient writers constantly put in opposition to chivalry, or knight-service, where the render was precarious or uncertain." (Blackstone, Book 2, Chapter 6.) But socage was feudal, as Blackstone shows by comparing its incidents with those

of knight-service. Both tenures were held of superior lords, of the king as lord paramount, or of an intermediate lord or subject-superior, who was at once a subject of the king and a superior over his own vassals. Both tenures "were subject to the feodal return, render, rent, or service, of some sort or other," but in socage "it was certain, fixed, and determinate," though often nothing more than fealty. "Both were, from their constitution, universally subject (over and above all other renders) to the oath of fealty, or mutual bond of obligation between the lord and tenant." Socage was likewise in some measure subject to those contingent burdens which attached to knight-service, but in a less burdensome degree. Thus socage was subject to *aids* for knighting the son or marrying the eldest daughter. *Relief* was due in socage tenure, if the land was held by a rent in addition to fealty. *Primer seisin* was incident to socage in the case of the king's tenants in chief, and likewise *fines for alienation* in the same case. *Eschcat* applied in socage, including generally, except in Kent, escheats for felony. *Wardship* and *marriage,* however, in the sense of knight-service were not applicable in socage. But many of these contingent incidents, or casualties, as the Scottish law called similar burdens, were destroyed for socage tenure by the same statute which abolished military tenure.

The feudal tenure exhibited two general principles: first, the personal bond between the lord and the man or the holding by the tenant of or under a superior; second, the granting of limited interests or estates in the land to the tenant and the retention of a reversionary interest in the lord. From these followed the feudal principle that originally the tenant could not directly aliene his interest in the land, but must surrender it to the lord to have a new grant made to the purchaser, or else he must carve out of his own interest a subsidiary estate to the purchaser. It seems, however, that by the middle of the thirteenth century the power of selling an estate to be held of the same lord of the fee by substitution had already been developed, for Bracton, who wrote at that period, says (Book 2, Chapter 35, Section 12), in discussing homage: "In the same way homage may hold good in the person of the lord conversely, and be dissolved and extinguished in the person of a tenant and revive in the person of another tenant, as, for instance, if a tenant, when he has done homage to his lord, has dismissed himself

altogether from his inheritance and has enfeoffed another to hold of the chief lord, and in which case the tenant is released from his homage and the homage is extinguished, whether the chief lord is willing or not, and it commences in the person of the feoffee, who is bound on account of the tenement which he holds, which is a fief of the chief lord. Likewise the homage, which is then extinguished in the person of the tenant, may be revived again in the person of the same, but from another cause. As if one who has been enfeoffed by him should restore to him the same tenement to be held of the same chief lord."

By the logical development of the feudal law through subinfeudation there was no limit to the theoretic line of subsidiary estates, each carved out of the preceding at each successive sale. Each tenant could subinfeudate his land to be held of himself as a subsidiary or intermediate lord. The result would be very complicated in course of time, and in England the lords of estates complained that through subinfeudation by a tenant they often lost the benefit of the feudal incidents. So in 1290 this general subinfeudation by subjects was terminated by the statute of Westminster the third, from its opening words in Latin called *Quia-Emptores,* which enacted that every freeman might sell his land held in fee simple at his pleasure, but the purchaser should hold it of the same lord of whom the seller held it. This statute was apparently a compulsory adoption of the method of conveyance by substitution, which was already optional, as shown by the above quoted passage from Bracton. It was considered not to apply to the Crown, and several centuries later, in some of the charters of the American colonies, as, for instance, in that of Pennsylvania, the proprietaries were licensed to make subinfeudations. But in general the statute of 1290 may be taken as the turning point of English feudalism. Scotland, however, has retained the principle of subinfeudation under statutory regulations for modern conditions, and thus in that respect the Scottish tenure remains more feudal than the English, although the casualties have been modified and restricted.

We need not assume, however, that the mere succession of a series of estates in the same parcel of land was necessarily an evil, for in modern commercial communities we frequently find large transactions based on mere leaseholds with various degrees of sub-

letting by virtue of special contracts. The feudal estates were not merely successive interests in the land, but successive interests coupled with the personal subjection of the tenant to the lord. This element of personal subjection was the root of all the evils which gradually developed in connection with the feudal tenure. Nevertheless, when the incidents and casualties of the system grew too grievous to be borne the feudal basis of society had become so ingrained in the thoughts of men that instead of abolishing all feudal tenures, the English parliament simply reduced the more burdensome to the milder type, and extended the scope of free and common socage. But socage tenure, as we have seen, involved in theory the personal subjection, for it was considered to arise from and rest upon the feudal idea of fealty, which is described by Chancellor Kent in the following manner:

"Fealty was regarded by the ancient law as the very essence and foundation of the feudal association. It could not on any account be dispensed with, remitted, or discharged, because it was the *vinculum commune,* the bond or cement of the whole feudal policy. Fealty was the same as *fidelitas.* It was an oath of fidelity to the lord; and, to use the words of Littleton, when a freeholder doth fealty to his lord, he shall lay his right hand upon a book, and shall say, 'Know ye this, my lord, that I shall be faithful and true unto you, and faith to you shall bear, for the lands which I claim to hold of you, and that I shall lawfully do to you the customs and services which I ought to do at the terms assigned; so help me God and His saints.' This oath of fealty everywhere followed the progress of the feudal system, and created all those interesting ties and obligations between the lord and his vassal, which, in the simplicity of the feudal ages, they considered to be their truest interest and greatest glory." (Kent's Com., Vol. 3, p. 511.)

As to fealty we may observe that although Blackstone says that "the statute of King Charles extirpated the whole and demolished both root and branches" of the military tenures, yet it did not touch the root principle of feudalism, but left intact the theory of feudal subjection and the attendant fealty.

Thus in outline was the old feudal tenure. Chancellor Kent, in considering the general effects of the feudal system, says: "Except in England, it annihilated the popular liberties of every nation in which it prevailed, and it has been the great effort of modern times

to check or subdue its claims, and recover the free enjoyment and independence of allodial estates." (Kent's Com., Vol. 3, p. 501.)

It may assist the discussion of feudalism to consider a comparison of allodial titles therewith in a jurisdiction where both feudal and allodial titles exist to-day side by side. Such a jurisdiction is Scotland, for although the Scottish land tenure for the most part is feudal, and in some respect more feudal than the English, yet there exist in the Orkney and Shetland Islands the remains of an ancient Teutonic allodial land law still vigorously flourishing. A recent Scottish case, Smith *v.* Lerwick Harbour Trustees, in the Court of Session (Fraser's Cases, Vol. 5, p. 680), discusses this comparison.

The case of Smith *v.* Lerwick Harbour Trustees deals with allodial or udal titles in the Shetland Islands in regard to a piece of shore property as to which the court held that the possession proved was not "of such a character as would have been requisite to support a conveyance" thereof "by a subject-superior under feudal titles." The Lord President in his opinion said: "The first important question is whether the tenure of the piece of ground in question was udal or feudal at the time when the disposition . . . was granted. If the tenure was then feudal, the presumption would be that the property in the foreshore down to low-water mark was vested in the Crown, subject to public uses, and that no proprietary right to it could be acquired except by a conveyance following immediately, or mediately, from the Crown. This would result from the view that according to the feudal system, the whole territory of the country was originally vested in property in the sovereign, and that it is consequently incumbent on a subject claiming a proprietary right in the shore to produce a title to it following directly or indirectly from the sovereign." After showing the absence of sufficient possession for prescription, the Lord President continues: "I understand, however, that the parties are agreed that there is no evidence that the foreshore in question had ever come to be held under feudal tenure, and that it remained, so far as proprietary right is concerned, subject to the laws and usages of udal tenure. I think this view is in accordance with the authorities which were referred to, and that the question comes to be, what are the rules and incidents of udal tenure applicable to the circumstances of the case? Now I understand the first of these to be that

the right to the territory of the country is not originally vested in the Crown, but belongs to subjects who can prove that they have had adequate possession of it to establish a right to it apart from written title, or who can show a written title to it after it has come to be the subject of conveyance by written title. Now, as the piece of foreshore in question has been held subject to written and recorded titles, at least, from the year 1819, I think that a progress of titles thus extending to a much longer period than that of prescription is sufficient to establish a valid right of property in the holder of the titles. It may be that the right is subject to certain public uses, such as navigation, passage, and the like, in so far as the ground is below high-water mark, but in so far as the right of property in it is concerned, it seems to me that the titles are, *prima facie,* sufficient to establish a valid right." The allodial title was, therefore, held sufficient.

Lord Kinnear, in his concurring opinion, after considering the effect of enclosing the foreshore and converting it into dry ground, said: "If it be assumed that the Crown has an antecedent right of property in the foreshore, I do not follow the reasoning by which it is supposed that such right of property is lost as soon as the tide ceases to flow over the ground. There are Crown rights, no doubt, affecting the foreshore which may not affect land from which the sea has been effectually shut out, but they are not rights of property, and I cannot admit that a right of property in one part of the *solum* of the country may be lost or acquired by other methods than those which regulate the acquisition or loss of property in any other part. . . . The whole difficulty in this part of the discussion seems to me to arise from a confusion, which, according to Sir Henry Maine, is incidental to the feudal system, between two different things, sovereignty and property in the Crown. But in our law, it is now established, these two ideas are perfectly separate and distinct. It is familiar and elementary doctrine that the Crown, if it has not granted it out, has a right of property in the foreshore which may be alienated, and also a right of sovereignty as guardian of the public interests for navigation, fishing, and other public uses which cannot be alienated. But it is only with the first of these rights that we have any concern in this action. The only question is whether the piece of ground described in the summons is or is not the property of the pursuer;

and a decision in his favor will not in any way interfere with the public uses, the protection of which is an inalienable right of the Crown. I take it to be well settled that in Scotland, where land rights are feudal, when a subject has acquired by Crown grant the absolute property of the seashore, the Crown will 'still retain,' as Lord Moncreiff puts it, . . . 'a supreme title over it for protecting all the rights and purposes of navigation, great or small,' and possibly also for protecting such other public uses as may be established by long possession. We are concerned in this case, therefore, with a question of private right, and with no question of public uses whatever. Nobody has suggested that as regards these the Crown right is not the same in Shetland as on any other part of the seacoast of Scotland. But whatever it be, it will not be prejudiced by anything we decide in this action.

"The whole question, then, seems to me to depend upon whether the rights of property in land in the Shetland Isles is governed by the feudal system, and I cannot see any ground in reason or authority for distinguishing in this respect between the foreshore and the rest of the soil. . . . On the main question, I do not think it possible to doubt that the land law of Shetland is allodial and not feudal. . . . But if the land right is allodial, it is certain that in that system the fundamental doctrine of the feudal system as to the Crown right of property has no place. In the feudal system the king is the original lord of the land, and every right of property in land issues mediately or immediately from him. That is the theoretical basis of our whole system of land rights in Scotland. But the king or overlord has no such radical right of property in allodial land. The right of the private owner is not to hold of and under a superior. His right of property is *dominium* in the sense of the Roman law. The king is sovereign, but he is not the universal landlord."[4]

It appears, therefore, that allodial land may be and in fact is subject to some supreme public uses which exist irrespective of feudal or allodial titles. The legislature may suspend these uses in whole or in part or modify the application of them in special instances, but they cannot be alienated except as an alienation of sovereignty, and an abrogation of them would be in effect to make

[4]For a further discussion of the feudal tenures, see Cadwalader's Treatise on the Law of Ground Rents in Pennsylvania.

each landowner a little king. They are, therefore, legally not property in the sense that they can be transferred, but are held in trust for the public benefit. This appears also in the Chicago Lake Front case (146 U. S. Reports, p. 487) and in the Massachusetts case of Commonwealth *v.* Alger (7 Cushing, p. 53) in regard to public rights of navigation. Their exact limitations may be difficult to determine, but that these public uses must exist appears from the fact that even an allodial title must originate in an "adequate possession," and what that possession shall be and how it shall operate to determine a particular piece of land with definite boundaries must depend upon the artificial rules or customs of the law. The artificial title thus created must be subject to the rules of the artifice by which it exists. We may, however, go further and say that these public uses or sovereignty rights, though not legally property, are yet economically proprietary interests, for they involve and assert a beneficial voice in the disposition or management of the subject matter and, so far as they operate in a particular case, they lessen the field of the beneficial enjoyment of the owner of the land affected. They may be compared with *"servitudes,"* which have been defined as "certain portions or fragments of the right of ownership, separated from the rest, and enjoyed by persons other than the owner of the thing itself." (Hammond's Sanders' Justinian, lib. 2, tit. 2, p. 186.) They may for convenience be called "public servitudes." They are often of greater extent than mere private servitudes, but are economically of an analogous nature in their effect by lessening the usable value of the private property. They are further to be distinguished from mere feudal reversionary rights in that they affect all kinds of land titles, and do not depend upon the personal tie of the feudal relation.

The personal subjection of the feudal tenure or the assertion of a proprietary interest by the superior over the inferior, as the system was at length developed, was the starting point not merely of the harmless though complicated series of reversions and estates, but of the manifold burdens and abuses of the feudal tenure. Although the feudal theory supposed that the tie between lord and man was mutual, so that, as Bracton says, the lord owed as much to the tenant as the tenant to the lord, except in reverence, yet the inevitable tendency of such a relation was toward lessening or ignoring the duties of the lord and changing the position of the

vassal from a supposed voluntary service into a hard and fast legal servitude, a servitude of the person rather than of the thing. Chancellor Kent describes the result when he says (Kent's Com., Vol. 4, p. 443): "The whole feudal establishment proved itself eventually to be inconsistent with a civilized and pacific state of society; and wherever freedom, commerce, and the arts penetrated and shed their benign influence, the feudal fabric was gradually undermined, and all its proud and stately columns were successively prostrated in the dust." To such a pass did a system come which was originally founded upon mutual helpfulness that the history of centuries has been largely, and to some extent still is, occupied with efforts to remove the evils grown therefrom, but if we confine our efforts merely to chance effects and ignore the fundamental cause, we shall in the end merely exchange the graded subjection and qualified freedom of feudalism for the universal and unqualified subjection of the Roman Empire, and the history of ages will stand for naught.

Chapter III

LANDED PROPERTY IN RELATION TO TAXATION

By what justification does a government collect revenue from or on account of the private lands within its jurisdiction? Blackstone (Book 2, Chapter 5) regards the English land tax as derived from the feudal escuage or pecuniary composition for the ancient knight-service in the military tenures. Inasmuch, however, as escuage was one of the ancient burdens abolished in the reign of Charles II by the act reducing military tenures to socage, the land tax cannot be taken as identical with escuage, but rather as a broader resource in substitution therefor.

There was, however, one element in the ancient knight-service strictly analogous to an efficient system of taxation. That element was the uncertainty of amount required from year to year. It was this uncertainty that in feudal conception was considered as giving greater dignity to the military tenure, perhaps as more perfectly identifying the landholder with the interests of the sovereign. On this point of uncertainty Blackstone says: "Since, therefore, escuage differed from knight-service in nothing, but as a compensation differs from actual service, knight-service is frequently confounded with it. . . . But as the actual service was uncertain, and depended upon emergencies, so it was necessary that this pecuniary compensation should be equally uncertain, and depend on the assessments of the legislature suited to those emergencies. For had the escuage been a settled, invariable sum, payable at certain times, it had been neither more nor less than a mere pecuniary rent; and the tenure, instead of knight-service, would have then been of another kind, called socage." (Blackstone, Book 2, Chapter 5.) But as escuage or scutage was chargeable only for lands held in knight-service, it was in itself only a limited resource, and accordingly there were other taxes.

"Of the same nature with scutages upon knights fees were the assessments of hydage upon all other lands, and of talliage upon

cities and burghs. But they all gradually fell into disuse, upon the introduction of subsidies, about the time of King Richard II and King Henry IV. These were a tax, not immediately imposed upon property, but upon persons in respect of their reputed estates." (Blackstone, Book 1, Chapter 8.)

In this last quoted passage Blackstone touches upon the fundamental question of land taxation, for the justification of such taxation must rest either on some relation between the government and the owner of the land on account of the ownership, or on some relation of the government to the land itself.

One theory would be to say, for instance, that the landholder by holding the land brings himself under a personal bond to serve the state with periodic payments of money of uncertain amount. But this is in effect the reassertion of the feudal tenure and would logically exclude the claim of taxation in the case of allodial lands. The Constitution of the State of New York, in Article 1, Sections 10, 11 and 12, declares all land titles in that state to be allodial, while the laws of New York provide for land taxation.

Constitution of New York, adopted September 28, 1894, Article 1, Section 10. The people of this state, in their right of sovereignty, are deemed to possess the original and ultimate property in and to all lands within the jurisdiction of the state; and all lands the title to which shall fail, from a defect of heirs, shall revert or escheat to the people.

Section 11. All feudal tenures of every description, with all their incidents, are declared to be abolished, saving, however, all rents and services certain which at any time heretofore have been lawfully created or reserved.

Section 12. All lands within this state are declared to be allodial, so that, subject only to the liability to escheat, the entire and absolute property is vested in the owners, according to the nature of their respective estates.

The statutes of Connecticut declare for allodial titles in the following provision: "Every proprietor in fee simple of lands has an absolute and direct dominion and property in the same" (General Statutes of Connecticut of 1902, Section 4025). The laws of Connecticut also provide for land taxation. These two states are not peculiar in asserting on the one hand the principle of allodial titles, and on the other hand the claim of taxation. Shall we say

that these two claims are mutually inconsistent? That would be a lame result, and we must declare that the theory of feudal tenure, however it may account for the practices of taxation in a country confessedly or formerly feudal, is not broad enough to serve as a basis for the principles of taxation in a country professedly allodial.

Perhaps some one may urge that the landholder holds his land only in trust to respond to the public claims. But how arises the trust? Is it by the external and self-sufficient decree of the law? Then one voice of the law takes away what another voice declares to be a man's own, and the two voices conflict. Or shall we say that, though the man owns the land, the government owns the man? Then we reach the troublesome result that that government which is entitled to collect a tax for a particular piece of land is not the government where the land lies, but the government where the owner happens to reside or be a citizen. It is needless, however, to show the frequency with which governments assert the claim to taxes for the lands in the jurisdiction regardless of the residence or citizenship of the owner.

We shall avoid all of these difficulties if we can find a fundamental interest in the land as a basis for the claim to taxes therefrom. Land may be described as the raw material of sovereignty, that is, a body of men cannot be called a sovereign state unless it exerts authority over some determinate territory. Therefore, any private interest in land in a civilized community must be concurrent with such public rights as are essential to the existence of the community. Although the right to use land generally may be called a natural right of mankind, yet the private right to the use of any particular piece or portion of land must depend upon the provisions of positive law to identify the boundaries and the corporeal and incorporeal extent of the particular entity to be enjoyed.

It follows that an allodial title is subject to such public rights as the nature and situation of the property naturally imply, for instance, rights of navigation in the case of foreshore property. These public rights by analogy to certain private rights may be called public servitudes, which are economically of a proprietary nature, because although not legally property yet they result in diverting a portion of the proprietary utility from the owner of the land. Now, if the existence of a private land title must rest upon

the positive law of some established political community, and if the existence of the community depends on maintaining jurisdiction over a certain territory, then it is proper to assert that each particular parcel of private land in the territory is charged with a real burden to maintain the government. Such a burden may be classed as a public servitude, or a part of the *ius publicum* as distinguished from the *ius privatum,* a distinction long well recognized in the feudal land law of England. The French Civil Code (Section 637) defines a servitude as "A charge imposed on a heritage for the use and utility of a heritage belonging to another proprietor."[5] If we treat the sovereignty rights of a government throughout its territory as a "heritage" the definition of the code exactly describes the claim of taxation against landed property. Nor is this a novel use of the term. In the case of Samuel G. Cochran against Curtis Guild, in 1870 (106 Mass. 29), the counsel for the defendant, though denying liability under the words of a particular covenant in question, said: "The liability to the lien of taxation is a perpetual servitude which the estate owes to the public, but this liability is not within the meaning of the covenant."

The French code (Section 639) further says that a servitude may result "from the natural situation of the premises." This seems to imply that the nature and character of a particular property may create a servitude over it. The public servitude of taxation arises from the nature and situation of property in land. Whenever, either by grant or by such possession as the law considers sufficient, a particular parcel of land with ascertainable boundaries and appurtenances is individualized from the rest of the surface of the earth as a private heritage, there arises coextensive with it this public servitude of a perpetual nature. If the land afterward comes into public ownership the public servitude is merged, blended, or confused with the public title, for it is needless to assert a right in the nature of a servitude when one has the heritage itself. If again the land is granted in private ownership the public servitude again emerges coextensive with the private right. This is usually expressed in American laws by saying that the lands of the nation, the state or the municipality are "exempt from taxation," but logically it can be nothing more than an indirect

[5]"Une servitude est une charge imposée sur un héritage pour l'usage et l'utilité d'un héritage appartenant à un autre propriétaire."

way of saying that the government in such cases does not need to rely on its general public servitude, but has complete possession by title.

We may, therefore, classify the possible theories of land taxation under two general heads, personal and impersonal; and we may further divide the personal class into two subdivisions. One of these subdivisions would regard the tax as in the nature of a rent-service paid for holding the land either mediately or immediately of the state. This may be called the feudalistic view, by which the ideas of property and jurisdiction are more or less commingled. By this view the king or the state is sovereign because it is the owner of the land or has retained a reversionary estate in the land, so that all private titles to land must, therefore, be held of the state by personal service, and a proprietary claim is asserted over the landholder for the feudal service by virtue of the tenure. The second subdivision of the personal class would treat the tax as the personal duty of a servant to a master, and would regard the private title as distinct from the sovereignty even when granted by the sovereign, but as held in trust by virtue of an implied interest in the state over the person of the owner. This may be called the nationalistic view and seems dependent on some doctrine of personal status or a theory that a man's property rights flow from the status conferred on him by the nation or state of which he is a citizen or subject, so that conversely the state has a proprietary claim over the man. In this view the king or the state is sovereign, not as land owner, but as having a special property in the citizens.

In contradistinction to both of these personal theories the impersonal theory would regard the tax as resting neither on a feudal holding of the land nor a national subjection of the person, but on the existence of a fundamental public interest concurrent with the private title in the land by virtue of the essential nature of landed property. By this view the king or the state is sovereign, not as proprietor of either land or people, but as the instrument of necessary public functions within a specified territory. This view combines elements resembling both of the personal theories, while rejecting each of those theories as a whole. It resembles the feudalistic in that it refers the state to a particular territory. It resembles the nationalistic in that it regards the state as representing a particular community or nation.

These several theories of land taxation are reflected in various methods employed or authorized by the laws of different states for the enforcement or collection of the tax. Thus, under a personal theory, the tax is charged to some particular person, as owner, occupant, or tenant, as the case may be, and is then enforced as a personal liability against that person by the seizure of his goods, the arrest of his body, or by a general action at law. On the other hand, under the impersonal theory, the tax is charged to a particular piece of landed property, as an entity against which the tax lies, and is enforced by the physical seizure of the land or by a symbolical seizure through the taking or sale of the private title by the public authorities in assertion of the public servitude in the land.

The difference between a personal assessment *for* landed property and an impersonal assessment *on* landed property is well set forth in the case of Haight *v.* The Mayor, etc., of the City of New York (99 N. Y. Reports, p. 280), in which the court said: "We are of opinion that in the City of New York it is not essential to the validity of a tax upon land, that the name of the owner should be inserted in the assessment list. The tax may be assessed directly upon the land, properly describing it, and the only effect of omitting to insert the name of the owner or of inserting the name of one who is not the owner, is to deprive the city of the right to collect the tax from the owner personally or by distress of goods and chattels, etc., and to confine its remedy for the collection of the tax to the enforcement of its lien therefor upon the land assessed." The court calls attention to the use of a different method in other parts of the state, in which the inhabitants of each town are assessed for their real estate, "and the inhabitant so taxed is personally liable." The tax thus assessed is declared to be a lien on the land, but "unless land is assessed to the real owner or occupant by his name, the tax is void." In the City of New York, says the court, the name of the owner or occupant was declared by statute not essential to the validity of the tax against the land. The theory of the personal assessment of taxes for lands is stated by the court in the case of Hagner *v.* Hall (10 Appellate Division Reports of N. Y., page 585). "Until the year 1850 the tax in the case of lands of residents could never become a lien on the land. The sole method of enforcing it was from the personal property of the

owner. If the tax of one year was unpaid, it was added to the tax of the next year and attempted to be collected with it out of personal property. Thus taxes in default became cumulative, but not charged on the land. Taxes in the case of lands of non-resident owners were charges on the land and created no personal liability against the owner. In 1850, and afterwards in 1855, the system as to unpaid taxes of residents was changed. When the tax was in default, the next year it is to be levied and returned in the same manner as is the case with lands of non-resident owners. Still, in my opinion, this has not changed the effect of the proceeding. It is essentially a proceeding to create a debt against an individual. The individual is the primary debtor, and the land is only in the nature of surety liable for his default."

The language of the court in the last case quoted in describing the personal method of assessment, as a proceeding to create a debt against a particular individual, shows the true nature of the personal theory as the assertion of a proprietary claim over the owner, for the legal creation of a debt by the spontaneous action of the intending creditor without the special contract or wrongful act of the intended debtor is economically, whatever the law may call it, the assertion of a proprietary claim over a person. It is curious to observe the coexistence of both these theories and methods of enforcement in the same state. New York is not peculiar in this, but the interesting query suggests itself whether the assertion of the personal theory rests on a feudalistic or a nationalistic conception. In view of the distinct declaration of the New York constitution against feudal tenures the maintenance of the personal theory would doubtless at the present time be considered nationalistic, but the practice is clearly a survival from the colonial times and is perhaps or probably derived from the feudalistic conceptions on which the English land law is founded. This is further suggested by the history of assessment for lands in Massachusetts, as described in the case of Richardson *v.* Boston (148 Mass. Reports, page 508).

In that case Judge Holmes said: "By the older statutes, the general remedy for refusal to pay any rate or tax was distress, and, in case of failure to find sufficient chattels for the levy, arrest. It applied to taxes on persons in respect of their land as plainly as to other taxes." The court cites colonial laws of 1672, provincial laws of various years from 1692 to 1757, and state statutes, and

summarizes their effects: "The power to sell real estate appears in Prov. Laws, 1731-32, Chapter 9, as the only available means for collecting taxes upon unimproved lands belonging to non-resident proprietors." . . . "It is then extended to the case of removing owners (St. 1785, Chapter 70, Section 6), and to some cases of taxes assessed to persons in possession, but not owners (Section 15). But the last cited section makes it plain that the remedies by distress and arrest still apply to taxes for land, and are regarded as the general remedies." The "Revised Statutes" of Massachusetts were issued in 1836. In these, the court says, "the lien for taxes on real estate has become general, but again it is made plain that the lien does not exclude the remedies formerly available." The court refers particularly to the section of the law which relates to the land of a non-resident owner and provides that "the collector may, at his election, collect such tax of the said owner, in like manner as in the case of a resident owner, or he may collect the same by the sale of such real estate." The court considers "that the giving of a lien upon real estate did not displace the earlier remedies of distress and arrest," in view of the general wording of the statutes. "We, therefore, are of opinion, as we have said, that owners of real estate, properly taxed for it, are personally liable for the tax."

Thus we see in both these state, New York and Massachusetts, a personal theory of land taxation surviving from colonial times. In each state the theory breaks down in the case of lands of non-resident owners, and is supplemented by a tentative use of an impersonal remedy, which is gradually extended to general application, but without the abandonment of the personal theory. Yet if the impersonal theory is the only satisfactory reliance for the public rights of the state in the last analysis, so also it is entirely sufficient when coupled with effective provisions for its enforcement, and its definite adoption and use should logically exclude any attempt at personal enforcement, for the land is fixed and ascertainable unless washed away in a flood, and there seems no just reason for taxing a man for land which he has lost. The fact that a personal theory is still asserted in spite of the adoption of an impersonal remedy is doubtless due to the persistence of ancient practices, and the fact that the practice of personal enforcement comes down from colonial

times seems to show its essentially feudal origin in the American states.[6]

This feudalistic resemblance appears in the laws of Maine in the Revised Statutes of 1903, Chapter 10, Section 30, by the following provision as to liability for land taxes: "In all suits to collect a tax on real estate, if it appears that at the date of the list on which such tax was made, the record title to the real estate listed was in the defendant, he shall not deny his title thereto: *provided, however,* if any owner of real estate who has conveyed the same, shall forthwith file a copy of the description as given in his deed, with the date thereof and the name and residence of his grantee, in the registry of deeds where such deed should be recorded, he shall be free from any liability under this section."

Compare the foregoing Maine law with the following passage from the Scottish Conveyancing Act of 1874 (Section 4, paragraph 2) in regard to the feu-duty or feudal rent service of Scotland: "Every proprietor who is at the commencement of this act or thereafter shall be duly infeft in the lands shall be deemed and held to be, as at the date of the registration of such infeftment in the appro- private register of sasines, duly entered with the nearest superior whose estate of superiority in such lands would according to the law existing prior to the commencement of this act have been not defeasible at the will of the proprietor so infeft, . . . and provided further, that notwithstanding such implied entry, the proprietor last entered in the lands, and his heirs and representatives, shall continue personally liable to the superior for payment of the whole feu-duties affecting the said lands, and for performance of

[6]Dr. Rudolf Kobatsch, of Vienna, Professor at the Imperial and Royal Consular Academy, in his recent work, "Internationale Wirtschaftspolitik," calls attention to a similar shifting of emphasis from the personal to the impersonal in international commerce, and in a note at page 9 of his book quotes Gustav Schmoller to the following effect: "As the wares in the older time were brought to market by the owner or trader personally, so the permission or prohibition of all foreign competition consisted at that time in the ordinances upon the entrance, the residence, the rights and the trading licenses of foreigners. Slowly, and generally from the sixteenth to the eighteenth century, since there arose independent posts, a great merchant marine, and a commission business, did the system of personal permission to foreigners commercially yield to the system of permission to their goods. The more humane international law then left the stranger generally without thought to enter or leave the civilized states, which then commercially concentrated their efforts on allowing or forbidding the export and import of wares." Dr. Kobatsch's work is an exhaustive discussion for the explanation of international economics upon an evolutionary basis from the starting point of Herbert Spencer's "Social Statics."

the whole obligations of the feu, until notice of the change of ownership of the feu shall have been given to the superior; . . . ." By the strict original feudal conception an estate could not be transferred to a new owner without the consent of the lord of the fee or the superior as he is called in Scotland. The conveyancing act while allowing a voluntary change of ownership holds the previous owner personally for the feudal services until notice is given to the superior. The statute of Maine, as above quoted, recognizes the right of private conveyance, but holds the prior owner for taxes unless notice is given to the public authorities by a record, as if the theory of the tax were feudal service for which some one must be personally bound to the authorities as to a feudal superior.

Such an idea of personal bondage, however, is totally needless with an impersonal conception of the tax as resting on a fundamental public servitude in the land, for such an interest is plenary and needs no auxiliary personal liability. Or if we base it on a nationalistic view the personal liability is not only needless but positively harmful as impliedly limiting the right of the state, as a mere attaching creditor, to the specific interests of particular partial owners, when the property is involved in different degrees of ownership. Nor is a personal theory necessary under the American constitution, for the Supreme Court of the United States has recognized the sufficiency of an impersonal system of land taxes in the case of Witherspoon *v.* Duncan (4 Wallace, page 210). In that case, at page 217, Mr. Justice Davis said: "Arkansas has the right to determine the manner of levying and collecting taxes, and can declare that the particular tract of land shall be chargeable with the taxes, no matter who is the owner, or in whose name it is assessed and advertised, and that an erroneous assessment does not vitiate a sale for taxes."

The exclusive sufficiency of an impersonal theory in analogy to a servitude in the land is further illustrated by the French Civil Code in the following sections having regard to the enjoyment of servitudes:

Section 697. "He to whom is due a servitude has the right to make all the works necessary to use it and to preserve it."

Section 698. "These works are at his costs, and not at those of the proprietor of the premises subjected, unless the title of establishment of the servitude says the contrary."

Section 699. "In the case even where the proprietor of the premises subjected is charged by the title to make at his costs the works necessary for the use or the preservation of the servitude, he can always free himself from the charge, by abandoning the subjected premises to the proprietor of the premises to which the servitude is due."[7]

The public servitude of taxation on land is somewhat analogous to that interest which the English law calls a *"profit à prendre,"* in that it consists in extracting a periodic benefit from the land. In economic effect it amounts to a perpetual mortgage on the premises for fluctuating amounts, or perhaps more exactly a right to create a series of mortgages from time to time. It is true that the usual private mortgage arises in connection with a personal claim, but the charge on the land and the personal claim are two entirely independent resources. There is nothing in the essential nature of the case to prevent the creation or existence of the charge on the land without any personal obligation, and in the vast majority of cases it is to the security of the charge rather than to any personal liability that the mortgagee looks. In the case of Cook *v.* Johnson, in the Supreme Judicial Court of Massachusetts (165 Mass. Reports, at page 247), Judge Morton for the court said: "It is well settled that there may be a mortgage without personal liability on the part of the mortgagor for the debt which the mortgage secures."

It is also possible for a person to purchase mortgaged premises without assuming any personal liability under the mortgage. The situation then of such a person toward the property is exactly the same as if the mortgage had been originally created merely as a charge on the land without any personal liability. The mortgagee may enforce his claim against the land and turn out the purchaser. The purchaser has the right to pay the claim and free the land if he wishes, but his only duty is passive, namely, not to interfere with the mortgagee. The essential justice of this distinction seems to be recognized by the French Civil Code in dealing with the case of a

[7]Section 697. Celui auquel est due une servitude a droit de faire tous les ouvrages nécessaires pour en user et pour la conserver.

Section 698. Ces ouvrages sont à ses frais, et non à ceux du propriétaire du fonds assujetti, à moins que le titre d'établissement de la servitude ne dise le contraire.

Section 699. Dans le cas même où le propriétaire du fonds assujetti est chargé par le titre de faire à ses frais les ouvrages nécessaires pour l'usage ou la conservation de la servitude, il peut toujours s'affranchir de la charge, en abandonnant le fonds assujetti au propriétaire du fonds auquel la servitude est due.

third person who has acquired mortgaged property without assuming liability for the debt, but who has not taken steps to clear the property of the burden. Section 2168 of the code says: "The third party in possession is held, in the same case, either to pay all the interest and the capital due, to whatever sum they may amount, or to relinquish the mortgaged property without any reserve." Section 2172 says: "As to relinquishment on account of a mortgage, it can be made by all third parties in possession who are not personally bound for the debt and who have the capacity to convey."[8]

Now this exactly represents the position of a landowner under a strictly impersonal system of land taxes. The government is perfectly protected, for, like a mortgagee, it has a prior claim on the property regardless of the accidental ownership. The owner has the right to protect his property by paying the tax, but, if for any reason he considers the tax greater than his interest in the property justifies, he has the right to relinquish the land, by suffering its seizure or sale by the public authorities, without incurring any other penalty than the loss of the land. Nor may the government justly ask for any remedy greater than the scope of its right. If its right in order to be secure must be founded on a real interest in the land, then its remedy to be just must be limited to the land.

The economic effect of a land tax as a perpetual mortgage or series of mortgages on the land is shown in the treatment of landed property as an investment. The economic value of a piece of land comprises its value for all purposes, both public and private, for which it is adapted or adaptable at a given time and place, but its effective value as an investment must allow for the burden of the public charges. This allowance amounts to a capitalization of the probable taxes at current rates of interest, so that after paying the tax the probable returns from the property will be a reasonable income for the investment. Thus the effective value is the residue of the economic value after deducting the estimated capitalized taxes. Or, to put it in another way, the purchaser discounts the burden of the tax and pays only the probable value of the private interest.

[8]Section 2168. Le tiers détenteur est tenu dans le même cas ou de payer tous les intérêts et capitaux exigibles, à quelque somme qu'ils puissent monter, ou de délaisser l'immeuble hypothéqué sans aucune réserve.

Section 2172. Quant au délaissement par hypothèque, il peut être fait par tous les tiers détenteurs qui ne sont pas personnellement obligés à la dette, et qui ont la capacité d'aliéner.

Thus, from the view of an investment, the burden literally rests on the land and not on the owner, for, although the rate of taxation may increase by new public needs and thus increase the burden, yet that is only one of the contingencies whose risk the investor assumes by purchasing the land, and, on the other hand, there is the possibility often realized that the value of the private interest in a parcel may increase more than the rate of taxation, so that a mere increase in rate does not tell the whole story in any particular case. In like manner the rate may be lowered by public economy, but the private interest in a particular parcel may nevertheless depreciate in a greater degree, so that the effective value of the private interest may be affected by a change in the tax rate and also by causes entirely outside of the public interest. It follows that there is strictly no such thing as an "unearned increment." An increase which seems to be "unearned," because not caused by the labor of the owner, has really been earned by subjecting the investment to the chance of an *undeserved decrement.* Such an increase, called an "unearned increment," really benefits the public as well as the owner, for the value of the public servitude in the land increases as a public resource proportionately with the private interest.

From the fundamental priority of the public servitude it results that the burden may be apportioned upon the separate lands of the jurisdiction according to any reasonable basis having a relation to the value thereof. Thus it may be imposed according to the income-producing qualities, as the outcome of the land in its actual condition, or, on the other hand, according to the capital value of the premises. If income is selected as the basis, it may be either the gross income obtainable, or the balance left above expenses, according as seems advisable under the circumstances of the country in the view of the legislature. So long as it is a general rule and not an arbitrary one, it is within the scope of the public right. So, too, the legislature may select the estimated economic value of the premises as the basis, or, as is more usually attempted in America, may direct the use of the effective or salable value of the premises assessed. As the public interest is prior to all private interests in the premises, it might be more strictly logical to estimate the total economic value as the basis of assessment, but as this is practically never apparent in business dealings with the land, and as the effective value is the apparent value and at any given time and place

would hold an ascertainable relation to the economic value according to the tax rate, the usual American policy of treating the market value as the basis, is not open to substantial objection. That is, for instance, it is of small consequence whether we have a tax of $15 at 1½ per cent for an assessment at a market value of $1,000, or a tax of $15 at 1 per cent for an assessment at an estimated economic value of $1,500.

As between an income basis and a capital basis in the assessment of land taxes there is much to be said in favor of the capital basis in a country of peaceful industry, for if the public servitude is plenary, there is no necessary reason why the state should limit itself in its collections when the owner fails to use his property to best advantage, but this question may perhaps be regarded as a mere matter of policy under the circumstances of a given time and country. So, too, may be considered the question whether the value of buildings and other improvements should be included in the assessed value of landed property, or should be omitted in whole or in part. It may be, as the advocates of the so-called "single tax" assert, that it would be a public benefit to omit the value of buildings and throw a greater burden on vacant land. But as between the landholder and the government it is a very different question, and if the state chooses to pursue the policy of treating as land everything annexed to the land there is no injustice thereby to the owner, for he takes his land subject to the full measure of the public servitude against the land and whatever he chooses to transform legally into land by annexation to the premises. As before said, this may be a poor public policy, but it is not an encroachment on private right, for the owner can, and in fact will, refrain from making improvements, buildings and other structures until the probable increased rentals thereby produced shall offset the added burden incurred by reason of improvements.

On the contrary, it would be inconsistent with an impersonal theory resting on the idea of a public servitude in the land to assess a tax at a greater rate because the owner happens to own a large amount of other land also. It frequently happens that when several parcels, which together make up a unified tract, are brought into a single management, the value of the combination becomes greater than the combined values of the previous parts, because the whole can be used more advantageously. In such a case the union justifies

an increased assessment, but to increase the rate merely because the person who happens to be the owner happens also to own various other dislocated parcels beyond a certain fixed arbitrary value is to exceed the public servitude and to impose a burden which varies with the accident of ownership and in effect penalizes the owner apart from the land. If the concentration of the ownership of a large amount or value of land should become merely in itself a public disadvantage, the just remedy would be to take such land by eminent domain upon the payment of just compensation to the owner instead of depriving him of part of the normal benefit of his land by the imposition of a special burden upon the particular owner in addition to the general burden on the land.

But although under an impersonal system of assessment the government may not justly discriminate against the accidental person of ownership, so, on the other hand, the accidental owner may not justly complain of the tax on the ground that the object for which it is imposed violates some prejudice, desire or personal interest of such owner. It is not "his tax" but the land's tax under the impersonal view, and as the justification for the tax rests upon the direct public servitude in the land, so the government should not be prejudiced by the particular opinions of the person who happens to be the owner of the private interest. Such owner as a citizen or inhabitant may be entitled to a voice as to the public wisdom or justice of a certain course of expenditure, but as a landowner he has no particular right to dictate the expenditure of the particular sums collected from the particular premises of which he happens to be owner or occupant.

Accordingly, the private opinions, ecclesiastical or otherwise, held by the accidental owner or occupant as to the righteousness of a course of public policy cannot vitiate the public right to the tax from his premises. The public right is the same and, if the policy is injurious, the public wrong is the same, whether the private interest in the premises belongs to John Smith, who approves the policy, or John Brown, who disapproves. Thus, the question of public support to an established church is a question of vast public consequence, but its decision should be independent of the petty accidents of ownership in particular premises. So, too, the question of the method and management of public education is a matter of vital public importance, but the right of the government to maintain or supervise

education is independent of the opinions of particular owners as to the wisdom or justice of the policy. If a given policy is truly public in its nature, then the disagreement of any particular owner cannot invalidate the public servitude over his land. It is not *his money* which is being specifically applied, but the produce of the public servitude. On the other hand, as his sole duty under an impersonal system is *not to interfere* with the collection of a legal tax from the land itself, so under such a system there can be no such thing as "passive resistance," for passivity is his right and is not resistance.

In like manner the particular owner under an impersonal system may not justly claim that the particular sums which are collected from his premises shall be set apart and expended for the benefit of some especial class to which the owner belongs. For instance, the suggestion that has been made in some parts of the South that the school taxes should be apportioned between separate schools for white and colored children according to the race of the taxpayers would be utterly inconsistent with an impersonal system of assessing lands. The education or non-education of either white or colored persons should depend on the public interests involved and not on the accident of racial ownership in the lands from which the taxes may be derived. It is generally conceded that the justification of a school tax is not dependent on the fact whether or not the taxpayer has children, and no more should the apportionment of the proceeds depend on accidents of race.

The separateness of the public interest from the private interest in land appears further in the case of a piece of property owned by more than one person, either in common by fractional shares or by some combination of partial interests, such as leasehold, life estate, or conditional estate. In a strictly personal system it would be necessary to pursue these separate individual owners of interests for taxes of various proportions and to limit any attack on the land to the specific interest of the delinquent person. But if the right of the public is directly against the land involved, irrespective of the person of ownership, then its right is entire. It corresponds with the entire private interest, and is neither increased nor decreased by the fact that in some particular case that private interest may happen to be held by a group or series of persons. The tax is, therefore, entire as a charge prior to the whole private interest, and it is for the group of owners or persons interested to determine as they choose by private contract when they create their separate

interests how they wish to apportion the payment of the tax among themselves. Thus, they may own the property in equal shares and share the burdens equally, or they may create a priority among themselves. One person may own the property and may let it to a tenant who agrees to pay a stipulated rent and no more, or, if the parties prefer, the tenant may agree that the owner shall be certain of a fixed sum and that the tenant will pay the taxes in addition. In such a case the tenant's stipulated rental will probably be small enough so that on adding the taxes he will be paying about what he thinks is a fair compensation for the use of the land; whereas, if the tenant agrees to pay only a stipulated rental, the landlord will ordinarily demand proportionately more than when the tenant agrees to carry the taxes. The law may properly provide a rule to apply in case the parties are ambiguous or silent in the terms of their contract, but the question itself is immaterial to the public servitude in the land, and should be left entirely in the hands of the parties. If the government receives its money it has no interest in dictating as to the person who shall make the payment. Moreover, such a dictation would naturally result in forcing one party or the other to ask harder terms than he would otherwise be likely to accept, in order to offset the limitation of his freedom of contract.

The same principle would apply in any attempt to dictate an apportionment of taxes between the owner and the mortgagee. The mortgagee has a real but limited right in the premises, and in the ordinary case can derive no direct benefit beyond security in case of an increase of the value of the property. Accordingly, the usual object of the mortgagee is to obtain a fixed, certain, and irreducible right, both as to the principal and interest of his investment, with the condition that the owner who gets all the benefit of any increase in value shall carry all the burdens of the property, including taxes. In thus seeking assurance against depreciation of his funds as the price of a fixed interest charge, the mortgagee is able to offer the best terms to the borrower, but if the law forbids the making of such a contract of security against the taxes, it becomes necessary to make the price of the loan more severe to offset the added contingency. Any attempt of the law to dictate such an apportionment of taxes is injurious to all private parties concerned, and is in excess of the public interest involved.

Even more reprehensible is the policy frequently pursued in collecting a full tax for the premises and an additional tax for the

mortgage, for it ought to be evident that the sum total of the value of the private interests in a piece of property is not increased by placing a mortgage thereon, and, therefore, the value of the public interests in the premises is not increased by the process. The experience of several states, notably New York recently, in attempting to collect an additional tax for the mortgage on real estate fully taxed, seems to show that so far as such a policy is effective it tends to increase the interest charge to be borne by the borrower. In 1891 Governor William E. Russell, of Massachusetts, in a message to the legislature, said: "By abolishing the tax formerly imposed upon mortgages, our state has already relieved borrowers of one unjust and oppressive burden, to the great advantage of the public." But many, perhaps most, states still pursue the older policy, on the legal theory that a mortgage is personal property and is a distinct thing from the real estate. Yet, however the law may classify a mortgage, in economic character it is representative of a limited priority in the land which sustains its value and which likewise sustains proportionately the tax resting on that land by virtue of the public servitude therein. The contract of mortgage is not the creating of a new species of economic property, but the creating of a new legal interest in preëxisting economic property. The impersonal theory of a public servitude in land attaches itself to the sum total of private interests as an economic whole and not to the separate personal interests distributively.

Many if not all of the difficulties in practice and theory in dealing with land taxation arise from a failure to recognize the existence of the fundamental public servitude as a real public interest in land, or from a failure to appreciate or observe the scope of that servitude, both as a basis of public right and a guaranty of private right in the land. The economic function of land is broad enough to include and fully support concurrently both a public interest or servitude, and a private interest or title in land. In assertion of the public servitude most of the American states have laws for the sale of lands for the non-payment of taxes, but in many instances these laws are so complicated with the survivals of a feudally personal theory that their operation is much hampered with multiplicity of technical details. It would simplify the public revenue and likewise conserve private rights to recognize fully both in theory and practice the public servitude as the sole and sufficient justification for land taxation.

Chapter IV

PERSONAL PROPERTY IN RELATION TO TAXATION

In the assessment of landed property the immobility of the land gives the state a real security for the collection of the tax as a charge on the premises, so that the public servitude in the land is not only the sole justification, but furnishes the sufficient remedy, and the tax may, therefore, be said to be literally "on the land." In dealing with personal property a distinction at once appears by reason of the mobility of some kinds or intangibility of other kinds of possessions or rights which are classified as personal or movable property. In the vast majority of cases of such kinds of property it is practically impossible for the public officials to place their hands on tangible movables, or to discover the existence of intangible rights, so that strictly it is extremely difficult, and in most cases absolutely impossible, to place a tax literally "on" such property, and the only alternative is to place the tax *on* some person *on account of* such property. Such person is usually one who is supposed to be the owner, possessor, or controller of such property, and such a tax is commonly said to be "on personal property," but in contemplation of strict accuracy the term should be discriminated as a tax "*on account of* personal property."

Now the legal assessment of a person for, on account of, or in respect to, alleged personal property is the creating of a legal charge against that person, and the creating of a legal charge against a person for the benefit of and at the instance of the state with neither such person's special contract nor wrongful act is the assertion of a proprietary claim over such person. It follows, therefore, that such a personal assessment for personal property must depend for its justification on the existence of some antecedent public right which the person assessed is wrongfully withholding or threatening to injure and on the reasonable necessity of that method of protecting the alleged right. Such a right, if and when it exists, must, in order to be sufficient, be an interest in the subject-matter on account

of which the tax is levied, and not merely a claim to dispose of the person or his effects at the spontaneous instance of the state, for such a claim would be in itself proprietary and could furnish no further justification for a personal remedy than is offered in the assertion of a proprietary claim over the person. The inquiry, therefore, resolves itself into the discussion whether the mobility or intangibility of personal property is fundamental or merely an incident unfortunate for the state and requiring special remedies, that is to say, whether there is some fundamental public interest arising from the nature of the subject-matter in any case, as the public servitude in land may be said to result from the nature of landed property.

The simplest form of personal property occurs in the case of agricultural products. For these there are two economic elements essential to production, namely, the use of a piece of land and the employment of human labor. We need not discuss the complicated question of the division of product between employer and employed, but take the simplest case of all, that is, the case in which the producer is his own laborer. In such a case the two essential elements are reduced to only one for which payment must be made, namely, the use of the land. This payment, however, must be made in all cases, even when the producer is the owner of the land, for in that case he must be treated as apportioning the product partly to pay for his investment in the land and partly for his own labor. Now the economic function of the land includes not merely the private interest therein, but also the public interest or servitude in the premises. These two interests make up the total economic value of the land, and in making economic payment for the use of the land such payment must cover the use of all interests in the land. As the public servitude is the prior interest economically, so the payment for the use of the land must be taken as applying primarily to the use of the public servitude, or, in other words, to the discharge of the periodic tax on the premises. When this is discharged for any given period the balance of the payment for the use of the land naturally belongs to the owner of the private interest. The private landlord holds his title charged with the public servitude, and to protect his interest he must satisfy the periodic instalment of that charge. Thus, although he collects in effect the whole value of the use of the land if his rental is successfully estimated, yet he

must necessarily use a part of it to reimburse himself for the periodic instalment of the public charge. Since both the public interest and the private interest in the land have been fully served by the rental for the use of the land, who has any better right to the product than the producer who has furnished the labor for the planting, cultivating, or harvesting of the crop? As King Leopold says in his open letter promulgating the reform statutes for the Kongo State: "There is no more legitimate or honorable right than that of reaping the fruit of one's own labor." We may doubtless add that there is no more incontestable right.

A similar situation presents itself in the case of mineral products. Here, too, we have the two essential elements, the use of a piece of land and the employment of human labor. It may perhaps be said that in the case of mines the taking of the product is the taking of a part of the soil itself. This is true, and may perhaps be a reason for retaining mineral lands in public control when not already granted out, as President Roosevelt has recently suggested, but its application to private mines relates to the determination of the value of the public interest in premises of that character, and can have no bearing on the rightfulness of the claim of the producer to the residue of the product after paying for the use of all the interests in the land. Since full payment must be made for the use of the land, the producer has as good a right to the product in the case of minerals as in the case of vegetable crops.

The case is the same with animals and animal products. Here again we have the use of a piece of land, as for the dwelling or sustenance of the beasts, and the employment of human labor for their care or for the collection of the product. Again the product belongs to the producer by the same principles as before, and in part must reimburse him for his expenditure in paying for the use of the land. In the case of wild animals this element sometimes becomes reduced to the vanishing point, but the element of human labor remains, and a similar situation seems to exist in the fishing industry until the product is brought to land.

In all these methods of producing raw material under the simplest conditions the element of human labor is constantly present as the justification of the producer's reward, and the use of the land is simply part of his expense of production at a given time and place. But in most instances of production there is a third factor

present, namely, the use of tools or implements for applying human labor to the task in hand. This brings us to a further class of products, namely, manufactured articles, for tools and implements of industry are for the most part examples of manufacturing arts, that is, they are not merely raw materials put to the production of further raw materials, but are made from raw materials by the application of further human skill or labor to alter, fashion, or combine those materials into adaptability for certain special uses for which the raw materials are insufficient in themselves. Now all manufactured products are not tools or implements for the fashioning of other products. Many manufactured products are made for uses quite apart from further production and some are made merely for the pleasure of their enjoyment, but the principle to be sought will be the same for all kinds of manufactured goods, as to the payment for the production and the right to the product.

As the making of any manufactured product involves the use of human labor, there seems no reason to discriminate the right of the producer to the product in that kind of case from his right to the product in the case of raw materials. The production of the simplest kind of manufactured articles differs from the production of raw materials only in the kind and quality of human labor required. The use of the land necessary for a situation for that labor is the same element in either case, and the price of its use is likewise a part of the cost of production. The product, therefore, belongs to the producer, who must necessarily pay the cost of production in order to utilize the chance to produce. If now the result of such production is a tool or implement which the producer thereupon uses for the purpose of further production of other products for which tools are required, as the producer is justly entitled to the use of the tool, by virtue of the human labor involved in its making, so the introduction of tools into the process of production does not vitiate the right of the producer to the manufactured product, and does not add any new ultimate element to the simple elements of land and labor, for the tools themselves are the product of labor and may be called packages of conserved labor. Thus the factor introduced by tools or implements into production is simply the use of the original labor in the second, third, or further degree, and the prime elements of production, land and labor, remain the same.

In all this we are assuming the simplest possible case, in which the producer performs his own labor and uses tools of his own construction. So far the only public interest that appears is the public servitude in the land used in the production, and this public interest appears to be fully served by the payment for the use of the land, since out of that payment a part or an equivalent of part must be used to discharge the periodic burden of the public servitude on the land. This payment is part of the cost of production, and the state's portion comes by reason of the public interest in the land and not on account of any interest in the product. The product justly belongs to the producer. He may necessarily be obliged to use part of it for the discharge of his obligations incurred in the production, but so much of it as he is not thus obliged to use belongs totally to him. Now, if the state, which has received full compensation for the periodic burden of the public servitude in the land, seizes a part of the product which remains after the discharge of all costs of production, it is denying this right of the producer to the product of his toil, or else it is asserting a claim to dispose of the toil of the producer, but this is in economic effect the assertion of a proprietary claim over a human being, and is no justification. On the contrary, it is not only an economic injury, but also a personal indignity.

But it may be urged that even in the simple case which we are supposing, in which the producer does his own work and makes his own tools, much of the product is in fact and intention not made for the producer's own physical use, but for an exchange for other products, and is ultimately used by a person who has had absolutely no hand in its production. Does this fact when it exists lessen the private right to the goods exchanged or introduce a new public interest into the mere ownership? In other words, is the right of the purchaser of a product less than the right of the producer? If so, then the article will be of less value to the purchaser than to the producer, and if he is in serious danger of losing part of the purchase to a superior power or of being required to pay again for the ownership, the natural tendency will be for all purchasers to offer less of their own products or services than the goods are really worth to the producer, and although in many cases the danger would be common to both sides of the trade and, therefore, offset, yet as some goods are perishable and used only for immediate con-

sumption, while other goods are for long-continued use, there would be many cases in which the one party or the other would be unable to obtain the full benefit of his product. The right of the producer to the unqualified ownership of his product after the payment of all costs incident to the production involves, therefore, the right to transfer as unqualified an ownership to the purchaser in order that the producer may be able to obtain a full equivalent for his product. It equally involves the right of the purchaser to be protected in as full ownership of the product and, therefore, the right to transfer to any subsequent purchaser the same full ownership, and so on consecutively to all purchasers.

But, as already intimated, the simple case of the producer who does his own work is only a small part of modern production. By far the greater part of modern production is done by the combined efforts of employers and employed. Does this feature of industry give to the state any new or additional public interest in the product as such? It is difficult to see how the enlargement of a productive body from one man into a group of men can lessen the sum total of the rights of the group to the full enjoyment of the product, although it may open the door to quarrels among the members of the group as to the apportionment of the product. If each member of the group does the same kind of work or service in the production, the problem is simply to determine the relative amounts done by each, but if the industry is specialized and differentiated among many kinds of work or service the problem becomes complex. But, although there may be, and undoubtedly is, a proper field for the intervention of the state to keep the peace between members of the productive groups, yet the essence of the relation of the group as a whole to the state is the same as the relation of the single producer thereto, and the sum total of the rights of the group as a whole toward the product must be the same as the rights of the sole producer. The problems of employer and employed are too multifarious to be solved off hand, but at least they are immaterial to a discussion of the relation of the state to the product. If through defective laws or unenlightened social usages the product has hitherto been inequitably apportioned among different classes of producers, the remedy lies in the reform of those laws or usages, but such erroneous apportionment as between members of the group cannot logically raise any special rights of the state on

its own behalf as against the group as a whole or any particular member of the group. The right of the state to a voice must be solely for the purpose of protecting some injured member of the group in his just rights, and not for the spontaneous benefit of the state. In other words, the position of the state should be as judge between contesting parties and not as claimant for the spoils of battle.

It may perhaps be urged that the state has a public interest in regard to the kinds of goods which may be produced within the jurisdiction, and, therefore, has the right to prohibit the production of such commodities as it pleases except upon the condition of paying an excise tax therefor, and in default of payment to close up the business. It may also be urged that many articles are not ultimately enjoyed or intended to be enjoyed within the nation where they are produced, that the government has a public interest in regard to the kinds of goods which may be brought into the country, and that, therefore, the government may rightfully prevent the importation of such articles as it chooses except upon the condition of paying an import tax for the importation. It is not necessary to discuss here whether or when a government has the right to levy an excise tax for production within a country, or an import tax for introduction into a country, but we may say, if and when such taxes are levied, that they are a part of the cost of production or delivery at a certain market, and that after the discharge of such costs of production or delivery, the product, just as certainly as in the simpler case, belongs to the producer or his purchaser in unqualified ownership throughout that jurisdiction.

The right to the product involves the right to the whole and to each and every part of the product which remains after the costs of production and delivery are paid. It also involves the right either to use up that product at once or gradually, or to keep that product for an indefinite time, and to be protected therein. This protection is a matter of right and not a special privilege for which a charge may justly be exacted from time to time. It is one of the reasons for which governments exist. It is one of the reasons why the state is entitled to a public servitude in the lands of the jurisdiction in order that it may maintain an organized community in which there shall be some degree of security for life and the enjoyment of the products of human labor, from which security comes the possi-

bility of any value in the land as a field for human industry. If, therefore, the state exacts a charge for the ownership of such products as have been kept beyond the tax period wherein they have been produced or brought to market, the state is charging a price for that protection which it should give to property as the function of a state's existence. If, further, the state attempts to impose a burden on an inhabitant merely for the ownership of goods which have never been brought within the jurisdiction or have been lawfully removed therefrom, the state is thereby denying that protection which it should give to the inhabitants irrespective of their wealth or poverty, and by denying the right to the unquestioned ownership of property beyond the jurisdiction the state is asserting a proprietary instead of a protective dominion over the inhabitants.

It follows, therefore, that in regard to physical commodities there is not such economic interest as would correspond with the public servitude over landed property, and that the principle of unqualified private right applies to all such articles, because they are the products of human labor, whether they are in the hands of the original producer or in the hands of a purchaser, whether they are produced by a single independent worker or by a productive group, whether they are produced or situated within or out of the jurisdiction, and whether they are produced or introduced with or without any charge for an alleged public interest in the kinds produced or introduced.

Any attempt, therefore, on the part of the state to seize a part of such goods merely because they are private property, or to impose for its own benefit a burden on the owner or possessor merely because of the ownership or possession, is in economic effect a denial of the producer's or the purchaser's full right to the goods, or an assertion that he holds them not in his own right, but in the right of the state. Such a claim on the part of the state by its own initiative is economically a proprietary claim over the man, inasmuch as it lessens his beneficial interest in his own life, denies his right to make or acquire the products of human labor, and deprives him of such products irrespective of any antecedent public interest in those products or the labor by which they are produced.

Besides the products of human labor, however, there are, also classed as personal property, many kinds of representative interests

or rights of action in respect to the present or future use and enjoyment of property. One of the commonest of these is a simple debt for the payment of money. This is a very frequent result of the many kinds of transactions by which men seek to enjoy or develop land and the products of labor, and it, therefore, becomes important to examine the economic nature of a debt. It is notorious that, although a debt may be expressed in money units, there may in fact be no money actually advanced at the time. The consideration, cause, or occasion, for the debt may for instance be the sale of lands or goods for which the purchaser is not yet ready to pay or the performance of labor for which payment has not yet been made. Nothing economically new is created by the creation of the debt. It only represents the right to compensation for a particular transaction. In so far as it may represent land bought by the debtor or any other just source of taxation, it is helping to support taxation through the taxation of such land or other such source. In so far as it may represent the products of human labor or payment for labor, it ought not to be any more an occasion of taxation than the ownership of the products or the labor which it represents; for otherwise we should say that, though the products belong entirely to the owner who has them, the right to receive them does not belong entirely to the person entitled who has not yet received them. Again, in so far as a debt represents deferred compensation for services or any transaction, it represents what the creditor has not yet obtained, and if the state requires a tax for holding such a claim, the state is in effect denying the full right of the creditor to such compensation. Even in the normal case, when money is actually advanced the debt does not lessen the right of the owner of that money. The money itself is either some physical commodity produced by human labor, such as gold, silver, copper, or whatever may be in use, or it is some conventional representative of such commodity. Now, if the private right to the product of human labor is unqualified, it must attach no less to a commodity or its representative used for currency than to products in other legitimate uses, and the mere fact that a debt represents money is no ground for imposing any tax in respect thereof.

Nor is the situation any different if the debt is secured by a claim or charge against property. One such case is a mortgage of land. Two men may wish to use their resources in holding or using

a certain piece of land, but while one of them wishes to hold or use it in anticipation of some possible increase in selling price or for some other special advantage, the other may be interested in it merely as a basis of reasonable security. The first will, therefore, take the title to the property and with it the chance for any advance and the benefit of any special advantages in the property, while the other will take a mortgage for a fixed and prior charge on the property. As the mortgagee is seeking security without contingent profit or advantage, he will naturally give the best terms when he receives the strongest assurances against contingent loss; while as the holder of the title is entitled to all contingent advantages, it is only equitable for him to agree to protect the mortgagee against the burdens which rest on the property, or arise on account of it, and which if thrown on the mortgagee would lessen his security. Accordingly, it is not unreasonable when the title owner agrees to save the mortgagee harmless from any taxes which may be levied in respect to any part of the combined investment. The state loses nothing thereby in respect to its public servitude in the land, for the servitude remains prior to all kinds of private interests in the land, while, as heretofore shown, the existence of the public servitude excludes the right to burden particular owners factitiously.

Again, if the fact that a simple debt is expressed in terms of money is no just ground for the imposition of a special tax in respect to the debt, no more should a mortgage be considered the occasion of a tax by reason of representing money aside from the security in the property mortgaged; for the money itself in the one case as in the other is only a product of human labor or the representative of such product.

Now it is evident that the placing of a mortgage on the land does not increase the value of the land or create any new land or any new economic commodity of value aside from its representative character, whether we regard it as legally a landed interest or an item of personal property. Nor does the fact that it is usually expressed in terms of money units alter its economic effect, which is the same whether the legal property created is heritable or movable. The mortgage of land is merely a piece of legal machinery which represents a particular kind of priority in an entity which, as a whole, supports the charges of the public servitude, and on the other hand the mortgage is no ground for lessening the mortgagee's

right in the equivalent of the money advanced or secured; so that, neither on the basis of a real interest in the land nor on the basis of a representative interest as personal property, is there created by the mortgage any new public interest justifying a special tax in respect to such mortgage.

Nor can the mortgagee's right be justly less in case the land lies outside the jurisdiction of his own home. In such a case the mortgage becomes as to that jurisdiction as if it were a debt without security, or perhaps, rather, a debt secured by a species of security in which the jurisdiction has no just interest for taxation. This would be analogous to a debt secured by a mortgage or pledge of the products of labor according to the foregoing pages. If a mortgage of land is, as respects the land, a mere piece of legal machinery for securing a prior claim over a certain economic entity, and if the apportionment of such entity among a series of private interests is no ground for imposing a special tax on account of those interests, so also a mortgage or pledge of personal property is as respects such property only a piece of machinery for the securing of legal claims against such property, and such apportionment of interests therein can be no ground for any additional tax beyond that for which the property itself should be the occasion. If, therefore, such property consists of the products of human labor, and if such products do not furnish any economic basis for imposing a tax in respect to the ownership thereof, then the mortgage or pledge of such products cannot justly be the occasion for a tax, for such mortgage or pledge is only a part of the unqualified private right in such goods; and the same principle would apply in regard to any other property for which no public interest of taxation may appear. To attempt, therefore, to levy a special tax against the mortgagee or other creditor as such, is a denial of his right to participate in a legitimate transaction. Such an attempt is a violation of the just freedom of the creditor, since it seeks to burden him for an act or thing to which he is entitled as a matter of economic right.

There are, however, many kinds of voluntary contracts and just obligations besides debts expressed in money units. They may be classified generally as claims for some compensation, or for the delivery of or dealing with certain specified property, or contracts for the doing of certain acts, as, for instance, the performance of legitimate employment. In respect to these the same principles

should apply as in the case of mortgages and other debts expressed in terms of money units; namely, that such a legal claim is only a means for the apportionment of the enjoyment of the property, transaction, or services specified therein, and that the existence of such claim is no just ground for the imposition of any other taxes than those for which such property, transaction, or services, from their particular nature may furnish the just occasion. If, for instance, a contract deals with a conveyance of land, or deals with a matter having a public interest, the land itself, as in the case of a mortgage or the matter of public interest, is the element of taxation present. If a contract deals with a sale of the products of labor the fact of sale cannot furnish any ground for lessening the private right in such products.

A merely representative interest, therefore, furnishes in itself no public interest justifying a particular tax for the private ownership; for if it represents a subject-matter in which there is a just public interest of taxation, as land, then the imposition of a special tax on account of the merely representative interest would be to impose a burden in excess of the public interest involved; while if it represents a subject-matter in which there is no just public interest, as products of labor, then the imposition of a special tax would be to impose a burden collaterally where there is no public interest inherently. Moreover, the exclusively private right in merely representative interests would not be affected even if the doctrine of these pages as to the products of labor should be shown to be erroneous, for in that case a representative interest in respect to products of labor would then simply be analogous to a representative interest in respect to land, and the public interest would attach to the economic subject-matter and not to the representative interest. The attempt, therefore, to impose a tax on the owner or holder of a merely representative interest in respect to any property or undertaking, and merely because of the ownership or holding of such interest as private property in law, is a denial of the full private right to such representative interest and the assertion of a proprietary claim by the state over such owner or holder in respect to the disposition of his own resources.

The great bulk of personal property, so-called, consists of representative interests comprising largely the evidences of indebtedness of national and local governments and the securities of corpora-

tions or companies for their indebtedness or other obligations. These corporate securities are the means by which the present or future, simultaneous or preferential, participation in the use and enjoyment of property is distributed among the members of some group or combination of persons for the prosecution of some enterprise or investment. Such securities are of two general classes, first the bonds or other evidences of indebtedness, and second the shares of stock in such corporations. The indebtedness of a corporation, which is an artificial person existing by law, is in no way different from the indebtedness of a natural person, although it is frequently evidenced by more elaborate documents intended to pass readily from hand to hand, and it is, therefore, fair to say that the creditor or holder of such evidence of indebtedness is as fully entitled to his ownership of such claim as he is to the ownership of a debt contracted by a natural person.

The case of stock of corporations stands on a somewhat different basis, for it is a claim of a kind which is not strictly capable of being issued by a natural individual. It implies either a group of persons or an artificial person existing by law, that is to say, a group of persons may naturally agree among themselves for the division of a particular business or undertaking into fractional parts among themselves, or an artificial body when authorized by law may divide its business into fractional interests and sell those interests to various persons. Now the economic meaning of a share is the same whether it is issued by a group or an artificial body; that is, it is merely representative of a claim or action against the group or body for a fractional participation in the benefits of the enterprise after the discharge of claims having priority, but while a group of persons may by their voluntary choice divide an enterprise spontaneously, an artificial body can do so only by law. Does this legal element introduce a new factor lessening the owner's right to the unqualified ownership of such a claim when it is once legally created? The existence of the corporation as a distinct artificial entity raises a variety of questions as between the state and the corporation, for the legal body or capacity of the corporation is created by the state, as commonly said, or perhaps more accurately is created by the organizers of the company under the license of the state, but the existence of the artificial person equally implies that in spite of any special relations between the state and the corporation the right to

the unqualified ownership of such obligations as are lawfully issued shall be as complete as the ownership of any other representative interest, whether they are issued as debts or as shares of stock, for the shares in a business are merely actions against the group or body conducting the business and relate to the ultimate disposition or enjoyment of the assets of the enterprise.

The mere fact, then, that shares are issued by an artificial body, while it may affect the power of such body, should not differentiate shares of stock from other representative interests as to the completeness of the owner's right to such as are once legally issued. That is, the public interest in respect to such corporate shares goes to the legality of the issue and not to the right of the owner to the complete ownership thereof. If the corporation owns property which, like land, involves a just public interest of taxation, such property must pay a tax as between the corporation and the state. If the corporation owns property for which no tax ought to be exacted, still less ought the shareholder to be burdened for his representative interest. As the public servitude for taxation of land attaches to the whole of a particular landed property as an entity and not to the separate interests therein distributively, so any just public interest of taxation in respect to a corporate enterprise attaches to the particular properties in the hands of the corporation or to the enterprise as a whole and not to the representative interests of security holders distributively. Government securities and corporate stocks and bonds, therefore, are merely special types of the general class of representative interests and offer no distinctive ground for the imposition of a special burden on the owner because of the ownership. Such a tax is a violation of his right to acquire and hold such interests in the place where they are lawfully issued, and is, therefore, an invasion of his just freedom.

Nor is the doctrine of the right of unqualified private ownership of corporate securities derogatory to the state's power in dealing with the corporations which it has created. On the contrary, the doctrine recognizes and reinforces that power, for while a natural person is entitled to his freedom as a matter of natural right, a corporate person is entitled only to that which the law confers upon it. The absolute responsibility of a corporation to the law for any infraction of the terms of its existence has been too often and too recently affirmed by the courts to need any amplification, and the

reasonableness of such a rule is too obvious to need discussion. Any deficiency, therefore, in the amount of taxes raised from corporate enterprises is a matter which should be treated by amending the laws as between the corporations and the state, and not by factitious assaults upon the holders of representative interests, for the corporation is always and necessarily in the grasp of its creator, the state, while the natural person is entitled to freedom. Jonathan Edwards' famous word picture of sinners in the hands of an angry God, who shakes them over the fires of retribution, however it may offend theologically the present feelings of men, is at least an appropriate likeness of the position of a recalcitrant corporation in the hands of an outraged people, and suggests a legitimate means of dealing with the evils of corporate mismanagement and aggression.

There is, however, a widespread belief throughout the United States and Canada that a portion of the public revenue should be raised out of personal or movable property, and accordingly the states, territories, and provinces generally have more or less stringent laws for taxing the owners of such property. Every inhabitant is liable to be investigated by the state or local officials for the discovery of any personal property for which taxes are demanded in the particular jurisdiction, so that in America to-day we still have a rough similitude of the old feudal society, with the nation or a state of the union representing the king or a duke, and the municipality representing the lord of the manor, as if the personal property in the jurisdiction were to be considered as held mediately or immediately of the state or municipality to which feudal services must be rendered in return. This feudal parallel is further shown by the historic fact that this method of taxation comes down from colonial times along with the personal method of assessments for real estate, and that it resembles some of the taxes levied by the medieval English kings, particularly the taxes called "tenths" and "fifteenths," which are described by Blackstone (Book 1, Chapter 8) as "temporary aids issuing out of personal property." He says they "were formerly the real tenth or fifteenth part of all the movables belonging to the subject," but were fixed at definite sums for each district in the reign of Edward III.

The various states differ widely among themselves in the kinds of personal property which they select as the occasion for these

taxes. Nor do they limit themselves to a merely feudal claim for property within the jurisdiction. Some states, as Massachusetts for instance, seek to tax the inhabitant for physical articles situated outside the jurisdiction, and for stock in corporations not organized under the local law. These taxes are commonly called "taxes on personal property," but it is obvious that it is physically impossible for a state to put a tax *on* a drove of cattle, for instance, situated outside the territory of the state, or *on* a share in a corporation which has no charter under local law. The most that the state can do physically is to tax the owner within the jurisdiction for owning such property outside of the jurisdiction.

It is commonly said in the law books that property must have a situs in the jurisdiction in order to justify taxation, but then it is said that movables are held to follow the person of the owner and to have a legal situs at his domicile. This is, however, merely a way of saying that if a certain property can be moved, or is of a kind ultimately resulting in cash, as a debt, the state will deal with the owner as if he had already moved the goods or the proceeds into the jurisdiction. This is necessarily a denial of the owner's right to such property and a claim that he must hold it primarily in right of the state. It shows, however, the true nature of the claim for taxes on account of personal property as a charge against the person of the owner. If, as herein contended, the products of human labor and the merely representative classes of personal property involve no public interest analogous to the public servitude of taxation in land, then the imposition of taxes on the owner of such personal property merely on account of the ownership is a denial of the full right of such owner and an invasion of his just freedom, inasmuch as it restrains him of his property without the basis of an antecedent right for such restraint. Such a restraint is economically a proprietary claim over the owner, and is a servitude over the person rather than over the thing.

This servitude over the person appears not only in the nature of the claim made, but even more in the methods of its enforcement, with arrest of the body in some states, and a general liability to the seizure of property other than the specific property for which the tax is levied. The particular details for the assessment and collection of the tax vary in the different states, but in general they depend on some action by an officer or assessing board amounting

to an informal or summary decree that a certain person must pay a certain sum for alleged personal property. This is often or generally accompanied by some provisions requiring the person assessed or assessable to appear and disclose his possessions under examination by oath either before or after the action of the public officials, with the penalty that on default of such disclosure the action of the officials shall be final and binding upon him personally. These methods are practically necessary if such taxes are to be enforced at all, but such necessity should in itself condemn the system of such taxes, for it ought to be evident that the spontaneous issuing of a decree by an external authority against a person for the arbitrary benefit of that authority is an invasion of that person's just freedom and the assertion of a proprietary claim over that person, while the enforced interrogation into a person's private affairs solely for the wilful benefit of the interrogator without the basis of antecedent right is of itself the very essence of servitude over that person.

Perhaps it will be objected that just as in the market value of land the average purchaser of landed property for investment will discount the effect of the tax, so in the purchase of investment securities he will pay only such a price that the probable returns of the property will leave him a fair return after the payment of the tax, so that in the end he will not suffer appreciably. There is undoubtedly a tendency in this direction, but as the state in the great majority of cases has no available hold over the property itself, the question of the necessity of paying the tax in any particular case is entirely problematical, and in the nature of a fortuity against which some allowance must be made, but which, in the long run of chances, will be manifested by an allowance much smaller than the actual tax. This seems to be shown by the general standard of prices for taxable and non-taxable securities, the non-taxable commanding an appreciably better price over taxable securities of the same general class, but the difference being much less than the tax itself would indicate as necessary. If in any particular class of investment the tax becomes practically effective this difference in price will tend to offset the tax, and in the end the person or enterprise seeking to raise money by the issue of such securities will indirectly suffer by realizing a less sum than the face of the paper would seem to indicate, or, which is the same thing, by paying a higher interest charge for the advances of capital.

This was apparently the case in the recent experience of New York with a mortgage tax. The law was so diabolically effective that interest rates at once rose proportionately with the tax, and borrowers soon began to call for the repeal of the law. The experiences of some other states with mortgage taxation have been similar, so that we may say that when a law for the taxation of creditors is really generally effective it defeats itself and throws the real burden on the borrower by causing an increase in interest rates or other costs in negotiating the loan. This principle has been long recognized by some governments in negotiating their own loans. For instance, the United States Government and some state governments make their own bonds exempt in the jurisdiction of such government in order to obtain the best possible prices for them. The same principle should be recognized in favor of private borrowers. There is no reason why the state should play the game of life with loaded dice. If the fact of being in debt should be considered a good ground for taxing the debtor, it would really be better for the debtor to know it and pay the tax openly rather than covertly through the medium of increased interest charges.

Although in a large number of cases it is practically impossible to enforce these personal property taxes according to the theory of the law, yet in certain cases it becomes possible, and then these taxes fall with unmitigated severity. Such cases are generally those in which taxable personal property is held in a fiduciary capacity under the order of some court, for then an exact disclosure must be made. Thus the estates of deceased persons, while going through the probate courts, and trust funds under wills, or the estates of children under guardianship, are peculiarly exposed to attack. The loss in such cases frequently falls on dependent persons who really need every dollar of their funds, and this result is the most likely when the laws are the most stringent.

Nevertheless these taxes seem to be most favored by the poorer portion of the community, under the supposition that in some way they are hurting the selfish rich, whereas the more selfish the rich man may be the more readily will he resort to every expedient and device to escape, so that one consequence of these laws is that many of the choicest investments suitable for persons of moderate means are practically forbidden to many such persons and are driven into the hands of the less scrupulous portion of the community. Thus a

system which is supposed by its advocates to be founded on equality really rests largely on the borrowing business man and the dependent classes, and instead of being, as it is called, taxation according to ability, may almost be described as taxation according to vulnerability. But the cause of this runs deeper than the details of the law into the system itself. The system is not only defective and burdensome in practice, but unjust in theory, for it is a denial of fundamental right, an invasion of true freedom, an assertion of proprietary claims over human beings, resulting in a servitude of the person rather than of the thing.

Chapter V

FRANCHISES IN RELATION TO TAXATION

The difference between landed property on the one hand, and merchandise, the product of labor, on the other, is that one is only a qualified private interest in a subject-matter in which from its nature there resides a public interest concurrent with and prior to the private interest, while the other is a subject-matter over which the private right should justly be considered as entire and exclusive. So, too, the intangible representative interests which make up so large a portion of property holdings should be considered as representing in themselves entirely the interest of their owners, so that neither in movable goods nor investment securities is there any such public interest as the public servitude in land to justify or require the depleting of the separate private interests involved.

But merely representative interests do not constitute the whole body of intangible property. Just as in regard to tangible property, that is, lands and goods, we find two classes, one, lands involving justly a public interest of taxation, and the other, goods, involving justly no such interest in respect to the mere ownership thereof, so in regard to intangible property we should expect to find a class of rights involved naturally with a just public interest of taxation as well as the merely representative rights involving no such public interest in respect to the mere ownership thereof. Such a class of intangible property involving a public interest appears in franchise rights artificially created by the law. As a title to a specific piece of land is individualized from all the rest of the surface of the earth by the artifice of positive law in an organized society, so these intangible artificial rights are carved out of the whole field of human activity by the grant of the organized state which recognizes and supports them. That is, these intangible rights exist not by the creation of the labor of man, nor as merely representing a claim to participate in the proceeds of some particular enterprise, but as the manifestation of the continued existence of that juridical per-

son, the organized state, which exercises the public functions of the community.

Such rights are special privileges created for some assumed special purpose which will be, or is supposed to be, beneficial to the industrial development of the community, and, therefore, when granting or recognizing such a right the state may be considered as a kind of special creditor which has contributed a valuable ingredient to the assets of an enterprise. The fact that such rights are special privileges does not in itself render them an unjust exhibition of state power or an unjust species of property. A land title to a particular piece of the earth's surface is in a certain sense a special privilege, but it does not follow that property in land is an unjust species of property. On the contrary, it is difficult to see how land could be effectively used without creating some kind of proprietary right therein, for any use involves at least some temporary occupation recognized by the law, and any such occupation, however ephemeral, is, while it lasts, of the nature of a proprietary right. A mere estate at will gives some right to the tenant till the estate is terminated. Hence, if the effective use of land requires the recognition of some degree of proprietary right, the extent of that kind of right to be recognized by the law is only a matter of policy, whether there shall be estates at will, for years, or in fee simple, although estates once created should be sacred. That is to say, it would be perfectly legitimate for a new state starting out fresh on virgin soil and owning all the land in the jurisdiction to decide that it would grant no title greater than a lease for a certain maximum period. Such a policy might prove unwise in its result, or it might prove beneficial in some communities. So also a policy of acquiring or keeping in governmental control lands of some particular characteristic would be a legitimate policy, as, for instance, the water front of a great city like New York, lands reclaimed from the sea like the Commonwealth flats at South Boston, or mining lands containing a commodity of great public importance, as President Roosevelt has suggested in regard to coal and oil lands.

In all such cases the question of public or private ownership is only one of policy, provided only that if public policy is applied to lands in which there are pre-existing private rights, full compensation is paid therefor. So, too, on the other hand, if a state decides that it is advisable on the whole to have private estates of fee

simple for private owners and their heirs and assigns forever, that, too, is a matter of policy, and the institution of private property in land is not in and of itself an unjust establishment. It is, to be sure, an institution which may be abused or coupled with unjust concomitants as in the feudal tenure, but the abuse or collateral injustice is not inherent in the institution itself. On the contrary, if concurrently with the private right in the land we recognize the public servitude of taxation therein, the institution of private property in land becomes a valuable means of realizing from the industrialism of the community upon the public as well as the private side.

Thus the mere fact that private property in land may, in a certain sense, be called a special privilege does not condemn the institution as such, but merely raises the importance of the concurrent public interest. So, too, the creation or recognition of an intangible special privilege or franchise is in itself not an occasion for condemnation, but rather for the assertion of some public interest connected therewith. This is a principle which has been somewhat recognized in the legislation of some of the American states and seems likely to become more so in the future. The most conspicuous example of this in recent years is the well-known act called the Ford Franchise Tax Law of New York, an act which has passed through the Supreme Court of the United States in the case of the Metropolitan Street Railway (199 U. S. 16), and which, even if it should later be overthrown by the courts on some technical ground, would nevertheless mark a distinct advance in the road toward reaching and applying one of the most abundant resources for legitimate public revenue.

The principle of franchise taxation is not, however, altogether clearly defined in the general treatment of the subject. It is commonly said that a franchise ought to be taxed because it is property, but if there are some kinds of property which do not furnish a just occasion for taxation by the mere ownership thereof, then it is obvious that the mere fact that a franchise is property, however sufficient that may be legally under existing law, is not a sufficient basis for justifying the tax. For that purpose it is necessary to say rather that a franchise is a special kind of property involving collaterally a public interest, and it is, therefore, important to consider the scope and bearing of that interest in relation to taxation and the enforcement thereof.

Franchises were recognized as property rights under the English common law and were classified as incorporeal hereditaments. A franchise was considered to be "a branch of the king's prerogative subsisting in the hands of a subject." The word "franchise" in its origin means "liberty," but in its common use it refers not to liberty as an abstract principle, but rather to some particular grant or recognition of some specific liberty in the sense of permission. Bracton, in dealing with franchises (Book 2, Chapter 24), uses the Latin word *"libertates"* in the plural, and this seems to show that in using the singular in the same connection he is referring to some particular liberty as a privilege of the law or a right guaranteed by the law rather than to liberty in the abstract. He also calls these liberties "the aforesaid privileges" (*privilegiis supradictis*).

This use of the word "liberty," in a special rather than a general sense, is common throughout the succeeding centuries of English history, and seems to be the meaning of the word in the Massachusetts "Body of Liberties" of 1641. Among his special liberties Bracton includes an exemption from taxation. He says on this point: "For a liberty is an evacuation of a servitude, and they regard each other in a contrary manner, and, therefore, they do not remain together. For there may be a liberty thus, if a person be bound to give something on the ground of a servitude, as, for instance, toll and customs, he may, on the ground of a liberty, be defended from giving them at all. (Est enim libertas evacuatio servitutis, et contrario modo sese respiciunt, et ideo simul non morantur. Esse enim poterit libertas, ut si quis teneatur ad dandum ex servitute, sicut theolonium et consuetudines, ex libertate defendi poterit ad non dandum.) It is certainly interesting to observe that six hundred years ago personal liability to taxation was described as servitude.

Apparently, however, Bracton was annoyed at the thought of servitude in England, for, in discussing liberty and servitude in the abstract (Book 1, Chapter 6), he alleges that the word "servitude" is derived from the Latin word *Servare,* to preserve, and not from *Servire,* to serve; a characteristically medieval etymology which does more credit to his patriotism than to his philology. According to this view, the services rendered under servitude are only compensation or gratitude for the preservation of the serf's life by the master, a strictly feudal view. Bracton in this general discussion

seems particularly desirous of showing that the servitude of the serf is not inconsistent with the freedom of the English law, a very difficult position in the point of view of the present time, but one which well illustrates the interlocking of the two principles in feudal society. It has its counterpart, however, to-day in the opinion which seems to be held by some that the rights and security of the state and the community require the undermining or denial of private rights.

At common law franchises might be of many different kinds. Among them was the franchise of being a corporation. This may be called merely a general franchise necessarily present in every case of incorporation. In addition to this, there are various special franchises which, from the nature of the business to which they relate, are not easily manageable by a natural person, and as a matter of fact are generally found in the hands of a corporation, but in theory at least might belong to a private individual. It is these corporate franchises which make up the great bulk of franchise property in these days, and aside from the general franchise of being a corporation these special corporate franchises may be roughly divided into two groups: business franchises, or rights to do specified acts generally throughout the jurisdiction; and local franchises, or special rights in respect to some particular piece of public property, as, for instance, the right to maintain a railway in a public street. In a still more general sense the sum total of all the franchise rights, general or special, of a particular corporation in a given jurisdiction may be conveniently called the corporate franchise, and treated as a whole as something used in an entire enterprise.

From this convenient consolidated use of the term "corporate franchise" we naturally get the common expression, "the taxation of corporations," which is well enough as a phrase if we bear in mind that aside from the merely general franchise of being a corporation the justification of corporate taxation must rest in theory on the fact that the state has somehow put something into an entrprise, something of real assistance to the enterprise, or on some inherent public interest in the kind of business undertaken, rather than on a mere desire to obstruct the corporate manifestation of human activity. It would be exceedingly unfortunate to base a public policy on mere hostility to a particular kind of legal machinery, namely, the corporation, which by its organism and its continuity offers most

advantageous means of individualizing and concentrating a particular enterprise into a vitality of its own; so that neither the death of individuals need destroy the enterprise, nor the failure of the enterprise need overwhelm the individuals concerned therein.

Accordingly, we should carefully bear in mind that in strictness it is the franchise as a special privilege connected with a certain enterprise, rather than the corporation, that offers the occasion and justification for taxation; so that in theory at least the enterprise as an entity would pay the same taxes if the franchises were vested in a private individual. It is, however, true that the fact of incorporation, by reason of the artificiality of the body, sometimes offers particular facilities for dealing with the matter in a manner which might be open to just objection in dealing with a natural person, since an artificial person may justly be treated with a particular degree of responsibility to its creator, the state. But this qualification may be referred to the general franchise of being a corporation, as one of the incidents thereof.

With the distinction well in mind that it is the franchise and not the corporation which offers the just occasion for taxation, we may treat the intangible franchise as an entity and draw an analogy in some degree with the characteristics of landed property. Each is an artificial right created or recognized by or under the law of some particular jurisdiction and, as the law books might say, in derogation of common right; not that either is essentially unjust as the violation of any particular person's particular right, for we are not speaking of arbitrary monopolies, but each is in a certain sense carved out of that general stock which, not being created by any particular person, may be considered as the common right until so carved up. As in each case the artificial right exists by the support of the organized state as the agent or manifestation of the community, which, by its peaceful industry, gives usefulness and advantage to the entity created, so in each case, with franchises as well as with landed property, the private interest may justly be held to be concurrent with a public interest in or over the entity to support on a basis equitably related to other entities of the same kind the public expenses of the jurisdiction in and by which it exists.

In further analogy with landed property the public interest in a franchise should be considered as an impersonal charge against the

franchise itself and not as a personal obligation against the owner, either in respect to the ownership or on account of some collateral circumstance of the owner, for that would be a servitude over the owner. By this view, as the sole duty of the owner of land under an impersonal system is to be passive when the state legally enforces a tax upon the land, unless the owner wishes to redeem the land by the payment of the tax, so in the case of a franchise the sole duty of the owner of a franchise would be to desist from the exercise of the franchise when the state asserts its public interest, unless the owner of the franchise wishes to redeem the same by paying the tax. In this sense the tax may then be said to be on the franchise instead of being on the owner on account of the franchise. The difference in the application of the theory to the two kinds of property would come merely from the difference between the tangibility and intangibility of the subject-matters. Land is tangible, and the claim of taxation against the land may be ultimately enforced by the physical seizure of the land. A franchise is intangible, and the seizure must, therefore, be symbolical, or the franchise may by its terms be made perishable on default of payment. If the owner of the franchise simply desists from exercising the same when notified that the state is asserting its right over the franchise by due process of law for the cancellation or condemnation and sale of the franchise, he should, therefore, be considered as entirely within his rights and should be liable to no other penalty than the loss of the franchise itself.

This principle that the owner should desist at the assertion of the public interest is apparently at the basis of the provision sometimes enacted authorizing an injunction against continuing to act under the franchise on default of payment of the tax, for, although an injunction is a remedy against the person, it is a negative remedy, notifying him of the assertion of the public interest and ordering him not to interfere with the right of the state. Here again the analogy of landed property helps to explain the impersonal view. If the owner of land instead of paying the tax or peaceably yielding possession of the land to the person lawfully entitled under the right of the state for the collection of the tax, should violently hold possession by force he would obviously be exceeding the principle that the state should look to the land and not to the owner for the tax. So, too, if the owner of a franchise should refuse to desist

when notified of the default and the assertion of the public right, he would be exceeding the limits of the principle that the state should look to its interest over the franchise and not to the owner, and he would, therefore, have no just ground of complaint at the employment of a remedy like injunction for his threat to exercise more than his right.[9]

In practice, however, the importance of this distinction between impersonal taxation on the franchise and personal taxation for the franchise is of much less consequence than the same principle as applied to land, because almost all franchises of any considerable value are, as a matter of fact, usually held by corporations and include, of course, the general franchise of being a corporation, from which general franchise the artificial entity or juridical person may in many instances be justly and legally held to a degree of supervision which would be unjust in the case of a private person in the absence of some particular characteristic of the business conducted. It is also of interest to observe that those businesses which, from their particular characteristics, may be said to have a semi-public nature, are usually so large or intricate as to be in the hands of corporations. Thus the very fact which renders incorporation useful in a given case may also justify a particular restraint upon that business, while the general power of the state over its corporation furnishes the ready instrument or channel for the convenient application of that restraint.

The valuation of a corporate franchise is a problem that has not reached a unanimity of treatment, either in fact or in theory. In general there is a disposition to regard the value of the franchise as roughly represented by the difference by which the securities floated by the enterprise exceed in market value the cash value of all the assets other than the franchise. Theoretically, if we could always be reasonably sure of all these elements of the problem, this method might be entirely sound, but the matter is still somewhat in the experimental stages. There is a difference of opinion as to the classes or kinds of securities which should be taken as the basis of the estimate. For instance, the corporation act of Massachusetts of 1903 requires the tax commissioner of the commonwealth to estimate in regard to a corporation "the fair cash value of all of the

[9]On this point see a recent case in Massachusetts, Scollard *v.* The American Felt Co., Feb. 26, 1907.

shares constituting its capital stock on the preceding first day of May, which shall, for the purposes of this act, be taken as the value of its corporate franchise. From such value there shall be deducted the value as found by the tax commissioner of its real estate and machinery within the commonwealth subject to local taxation, and of securities which, if owned by a natural person resident in this commonwealth, would not be liable to taxation; also the value as found by the tax commissioner of its property situated in another state or country and subject to taxation therein." (Acts of 1903, Chapter 437, Section 72.) The tax is to be assessed at an average rate of local assessments for the whole state, and there is a provision for a maximum and a minimum tax.

Now it is to be noticed that in this Massachusetts act the shares of stock at their fair market value are taken as the measure of the franchise and, after the deductions are made, as the measure of the tax, while securities in the form of debts, such as bonded indebtedness, are ignored. The result is that the tax may be made very different by the simple device of varying the form of the securities issued. Thus the very same enterprise needing $200,000 to be invested, would pay a much larger tax if it should raise it all by issuing stock than if it should raise half by issuing stock and half by issuing long-term bonds. It is accordingly believed by some that capital embarked in an enterprise by a bond issue or other indebtedness should be considered on the same footing as the value of the stock in estimating the franchise. It is true that there is supposed to be local taxation on account of the bonds, but it is notorious that if such taxation were at all effective, for the most part the bonds would not be salable at prices making the interest at all moderate for the corporation, so that the omission of bonds from the franchise computation is really an invitation to the bondholders to take advantage of the defects in the professed scheme of local taxation.

The open recognition of bonds and securities generally, as merely representative interests for which the holders should not be personally liable to taxation, would logically require that bonds should be on the same footing as stock in estimating a franchise, since they are simply different kinds of claims to ultimate compensation, or benefit out of one entire enterprise. Just as a mortgage of land may be said to represent merely an interest in one

entire entity, the land which furnishes the occasion and just object of the tax, so the indebtedness incurred to raise capital for an enterprise, even if such indebtedness is not secured by any actual mortgage, is, in its priority over the claims of stockholders, a kind of mortgage on the enterprise, and makes up part of the whole which, as an entity, should be the occasion of taxation rather than the separate interests therein distributively. This principle of taxing the enterprise and not the owner has been partially recognized in some jurisdictions by provisions that stockholders in certain corporations which pay certain taxes shall not be liable to taxation for their stock.

But perhaps it may ultimately be found that this whole theory of offsetting the market value of one or more classes of securities against the value of assets, in order to determine the value of the franchise, is radically defective in some vital element and, therefore, scientifically erroneous. The very fact that Massachusetts has considered it necessary to allow an arbitrary maximum limit, beyond which the corporation tax shall not rise, because a logical working out of the theory would altogether prohibit many lines of business from incorporation, seems to suggest that there is something wrong with the theory. Perhaps the inquiry should be whether the corporation, by the use of the corporate franchise, is earning more than the current rate of interest for the fair value of the assets, and how an apportionment of that excess should be made.

In so far as a particular franchise is of a strictly local nature, such as the operation of a railway in certain public streets, there seems to be very good reason for treating that franchise on a basis similar to the treatment of neighboring landed property, for it is itself in a certain sense a species of landed property, being a qualified right over certain particular public properties, to wit, the public streets. When a specified strip of land is devoted to the general public uses of a public street the particular public interest of taxation in that strip may be said to be merged in the larger public interests for street purposes. When, however, portions of these public interests for street purposes are segregated and turned over to private ownership again as a local franchise, such a franchise is logically analogous to a land title, though only of a strictly limited character, but to that same extent there may be said to emerge a special public interest of taxation over the special land title created.

Such a local franchise, being, therefore, analogous to or of similar nature with a land title, it may with reason be urged that the public interest of taxation over such a franchise should be asserted in a manner analogous to the treatment of neighboring landed property, and for that purpose the franchise should be valued as nearly as possible like an ordinary piece of land. The principle of seeking a value of such local franchise may be fairly admitted, even if the method of estimating that value may be in doubt.

This principle of treating local franchises like land seems to be first prominently brought to the front in the famous Ford Franchise Tax Law of New York, an act which, therefore, marks an advance step of great importance in developing the field of franchise taxes as a just method of public revenue. That act may very likely be found open to some objections in details just as the details in the methods of land taxation are far from satisfactory, but the principle may nevertheless be approved, even if details in application need amending. It would certainly be a singular situation to consider a common private land title in ordinary landed property to be subject to a public interest of taxation while a partial private title in a piece of public property, the street, should exclude all public interest therein. Such a result would be particularly unfortunate in view of the rumors of questionable practices sometimes attending the grant of these privileges. It is of course arguable, and no opinion is here intended on the point, that instead of granting such franchises outright or for a long term, it would be better to keep them in the public hands to let them out at comparatively short terms at a good rental. The point is immaterial in this connection, but serves to show the importance of these franchises as a source of public revenue, and that, although future grants might be restricted by a rental, past grants are out of reach unless we may infer a collateral public interest of taxation.

If such public interest can be justly found in connection with these local franchises, then the question of granting such franchises or keeping them in public ownership or management becomes merely a matter of expediency in view of the circumstances of each particular case, for in either method there is a sufficient security of public control for the public rights involved. The analogy between local franchises and land titles offers a reasonable basis for asserting the concurrent existence of a public interest of taxation over

such franchises, along with the private interest therein, on the ground that they are a special kind of property, rather than on the ground that they are merely property, and obviates all necessity for assuming that in order to protect the public right such enterprises as involve the use of local franchises must be conducted by public ownership or management. Other elements may enter into special cases and furnish apparent reasons for a policy of public ownership or management, but if we recognize the principle of franchise taxation each of such cases can be independently treated as a mere matter of policy for attaining the best results under particular circumstances.

We may freely admit that the policy of public ownership or management of public utilities is in the abstract a perfectly legitimate policy, when circumstances seem to indicate that the particular public body in question is likely to deal with an enterprise in an intelligent businesslike manner with a reasonable prospect of financial success, just as if a private individual were considering the proposition of embarking in the enterprise. It may even come to pass in process of time that such a policy will be generally considered as the most advantageous in well-developed communities, but in view of the frequent absence of genuine businesslike qualities in dealing with public business, it would certainly be unfortunate if there were no reasonable and efficacious middle ground between the extreme of unlimited private control, on the one hand, and unmixed public management on the other. At least one factor of such middle ground seems to lie in the recognition of the public interest of taxation over the local franchises which the public service enterprises so generally require. With such a principle recognized and in use we need have no more fear of the consequences of granting such franchises than we now feel at the grant of private land titles. It is for this reason that we may hail with satisfaction such an act as the Ford Franchise Tax Law, and accord hearty applause to its authors and promoters.

The strictly local franchises, however, do not comprise the whole body of franchise rights which the state may create or recognize, and however satisfactory a system of valuation of a local franchise may be, we need not infer that we must necessarily seek a valuation in order to express the public interest over the franchise. Apparently some franchises are of such a nature that there may

be no certain value ascertainable, aside from the nature of the business itself, so that the public interest may be said to arise not so much from the franchise as from some characteristic of the particular business in its relation to the public. It is obvious that any such public interest may be just as valid when totally impossible of designation by any ascertainable value. In such a case some element of the business as such must be selected as the measure of the tax representing the public interest in that business. It is perhaps to this principle that we may refer certain taxes levied in respect of certain businesses of a semi-public nature, or having an especially vital relation to the public welfare, such as public service undertakings or the banking business. A tax measured by the gross receipts of a public service enterprise may perhaps come under this head, and so also a banking tax measured by the amount of deposits in the institution. Any such tax enters into the operating expense of that business and thus asserts a public interest therein without attempting a valuation of that interest apart from the business. Of course, if the state asserts a larger interest than the business at a particular time can stand, the result is the same as when a private creditor maintains a claim beyond the resources of the undertaking and the business must cease. It is thus of advantage to the state to assert its interest in a cautious though none the less effective manner.

The necessity, however, for the existence of a real public interest, in order to justify such a business tax and relieve it from the blame of an arbitrary exaction, is shown in a recent case in Massachusetts. That was the case of O'Keefe *v.* The City of Somerville, in regard to the constitutionality of an act imposing an excise tax in respect to a business conducted with the accompaniment of giving trading stamps. The case turned on the meaning of the word "commodities" in the taxation clause of the Massachusetts constitution, and in the opinion of the court, by Chief Justice Knowlton, the following passages occur:

"It is not necessary in the present case to determine the meaning of the word 'commodities,' in reference to every possible application of it, but we are of opinion that it is not broad enough to include every occupation which one may follow, in the exercise of a natural right, without aid from the government, and without

affecting the rights or interests of others in such a way as properly to call for governmental regulation." . . .

"Even if the legislature might constitutionally impose an excise tax upon the business of selling articles in the usual way, it has not attempted to do so, and this, if it were construed in reference to the general business of selling alone, would be unreasonable and unconstitutional, because it would impose a tax upon some vendors and not upon others. We are, therefore, brought to the question whether the peculiar way of selling, to which the statute relates, involves a material difference in the nature of the business, such as to warrant the imposition of an excise tax on that account." . . .

"Taking the acts referred to in the broad terms of the description in the statute, they are not dependent for their legality upon the legislative will, nor do they call for legislative regulation. They are performed in the exercise of a natural right, and are not in any sense rights or privileges conferred by law." Accordingly, the court held the tax unconstitutional.

It is seldom that a judicial opinion contains in so few words so broad an applicability. In that case the court was dealing only with a very narrow question of constitutional law in a particular jurisdiction, but the language of the court goes far beyond the confines of mere technical law, and lays down the fundamental principles which in such cases should govern not merely the action of the legislature under a certain constitutional phraseology, but also the action of the state in establishing its constitution and empowering its legislature to act. There must be a public interest in the subject-matter in order to justify the occasion for the tax.

The same principle doubtless should apply in the somewhat analogous case of a mere license tax, that is, there should be some element of public interest in the nature of the business transacted, aside from the mere industry of the manager of that business. Perhaps in one sense a license tax may be considered as a species of franchise tax, provided this element of a public interest is present, but if it can be called a franchise tax we must use the term as applying to a franchise of totally uncertain value apart from the skill of the person who uses it, and we must recognize that when the element of public interest is present to justify such license tax, the amount must depend on the state's discretion by general laws to meet the conditions of varying times and places. Thus the

principle of requiring a public interest to justify the tax will not hamper the action of the state when the public interest is truly present, although there may always be wide room for discussion as to any particular method for applying the tax.

Now it is the indubitable presence of this element, a public interest, that makes corporate franchises a just field and source of public revenue, not because they are corporate, as heretofore said, but because they are special privileges existing by the action or recognition of the state. Much of the popular desire to hamper the operation of corporate enterprises is founded on well-grounded resentment at the misuse of corporate power, but in so far as such desire is founded solely upon such resentment such an attitude is unintelligent, unscientific, and unjust. A more rational view is to assert to a reasonable and equitable extent the public interest over the franchises which such enterprises must generally employ and which furnish so large a basis for their prosperity. When this policy is pursued, and so far as it is pursued, these special privileges are no longer a drain on the community for the benefit of a few merely, but become a species of joint enterprise in which the benefit to the community is concurrent with the opportunity for private benefit therein. By this the prosperity of private industry is consistent with the public rights, and the public rights are found in cooperation with private industry.

The policy of franchise taxation is, moreover, not only reasonable in itself, but is the complement and corollary of the doctrine herein asserted that the merely representative securities of an enterprise do not offer a just reason for the taxation of the holders for the ownership thereof. The eagerness to impose taxes on the owners of intangible personal property by means of drastic and oppressive laws is largely due to the feeling that somehow, somewhere, in the shuffle of corporate enterprise, something of value has been subtracted from the community without just recognition of public rights, and that any attack on the security holders as the ultimate beneficiaries of the enterprise is, therefore, a worthy assertion of the public rights. This feeling entirely overlooks the difference between the investors individually and the corporate entity of the enterprise. Any injury to the public in any particular case is the act of the corporate whole as a body, and, therefore, the remedy should be found in the enterprise as a whole in the hands of the

corporate body, and not in the indirect benefits in the hands of the security holders distributively. This remedy the principle of franchise taxation offers, for it is precisely at the point of abuse of franchises that the real ground of just complaint against the corporation lies, and just as a parcel of land as a whole furnishes the sole and sufficient basis for a just tax covering the land as a whole, regardless of the number or manner of separate interests into which it is divided or to which it furnishes the security, so the corporate franchise as a whole in the hands of the corporation furnishes the sole and sufficient basis for a just tax covering the enterprise as a whole regardless of the number or kinds of securities which representatively depend on that franchise for a portion of their value.

The principle applies whether or not the stockholder or other security holder resides in the same jurisdiction where the corporation is organized or does business, for the justification of the tax, in the case of a corporate franchise, as in the case of a piece of land, depends not on the personal accident of the ownership of the ultimate benefit to be derived, but on the presence of some public interest in connection with the subject-matter. In the case of land such public interest obviously belongs to the jurisdiction where the land lies. In the case of a franchise it should be equally obvious that the jurisdiction entitled is the jurisdiction under which the corporate body as an entity exercises its corporate privilege, and that this is a claim respecting the franchise in the hands of the body, and not justly a claim respecting the person of the security holder.

Accordingly, when a corporation organized in one jurisdiction is admitted or permitted to do business as a body in another jurisdiction, such body as a foreign corporation is exercising a corporate privilege in the permitting jurisdiction, and such a privilege may justly be in a certain sense esteemed a franchise involving a public interest of taxation as truly as the franchise of a domestic corporation. Nor should there be any practical difficulty about discovering and reaching the operation of such foreign company, for the recognition of the foreign corporation, as a corporate body, is dependent entirely on the permission of the permitting state, and such state may reasonably declare that unless the foreign body declares its corporateness and takes out a license under local law, the acts of its agents in that jurisdiction shall be considered not the acts of

the unrecognized corporation, but the acts of the agents personally, who shall be personally responsible as agents for a non-existing principal. In important enterprises, therefore, the foreign corporation will be advantaged to declare itself in order to employ competent agents.[10]

On the other hand, this principle of veto over foreign corporations involves the corollary that when the securities of an enterprise are held by the citizen of a state wherein the enterprise is neither incorporated nor does business, as the public interest of franchise taxation belongs solely to the jurisdiction having to do with the franchise subject-matter, so the ownership of the citizen in the securities of such outside enterprise is as entirely devoid of any public interest of his state as in the case of a domestic body operating under local laws, for the interest of the state over foreign bodies must justly be limited to such bodies as seek to exercise corporate privileges within the jurisdiction, and this interest exists as between the state and the corporate body, not as between the state and holders of representative interests or securities in the enterprise, and to condemn an inhabitant to loss or charges for the ownership of an interest in a subject-matter wherein the state has no just public interest is distinctly to assert a proprietary claim over such person. Thus the principle of franchise taxation, both as respects domestic and foreign bodies, stands with and reinforces the doctrine of the just completeness of the private ownership of merely representative interests as hereinbefore set forth.

The impersonal character of the principle of franchise taxation as a claim belonging justly only to the jurisdiction under and by virtue of which the special privilege is exercised may be further illustrated by a consideration of certain kinds of privileges in a federally organized country. In the United States of America, for instance, patents and copyrights are matters of federal law. As these may be called special privileges under the law of the United States, it might be considered reasonable for the United States to make the continued existence or exercise of these powers conditional on the payment of some revenue charges. Many countries demand heavy annual payments to keep their patents alive, and the justification for such a policy must be sought in the theory that

[10]See an article in The Law Quarterly Review of London, for April, 1907, on the status of foreign corporations, by E. Hilton Young.

patents are special privileges under the law, but the theory equally requires that the public interest over the privilege must belong solely to the jurisdiction by which the privilege exists. Thus the federal government granting patents might be said to have a just ground of taxation therein, but not so the separate states of the Union, for the patent exists irrespective of state law, and the state has, therefore, no just interest therein. So, too, the principle requires that any government should refrain from taxing an inhabitant for the ownership of a foreign patent, for, although a privilege, it is so by virtue of another jurisdiction.

It is also to this principle of jurisdiction that it would be necessary to look for the justification of the recently proposed federal license for common carriers in interstate commerce, since interstate commerce is within the field of the federal government as paramount over the separate states. The point of jurisdiction marks the boundary of the possibility of a just public interest, but jurisdiction alone is not sufficient justification. It must be jurisdiction over a subject-matter which, by its nature, involves a public interest, and not a jurisdiction over the person in respect to subject-matters, regardless of the existence of the public interest; and just as land taxation finds and must find its justification in a public servitude over the land, so franchise taxation must and can find its justification in a public interest involved in the nature of the subject matter, and not in the assertion of servitude over persons.

Chapter VI

INCOMES IN RELATION TO TAXATION

We may divide private property interests into two general classes: first, interests in or over tangible things comprising on the one hand lands and on the other hand merchandise, the product of human labor; second, interests of a purely intangible character, comprising on the one hand such artificial things as franchises and on the other hand the many kinds of merely representative interests. In a certain sense, of course, all property rights are intangible, whether they relate to tangible or intangible subject-matters, but for convenience we may materialize the ideality and speak of the first class alone as tangible property and the second class as intangible. We have also seen, as heretofore set forth, that each of the above classes may be subdivided into two groups, one group comprising property over which there is a just public interest of taxation concurrent with the private ownership thereof, that is, lands in the first class and franchises in the second; and the other group comprising property over which the private interest is justly exclusive, for which, therefore, there is no just public interest of taxation on account of the ownership thereof, that is, merchandise in the first class and representative interests in the second. It also appears that the public interest of taxation, when it exists, is so only by virtue of the nature of the subject-matter, and not justly by virtue of any proprietary claim over the owner, so that while the existence of the public interest is essential to the just assertion of the tax in the one case, so the non-existence of the public interest in the other case requires that the owner shall not be personally taxed for such ownership, for such a tax in the absence of an antecedent public right in the subject-matter is a proprietary claim over such owner.

The occasion for taxation is, however, sometimes, in fact frequently, asserted, not on account of the mere fact of ownership, but on account of the benefit of ownership, that is to say, on account of the fact that a certain piece of property produces an income. We

must carefully discriminate, however, between a tax literally "on" a particular property, but measured by the income capacity of that property, and a tax on an owner because of income from that property. If, in regard to a particular subject-matter, as a piece of landed property for instance, the public interest of taxation justly exists, then the use of the income capacity of that property as the measure of the tax is merely a detail of policy. It may not be the best policy to assess land by its income rather than its capital value, but it is entirely within the scope of the public servitude of taxation over land thus to do, provided the tax is founded on the impersonal charge on the land and not on an asserted personal charge on the owner. So, too, it might possibly be well to consider income capacity in corporate franchise taxation, provided it is asserted under the public interest of taxation in the franchise and not as a servitude over the owner. But when we come to the case of a tax imposed on an owner because of the income of property, regardless of the existence of a public interest of taxation for the taxing government in or over the source from which the income is derived, we have a very different question; namely, whether a tax imposed on the owner of property because of the benefits of the ownership thereof, is the same as a tax imposed on the owner because of the ownership.

The question was discussed by the Supreme Court of the United States in the famous income tax cases in 1895, and formed the basis of the opinion of the majority of the court against the constitutionality of the federal income tax of 1894. The constitutional point turned on the technical question whether an income tax was a "direct tax," within the meaning of the American Constitution, as distinguished from "duties, imposts, and excises." The question of the directness of an income tax under the terms of any particular constitution is entirely immaterial to the present discussion of the justness of such a tax, but the question on which the legal point was based by the majority of the court is of illuminating value.

In reaching the conclusion in the first income tax case, that as to rentals, the tax was the same in result as a land tax and, therefore, direct, Chief Justice Fuller referred to Coke as follows (157 U. S. Reports, at page 580): "As, according to the feudal law, the whole beneficial interest in the land consisted in the right to take the rents and profits, the general rule has always been, in the

language of Coke, that if a man, seized of land in fee, by his deed granted to another the profits of those lands, to have and to hold to him and his heirs, and maketh livery *secundum formam chartae,* the whole land itself doth pass. For what is the land but the profits thereof?" And on the question before the court the Chief Justice said: "An annual tax upon the annual value or annual use of real estate appears to us the same in substance as an annual tax on the real estate, which would be paid out of the rent or income."

According to this doctrine of the majority of the court the imposition of an income tax for the rent of land is the assertion of the right to tax the land. It follows that just as the justification of land taxation must, according to these pages, be found, and in fact is found, in a public servitude of taxation over the land itself, and not in the assertion of a proprietary claim over the owner, so the imposition of a tax measured by the rental of land must rest on the public interest in the land and not on the assertion of a personal responsibility of the owner. The doctrine was carried still further by the court in the second income tax case and was applied generally to all property and the income thereof, whether the property is of such nature, as land, where a capital tax may rest on a public interest in the subject-matter and be, therefore, enforced impersonally against the property, or of such nature as in the case of personal securities that a capital tax must generally be a personal tax against the owner, so that in all cases the imposition of an income tax on the owner because of the benefits of ownership is in substance the same as the imposition of a tax because of the ownership. It follows that where the source of the income is property involving a just public interest of taxation for the taxing government, a tax on the owner for the income is open to the same objections as heretofore made against a personal system of land taxation as distinguished from an impersonal system, while in the case of property involving no just public interest of taxation an income tax on the owner is an attempt to do covertly that which ought not to be done openly. The following language of the Chief Justice for the majority of the court, in the second income tax case, is very comprehensive (158 U. S. Reports, at page 627):

"The constitution prohibits any direct tax, unless in proportion to numbers as ascertained by the census; and, in the light of the circumstances to which we have referred, is it not an evasion of

that prohibition to hold that a general unapportioned tax imposed upon all property owners as a body for or in respect of their property, is not direct, in the meaning of the constitution, because confined to the income therefrom?"

"Whatever the speculative views of political economists or revenue reformers may be, can it be properly held that the constitution, taken in its plain and obvious sense, and with due regard to the circumstances attending the formation of the government, authorizes a general unapportioned tax on the products of the farm and the rents of real estate, although imposed merely because of ownership and with no possible means of escape from payment, as belonging to a totally different class from that which includes the property from whence the income proceeds?

"There can be but one answer, unless the constitutional restriction is to be treated as utterly illusory and futile, and the object of its framers defeated. We find it impossible to hold that a fundamental requisition, deemed so important as to be enforced by two provisions, one affirmative and one negative, can be refined away by forced distinctions between that which gives value to property and the property itself.

"Nor can we perceive any ground why the same reasoning does not apply to capital in personalty held for the purpose of income or ordinarily yielding income, and the income therefrom."

The income tax cases, as before said, turned on a technical point of constitutional law which might be decided either way without affecting the justness or the unjustness of an income tax, for the court was not dealing with such a question, but only with the meaning of the language of the constitution. But the reasoning of the Chief Justice on the preliminary point of identifying a tax imposed because of the benefit of ownership with a tax imposed because of ownership, seems to the present writer fundamentally essential, and, therefore, the condemnation or justification of an income tax in respect of property income must rest on the principles enunciated in the foregoing discussion of taxes on or on account of property itself.

It is obvious that an income tax is not literally "on" the income, for an income is not a distinct entity, but rather a description of the manifestation of the source from which it is derived as respects the person of the owner. In strict accuracy the net amount of

periodic income from a piece of property is not determined until all periodic charges incident to the ownership of that property are paid, and, therefore, if there is an income tax the net income is not determined before the payment of the tax, but only afterward, and that only is income to the owner which comes to him for his own use or remains after the tax is paid. An income tax, then, is not strictly "on the income," but is a personal tax on the owner on account of or because of the income from a certain source.

It is sometimes contended that a person's general income is a distinct entity, existing in itself without reference to any source of income and apart from the person receiving the income. It ought to be manifest that an income cannot be derived unless from a source in either property or labor and skill, and that it is an income as to a certain person because it comes into the hands of the recipient for his own use. If, then, the organized state, by its governmental instruments, asserts the claim to divert a person's income to its own uses at its own arbitrary choice, merely because that person has received so much income, such a state or government is thereby asserting a proprietary claim over such person for the disposition of his resources to the use of a master, unless the person in receiving the income is committing a reprehensible act by such receiving, or is thereby invading the antecedent rights of the state or some other person, natural or juridical, in, over or in respect to the source whence the income flows.

A man's "general income" is only a general descriptive term for a multitude of benefits combined in one group, but as a whole it consists of all its parts, and the income from any particular source does not lose its own characteristics by being described with other things. A general income tax is, therefore, a personal tax in respect of each and every item of source, from which the income derived is required by the law to be lumped in the general income, as well as if specified as a tax for each particular item of source in property or labor. This personal quality of an income, as a manifestation of the source in respect to the person, was emphasized by the Hon. George F. Edmunds in the course of his argument on the first income tax case, against the constitutionality of the statute, in the following passage (157 U. S. Reports, at page 486):

"A carriage is a thing which we have an idea of as a definite and complete thing, as distinguished from the personality of the

owner. Can you have any such idea about an income? I take it not. Therefore, whatever we may say as it respects a tax upon a thing which moves about as a physical object, it is a different idea and a different thing to the conception of a tax upon a person, and that is all this income tax is or professes to be—a tax upon a person, because of a particular circumstance inseparable from him. It is curious that in old English times, and in the law dictionaries, even since the constitution was formed, an income tax was described as a capitation tax imposed upon persons in consideration of the amount of their property and their profits." And on page 488 of the same case Mr. Edmunds describes an income tax as "a tax upon the person in respect of his income." Continuing (page 492), Mr. Edmunds makes the following characterization of an income tax:

"The income of a man is inseparable from him. It is as inseparable from a man as his character is, or his name. It is there. It is personal. It begins and ends with him. It was for that reason that I read the definitions in existence at the time this constitution was made as a capitation tax included an income tax. It is an inseparable quality, idea, entity that could not be grasped by the human mind otherwise than in connection with the person."

In fact, the personal quality of an income tax was admitted by the government in the course of the argument of the first income tax case by Assistant Attorney General Whitney, who (at page 473), in the following passage, seems to have sought to define the words "direct tax," under the constitution, as substantially meaning in reference to property an impersonal tax on a particular thing. "Direct taxes," said he, "by a more practical definition, would mean taxes falling directly upon the thing taxed and, at least primarily, collectible out of it. Familiar instances are poll taxes, and in many states land taxes chargeable only against the land and not a charge against its owner at all. An income tax is less direct than a carriage tax, which may be made to fall directly on the carriages by distraint; or even than an import duty upon goods, which are seizable for non-payment of the tax. It is not a tax upon property at all; it is a tax not on what a man now has, but on himself, measured by what he did have, although most of it he may have already spent."

Here we have the personal nature of an income tax stated in

the baldest terms by the advocate of the government as a step in his definition of the constitutional phrase "direct tax."

If the Assistant Attorney General's definition of the constitutional term "direct tax" had prevailed it would not have affected the general question of the justness of an income tax, but would itself have depended on the personal quality of an income tax. By such a definition of the words "direct tax," the constitutional clause which says, "No capitation, or other direct tax, shall be laid, unless in proportion to the census," would practically have been interpreted as if reading in the following manner, since a capitation tax or poll tax seems to be unquestionably a personal tax, namely, "No *personal* capitation, or other *impersonal* tax *on property,* shall be laid, unless in proportion to the census." This would have been a contradiction in terms, or else it would have been manifestly strange to require, aside from a poll tax, only an impersonal tax to be apportioned according to the number of persons, but the court, by a majority decision, held that an income tax for property income was a direct tax although personal, perhaps because personal, and declared the law unconstitutional.

The personal quality of an income tax may consequently be further examined in connection with its effect on the rights of the person affected in reference to the various sources of income and in reference to the person himself. Take the case of income from land. It is freely admitted herein that in assessing the land itself under the public servitude of taxation thereover, the use of the income capacity, or the "outcome" of the land, as a measure of the tax, is within the scope of the servitude, if at a particular time and place such a policy seems advisable. But the priority of the public servitude over the land implies that all the public revenue from a particular piece of landed property shall be levied under and by virtue of the public servitude and not distributively on the persons who own the property or hold security therein. If, then, the government, neglecting its primary interest over the land, in whole or in part, seeks to enforce a claim over the owner personally for the income, it is rejecting a sufficient basis for land revenue in favor of a less efficient procedure.

If, on the other hand, the government considers that the public servitude against the land has been enforced to as great an extent as is publicly expedient at a given time, and then proceeds to tax

the owner extraneously to the land on account of the income as a personal incident and benefit of ownership, it is doing under pretense what it refuses to confess, and is denying the right of the owner to all of the income that remains after answering the public servitude over the land. If, in addition to neglecting the public servitude over the land and pursuing the owner personally, the government graduates the tax according to the accident of the size of the owner's income, it is violating the fundamental basis of its public interest in the land by making the tax depend, not on the characteristics of the property itself, but on some extraneous personal incident of the owner, so that from the same land in different ownerships the government would claim a different amount of tax. Such a tax is not only in derogation of the right of the owner, but also in derogation of the real rights of the government itself.

Again, it often happens that the owner of a particular piece of landed property resides in a different jurisdiction from that where the land lies. Should the difference in residence from the jurisdiction of the land subject the owner to an additional tax? The taxing of the owner for the benefits of ownership is the same as taxing him for the ownership, and the justification of land taxation rests on the public servitude in the land, and not on a claim against the person. That public interest in the land necessarily belongs exclusively to the jurisdiction where the land lies, and not to the jurisdiction where the owner resides, so that the imposition of a tax on the owner for the benefits of the ownership of land outside of the jurisdiction is in derogation of the principle that the public interest of taxation in land belongs to the jurisdiction where the land lies, and such a tax is a denial of the right of an inhabitant to own and enjoy in his own right land which may lawfully belong to him in another jurisdiction under the laws thereof. Such a denial is also a claim by the government that the inhabitant must hold the benefit of his foreign land, not in his own right, but primarily in the right of the government where he lives, and is essentially the assertion of a proprietary claim by the government over such inhabitant.

The same principles are also applicable to the other great category of property involving justly a public interest of taxation, namely, franchises. Although the general practice of American states in levying franchise taxes out of a corporate enterprise is to seek first to establish, by some theory or other, a capital value of the

franchise, yet it may perhaps be that in relation to some kinds of franchises not of strictly local nature, it would be found advisable to measure the franchise by the amount of income which the enterprise as a whole is earning by the use of the franchise, over the current rate of interest, or by the amount of income which the enterprise is turning over to its creditors or security holders, as the "outcome" of the enterprise, on the theory that the use of the franchise imparts an additional facility of use to all the assets of the enterprise. But in using such a measure it should be carefully borne in mind that it is a measure of the public interest in the franchise as a whole, as a part of the entire enterprise in the hands of the body or corporation controlling the business, and not a measure for attacking the creditors or security holders personally for the purpose of depleting their interests distributively. Of course, if a sum of money is taken away from a corporation, there is just so much less to be distributed to the security holders in the aggregate, but if this is charged on the enterprise as a whole it is a part of the expense of running the business, and its effect on the security holders will, like any other expense, depend on the nature and priority of their securities under the contractual terms of their issue.

Now, just as the right of the government to land taxation rests on the public servitude of taxation in the land, and the existence of the public interest requires that all the public revenue from a particular piece of landed property must justly be levied under and by virtue of such public interest and not by extraneous or collateral attacks on the owner or distributively on the persons whose interests collectively make up the ownership, so in the case of a business enterprise employing a franchise which involves a public interest of taxation, that public interest is justly against the franchise as a part of the enterprise, and the existence of that public interest requires that all the public revenue which may be levied because of that franchise should justly be charged against the enterprise as a whole in the hands of its corporate or aggregate controllers and not distributively against the persons whose beneficial interests collectively make up the ultimate beneficial ownership. Therefore, if the government neglects its fundamental public interest over the franchise, and pursues the ultimate beneficial security holder for the benefits of his security as producing income, the government is

disregarding its primary interest in the subject-matter and relying on a pretended claim against the person, and, moreover, is ignoring an effective resource in favor of a defective procedure.

On the other hand, if the government considers that the enterprise as such has already been required to pay all that, under the circumstances of the time and place, the enterprise ought to be asked to endure, and then proceeds to tax the persons entitled to the ultimate benefits of the enterprise for their income therefrom, it is doing by stealth what it confesses to be wrong when done openly, and is denying the right of the ultimate benefit holder to all of the benefits that remain after the enterprise as such has satisfied all reasonable public charges against that enterprise as a part of the expense of the maintenance thereof. If, in addition to neglecting the public interest over the franchise employed by an enterprise, the government graduates the tax according to the accident of the size of the person's income, it is violating the fundamental basis of its public interest over the franchise by making the tax depend, not on the characteristic of the enterprise itself, but on some extraneous incident of the person entitled to the ultimate benefit, so that from the same enterprise the government would claim a different amount of tax, according to the accidental difference in the destination of the benefit. Such a tax, as well in the case of a franchise as in the case of land, is not only in derogation of the right of the person to his benefit, but also in derogation of the real rights of the government itself.

Again, it often happens in the case of an enterprise employing a franchise, as well as in the case of land, that the person entitled to the ultimate benefit resides in a different jurisdiction from that jurisdiction under which the franchise exists, and again the principles of franchise taxation forbid that the residence of the security holder in a different jurisdiction should result in any additional tax for the benefit of receiving income by his security. The fundamental basis for franchise taxation is the public interest in the franchise as a special privilege created or existing by the recognition of some organized state, and that public interest necessarily from the nature of the case belongs exclusively to the jurisdiction maintaining the special privilege, and not to the jurisdiction where some person entitled to some ultimate benefit after the expenses of the enterprise are paid may happen to reside. Therefore, the imposition of a tax on

such a person for the income or ultimate benefit of a franchise existing under another jurisdiction, is in derogation of the principle that the public interest of taxation over franchises belongs to the jurisdiction of the franchise, and such a tax is a denial of the right of an inhabitant to receive to his own use and enjoy in his own right the benefits which may lawfully flow to him from a franchise under another jurisdiction and the laws thereof. Such a denial is also a claim by the government that the inhabitant must hold his foreign benefit, not in his own right, but primarily in the right of the government where he lives, and is essentially the assertion of a proprietary claim over such inhabitant.

The same principle of jurisdiction requires that when a corporate enterprise employs franchise privileges in two jurisdictions it should not be taxed in one jurisdiction for the franchise which it enjoys in the other jurisdiction, nor in the second jurisdiction for the franchise in the first, but each jurisdiction should scrupulously limit itself to its public interest over its own franchises. Accordingly, if the income earned by the use of the franchise is taken as the measure of the franchise tax, the income which accrues under the foreign franchise should be excluded from the measure. For, if in any particular case a foreign franchise or special privilege of any kind should happen to be vested in a particular natural person, the only jurisdiction justly entitled to a tax by its public interest over the franchise would be the jurisdiction where the franchise or privilege exists, and not the jurisdiction of the residence of the owner, so that neither for the ownership nor for the benefits of ownership should such owner be made liable in his own jurisdiction, as that would be a denial of his right to the benefits of his foreign privilege, and the assertion of a proprietary claim over him to make him hold the benefits thereof primarily in right of the government.

Thus we see that in both the great categories of property involving justly a public interest of taxation, namely, lands and franchises, the use of the income capacity or "outcome" of the subject-matter is within the scope of such public interest for a measure of the enforcement thereof against the subject-matter, but not as a means of depleting the interests of the beneficiaries distributively; that this public interest belongs solely to the jurisdiction of the subject-matter, and that the use of the income capacity or "outcome" as a measure of such public interest likewise belongs

to the same jurisdiction exclusively. So that to assess personally the beneficiary of either lands or franchises for the income thereof to himself in the case of such property within the jurisdiction is to neglect the real interest of the government over the subject-matter, and in the case of such property out of the jurisdiction, is in derogation of the true basis of the public interest of taxation, is a denial of private right to the benefit of private property, and is, therefore, a servitude over the person of the private inhabitant.

We may perhaps now consider as respects income the position of the two great categories of property over which, as herein contended, there is justly no public interest of taxation for the ownership thereof, namely, first, merchandise as the product of human labor, and, second, merely representative interests or securities. Obviously the right to the ownership ought to draw with it the right to the benefits of ownership, and if these pages are sound in asserting that the private right over the products of labor and over representative interests is justly exclusive of any public interest of taxation for the ownership thereof, and if the doctrine of the majority of the Supreme Court is sound, that to require the payment of a tax for the benefits of ownership is the same as to require the payment of a tax for the mere fact of ownership, then the imposition of an income tax on a person, for the income from property not involving a public interest of taxation for itself, is a denial of private right; for the right to the benefits of an exclusive ownership is the right to all the benefits of ownership and not merely the right to so much of those benefits as may remain after a power external to the person has satisfied itself for its extraneous demands in the absence of any compromising or reprehensible conduct by the owner.

Take the case of merchandise, the product of human labor, for instance. The right of the producer to the whole of his product remaining after paying the expenses of production, including therein the payment for the use of the land needed in such production, both as respects the private interest of the landowner and the public servitude of taxation in the land, is the foundation of the exclusiveness and completeness of the private interest in merchandise as produced by human labor, whether that merchandise is in the hands of the original producer or in the hands of a purchaser; for the right of the producer to the whole involves the right to transfer

as large an interest to the purchaser in order that the producer may obtain the full equivalent and benefit of his entire ownership.

The exclusive private right in the ownership of this species of property implies also the exclusive private use. We are not speaking here of any attempted use which may encroach on the pre-existing rights of others. Against such an attempted use restraint may undoubtedly be employed with justice. Nor are we speaking of any particular use which requires the employment of a special privilege under the law. For the employment of a special privilege the law, as heretofore said, may justly impose conditions of some kind. What we are speaking of is simply the private use unconnected with the rights of others or with any special privilege, as, for instance, to eat the crops which one has raised, to wear the clothes which one has made, or to keep one's products as a provision for future needs. Such a simple dissociated use is one of the necessary qualities or incidents of ownership, one of the veritable ingredients of property, the fundamental benefit and purpose of property; for, to paraphrase Coke, what is property but the use thereof. If, now, the owner entitled to the use of property sees fit to forego or postpone the primary use of the property by himself and to permit its use for a time by another in return for a compensation, the full unqualified right to the primary use implies an equally full and unqualified right to the compensation, as a secondary use of the property.

The principle is the same whether the owner receives his compensation once and for all as to any particular article or in periodic instalments, for in either case it is compensation for the deferred enjoyment of that use to which he is fully entitled. It follows, therefore, that just as in the case of land, the owner is justly entitled to all of the income remaining after satisfying the just public servitude of taxation in the land, so in the case of merchandise, in which, as the product of human labor, there is no just public interest of taxation, the owner is justly entitled to all of the income therefrom without any deduction or counter penalty whatever imposed by reason of the mere fact of such income as a benefit of ownership. To impose a tax upon the owner of the products of labor because of the receipt of income from such property is, therefore, to assert a public interest where none exists in the subject-matter and is a denial of the exclusive right of the owner in the

property from which the income is derived. Such a denial is, therefore, the establishment of a servitude over such owner.

But comparatively only a small proportion of property income flows from the mere compensation for the use of tangible movable products. The great mass of personal property paying income is of the intangible class and consists of merely representative interests or claims for ultimate compensation out of some particular property, business, or enterprise, or for some service or benefit to some person who has entered into contractual relations as to the compensation therefor in the nature of a debt or a share in an undertaking. These representative interests or securities are the claims of the holders for some ultimate compensation or benefit, and the periodic income therefrom is the periodic compensation for the postponement of the ultimate enjoyment of the capital claim represented. Now, it is obvious that the current value of a representative security depends on the assumption of value in the entity or enterprise by which it is supposed to be secured, and with this principle is connected the doctrine herein asserted that the private right in the ownership of representative interests excludes any public interest of taxation imposed distributively on the owners for the ownership thereof to the depletion of their private interest therein. So far as the entity or enterprise embodies the use of land or franchises involving justly a public interest of taxation such use must necessarily be subject to answering the reasonable charges of such public interest as part of the expenses of the enterprise, but equally does it follow that after fully discharging for any particular period the charges of the public interest of taxation over such of the assets as involve such public interest the whole of the balance of the earnings for that period belongs to the uses of the enterprise and its beneficial owners, to be distributed by or among them according to the terms of their several contractual claims against the enterprise as respects amount, time and priority. Hence the imposition of an income tax on the security holders because of income received as periodic compensation for the postponement of the enjoyment of their ultimate capital claims is a denial of the exclusive right to the periodic benefits of an exclusive ultimate right, for it amounts to saying that after the enterprise has paid all that is justly chargeable against it by the public interest of taxation, those beneficially entitled to the balance may be required to pay for receiving that to which they are fully entitled.

The principle applies not merely to the interests of those who hold the gross or uncertain claims to the residue of profits after the payment of expenses, but also to the interests of those who hold simply claims in the nature of debts for certain amounts or limited prior charges with a fixed and limited periodic compensation in the nature of interest or a net income. If such claims in any particular case have any market value, it is because of some supposed value in the entity or undertaking by which they are secured or in the credit of the debtor who has assumed the obligation. Such claims must obviously be realized out of the proceeds of the undertaking or the property of the debtor, and from an economic point of view are just as truly embarked in the undertaking or constitute a part of the ultimate right in the property of the enterprise or debtor as if they were generally uncertain shares instead of certain charges. In the case of debts, as well as in the case of shares, they are claims for ultimate compensation out of the subject-matter to which they must look for value, and the periodic income which they carry is the periodic compensation for the postponement of the ultimate enjoyment of the capital sum represented by the current value of the claim.

If the holder of funds for investment does not wish to embark generally in the hazards of an enterprise for the purpose of receiving the uncertain general returns of the enterprise, but wishes rather to embark only so much capital as he considers likely to be certain of a return, and if, foregoing the general chance of fortuitous gain, he prefers to have a prior claim for a fixed amount at interest for a certain time, or a prior claim for a fixed income, such interest or fixed income is simply the periodic compensation for the postponement of the enjoyment of his capital investment. It is all the more surely mere compensation from the fact that it is fixed to a maximum amount, since this fixing in one direction implies that it should be considered as fixed in the other direction, and that as the recipient by his contract cannot demand more so, too, he should not be put off with less, but that he is justly entitled to each and every part thereof to his own use. The private right to merely representative interests against an enterprise is justly entire and exclusive because they are claims for compensation to which the holder is justly entitled in full for property or services, real or assumed, in the enterprise or entity, and since such claims derive

their market value from their reliance on a source which, so far as it involves justly a public interest of taxation, like land, must respond to that taxation in the proper jurisdiction, and so far as it involves justly no such public interest of taxation, like merchandise, the product of human labor, ought not to be made covertly the occasion for a tax, therefore, the private right to the income from representative interests should be considered entire and exclusive as the periodic compensation for the postponement of the enjoyment of an ultimate compensation to which the private right of ownership is justly exclusive, whether such income is gross as the uncertain dividends from general shares, or is net as interest on a debt or a fixed and limited prior charge.

Take the case of a simple unsecured debt. It is not a tangible thing in itself. It is merely an intangible claim to an ultimate benefit, even if evidenced by a tangible document. It represents an expectation of value to which a claim is asserted. If the claim is justly valid, then the right to which the creditor is justly entitled is the whole claim, according to the terms of the transactions by which it arises, and we have therefrom the principle herein asserted as to the exclusiveness of the private right of ownership over merely representative interests. The consideration, cause, or occasion for the debt may be the sale of some species of property or the rendering of some service of employment in connection with the transaction, and the debt created represents the compensation.

If the consideration is merely nominal, the debt represents a claim none the less to a benefit out of the general property of the debtor. In any event, it represents a compensation to the creditor for value or a benefit by grant of the debtor, and such compensation or benefit in effect constitutes part of the private interest in the enterprise or property to which it must look for fulfilment. So far as such enterprise or property is of a nature to involve a public interest of taxation that enterprise or property should answer in the appropriate jurisdiction, but only to that extent. As the debts chargeable must look to the private interest in the property or enterprise, the whole of any debt may be considered as falling within the sole field of private right, and the right of the creditor to the whole debt is, therefore, justly exclusive of any public right of taxation. Now, since the periodic interest accruing on a debt represents the compensation for the postponement of the enjoyment

of the ultimate compensation or benefit to which the creditor's right is exclusive, such periodic interest should equally be exclusive of any public claim of taxation for the receipt thereof. The imposition of an income tax on the creditor for the receipt of interest on his debt is, therefore, a denial of his complete right to the whole periodic compensation for the postponement of the enjoyment of an ultimate compensation or benefit to which he is in full justice completely and exclusively entitled. It is a proprietary claim by the state over the creditor in that it spontaneously, for the benefit of the state, requires the creditor to receive primarily in right of the state, a benefit to which he is entitled in his own right, and is thus the establishment of a servitude over the person.

The principle is the same if the debt is secured by the pledge or mortgage of some specific piece of property, for then the security of the debt is simply pointed out as a prior charge on the private right to such property, and as such prior charge it becomes a part of the total private title to the property. If the specific property is of such character that the private right should justly be considered exclusive, such exclusiveness should not be lessened by the apportionment of the totality among two or more by priority. On the other hand, if the property is of such a nature as involves justly a public right of taxation therein, as, for instance, land, then the priority as part of the private title is equally assisting to maintain taxation over the entity as a whole, as well as if the private title were held in one right instead of several consecutively. In either case, of security, as well as in the case of an unsecured debt, the accruing interest represents compensation for the postponement of a justly exclusive enjoyment, and is itself justly exclusive, so that the imposition of a tax for the receipt of interest from a debt secured by property over which the taxing government has no just claim of taxation is the imposition of a tax covertly where there should justly be none openly, as the denial of the exclusiveness of the creditor's right to his claim and the security; while the imposition of such a tax where the security itself involves a just right of taxation is the imposition of a tax in addition to the limits of such public right. In either case it is a denial of right to the creditor and a derogation from the principles on which the government must base its just right of taxation over certain subject-matters, since it is the establishment of a servitude over the person rather than the thing.

The same principles seem also applicable to the consideration of gains received from the sale of property at an advance over the price of purchase. This is another method of enjoying the advantageous ownership of property aside from the mere rental for the use of property or the postponement of the enjoyment of an ultimate benefit for a periodic compensation. In the case of a sale at an advanced price, if the property is of such a nature that it involves justly a public right of taxation, as land, it ought to be obvious that all advantages in the value of the private title, aside from the public right itself over the property, should belong to the owner of the private title. If he exchanges his title for a price, the whole of the price should belong to him, regardless of the fact whether or not that price is more than the price at which he obtained it, for the existence of the public right of taxation over a particular kind of property rests justly on the nature of the property itself, and not on the collateral personal accidents or situations of the owner, while the risk of loss by depreciation or accident during the holding of the property implies that the chance of gain should go with it. Moreover, if the advance price represents a permanent increase in value, such value will proportionately increase the value of the public interest therein, whether the owner sells the property or not. The fact of sale is a mere personal incident which occurs entirely apart from the public interest of taxation over the land, and the gain from such a sale is merely a comparison with another previous personal incident. On the other hand, if the property sold is of a kind not justly involving in itself a public right of taxation in reduction of the exclusiveness of the private right over such property, then the benefit of the sale should also be exclusive, as it represents the equivalent for an exclusive right. In either kind of property the fact of the sale depends somewhat on the owner's private judgment, so that the levying of a tax upon him for making a gain by that judgment is not merely a tax on account of a mere personal incident in the ownership of property, but a tax for using his judgment advantageously, and, therefore, implies a proprietary claim by the government over such owner as an assertion that a man is not justly entitled to the benefits of his own good judgment.

Now, the drawing of gain from the judicious exercise of one's judgment is only one manifestation of a general class of gains which may be grouped under the general head of gains from the

person's own efforts, as the reward or compensation for the labor of his muscles, the skill of his hands, or his intelligence in conducting affairs. If there is any class of gain to which a man may justly claim to be entitled, surely it is the gain from his own labor, skill, and intelligence. Such a right is the fundamental inducement to efficient labor and industry of every sort. It is the recognition of the man's own life. Of course, it must be assumed that we are not considering the case of a man who is using his labor, skill and intelligence to undermine or destroy the rights of others, as the burglar or the swindler, but are considering only the case of a man who, without encroaching or wishing to encroach on the rights of others, is seeking an economic purpose in peaceful industry. Of him we may confidently assert that whatever disposition should be made of his gains from property or special privileges, or industries of some public character, so much of his gain as is attributable to his peaceful industry by labor, skill or intelligence, justly belongs to him entirely, to his own sole use and benefit as a matter of right and justice. If now the organized state assumes to interfere with a man and require him to pay a penalty for the reason that he has by his own efforts acquired some gain, it is in effect arbitrarily diverting his own life away from himself in denying his right to the compensation for his own efforts. Such an exaction is essentially an appropriation of the man's labor, skill and intelligence, and is the imposition of a servitude upon him. The principle is the same whether the person is in business for himself and is reaping the uncertain rewards of his general industry, or has hired his efforts out for a compensation stipulated in advance. In either case his right to his own life should carry an exclusive right to the earnings of his life's efforts.

It may, perhaps, be objected that the state, in exacting a charge for a man's personal earnings, is only asking compensation for the protection afforded him by maintaining a peaceful condition of society for the pursuit of peaceful industry, but does not the suggestion that the state may exact compensation for preserving the peace for any particular person or class of persons imply that it may equally withdraw protection from that person or class until its own arbitrary terms are fulfilled? Is not this essentially a feudalistic conception that the state is, in its own discretion, furnishing protection in consideration of base subjection and servitude?

The more equitable and scientific view is that the very function of the state, the very reason and justification of its existence as a juridical person, is to furnish protection to all the peaceful inhabitants, regardless of their prosperity or poverty, and that this is a duty to be performed, not a commodity to be bartered out for terms imposed on the persons who are entitled to the performance of the duty. In short, that the pursuit of peaceful industry in a peaceful community and the enjoyment of the fruits thereof is a right and not a special privilege, and that the duty of protecting that right is the basis and justification for the existence of a public right of taxation over certain kinds of property having a public interest by their nature, and is not the justification for the imposition of a servitude upon the particular inhabitants, which servitude is veritably imposed when the private person is required by the external force of a superior power to suffer a penalty for the compensation of his own labors, either of muscle, hand or brain. Yet this is precisely what an income tax does in respect to the earnings of the private citizen, and in so doing requires him at the extraneous demand of the state to hold the proceeds of his own exertions, not primarily in his own right, but in the right of the state which imposes the servitude on him.

It makes no difference whether the charge of the state is large or small in proportion to the earnings for which the charge is levied. The servitude consists in the determination by an extraneous power, for its own benefit, how much of a man's earnings for his personal efforts he shall be permitted to retain for his own enjoyment, for it cannot be pretended that so much as is taken away from him or for which he must pay over a counter-penalty merely on account of its acquisition is enjoyed by him. The claim to interfere and take a part arbitrarily determined by the taker without a preëxisting right in the source of income itself is no less than a claim to take the whole whenever the taker in its own discretion may choose to do so. This is essentially and inevitably a proprietary claim over the earner in respect to his earnings.

The fundamental vice of a personal income tax is the servitude which it imposes on persons regardless of any just public interest of taxation over the source of the income. The taxing of a person for the income from a certain source, whether particularly or as a part of the person's general income, is the same as taxing the

person for his title to the source. If such source is of a nature like land and franchises within the jurisdiction, and justly involving a public interest of taxation, the attack on the person is a servitude in neglect of the true public interest; while if the source is one in which the taxing government has justly no public interest of taxation, then the attack on the person is an encroachment on his exclusive right, implies a proprietary claim over him to require him to hold the source and the income therefrom, not in his own right, to which he is justly entitled, but primarily in the right of his master and proprietor, the state, and thereby imposes a servitude on the person in utter defiance of right.

It cannot be too strongly emphasized that an income is not a special privilege in itself, but merely the manifestation of a source in respect to a particular person. It is, therefore, not justly a source of public revenue apart from the source of the income, but the income and the source thereof are one and the same when economically considered as a source of taxes. The connection between income and source is used by the British income tax acts as the basis of a system of "stoppage at source." Those acts contain elaborate provisions requiring persons and institutions having charge of the payment of incomes from investments to withhold the amount of the tax and hand it over to the public authorities, so that so much of the nominal income never comes to the theoretic recipient at all. The law even goes so far as to prohibit the making of contracts for a net income of an exact and irreducible amount without any deduction. The income tax law of Great Britain in one section declares that "all contracts, covenants and agreements made or entered into, or to be made or entered into, for payment of any interest, rent or other annual payment aforesaid, in full, without allowing such deduction as aforesaid, shall be utterly void." The logical basis of such a provision seems to be that after the owner of property or funds has agreed on the compensation to which he is to be entitled for the use thereof, he must hold that compensation primarily to the use of the government and take his chances as to the amount which may be left for himself, and that he has no right to an exact stipulated return for himself, even if he provides fully for the government tax out of some other element of the transaction, as by the agreement of the debtor to pay the tax.

It is at least extremely doubtful whether such a provision can

accomplish anything more than to import an element of doubt into the contract of loan and to throw the principal burden of that doubt on the borrower, by increasing the nominal amount of the interest charged by enough to offset the probable deduction for the tax. The experience of New York and other states with mortgage taxation seems to show that any effective provision for imposing a special tax for the existence of a debt falls principally on the borrower by an increase in the interest rates, and the same principle would naturally tend to operate with even a small tax for the income, as well as with a large tax for the capital, although the effect might not be so clearly visible; but the claim of a government that a man should lend his money as if there were no tax and then divert a portion of the compensation from himself is essentially a proprietary claim over the man in denying his right to the compensation for the use of his funds.

The system of stopping at source is at once a confession that a mere claim against the individual recipients is an ineffective basis of collection, and is also an admission that any just claim of the government to deal with the income from an enterprise should seek the enterprise itself and not the ultimate beneficiaries, that the claim of the government when justly founded is to be based on some public interest involved therein, and not on a proprietary claim over persons. The system of stopping at source is, therefore, in some of its practical aspects, analogous to a franchise tax, or in the case of rents, a land tax, although it does not necessarily follow that all stoppages, as, for instance, from interest on loans or mortgages, would be justified under either of those headings. The analogy consists in this, that the sums collected by stoppage, equally with sums taken by a franchise tax against an enterprise, are taken from the enterprise in the hands of its managers as a condition of doing business, and the apportionment of such sums to individual income accounts is merely a bookkeeping device which cannot, whether it is called one thing or the other, differently affect the position of the nominal beneficiary who in either case gets merely something that is left after the government has satisfied its charges against the enterprise.

The investment value of a security will naturally be substantially the same whether the sum collected from the enterprise is called a tax against the enterprise as a part of its running expenses,

reducing the amount available for distribution among its ultimate security holders, or is called an income tax taken out of a nominal apportionment of dividends and interest to the security holders, with this difference, that in the case of interest or nominally fixed returns, the fixing is only at a maximum and the creditor is not assured of a certain net income. The natural result would seem to be that the enterprise in selling its securities of indebtedness would realize a lower price for its paper than it would if it were allowed to guarantee an exact return to the investor to his own use, for it cannot be supposed that an investor will give the same price for a security when the nominal income is liable to be partially diverted from him, as he would give for the same security carrying a clean irreducible income, and thus the lowering of the price of the security by means of an income tax seems to fall on the enterprise as well as if it were openly a franchise tax.

Whether any particular instance of an income tax by stoppage at source can be identified in effect with a justifiable franchise tax against a certain enterprise, or any other kind of a tax against the enterprise by reason of some special privilege enjoyed or some public interest involved in the subject-matter must, of course, depend on the circumstances of each case. Perhaps, however, the analogy between a franchise tax and stoppage at source would make a federal franchise tax a reasonable substitute for a federal income tax which so many persons are eager to establish, as it might perhaps operate as an excise against privileges conferred by law rather than as a direct tax against persons, and it would accomplish in a better manner all for which the advocates of an income tax have any ground of complaint, in that it would reach those aggregations of privilege at headquarters rather than the private investor personally. Many of these great enterprises which excite so much suspicion at the present time are necessarily involved in the employment of some important federal privilege, and to that extent at least a federal tax for franchise or license would be obviously justified. Whether the federal government should or could go further and attack the merely state franchises under its general constitutional powers is a somewhat different question, but if it should not or could not attack those sources of income, that would be all the more reason for not imposing a servitude on the recipients of income from sources not properly within federal jurisdiction.

In other words, in the case of the federal government, as well as in the case of any government, so far as the source of the income is justly within the jurisdiction and involves justly a public interest of taxation, that source is the proper point at which to assert the tax, while the absence of such a just public interest of taxation over the source equally forbids any claim to the benefit of that source or to impose a servitude upon the recipient of the benefits and deny him the right to those benefits to his own use.

The imposition of a personal income tax is in itself the assertion of a proprietary claim over the person in respect to the disposition of his resources primarily not for himself, but for a master at that master's discretion, and is a penalty on him for the attempt to enjoy the benefits of his property, labor and skill, since it is imposed without regard to the question of the existence of a just public interest over some sources of income and the absence of any such public interest over other sources. It implies the claim to penalize to the full extent of his income equally as well as for an arbitrary fraction extraneously determined. It is thus a servitude over the person by seeking to divert the just incidents of his own life to the wilful determination of a master for that master's benefit, regardless of antecedent right. The method of administration, moreover, necessarily emphasizes this essential servitude of the system, for it requires a searching inquisitorial investigation into the affairs of the private person or an arbitrary decree against him. Such an inquisition or decree at the spontaneous demand of the investigating power, merely for its own benefit under a claim created by itself, and not for the protection of threatened antecedent rights, implies the denial of any right for a person to have any business which he can call his own for his own benefit, either in the use of his property or his labor and skill, and in the requirement that a man shall account for his own life to the arbitrary demand of the government, such an inquisition or decree is in itself the manifestation of servitude over the person by that government.

The words of George F. Edmunds, in the course of his argument on the constitutionality of the federal income tax (157 U. S. Reports, at page 485), are applicable in principle to any personal income tax, whether constitutional or not in any particular jurisdiction. Said he: "Here is a statute which declares that a particular officer of the government and his deputies . . . may

compel every citizen . . . to make a report to him answering a series of questions under authority of this act . . . which invade every item of his private transactions, and affect the interests of everybody with whom he has been in connection, in situations of trust of the most sacred confidence, . . . and compel him to expose everything to the satisfaction of this agent of the law, as he is called. And if he does not do it, when then? Then this so-called agent of the law is to make up his mind, from such inquiries as he chooses to make, how much this man's income really is."

Can such a situation denying the right to have any business which a man can call his own or enjoy any benefit of his property or efforts in his own right be described as anything less than serviture? Can a system which demands an accounting for every compensation for one's property or labors, not because that compensation is excessive or in violation of an antecedent right, but merely because it comes to a private person,—which imposes a penalty on the person for presuming to obtain that compensation,—can such a system logically rest on any other basis than a proprietary claim by the state or government over that person and the imposition of a servitude on him? Rather may we say that the establishment and maintenance of such a system is fundamental tyranny and unqualified iniquity, and is utterly inconsistent with the principles of freedom and justice.

Chapter VII

THE RESTORATION OF FEUDAL BONDAGE.

It is a strange phenomenon that peoples so tenacious of personal freedom as the English and the Americans should tolerate the various systems in vogue for taxing persons in respect to personal property owned or income received by the person with the necessity for inquisitorial investigation into private affairs, the denial of private right, and the consequent servitude imposed on persons. This phenomenon is perhaps to be attributed to a subconscious survival of the old feudalistic conceptions from which the society, the structure, and the politics of English and American civilization are historically derived. But not only do the English and American peoples tolerate these systems of servitude. On the contrary, there seems a strong popular desire in many quarters to make these systems more stringent and drastic, and even to evolve other methods of attacking the ownership of property, not on the basis of some just public quality in the property itself, but on account of some personal incident in the ownership, so that in effect some of the old feudal impositions under modern names are revived with the utmost eagerness by the very classes which were most cruelly oppressed in feudal times.

Twice within a half century has the government of the United States of America imposed stamp taxes on deeds and other instruments of transfer, and recently the State of New York has imposed such taxes on the assignment of stock certificates for the sale of stock in corporations. What are these charges in effect but the old feudal fines on alienation, or the denial of any right in the owner of property to transfer his title except by permission of a superior who for his own benefit restrains the transactions and exacts a compensation for his permission? Under the feudal tenure of land such fines on alienation had a logical basis of origin, since the title was originally granted to a particular person to be held of the lord by the service of the tenant, who was bound to respond for

those services till released by the lord. The tenant held a mere tenancy in the land and was not originally entitled to convey it except by surrendering it into the hands of the lord and obtaining his acceptance of the new tenant. As the lord had the original right to reject the new tenant, and the alienation was in the nature of a favor, the imposition of a charge for license to alienate was logically derived from the tenure and symbolized that tenure, even after the fine had acquired the character of a customary charge for which the lord must grant license as a matter of law.

The idea of an allodial title or the outright ownership of the private interest in property, whether or not that property from its nature involves a public interest or servitude of taxation over the property itself, implies no such interference with the owner on account of a merely personal incident of the ownership, but the existence of a perpetual private title with the right to transfer the same and the right to the whole equivalent without arbitrary restraint. Undoubtedly the organized state under its protective and tutelary dominion has the right to provide regular and reasonable machinery for the security of the transfer of titles, as by the recording of instruments, and a charge for that service rendered is not necessarily within the objection of a fine for alienation, but when the government at its own motion and for its own benefit interferes with the private title and imposes a charge, not for a public interest in the kind of property, or for service rendered, but merely for a personal incident or accident affecting some particular title or piece of property, the government is in effect asserting a species of feudal tenure and establishing a class of collateral incidents or casualties, such as afflicted the holders of property under the old feudal régime.

Such incidents or casualties rested logically on the feudal theory of holding of a superior or lord who retained an estate of superiority or lordship in support of the casualties, but they are entirely at variance with the idea of an allodial title or individual private ownership in one's own right, whether in lands or movables, for such title or ownership is in theory a perpetual interest in private hands, is entirely distinct from, though subject to, any public charge, interest, or servitude, over the particular kind of property itself, and implies the right to transfer as large an interest as the owner has, and to enjoy the full equivalent from the transfer, as a

part of the complete enjoyment of the title. If the property is of such nature, as land, that it involves a public interest of taxation prior to the private interest of title, the title is of course subject to the public interest in the hands of one owner as well as in the hands of another, and the transfer is, therefore, immaterial to the security of the public interest, and is solely a matter of private right under the private title. An interference with this right of transfer, not for the general security of transfer, but for the benefit of the government is, therefore, in effect a derogation from the right of allodial titles or private ownership, implies the assertion of an estate of superiority and is in effect the establishment of a species of feudal tenure imposing a burden on the owner in respect of some personal incident of his ownership. This is indirectly the imposition of a servitude upon him by encroaching on a right to which he is entitled.

Among the incidents of the feudal tenure in England were *reliefs* and *primer seizin*. *Relief* was a payment exacted by the lord of the fee for admitting the heir of the tenant into the inheritance, and was so called because the heir was considered as relieving or taking up the estate. *Primer seizin* was a similar charge, being a whole year's profits exacted from the heir to an estate held of the king immediately in chief. Both of these incidents resulted logically from the original feudal theory of a tenancy which at the death of the tenant reverted to the lord of the fee, to be regranted as the lord chose. As the new grant was originally in the nature of a favor to be given or withheld at pleasure, the tenancy was in effect merely for life, and the heir could claim only by the favor of the lord on complying with his terms. When the tenure became hereditary the feudal theory still maintained the necessity of recognition by the lord of the fee, and allowed the exaction of a charge for that recognition. The lord, however, was required to admit the heir if he complied with the legal terms. As a result, the heir did not have in the original feudal conception a direct claim to the property, but rather a right to repurchase it from the lord of the fee on complying with the rules of the tenure. Thus these incidents or casualties of tenure were the logical outgrowth of the feudal theory of carving the estate of the tenant out of the larger estate of the lord and leaving in the lord a reversionary estate of superiority over the land and the tenant.

On the other hand, an allodial title, or the complete private ownership of all the private title to which a certain piece of property may be by its nature adaptable, whether or not that title may be subject to some public interest involved, implies no tenure of an estate held of a superior, and equally implies no incidents and casualties arising from the personal conditions of the holder of such title, since such incidents and casualties fundamentally depend upon the existence of an estate of superiority in the superior of whom a feudal title is held. The establishment of casualties by the government in respect to a title hitherto allodial or outright would be, therefore, in effect the establishment of an estate of superiority in such property in derogation of the prior existing titles, and the establishment of new casualties over a title already feudal would be in effect the enlargement of the estate of superiority in such property and in like manner a derogation from the prior existing estate of the tenant. In thus reducing an existing title from a higher to a lower, and privately less beneficial rank, the government would be imposing a servitude on the owner of the property in requiring him to render service or compensation for that to which he is already entitled by prior right.

This is exactly the situation which is created by the various laws for the imposition of inheritance taxes, or public charges for the succession to property at the death of some person in interest, unless there is some public interest involved in such succession in a way to distinguish the charge from its resemblance to the old feudal casualties. This resemblance appears in the provisions refusing to recognize the title of the successor as legally valid to the entire interest nominally involved and charging that title with a lien for the public demand, or ordering the executor, administrator, trustee, or other fiduciary person in possession of the property to withhold it from the beneficiary or to divert from it when it is a pecuniary fund the amount of the public charge for the succession, so that the beneficiary gets merely the remnant of the fund to his own use. These provisions are further supplemented as a rule by imposing a personal liability on some person entitled to deal with the property for dealing with it in disregard of the public claim, so that the title to the property and the dealing with it are treated, not as matters of private right, but as if a matter of tenure under a superior by virtue of the license and permission of such superior, or as if

subject to some prior public right essentially involved in the fact of the succession at death. It, therefore, becomes important to examine the extent of public and private rights which may be justly comprised in such succession. This may be considered under the three points of view, the right to receive, the right to bestow, and the power to make a will.

It is commonly asserted by the courts that the succession to property, either by intestacy, will, or deed to take effect at death, is not a matter of natural right, but a special privilege conferred by law. If it is merely a special privilege, it seems to follow that the organized state may grant or withhold the privilege in whole or in part in its own sole discretion or may justly confer it on any person or class of persons regardless of relationship to the deceased or his wishes as to the disposition of the property. Such a doctrine seems to rest on viewing the human being as a totally dissociated juridical phenomenon, so that at his death no natural person can have any just interest in his affairs, and the organized state with which he happened to be associated by citizenship, residence or the situation of his property becomes entitled to his estate as property belonging to no private owner or just claimant until the state confers it on some one as a favor. Such a view disregards the most vital elements of human life, for man is not a mere stone image inspired by the state, but is endowed with an individuality and with various human relationships much more intimate than his mere juridical recognition by the state. These human relationships reach their most intimate point in the human family, which, in its theoretical perfection, is the opportunity and field for the most helpful mutual relations, and what can be more just and natural than that at the decease of a member of a family the family itself has the right to the property of which he has made no disposition.

This family right seems to be recognized to a degree in all civilized states. Is it any accident that, aside from creditors and public claims, the immediate relatives in various ways are generally treated as entitled to some interest in the estate of a deceased person? Is this a mere favor or is it a recognition of some fundamental right? It is undoubtedly true that no particular person can claim in his own right any particular portion of the property of a deceased person unless he can show himself within the terms of some positive law, but it does not follow that because the state

might conceivably have pointed out some other disposition, the state might justly refuse to make any private disposition of the property whatever, and appropriate it to itself, yet that is exactly what the state does as to so much of any nominal share of an estate or fund as the government diverts from the nominal beneficiary.

A human being comes into this world helpless and dependent. In the normal and general case he finds himself in the midst of a group of persons constituting a family and having more or less definite interests in common as a family. This group is for some interests narrower and for other general interests broader, but in general the bond of union is the relationship by blood. To this group the human being naturally looks for much of the development of his life, and each member of the group has a more or less definite feeling that in an emergency he may look to the others for somewhat more of assistance than to a mere outsider. From this claim of mutual regard and benevolence the group in turn may look to each member for some part in the mutual well being, and if one of the group leaves property of which he has made no disposition, though the extent of the right of disposition is a further question, the group as a whole and all members of it logically have a right to require that such property shall be in some way applied within the group of relatives of the deceased, as those who would have been justified in receiving aid in the lifetime of the deceased and might have felt bound to assist him in need. In other words, the right of the members of a family to receive aid from one of their number by his benevolence during life should not be considered as lessened, but as increased, by the fact that he has left property for which he has made no disposition, and the family right may, therefore, be said to consist of this, that after all just rights and powers of the individual owner of property have been exhausted, there is a secondary right in favor of the family to require that in some way the property shall be used for the benefit of some one or more among those who in his life had a more intimate claim to his good will and a more intimate interest in his good standing than the generality of the world.

Now, where the line shall be drawn between the primary individual right of the living owner and the secondary successional right of the family, is an entirely different question, and it may perhaps not be the same at all times and places, but it seems logically

necessary to say that where one leaves off the other begins, and that the succession to intestate property within the family is not primarily by virtue of a lapse of the private title and its regrant by the state, but that the family right of succession is itself a part of the private right in a perpetual private title not otherwise limited by the terms of its creation and extends to the whole of that title. At this point the action of the state through positive law becomes necessary to apportion the various relationships of family life into a series of priorities in the family succession to the property of the deceased, but this intervention of the state does not justly lessen the sum total of the family succession. It merely establishes general rules for the priority of certain persons or classes of persons within the field of the family relationship, and these take justly, not by favor, but by right of the family. In other words, the action of the state is semi-judicial in the nature of apportioning a sum total to or among one or more possible claimants, and is justified under the general protective and tutelary public powers.

The family right is residuary as a part of the private right to the private title and is subsidiary to the individual right of the living owner. The function of the state is to adjust the balance between these two component parts of the private right and to apportion the family right among such successive classes of the family group as under general conditions may seem to be most directly interested. Accordingly, the different rules of succession in different states signify not the arbitrary distribution of special favors which might equally justly be given to any person or group of persons, but simply the different emphasis which seems to exist in different communities between the members of a group within which in some manner the persons to be preferred must justly be found. Likewise the exclusion of one member or class of members of the group must justly rest upon the selection of some other class as under general conditions better representative of the family right, rather than upon the intrusion of an outside power at its own option to exclude each and every class of the family from some arbitrarily determined portion of the succession; for the claim of the state to exclude for its own benefit all the family from some portion decreed by the state itself logically means the claim of the state to make that portion indefinitely large and ultimately to seize the whole, to the total exclusion of the family, and the complete denial of the family right.

Succession by intestacy as a part of the private right to a perpetual private title, therefore, applies to the whole of that title, and not merely to the remnant which the state may choose to leave untouched by its charges, and is a right belonging primarily to the group of persons more or less closely related, which may be called for convenience the family. The person taking under such succession claims justly by right of his family, although as between himself and the other members he must bring himself within some positive law, but such succession is not thereby a mere privilege created as between the state and the taker. There is a third person present, the family, whose rights the state is in duty bound to protect and recognize in selecting the persons to take. In apportioning the family right among its members the state may justly select certain classes of relatives for priority, as is frequently done in favor of the widow and minor children, and according to the same principle, perhaps, it might conceivably widen the circle of taking relatives when the prior classes have received certain specified sums. Such an enlargement of the field of inheritance might in some cases be consistent with the general family right, although its bearing in other directions might raise a variety of questions, for what is withdrawn thereby from one member is appointed to another member also entitled to represent the family right. But when the state, instead of appointing some one or more members of the family group to the possession of the family succession, arbitrarily for its own benefit diverts a part of the estate from all the members of the family or refuses to allow a certain member to participate, except upon a diversion of a part of his nominal share, not for the benefit of other members of the family, but for the state's own benefit, the state in so doing is denying the family right, invading the private right to the private title, and imposing a servitude on the person whose nominal share is encumbered, withheld, or depleted by the arbitrary exaction.

The succession by intestacy rests upon the right to participate in the natural relationships of life and constitutes a part of the private right to a perpetual private title in property, whether, as in the case of land, that title is concurrently subject to a public interest of periodic taxation over the subject-matter itself, or is a title to a kind of property over which, as in the case of the products of human labor, we may contend that the private right should be

exclusive of any public claim of taxation for the mere ownership or enjoyment thereof. The theory of the concurrent existence of a perpetual private title to, and a public servitude of taxation over, a piece of landed property, implies that the public right of taxation is limited to the public servitude according to the nature of the property itself, and not according to the personal accidents of ownership in the hands of some particular owner or class of owners, for the right of the public servitude over a particular piece of property should justly be the same regardless of the temporary ownership. So, too, the assertion of a just private right to any species of property exclusive of any just public claim of taxation for the ownership or enjoyment thereof equally excludes any claim to a just public interest on account of the personal accidents of ownership, for then the private right of enjoyment to the same property or fund would be different, according to these mere accidents. The theory of a perpetual private title, whether with or without a just public claim to periodic taxation over the subject-matter, implies, therefore, a right to receive any legally existing property to one's own use to as large an extent as the prior owner is justly entitled to transfer it, and we come to consider the right to bestow and the power to make a will.

It has already been urged in these pages that the existence of a perpetual private title justly includes the right to transfer it as a part of the enjoyment thereof, for the use and benefit of property would be extremely scanty if the owner were limited to such use as he might make with the particular thing, and if he could not exchange his title for something which, to him, for the time being, seems more acceptable and beneficial. As his right to the title itself is a right to the whole title, subject only to such encumbrances as affect the title itself in any owner's hands, so his right to the equivalent or compensation is entire and not merely a right to so much of the compensation as may remain after a power external to the owner has diverted by its arbitrary choice for its own spontaneous benefit a portion of that compensation; for the claim to deprive the owner of an arbitrarily determined portion implies a claim to make that portion indefinitely large and to absorb the whole at discretion. Thus the right of transfer is an essential part of a complete title, and is not a mere additional privilege for which a special charge may justly be exacted.

As the right of the owner to the whole compensation or equivalent for his title is a part of the right to the title and the enjoyment thereof, so the owner is correspondingly entitled, so far as his rights of property are concerned, to accept such equivalent as seems good to him under any particular circumstances, even though that equivalent may be obviously inadequate to the fair value, and he may, therefore, reduce that compensation or equivalent to the vanishing point and transfer his title as a gift. Thus the size or existence of an equivalent is immaterial to raise a public interest in the transfer of a purely private right and the right to give away one's property is also an essential part of a perfect private title, as a right included in the right to sell, dispose, and transfer,—but always on the supposition that the owner is acting as a reasonable man, not encroaching on the rights of others. Thus a man who is insane may justly, for his own benefit, be restrained from squandering his property by gifts as well as by reckless expenditure, and likewise a man who owes just debts may be said to be under an obligation to his creditors not to impoverish himself by malicious generosity. Within these limits there is admittedly a justification for intervention by the state under its tutelary and protective powers to restrain or revoke the transfer or the gift, either for the benefit of the incompetent donor, or for the benefit of the creditors whose antecedent rights have been threatened.

When, however, an organized state or nation by its governmental power assumes of its own spontaneous arbitrary choice to refuse validity to a gift, merely because it is a gift, except upon the condition of receiving an arbitrary charge from a party to that gift or diverting a portion of the intended gift from the intended beneficiary into the public treasury, it is acting, not by a restraint for the benefit of one who is unreasonably threatening his own interests and who should be guarded from himself, nor for the benefit of one whose antecedent rights are threatened and should be protected, but is imposing a restraint arbitrarily for its own benefit where no public interest exists. In thus encumbering or diverting a gift the government is encroaching on the rights of the recipient in preventing him from receiving so good a title or so large a title as the donor parts with, and is also encroaching on the rights of the donor in depriving him of one kind of enjoyment of a certain portion of his property by diverting it from the desired beneficiary of the gift,

or by requiring the donor to pay an additional sum over and above the amount which he bestows to the real benefit of the beneficiary. In thus restraining the donor and the beneficiary, not for the benefit of themselves or of either or of some person whose rights are threatened, but for the arbitrary spontaneous benefit of the government at its own choice, the government is depriving both parties of the enjoyment of a transaction to which they are both entitled as a right, not as a privilege, in requiring them to transact the business, not in their own right, but primarily in the right of a master, and is thereby asserting a proprietary claim upon them and exercising a servitude over them.

Now, the right to give one's property or to transfer voluntarily the whole of a certain piece or article or fund includes the right to give less than the whole title which the owner has, if less than the whole can at any time be transferred, and thus to divide it into successive interests for different beneficiaries during different periods. This at once raises the question whether the division of a title into successive estates or interests implies any public interest arising thereby. It may be at once objected that, although the right to give away the whole title is a part of the right to the enjoyment of the property, yet the kinds of partial estates or temporary successive interests into which the title may be divided rest entirely within the provisions of the law for recognition or rejection. It is undoubtedly true that the kinds of estates or interests which shall be valid in law are dependent on the law-making power in order to be effective, but this determination must justly be, by general rules of law, adapted to make certain and secure the dealings with the property, and, moreover, it is to be considered as providing for the subdivision of the private title by those who are entitled to deal with it, and not for the interjection of an extraneous interest to divert a portion of the private right. As the whole must consist of all its parts, so the whole private title, when subdivided into successive interests, should be no less than when it is held as a unit, and the sum total of the successive private interests should justly make up as large a private title as if it were not subdivided. Yet if the government declares that at the passing from one estate to another a special charge shall be interposed for the government itself, it is thereby rendering the estate of the new taker less comprehensive than the estate of the previous holder, for it becomes

subject to an extraneous charge which lessens the value or depletes the fund, so that as the process continues the private title in the subject-matter becomes constantly less than before each successive step, and the sum total of the successive private interests becomes less than the original whole title from which they were carved out.

Hence the right to give away one's property includes the right to give away a qualified interest therein, and the just relation of the state to such a transaction is merely to provide reasonable rules as to the legal instruments necessary to accomplish the purpose. So also the right to give away implies the right to retain for one's self a qualified interest in the property without lessening that total private right; for such qualified interest retained is in effect the same as a reconveyance from the donee in the way of compensation for the transfer. The legal machinery necessary to accomplish the purpose effectively must, of course, depend on the law, but the right to seek that purpose and to look to the law for some reasonable means, results from the right to dispose of one's property and enjoy the compensation. As it is justly within the right of the owner, as between himself and the public, to accept less than the full value for his property in the absence of fraud against the rights of others, so it is also within his right to accept for his property the agreement of the new owner to spread the compensation over a period of time, either definitely or indefinitely determined.

Accordingly, if an owner transfers his property to a new owner, and in return the new owner agrees that the old owner shall have a stated periodic payment for the rest of his life, or shall have the use of the property for his life, then that periodic payment or use is merely in the nature of compensation for the transfer, and the transaction is entirely within the rights of transfer incident to a perpetual title in private right. Now this is in effect the situation created when a person transfers his property to another by any kind of instrument to take effect at the death of the owner, although the law may look only at the form of the instrument and describe it in variously different terms. Yet in substance the effect is the same regardless of the legal formalities, and when the government intervenes and refuses to recognize the transaction merely because it depends on an insufficient compensation, or because it confers a gratuitous benefit on the taker, and requires that the estate taken by the beneficiary shall be charged or depleted by a government

exaction, it lessens the private title in preventing the taker from taking so large a share as the disposer disposes of, and in diverting a portion of the intended benefit it violates the right of the disposer to dispose of his private title for so much compensation, much or little, as satisfies him. In thus defeating and depleting the private title in the absence of any public interest or threatened antecedent rights of others, the government, by an act for the spontaneous benefit of the government itself, asserts a proprietary claim to dispose of the rights of both parties and exerts a servitude over them.

The right to bestow by a transfer in life, either outright or by a qualified interest with a reserved estate for the donor in the nature of compensation for the disposition of his title, is a part of the general right to transfer essential to a perpetual title in private right, and is entirely apart from any public interest which may exist over the property by reason of the particular nature thereof, for any such public interest whenever it exists is equally valid against the property in the hands of any owner, so that the mere fact of transfer raises in itself no special public interest thereby. The justification of an interference with the transfer must, therefore, in any case rest upon protecting some antecedent right. Thus there are many rules of law for the methods of making transfers of property, or affecting the validity thereof as between the parties thereto. The laws of France and some other countries, for instance, contain elaborate provisions as to the legality of gifts as affecting the position of the family of the donor. The justice or wisdom of any such provisions is immaterial to the present discussion, but such laws are totally distinct in nature from a governmental diversion of private rights at the arbitrary choice of the government for its own benefit, for they show rather the recognition of a secondary family right along with the primary individual right, the individual right and the family right, together existing within the private right in a perpetual private title. The existence of both these phases of the private right explains the existence of laws apportioning or delimiting these two parts of the private right among conflicting claimants, since such laws come under the tutelary or protective powers of government. Such laws, therefore, do not support any claim to defeat a transfer in whole or in part merely for the government itself.

Whether the right to bestow should or should not be limited

as between the individual right and the family right, there is an additional phase of the matter when the bestowal is within the family, and we then have a combination of the two phases of the private right. Man not only finds himself in this world in the presence of a family to which he may reasonably look for a special degree of friendship and aid, but he also has the right to respond to the corresponding claims of his relatives. He not only has a duty to the immediate family dependent on him, but he has also the right to benefit that family and the members thereof. Thus, when a person is exercising his right to bestow by conferring gifts upon the members of his family, in the absence of any fraud against his just creditors, such a person is not only acting under his individual right, but is in a certain degree recognizing the family right even if the particular member benefited is not one of those who would be immediately selected by the law of intestacy if the donor were dead, for the law of intestacy must act by general rules for the attainment of general ends, and cannot take account of the special circumstances which, in particular cases, may furnish a reason for a special gift to some particular member of the family. But, on the other hand, the right to bestow upon one's family includes also the right to expect that the property which the owner does not wish to dispose of shall go to those to whom he may be said to have a particular right to give it, namely, those who have the claims of kindred, or who may be dependent on him. Accordingly, if the relatives pointed out as beneficiaries by the law of intestacy are perfectly satisfactory as beneficiaries to the owner, he has a right to bestow his property upon them by inaction, with the full confidence that the whole of the property beyond expenses shall go to such persons and not merely the remnant which may be left after answering some extraneous exaction decreed by the government for its own benefit. Thus the diversion of a part of an intestate estate away from the family by the spontaneous action of the government for its own benefit, is not only an infringement of the family right to receive, but indirectly also of the individual right to bestow.

Now, if the transfer of and succession to property by intestacy, or by gift, whether in the life of the giver or to take effect at death, are parts of the general private right in a perpetual private title, according to the foregoing pages, what is the nature of the power to make a will? It is commonly said that the making of a will is

purely a matter created by law and is, therefore, merely a special privilege which may be granted or withheld at the pleasure of the law-making power. It is, in fact, actually withheld from certain classes of persons by the laws of most countries, and is frequently limited in its operation as against certain relatives of the deceased. Thus the widow of the deceased generally has a certain portion beyond the reach of the will of her husband, and in France and some other countries there are strict provisions of law against excluding the children of the testator from certain portions of the estate. From such provisions it is argued that the making of a will is purely an artificial privilege of the law, to be qualified in the full discretion of the state. It is undoubtedly true that a will must, in order to be effective, comply with the requirements of the law, but such requirements are justly founded on the need of security and certainty for those who deal with the property. It does not follow that because the method of making a will, and the scope and the effect of the will must depend on the law of the organized state, that the state is conferring a gratuitous favor which it may withhold or limit for its own benefit. The result of the non-existence of a power to make a will in any particular case, or the result of the failure to comply with the rules of the law for making a will must justly result simply in leaving the property to go as property of which the owner has not disposed and the rights existing by intestacy intervene.

Now, if the state were justly the natural successor to intestate property, and the usual intestate succession within the family were merely a favor granted by the law, then equally the power to make a will would be merely a favor to be conferred in whole or in part by the state at discretion. But if there is justly a family right, as a secondary group right, to demand that the property of which no disposition has been made by the owner shall go in some way among the members of the family, then the power to make a will is not a mere favor at the expense of the state, but is rather an apportionment and delimitation between the primary individual right and the secondary family right co-existing within the limits of the private right of a perpetual title. So much power as is conferred by the power to make a will is not in derogation of any rightful public interest, but is the postponement of the family claims to the individual claims and the creation of a piece of legal machinery for

the exercise of the right to bestow, so that without parting with his property during life a man may enjoy the use of it during his lifetime and indicate its disposition after his death.

Now this is in effect of the same practical result as when a man transfers his property for a compensation consisting of some use or benefit of the property during his life. As such a transaction is within the just limits of the right to transfer any perpetual title, whether or not encumbered by some public interest over the property itself, so the power to make a will is simply a piece of legal machinery for accomplishing in one manner a result which the owner has a just right to accomplish by indirection, and for the accomplishment of which he has a right to demand of the state that some machinery—not any particular machinery—but some machinery or other, shall be provided or recognized. It is admitted that one method as well as another may justly be qualified for the protection of the just claim of those whose rights may be threatened, or for the recognition or delimitation of the family rights, but such qualifications come under the protective right of the state, while the power to make a will, so far as it is conferred at any time or place, is not a mere privilege from the state, but is a recognition of the individual right to bestow as between the individual right and the secondary family right.

As the power to make a will is accordingly to be considered as a recognition of the individual right to bestow, so as between the state and the property owner the power must be exclusive so far as it is allowed at all. That is to say, it may be qualified or withheld in the delimitation of the family right or the protection of the threatened antecedent right of just creditors or others, but it may not be justly conferred merely for its enforced use for the benefit of the state itself. As the right to transfer and bestow either by active gift or by passive intestacy is a right to pass as large a title as the owner has in perpetual private right, so the power to make a will should justly be considered when it exists as the power to pass just as large a title beneficially as may not be required to satisfy the interests reserved for the family or the just claims of creditors or others with antecedent rights. The power to make a will, although only a piece of legal machinery, is yet a recognition of the individual right to bestow, as qualified by the family right or the antecedent rights of others, and so far as it is withheld, the

property excluded by the law from the power must, therefore, justly enure to the benefit of the family right or the antecedent rights of others having just claims upon the estate, and not for the benefit of the state at its own spontaneous choice.

On the other hand, the intended beneficiary under a will, if he is recognized as a person competent to take the intended benefit, should be recognized as competent and entitled to the whole of the benefit which the testator intends to bestow, or in so far as the intended beneficiary is treated as incompetent to receive, the lapse should justly enure to the benefit of some other persons interested in the estate, either under the will or by the family right, and incompetence should not be arbitrarily decreed by the state for its own spontaneous benefit, for the general right to acquire property includes the right to acquire it by any means by which the disposer has power to bestow, and to acquire as large a title and interest as the disposer has the right and the desire to bestow.

If now the government intervenes in the settlement of an estate by will, and, refusing to recognize the validity of the disposition as sufficient to pass as large a beneficial interest as the testator intended, requires the nominal gift or fund to be charged or depleted by an exaction arbitrarily and extraneously determined by and for the government itself for its own benefit, then the government ignores the family right in arbitrarily withholding the power to make a will, not for the benefit of the family or the protection of antecedent rights, but for the benefit of the government itself. It also thereby violates the right of the testator to bestow, in that it diverts a portion of his estate from the intended beneficiary, or requires the testator to bestow an additional benefit on an external power in order to bestow what he desires upon the intended beneficiary; and, moreover, it violates the right of the beneficiary to receive as large and as beneficial a title as the testator has the right to bestow, in that it encumbers or depletes the nominal gift to the beneficiary, not on account of his incompetency to take, enuring to the benefit of the others interested in the estate, but on account of an incompetency created by the government at its own choice and for its own benefit to prevent the intended beneficiary from taking the whole benefit of the intended gift. In thus encumbering or depleting the nominal gift, and requiring that the beneficiary shall take the nominal estate, not primarily in his own right, but in the

right of an external power at that power's arbitrary choice, the government is asserting a servitude over the testator in his lifetime in the enjoyment of his right to dispose, and is exercising a servitude over the beneficiary in the deprivation of that to which he is justly entitled as a matter of private right.

The right of transfer and succession, whether by intestacy, gift, or will, results naturally or logically from the existence of a perpetual private title over any species of property, for such a title implies that it may belong in full to some private person or persons at any particular time, and as the title itself in any hands must be subject to any just public rights which may exist over it by reason of the nature of the property itself, as, for instance, the servitude of periodic taxation in land, so also the fact that the title belongs to one person rather than another is immaterial to any public right, and the transfer or passage of the title, therefore, raises no public interest to encumber, deplete, or defeat, the transfer or succession, either in whole or in part, for the mere spontaneous benefit of the government itself. Nor does the fact that a particular transfer or succession takes place at or by reason of a death raise any additional public interest, for, as death is a natural incident of private life, so the idea of perpetual private title involves the idea that the devolution of the property at death must depend on some principle of private right. Otherwise the title would not be perpetually private, but would be reduced to a mere life estate, with a partial power to dispose, and the organized state would be the sole heir and successor.

Hence, when the government seizes on the fact of death as an occasion for diverting a portion of a private estate, it is in effect making itself the exclusive heir of that portion in defiance of private right. It is admitted that the method or manner of making one kind of transfer rather than another must depend on the provisions of the law, but this is consistent with the idea of private right, for it is designed or should be designed for the protection of the rights of those dealing with the property. In other words, it is merely a form or machinery which the state may justly vary for varying circumstances, but it does not follow that for a particular class of cases it may justly, for its own voluntary benefit, deny it altogether as to the whole or any part of the subject-matter. The American courts, in sustaining the constitutionality of inheritance taxes, have generally taken the position that, in the eye of the law, the devolu-

tion of property at or by reason of death, is to be regarded merely as a special privilege resulting from the forms which the law sanctions rather than from any inherent private right. The Supreme Court of Wisconsin, however, in the recent case of Nunnemacher *v.* The State, while sustaining the constitutionality of the inheritance tax of Wisconsin, recognizes a fundamental private right involved. Mr. Justice Winslow, for the majority of the court, gave the opinion, and therein discussed the question of natural rights in the succession to property at death.

In this Wisconsin case the constitutionality of an inheritance tax was attacked on several grounds. The first and only one necessary to be here considered was "that the right to take property by inheritance or by will is a natural right protected by the constitution, which cannot be wholly taken away or substantially impaired by the legislature." On this point the majority of the court, by Judge Winslow, said: "With the first of these propositions we agree. We are fully aware that the contrary proposition has been stated by the great majority of the courts of this country, including the Supreme Court of the United States. The unanimity with which it is stated is perhaps only equaled by the paucity of reasoning by which it is supported. In its simplest form it is thus stated: The right to take property by devise or descent is the creature of the law, and not a natural right." . . . "The fallacy of the idea that the government creates or withholds property rights at will is very apparent." . . . "That there are inherent rights existing in the people prior to the making of any of our constitutions is a fact recognized and declared by the Declaration of Independence, and by substantially every state constitution." The opinion discusses the constitutional guaranty of "life, liberty and the pursuit of happiness," and says that the term "pursuit of happiness" is a very comprehensive expression which covers a very broad field.

"Unquestionably this expression covers the idea of the acquisition of private property; not that the possession of property is the supreme good, but that there is planted in the breast of every person the desire to possess something useful or something pleasing which will serve to render life enjoyable, which shall be his very own, and which he may dispose of as he chooses, or leave to his children or his dependents at his decease." The opinion quotes with approval the words of Judge Brown, in the case of United

States *v.* Perkins (163 U. S. Reports, page 625): "The general consent of the most enlightened nations has from the earliest historical period recognized a natural right in children to inherit the property of their parents."

Continuing, the Wisconsin court says: "So conclusive seems the argument that these rights are a part of the inherent rights which governments, under our conception, are established to conserve, that we feel entirely justified in rejecting the dictum so frequently asserted by such a vast array of courts that these rights are purely statutory and may be wholly taken away by the legislature. It is true that these rights are subject to reasonable regulation by the legislature, lines of descent may be prescribed, the persons who can take as heirs or devisees may be limited, collateral relatives may doubtless be included or cut off, the manner of the execution of wills may be prescribed, and there may be much room for legislative action in determining how much property shall be exempted entirely from the power to will so that dependents may not be entirely cut off. These are all matters within the field of regulation. The fact that these powers exist and have been universally exercised affords no ground for claiming that the legislature may abolish both inheritances and wills, turn every fee-simple title into a mere estate for life, and thus, in effect, confiscate the property of the people once every generation." Accordingly, the court, in sustaining the constitutionality of the law, placed it upon the ground of reasonable regulation and said that "the general principle of inheritance taxation may be justified under the power of reasonable regulation and taxation of transfers of property."

It is not intended herein to criticise the Wisconsin court for its interpretation of its own constitution, nor to disagree with its decision as a mere question of constitutional law, but it is respectfully urged that on the score of justification in its broadest scope, the right of regulation of transfers and devolutions of property, applies to protecting and guarding the interests and rights of the persons dealing with the property, and not to the destruction of such interests and the denial of such rights for an incident not involving a public interest, by the imposition of an extraneous charge diverting a portion of the benefit of the property to the government at the government's own choice; for if the private right to the private title is entire, it is a right to the whole title beneficially, and

not merely a right to the remnant left after the arbitrary choice of the government to divert, while the assertion of a right of the government to divert and defeat a portion of the succession at the government's own choice, seems logically to involve the right to make that portion indefinitely large and thus to defeat the whole private title as well as a portion.

Inheritance taxes are frequently defended on the ground of being a charge for services rendered by the government in furnishing courts for the probate and administration of estates in analogy perhaps to a charge on a toll road for the use thereof. If this can be regarded as a valid justification in the case of some inheritance taxes, it is at least open to several qualifications, namely, that, although the government might exact a charge for the use of the courts which it supplies, such charge should be limited to the cases in which it is necessary to use the courts, and the government should not seek to drive into court for its own benefit property which can be settled out of court. Accordingly, a settlement made in the lifetime of the owner by a gift in trust to take effect at death should not be attacked by the law, for that would be analogous to driving a person through a tollgate merely for the purpose of collecting toll. Yet it is the general practice of inheritance tax laws to attack settlements under deeds made to take effect at death, as well as settlements by intestacy or will, and it is obvious that to limit the field of the tax to intestacies and wills would greatly reduce the revenue from the law.

Again, if such taxes are to be considered merely as charges for the use of the courts, they should be treated as general expenses of the estate, and in the case of wills should not be charged to the legatees distributively, to the reduction of the legacies intended by the testator. But, aside from these considerations is the more fundamental objection that the settlement of estates is not a mere favor or service which the state may perform or decline at pleasure. It is a part of the administration of justice, and by exacting a commission for performing its duty the government is violating the principle that justice should be sold to none and denied to none. Moreover, if the imposition of a probate tax or estate duty as a charge for the use of the courts can be considered as justified in the state which furnishes the courts, it is difficult to see how such a principle can justify a federal tax under a federal system in which

the federal government has no probate jurisdiction within the separate states or the power to change the laws of wills and descents.

If now, as herein contended, the spontaneous interference of the government, either local or national, to defeat for its own benefit the transfer or devolution of property for an incident which does not in itself raise a public interest, is a violation of the private right in the property, and if the rights of disposition and succession at or on account of death are only parts or manifestations of the general rights of transfer involved in the idea of a perpetual title in private right, then the imposition of public charges for the devolution of property at death is in effect the reduction of the private title to a species of feudal tenure, with casualties exacted for the personal condition of the title rather than charges for some public interest involved. In thus subjecting the owners to hold their title primarily in the right of a superior rather than in their own right for the occurrences of their own lives, the government imposes a servitude on them, and these inheritance taxes become analogous to the *relief* and *primer seizin* of feudal times.

These feudal casualties were the logical outgrowth of the original feudal relation of mutuality between lord and tenant for a personal holding of particular land, but, although the mutuality faded and the tenant's estate became hardened into a permanent property right, yet these casualties remained as servitudes upon the people. Blackstone, in Book 2, Chapter 5, says of *reliefs* that "they were looked upon very justly as one of the greatest grievances of the tenure, especially when at the first they were merely arbitrary and at the will of the lord, so that if he pleased to demand an exorbitant relief it was in effect to disinherit the heir." Nor is the modern inheritance tax alleviated in comparison with the feudal casualties in the fact that it is payable to the government rather than to an intermediate power, for the injustice involved is such by reason of the taking rather than by reason of the destination of the payment, and, in fact, the feudal casualties which were most oppressive were those payable to the king by his own tenants in chief.

"The oppression of the feudal conditions of *relief, wardship,* and *marriage* was enormously severe for many ages after the Norman Conquest, and even down to the reign of the Stuarts. Upon the death of the tenant *in capite,* his land was seized by the Crown,

and an *inquisitio post mortem* taken before the escheator, stating the description and value of the estate, and the name and age of the heir. The adult heir appeared in court and did homage to the king, and paid his relief and recovered the estate. If the heir was a minor, the land remained in wardship until he was of age, and sued out his writ *de aetate probanda,* and under that process he procured his release from wardship." (Kent's Commentaries, Part 6, Lect. 53.) This procedure has a striking resemblance to the settlement of an estate or a trust under a modern inheritance tax.

In some respects, moreover, the modern inheritance taxes are more grievous than the feudal *reliefs,* for in a federal system such taxes are often demanded both by the local and the central governments, and in case the assets are scattered within the power of several jurisdictions there are frequently several local charges exacted. Whereas the feudal rule in England was that *relief* was payable only once to one lord for one inheritance. Thus Bracton (Book 2, Chapter 36, Section 4), in considering *relief,* says: "And it is to be known, that it is not to be paid except to chief lords and the next feoffors, and if there be several chief lords gradually ascending, each heir shall pay a relief to his feoffor and not to the others; or to the lord the king himself, if by chance he hold of him in chief by military service." And in the next section he says: "Likewise how often, and it is to be known, that it is only once as long as the heir lasts who has once relieved." (Et sciendum, quod non nisi dominis capitalibus et propinquioribus feoffatoribus, et si plures fuerint capitales domini gradatim ascendendo, quilibet haeres relevium dabit suo feofattori et non aliis, vel ipsi domino regi, si forte de eo tenuerit in capite per servitium militare. Item quotiens, et sciendum, quod non nisi semel tantum, scilicet quamdiu haeres duraverit qui semel relavit.) Compare with this the situation under overlapping claims of several states and the nation as lords of inheritances, and we may see how close we are to the conditions of the feudalism which Chancellor Kent condemned as inconsistent with freedom.

Perhaps the American people will insist for years on asserting the claim of probate spoliation through some channel or other; but if so, for very decency's sake, it should be limited to the forum having jurisdiction of the settlement. In an age of growing national consciousness these attacks upon the estates of non-residents

are operating powerfully to foreignize all interstate relations, and if there is no principle of law or comity which can terminate these state duplications it may eventually be necessary to ask for a federal probate, one law, one settlement, one jurisdiction, instead of the present multiplicity of masters. More momentous changes have resulted from less conspicuous causes. The federal constitution itself was largely the result of the lack of self-restraint on the part of the states in dealing with interstate commerce, and if the overlapping exactions of the states to-day should result in the loss of one of their chief functions and ultimately in the amalgamation of the states themselves into one consolidated realm this lack of self-restraint would again receive its reward.

The American inheritance taxes have been repeatedly declared by the courts to be no violation of the constitutional provisions against the taking of private property, on the theory, apparently, that it is not the abstract right of property, but only the legal recognition of property, that is protected by the constitution, and that the legal title to all kinds of property is ineradicably contaminated with the claim of the government to despoil the owner by taxation imposed at discretion, and not on account of any public interest in the kind of property. Such a doctrine, however, is in itself the most absolute assertion of a servitude over the owner by denying the right of private ownership by a perpetual title. The confessed and intentional restoration of the feudal tenures, with their burdensome incidents, in an American state which either by statutory or constructive law or its constitution has abolished such tenures, or their casualities, would doubtless, as regards outstanding titles, be obnoxious to the constitutional provisions against taking private property, since it would involve the taking or enlarging of an estate of superiority to support the casualties in derogation of the existing title of the private owner. Yet by the simple device of calling the exaction a tax it seems to be possible to accomplish precisely the same practical result.

These feudal burdens were very real grievances to the early settlers of New England, and accordingly we find among their earliest enactments in the Massachusetts Body of Liberties of 1641 the following provision: "All our lands and heritages shall be free from all fines and licenses upon alienation, and from all heriots, wardships, liveries, primer seisins, year-day-and-waste, escheats, and

forfeitures, upon the deaths of parents or ancestors, be they natural casual, or judicial." By this act the inhabitants of Massachusetts anticipated by nearly twenty years the abolition of the military tenures in England, and by a century the similar abolition in Scotland. On the Hudson River, too, the old feudal manors even in socage tenure caused trouble well into the nineteenth century. The colonists of New England were no fools, however crude or uncouth they may have been in some respects. They did not always express their wants in scientific language, but at least they knew one thing which they did not want, and that was feudal servitude. Yet today in all parts of America many of their successors are eagerly, joyously, exultantly, seeking to restore under other names some of the very oppressions which our predecessors intended to destroy. Appropriate to the present time seems a sentence from Article 26 of the Grand Remonstrance of 1641, when the Long Parliament, referring to land between high and low water mark, complained of "the taking away of men's right under colour of the King's title"; for if men are escaped out of the hands of the feudal barons only to fall into the hands of the implacable organized state, then is democracy merely a multiplex autocracy, and freedom is a word without meaning in the law.

Chapter VIII

PUBLIC AND PRIVATE RIGHTS

In the case of The People *v.* Reardon (184 New York Reports, page 431), the Court of Appeals of New York sustained the constitutionality of a stamp tax imposed by that state for sales of corporate stock. The opinion was rendered by Judge Vann, who therein made the following observations on tax laws: "All taxation is arbitrary, for it compels the citizen to give up a part of his property; it is generally discriminating, for otherwise everything would be taxed, which has never yet been done, and there would be no exemption on account of education, charity or religion, and frequently it is unreasonable, but that does not make it unconstitutional, even if the result is double taxation." . . . "Arbitrary selection and discrimination characterize the history of legislation, both state and national, with reference to taxation, yet, when all persons and property in the same class are treated alike, it has uniformly been sustained both by the state and federal courts."

If the foregoing words of the learned judge are to be taken merely as setting forth the present condition of the law under the practices of legislatures and the decisions of the courts, his language is only too true and illuminating; but if his words are to be taken as indicating the utter hopelessness of any better basis of public revenue, then they show a terrible hiatus in the scientific justice of our boasted civilization, and may be compared with certain passages from Edmund Burke's feigned argument against all government in civil society in his essay entitled, "A Vindication of Natural Society," as follows:

"All writers on the science of policy are agreed, and they agree with experience, that all governments must frequently infringe the rules of justice to support themselves; that truth must give way to dissimulations, honesty to convenience; and humanity itself to the reigning interest. The whole of this mystery of iniquity is called the reason of state. It is a reason which I own I cannot

penetrate. What sort of a protection is this of the general right, that is maintained by infringing the rights of particulars? What sort of justice is this which is enforced by breaches of its own laws? These paradoxes I leave to be solved by the able heads of legislators and politicians. For my part, I say what a plain man would say on such an occasion. I can never believe that any institution, agreeable to nature, and proper for mankind, could find it necessary, or even expedient, in any case whatsoever, to do what the best and worthiest instincts of mankind warn us to avoid."

The words of Burke were only in pretended argument against established government, in imitation of arguments against established religion, and, therefore, for the purposes of his argument he used the mistakes of government to contend that no government could be "agreeable to nature and proper for mankind." But his words have a hideously vivid application to many of the current practices of taxation, and if we are to believe that some degree of government is "agreeable to nature and proper for mankind," we may equally believe that there must be in natural right some rational basis for the support of government consistently with the natural rights of individual persons, unless we must say that, as government is necessary, therefore, the man exists for the benefit of the organized state or nation rather than the organization for the benefit of the man.

Many will doubtless deny the existence of any natural rights and will be content to look to the organized state as the sufficient source and guaranty of both rights and remedies, but if there are no natural rights, then despotism is merely inexpedient and not unjust. Without in the slightest degree attempting to define the limits of natural rights, the Constitution of the United States of America impliedly recognizes the existence of such a class as natural rights, by specifically prohibiting certain kinds of governmental actions particularly dangerous to human freedom. For instance, one clause declares that "no bill of attainder or *ex post facto* law shall be passed." The first amendment to the constitution says that "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof, or abridging the freedom of speech, or of the press," and guarantees the right of assembly; and the fourth amendment provides that "the right of the people to be secure in their persons, houses, papers, and effects, against unrea-

sonable searches and seizures, shall not be violated," and limits the issue of warrants. The ninth amendment says, moreover: "The enumeration in the constitution, of certain rights, shall not be construed to deny or disparage others retained by the people."

Nor is the doctrine of natural rights of merely modern invention. In medieval times, when the law was apparently considered to be co-extensive with justice, there was much discussion of the question whether the people might lawfully, *i. e.*, justly, resist a lawful prince who was violating the rights of his subjects. Obviously, the assumption that the governing prince might be in the act of violating the rights of his subjects implies that some rights have a fundamental basis back of the government itself. Bracton, in his treatise on the laws and customs of England, discusses natural rights. Thus, in Book 1, Chapter 4, he says that "right (ius) is sometimes used for natural right, which is always good and fair; sometimes for civil right only; sometimes for pretorian right only; sometimes for that only which results from a sentence." And, in Chapter 5, he says of private right that it "is collected from three sources, either from natural precepts, or from the precepts of nations, or from civil precepts."

After speaking about public and private right, he considers natural right, the right of nations, and civil right, "which may be called a custom sometimes." Natural right he describes in several ways, first as an impulse (motus) coming from the nature of the living thing, and gives this definition: "Natural right is that which nature, that is, God himself, has taught all animals." Again he considers that "natural right in a second manner is used to express a certain debt which nature represents for each person."

In regard to the right of nations he says: "Likewise, the right of nations is what human nations observe, and which proceeds from natural right." He applies these principles to manumission in the following manner: "But a manumission is the giving of liberty, that is, the declaration of it, according to some, for liberty, which is of natural right, cannot be taken away by the right of nations, although it has been obscured by the right of nations; for natural rights are immutable. But it is truly said, that he, who manumits, gives liberty, yet it is not his own, but another's liberty, for he gives that which he has not, . . . for natural rights are said to be immutable because they cannot be totally abrogated or

taken away, yet something may have been derogated or detracted from them in fact or in part." (Iura autem naturalia dicuntur immutabilia quia non possunt ex toto abrogari vel auferri, poterit tamen eis derogari vel detrahi in specie vel in parte.) By which Bracton seems to mean that no violation or infringement of a natural right, by means of national law, can destroy that right or justify the continued violation thereof in the future.

Bracton's description of natural right as an impulse (motus) is not perhaps entirely satisfactory as an exact statement, but it is not necessary here to attempt to give an exact definition or delimitation of natural right. Our common forms of speech seem to recognize its existence. We speak of a "just law," or a "righteous government," whereby we imply that the standard of justice or of right is external to the law or the government. In fact, we may confidently assert the necessity of natural rights until the whole phenomena of human life can be explained by reference solely to the organized state. Bracton's definition of natural right as an impulse suggests, however, that we may look for natural right in the relation between the nature of man and the nature of any particular transaction in which a person may be involved. Justice is the balance between volition and force, and implies a natural right on each side. Every law seeking to restrain the actions of men should contain the three elements, liberty, authority, worthiness, but nothing can be worthy which is unjust. Alexander Hamilton declared that "in framing a government which is to be administered by men over men, the great difficulty lies in this, you must first enable the government to control the governed, and in the next place, *oblige it to control itself.*" In nothing is this more needful than in matters of taxation, on account of the temptation to impose servitudes upon the inhabitants, for a just state is not the proprietor of its inhabitants, but their guardian and protector.[11]

[11]Dr. Rudolf Kobatsch, in his afore-mentioned book, "Internationale Wirtschaftspolitik," at page 156, in considering the right of peaceable foreigners to enter and reside in a country, inquires, "Must the peoples, that is, the individual members of a people, really wait upon the law for the right to reside or establish themselves in another state, until it suits and pleases the states which represent these peoples to unite upon a special settlement treaty? Or, are not all these treaties and the settlement clauses in the commercial treaties rather the halting legalized right, which is preceded by legal usage, customary right, and the elementary necessity of modern international traffic, which has long ago broken the broad road for it?" By which he seems to imply that even in international trade between artificial states there may be natural rights—a point not necessarily material to the present discussion, but interesting nevertheless.

The French Civil Code, in considering servitudes over landed property, speaks of such a servitude in the following manner (Article 639): "It results either from the natural situation of the premises or from the obligations imposed by the law, or from the agreements among the proprietors." (Elle dérive ou de la situation naturelle des lieux, ou des obligations imposées par la loi, ou des conventions entre les propriétaires.) This analysis by the code seems to be not only legislative, but also fundamentally comprehensive as touching all possible interests involved, the thing, the state, the individual. Apply these principles to servitude over human beings. Can we say that the natural situation or condition of a man can justly be the foundation for servitude over him? Shall we not rather say that the natural situation or condition of every man always and everywhere demands freedom as the chance to make the best of himself? Shall, then, the law impose a servitude on the man who is of right entitled to freedom? Such a law is mere force, not founded on antecedent right, and is, therefore, unjust. Or, again, shall we say that a man may justly be held to have submitted himself without recall to a condition of servitude to his neighbor or his fellows merely by a fleeting act of temporary consent or agreement? That would be to consider freedom as the mere absence of all restraint at one moment in order to enable a man to sell himself into slavery, and would be the veritable suicide of freedom. When we refuse to permit a man to destroy his future by his reckless acts, we are not depriving him of his freedom, but preserving him for his freedom.

Thus the very same principles which originate and maintain servitudes over landed property as a thing, deny, forbid, and invalidate the assertion or maintenance of servitudes over persons in the contemplation of right and justice, and such servitudes can find no justification, either in the natural situation of man, or in the impositions of the law, or even in the agreements of individuals. Yet it is precisely at this point that current practices of taxation in even the most civilized lands violate the fundamental rights of man in depriving him of the just use of his own life and its incidents by personal taxation on account thereof. The alleged atrocities in the Kongo State in recent years are in many respects only the logical extremes of the personal systems of taxation in vogue in civilized countries. Yet so far is the popular sentiment from recognizing

the essential wrong involved in the present system that there is a widespread desire to make the system more rigorous and drastic in attacking persons for the ownership of personal property, the receipt of income, and the devolution of property at death, so that every one shall be, if possible, subjected to some deprivation. In the ordinary affairs of life it is generally considered the part of wisdom to accomplish a purpose by co-operating with the enlightened self-interest of other parties involved, but in matters of governmental revenue there seems to be an opinion that the government is not fulfilling its duty unless it is making itself painfully felt by every person.

If taxing is merely taking, the operation is necessarily arbitrary, but if we are to regard government as a natural feature of human life, and as having a just place in that life, we must seek its revenues in some basis of public right not involving the establishment of servitudes over persons. The various methods in vogue for taxing persons on account of their personal property, their incomes, or the settlement of the estates of the deceased, consist in asserting servitudes over persons of some classification determined by the state for its own benefit, and are, therefore, unjust. It is not sufficient to say that because the government needs the money, therefore, it may help itself as it pleases to the goods of the inhabitants. That is in the last analysis the argument of the highwayman, the pirate, and the buccaneer. It is no better than asserting a vast public graft, and makes the state merely a great plunderbund. We have passed beyond the time when it is tolerated that the state shall raise its revenue by the arbitrary selection of persons, but we have not passed beyond the time when the state raises its revenue by the arbitrary selection of classes of persons who are to be attacked merely because of their connection with some fact or act to which they are justly entitled as of right.

In order to exclude the assertion of servitudes over persons we must base the public revenue on some public right naturally involved in the subject-matter in respect to which the governmental power is exerted. Thus and thus only can we place it upon a firm and scientific foundation, consistent alike with the natural functions of government and the natural rights of mankind. This public right naturally and justly exists over the landed property in the community, as an artificial segregation dependent for its existence on

the maintenance of stable society. It also exists naturally and justly over those multitudinous special privileges which, in the form of various franchises, are likewise dependent on a social structure. It may also be found in connection with many lines of business, having a natural public interest or function. In all these cases, as heretofore shown, the existence of the public right is consistent with the existence of a private right, and, on the contrary, requires that as the public right when it exists is supreme over the subject-matter, so its enforcement should be over the subject-matter and not over some person or persons interested in the private right. Thus the public servitude of taxation over land can and should be exercised over the land and not over the owner or occupant, unless the latter is actively disturbing the public right; and in like manner the public interest over franchises and businesses having a public nature should be exerted over the enterprise as such, and not over the persons who may have the ultimate benefits of the private interests therein.

These public interests over certain subject-matters constitute in effect a permanent inalienable endowment to which the scientific state can and should look for its revenue without penalizing its inhabitants personally, and as these public rights exist over certain subject-matters by reason of the natural relation of those subject-matters to the state, so, too, they imply that there can be and should be other subject-matters over which the private right is exclusive. As the public right over any particular subject-matter must be either supreme or non-existent, so the private right, whether or not in any particular case subject to a public right, may justly be described as perpetual. Thus the public and the private rights co-exist without conflict. Accordingly, it is not to wealth as the accumulation of the past, but to the sources of wealth in lands, franchises, and public businesses, as the promise of the future, that the state or government should look for its revenue. The private accumulations of the past represent but the residue of the product of the past after the discharge of the public burdens of the past. To attack this private accumulation as such is, therefore, in its aggregate effects on the community, open to the same objections as the expenditure of a man's capital for current expenses, and even more so, for the life of the individual is limited by death, but the community survives. It may be that in the past the distribution of private interests among different classes of private persons has been unfortunate or unjust,

but the logical remedy should be, not to attack indiscriminately the innocent and the guilty of the present, but to undo the past only when specific wrongs can be shown, and to seek to provide for the future a more equitable balance between private persons rather than to deny and invade private rights by the arbitrary act of the state for its own benefit.

But perhaps it may be objected that the limiting of taxation to subject-matters of public interest would violate the doctrine that taxation should be according to ability. If that doctrine means that taxation should be essentially personal and should depend on the mere financial ability of the victim to answer an execution on judgment, it is hereby specifically denied that it is any part of the government's business to attempt to dictate as to the precise person or persons who shall perform the act of paying or that mere financial ability is any material measure of a particular person's economic relation to the state. But if the doctrine means that taxation should be according to economic ability, then it is contended that that would be accomplished by the operation of the natural laws of trade. If the government restricts itself to imposing a tax merely for some public interest involved in a subject-matter or transaction, the private parties interested will adjust among themselves the payment of the tax as their interests may appear to them; and, since the government gets its money, it ought not to interfere. Thus, as between the landlord and the tenant of a piece of land, it should be immaterial to the state whether the tenant pays a gross rental while the landlord pays the tax, or whether the tenant pays a smaller net rental and the tax. Again, take the case of an excise tax for the production of certain goods or a customs' duty for their importation. The justification for imposing such taxes must rest on a public interest as to certain kinds of goods which shall be produced or introduced within a certain country, and such interest relates to the fact or transaction. If the government once gets its charges in a particular case, it is of no just concern to it that the producer or importer may recoup himself by obtaining a higher price. To attempt to make him sell at the same price as if there were no tax would be preëminently unjust.[12]

As to the immateriality of the mere financial ability of par-

[12]Dr. Kobatsch's book on international economic policy contains an illuminating chapter on tariff-tolls and their working.

ticular persons a piece of mortgaged land furnishes an apt illustration. Suppose two persons, brothers perhaps, own together in equal shares a piece of land worth two million dollars. Each will naturally pay half the taxes thereon. One brother is more enterprising than the other, and wishes to develop the land. The first purchases the share of the second, and in payment gives him a mortgage for one million dollars on the whole. The purchasing brother agrees to pay the taxes on the property in full and to pay the seller a certain net interest on the mortgage. No new value has been created. The two brothers are still interested in the same property. The public servitude of taxation over the land is not lessened. Is there any reason for interfering between these parties and requiring an additional tax from either merely because they are now interested in the property by priority rather than equality? The financial ability of each party is the same afterward as before. One millionaire has agreed to carry the tax on the whole property and have all benefits beyond the mortgage and the other millionaire has no tax to pay, but is limited to his mortgage and the interest thereon. Both parties are satisfied and the public interest is not injured. Such a transaction is entirely legal in some jurisdictions without any additional tax, but some jurisdictions require an additional tax either because of the mortgage or the interest therefrom. Now here is a case in which the financial ability of two millionaires has not the slightest relation to the public right involved, and such financial ability is, therefore, in itself no just reason for imposing an additional tax for either the principal or the income of either. The establishment of one such case is enough to defeat the contention that mere financial ability of the person should be the object of attack in taxation.

Nor does the operation of a tax on landed property touch the financial ability of the private owner, when such a piece of property is on an investment basis, for the shrewd purchaser will estimate according to his best judgment the probable amount of the tax on the premises as a part of the expense of carrying the investment and will allow for that tax as for other expenses, like repairs and insurance, so that he will not give more than a price such that the residue of the probable rentals after caring for the expenses will yield him what he considers a fair income for his investment according to the current rate of interest. Thus the purchaser of

landed property on an investment basis has the opportunity for the full market return for his financial ability embarked in the enterprise, and has an economic ability to pay the tax on the property. It is precisely analogous to allowing for an outstanding mortgage on the property. The principle will naturally be the same, whether the tax is estimated by reference to the capital value of the property or the income therefrom, provided the means for collection are reasonably effective. When a piece of landed property is on a speculative basis, the tax may or may not affect the owner's financial ability according to the turn of the market, but on the theory that the tax is justly a prime charge on the land, there is still an economic ability, for the purchase of such speculative land is analogous to the purchase of a piece subject to a mortgage, and the owner pays the tax, as he takes care of the mortgage, for the purpose of protecting his economic interest in the property.

Now, in the case of personal property, and personal incomes, there seems good reason to believe that the same investment principle will operate so far as conditions are similar, that is, when the situation is such that the government has some hold on the property itself or on the source of the income before it comes into the hands of the investor; and in such cases the investor will estimate his price according to the probable return which will come to him. This situation may most easily arise in the case of certain kinds of representative securities, as, for instance, when the government collects a tax from the debtor and authorizes him to deduct it from the payments to the security holder, or when the security, like a mortgage, is a matter of public record and controlled by the government's tax officials. If such a situation is created effectively the investor will naturally make allowance for the nominal payments which he never gets or which he certainly must pay over for the tax, and will lower the price which he will give for the investment, or raise the nominal interest charged to a level where the actual return to him will seem to be a fair return at market rates. Thus the financial ability of the investor is again untouched and the debtor, in order to raise a certain capital, must either lower the price of his securities or raise the nominal income to offset the probable tax; which is thus in effect shifted, so that so far as a personal property tax or a personal income tax is really effective for revenue purposes at the source, it at once defeats itself, and its

purpose to attack the financial ability of the investor is discounted by him and the real burden thrown over on the other party by the arbitrary intervention of the government irrespective of any public right involved.

But very many classes of personal property and incomes are of such a character as to be physically out of reach of the government, which can, therefore, only attempt to discover the private owner or recipient and hold him liable. In such cases the tax is obviously not literally "on" the property or the income, but on the person who may be discovered and charged. In any particular case there is thus a chance that the facts may not be discovered and those persons who think that they can successfully conceal the facts may be willing to give considerably more for an investment security than would clearly be a sufficient price if the tax were certain of collection. A comparison of current prices for taxable and non-taxable securities of the same general class does not always show such a divergence as would be naturally expected from a consideration of the tax theoretically in force, but the different laws of different jurisdictions frequently make a market for a security as non-taxable in one state although taxable in others.

When a particular investment is of the taxable class in a particular jurisdiction, although the chance of discovery may be small in the aggregate, yet in the particular case where the tax is enforced it falls as a distinct injury on the holder of an investment whose price may be figured in the market on the expectation that a tax will seldom be collectible. In such a case the tax is an actual encroachment on the financial ability of the owner, but without any economic ability to justify it. The tax, then, in the particular case is not according to ability, either financially or economically, for in the particular case it falls fortuitously on some person who for some reason has not been able to maintain the secrecy which is assumed in the market price to be possible to a considerable proportion of investors. Obviously the same principles will tend to operate whether the tax is large or small, and whether figured in reference to the capital or the income, if the collection of the tax for such securities depends on discovering the private person's dealings. Thus those can best afford to hold such an investment who are the most skilful in evasion, and one of the prominent effects of these taxes for personal property and income is to put a premium on

such skill and exclude certain classes of legitimate investments from the more scrupulous portion of the population except upon a penalty for their scrupulousness.

The difficulty of discovering certain large classes of personal property is one of the motives urged for imposing the inheritance taxes which just now seem so popular. Aside from the mathematical error in attacking estates indiscriminately, whether or not invested in property of a kind that is likely to escape the taxes which legally accrue in the life of the owner, it is obvious that, so far as any particular taxes are fundamentally unjust, the difficulty of collecting them generally should be a reason for abandoning them and not for continuing the injustice and supplementing it by further injustice of the same general kind. These inheritance taxes are even less according to economic ability than taxes for personal property and income, for they are purely fortuitous personal casualties without any general basis upon which even an approximate allowance may be made in the market price as a partial buffer to the investor's estate. Nor do they fall according to any general financial ability. They attack and deplete the financial ability of the estate or the beneficiary in a purely arbitrary manner, not having any relation even in theory to the general financial ability of persons in the community, except as the mere possession of resources implies the chance or physical ability to lose them in whole or in part. A distinct loss externally imposed for an unpreventable but totally uncertain event can hardly be said to rest on ability either economic or financial. The fundamental thought in imposing a tax on lands, franchises, or a business with a public character, is that by reason of a public servitude or interest in or over the subject-matter the state or government has a right to a voice or claim in the management, benefit, or product of that subject-matter. The fundamental thought in imposing a tax for personal property, income, or the estates of the deceased, seems to be that the property or benefit belongs to private persons and may, therefore, be taken away from them by the state. This is essentially the denial of the private right, the assertion of a proprietary claim over the persons affected, and results in the establishment of servitudes over such persons.

The theory on which these personal taxes rest does not apply merely to any one class in the community. It is not a method of simply offsetting the faults of the vicious rich. Even if a line can be

drawn beyond which the mere size of a fortune rather than the use or misuse of it can be said to be objectionable, these taxes are not merely applicable in theory to such cases of excess. The theory of them applies to every class in the community, and it is only by the mercy of the legislature or the excessive cost of collection that to some extent poorer persons are frequently exempted from their rigor. If they should be enforced literally against all classes, we should find ourselves under a bureaucracy comparable to that of Russia and a surveillance resembling that of Germany.

Behold the condition of the thrifty, industrious citizen when these taxes are in full force. He buys or hires a piece of land for the use of his business; and either directly, as owner to protect his title, or indirectly, through his rental to the landlord, he pays the tax for the public interest in the land during his occupation. He uses the land and his own skill to produce products, and has a surplus left after supplying his needs. This surplus product he lays aside for the future, and the next year the state comes, in the guise of its officials, who have discovered the surplus, and says: "Give me so much from your surplus, for I need it in my business." But, says the owner, "I produced this myself and paid you for your public interest in the land on which I produced it. This is mine to keep for myself." "No," says the state, "because you have it, therefore, a part must be taken away from you. If you had been less industrious or more extravagant you would have the benefit of all your product, but now you must surrender part for your prudence."

Perhaps he has exchanged part of his surplus product for the goods of others, and again the story is the same. The man says it is his because it is the compensation for his product. The state says he must surrender part merely because he "has" it. Or, again, perhaps he has exchanged his product for gold, silver, or other ready medium of exchange, and has in turn put out the compensation as a loan for a fixed compensation. Again the state comes in, if its officials discover the fact, and demands a payment because the man has saved something, for there is nothing like the sight of ready money in private hands to excite the cupidity of the taxing legislature. So, although the man has limited his compensation to a fixed amount for postponing the use of his surplus, yet he is not to be allowed to keep all of that, but must be taxed, either because he has money at interest or has received interest from money loaned.

Again, perhaps he has invested his surplus in a legitimate enterprise in another country, and the fact becomes known to the officials at his home, who at once make demand upon him. The man replies, "All claims against the enterprise in which I am interested either have been or will be paid by that enterprise in the country where it is situated. This is a matter beyond your just jurisdiction." But the state says, "I will not allow my subjects to have the benefit of property in other jurisdictions," and so the man again must pay at home for the ownership of his goods in another country, or for holding stock in a foreign corporation or company, or because he has received the income which gives value to such foreign holdings.

Perhaps the man is not blessed or encumbered with possessions, but is active, skilful and energetic, and for his own labor and skill receives large compensation periodically. Again the state comes and says, "Pay me for the income which you have earned, and the man replies, "If I have earned it, does it not belong to me?" The state says, "Yes, it belongs to you, but I will not let my subjects work for themselves unless they also work for me as much as I choose to say." If, after all these assaults upon him for his property, his earnings, or his savings, there is anything beyond a pittance left at the time of his death, the settlement of his estate must be obstructed, if present voices shall have their way in all states, and as a matter of fact actually is obstructed in many states until the brooding, watchful, envious government, or perhaps two or three governments, national and local, shall have taken so much as the legislature by its own choice may have determined, and only the remnant can go to the dependent family or the friends to whom the deceased wished to show his friendship.

Thus the peaceable, industrious citizen may go through life penalized for his possessions and prosperity, with the confident assurance that at his death his family or dependents will be more or less despoiled. Verily, to adopt the words used by Blackstone in reference to the feudal tenures: "A slavery so complicated, and so extensive, calls aloud for a remedy in a nation that boasts of her freedom." Yet, instead of remedy, the cry in many quarters is to make the law more severe against private persons, while the public interests in the lands of the country are partially neglected, and vast franchises are exploited by special parties, and the governments of state and nation rely on vexatious and inquisitorial taxes which are

unkind, unsound, and unjust, and are, moreover, needless if there is any just basis for public and private rights.

Perhaps it may be objected that hardships may result under any method of government revenue, as, for instance, by an excise or import tax for some product of great consequence to the community. This is undoubtedly true, but unless we are to condemn all excises and tariffs utterly, which is not at all intended herein, such hardship is an injury to the community generally and not to particular persons by violating their private rights, for such a hardship consists merely in an increase of the price of goods in the market, but no private person can be said to have a vested right to buy goods at any particular price. Otherwise it would be the duty of the state to fix the prices of articles in the market. The whole teaching of history shows the uselessness of that policy.

The fundamental argument, however, of this whole discussion is not the mere hardship in special cases. The wrong consists in the invasion of personality in violation of the rights of mankind. Why is it that men love liberty in the abstract, and fear freedom in fact? Is it not because they are too prone to take pride in association with some artificial institution or combination of men, as the army, the navy, the aristocracy, the state, the nation, rather than in their own personality as human beings? There is no better touchstone of natural rights than the ancient precept of the Golden Rule, which may be transposed into juristic language by saying: refrain from doing that which, if done to you, you would regard as unjust. This should apply to the actions of aggregations of men in their collective capacity towards a person as well as to the actions of one man to another.

Herbert Spencer seems to have expressed this thought. In discussing the difference between the relation of a physical organism to its constituent organs and the relation of a social organism to its members he uses the following language: "The last and perhaps the most important distinction is that while in the body of an animal only a special tissue is endowed with feeling, in society all the members are endowed with feeling. . . . It is well that the lives of all parts of an animal should be merged in the life of the whole, because the whole has a corporate consciousness capable of happiness or misery. But it is not so with a society, since its living units do not and cannot lose individual consciousness, and

since the community, as a whole, has no corporate consciousness. And this is the everlasting reason why the welfare of citizens cannot rightly be sacrificed to some supposed benefit of the state, but why, on the other hand, the state is to be maintained for the benefit of citizens. The corporate life must here be subservient to the lives of the parts, instead of the lives of the parts being subservient to the corporate life."

The same general thought seems to be suggested in an opinion by Mr. Justice Bradley, for the Supreme Court of the United States, in the case of Boyd *v.* United States (116 U. S. Reports, page 616, at page 630). The case deals with the question of unreasonable searches and seizures under the fourth amendment to the American Constitution, and, although not directly in point, has a suggestive bearing on inquisitorial methods of taxation. Mr. Justice Bradley discusses at length the opinion of Lord Camden in 1765, in the case of Entick *v.* Carrington (19 Howell's State Trials, page 1029), in regard to searches and seizures under the English law, and expresses his own views as follows: "The principles laid down in this opinion affect the very essence of constitutional liberty and security. They reach farther than the concrete form of the case then before the court, with its adventitious circumstances; they apply to all invasions on the part of the government and its employees of the sanctity of a man's home and the privacies of life. It is not the breaking of his doors and the rummaging of his drawers, that constitutes the essence of the offense, but it is the invasion of his indefeasible right of personal security, personal liberty, and private property, where that right has never been forfeited by his conviction of some public offense—it is the invasion of this sacred right which underlies and constitutes the essence of Lord Camden's judgment. Breaking into a house and opening boxes and drawers are circumstances of aggravation; but any forcible and compulsory extortion of a man's own testimony or of his private papers, to be used as evidence to convict him of a crime or to forfeit his goods, is within the condemnation of that judgment." And later, in the same opinion, Mr. Justice Bradley says that "any compulsory discovery by extorting the party's oath, or compelling the production of his private books and papers, to convict him of a crime, or to forfeit his property, is contrary to the principles of a free government. It is abhorrent to the instincts of an Englishman; it is abhorrent to

the instincts of an American. It may suit the purposes of despotic power; but it cannot abide the pure atmosphere of political liberty and personal freedom."

Dr. George A. Gordon, pastor of the Old South Church in Boston, has expressed a similar idea in the chapter on "Humanity," in his book, "Ultimate Conceptions of Faith." At page 199 he speaks as follows: "Among the permanent guardians of humanity, there stands first man's own nature, his personality. The admission of human personality is eventually the trumpet of doom to slavery, serfdom and caste. Kant's famous dictum that personality implies that man is an end to himself, and that he should never become means either to another's purposes or to his own inclinations, is an availing protest. Use things, but use them wisely; use animals, but use them kindly; use men never; that is the edict from the throne of moral personality. Under the historic expression of moral personality, family exclusiveness, social snobbery, governmental injustice, and religious narrowness have slowly yielded. The increasing pressure of manhood has been availing. The wider realization of personality among the masses of men through education of the intellect and the will is already effecting enormous changes in the social order. As he rises in intelligence and character man must continue to count for more; and as society is affected with the sense of human personality its consideration for the unfortunate must become deeper and more practical. Social groups have been formed upon social distinctions; and so long as these are not exclusive they are legitimate enough. But the admission that man is man, the increasing consciousness of personality that has forced this admission calls for the wider recognition of what is common in the race. When moral worth is the great title to consideration, and the capacity for it the distinctive mark of man, a force is liberated that will finally inaugurate the reign of human brotherhood. Meanwhile practical Christianity goes about building up moral personality. Ancient tyrannies would have been impossible but for the absence of manhood among the people. When Diogenes said that he had never seen a man he uncovered the whole opportunity of secular barbarity, social exclusiveness, political injustice, and religious quackery. Men's ideas of the race will be very different when over great circles of population they compel respect for one another. A whole world of bad social ethics, and worse social practice, and

equally reprehensible theology, would utterly vanish, if suddenly men were to face one another in the fullness and strength of a great moral experience. The first witness that the true social ultimate is mankind is the worth and inviolableness of human personality."

This, then, is the philosophy, the law, the doctrine, of humanity, that mankind is of right entitled to the ownership of his own life and the benefits of the incidents thereof, and to freedom therein, not as the absence of all restraint, but as the chance to make the best of himself; and this, too, not merely as against his fellows in their individual capacity, but even more against them in their collective capacity as an organized state, for the evil intentions of a private man may often be averted by appeals to his better nature, but when a government deliberately sets out to inflict wrongs, it is well nigh relentless. Our forefathers of the eighteenth century proclaimed that "taxation without representation is tyranny," on the theory that representation implied consent, but they assumed that those could be justly charged with consent who were powerless to dissent. Our fathers of the nineteenth century determined that private property in human flesh was an intolerable idea, but they were appalled only at slavery between private persons. It is perhaps for the twentieth century to declare that personal taxation is an injustice, as involving the assertion of servitude over persons which no consent can justly validate. Since the dawn of intellectual freedom in the renaissance of the fifteenth century, each century succeeding has witnessed some struggle toward some phase of freedom, religious, civil, political, national. The signs are not lacking that the twentieth century may witness the seeking and striving for industrial freedom. Toward that end no more vital or important step can be taken than the abrogation of personal taxation, not for the purpose of promoting the grasping greed of acquisition and retention, but with a profound sense of the dignity of humanity and the sanctity of human personality.