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AMERICA'S INTERESTS AS AFFECTED BY THE EUROPEAN WAR

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EDITOR: CLYDE LYNDON KING

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AMERICA'S INTERNATIONAL TRADE AS AFFECTED BY THE EUROPEAN WAR

BY WILLIAM C. REDFIELD,
Secretary of Commerce, Washington, D. C.

It is substantially accurate to say that prior to the outbreak of the European war there were three great competitors for the international trade of the world whose position in that trade, measured by the respective shares of business done, were Great Britain, Germany and the United States. We do not ignore the fact that other nations held an important place in the same markets. France, Belgium, Holland, Italy, the Scandinavian countries, all had their share. The business of Belgium was large in proportion to her size. The share of France was one peculiarly individual. No one, however, will deny that the three great nations first named were preëminent among the rest. Each of these three showed certain marked and different characteristics in the competition which they carried on. America was potentially a large exporter of food. During recent times, indeed, when her own crops were short, she imported food largely, but this has been reversed as current records show. Germany was regularly an importer of foodstuffs. England imported a very large portion of her food supply.

The competition on the part of Germany was distinguished by the application of science to business to an unparalleled degree. Her commercial power was based upon research and upon the application of the facts found by research to an extent unknown elsewhere. To this scientific spirit she added thoroughness in organization and preparation. Her men were not only organized but were trained for the contests of commerce as they were for those of war. She presented a spectacle of organized competence, utilizing her resources in men and material more effectively than anyone else. She was steadily building up a great merchant marine as the servant of her commerce and was reaching her financial fingers out into every portion of the world. The commerce of Great Britain lacked the application of science to work. It was not

highly organized in the German sense. It was, however, backed by the largest masses of free capital that the world has ever seen, and her trade flowed normally from English owners in foreign lands to English producers in the home land. Abroad it was financed by British banks controlled by British owners; at sea it was transported by British ships; in London the British foreign banks kept their reserves, and in Great Britain the goods were made by British capital and British labor. It was a British net that was spread out all over the world to get within its folds all that was best commercially. It was backed by commercial courage of the highest order and by tenacity of purpose that was admirable. To both Great Britain and Germany foreign trade was the very essence of prosperity. The organization of the German Empire was operated in its favor. Each nation regarded it as the goal to which its best efforts should be directed. Control of the world's markets was to each of them a supremely important thing.

The third competitor, ourselves, looked on the matter in a very different way. We had neither the capital of Great Britain nor any comparable ownership of enterprises abroad from which we might draw commerce. We had no banks in foreign fields; and few lines of vessels under our own control. We did not use the scientific methods of Germany, and our commerce as a whole lacked organization. It is still the custom of some in our land to speak with a smile of the scientific man as if between him and the practical worker were a great gulf fixed. The union between science and industry is far from complete. One has but to look over the mail of the Bureau of Standards to see how far removed many if not most of our industries are from any touch with scientific research. In this respect there could be no sharper contrast drawn than that between Germany and ourselves, just as in the respect of financial power in the world's markets a similar sharp contrast might have been drawn between Great Britain and ourselves. It would almost seem upon the surface of things as if lacking the scientific application, lacking the organization and the men prepared by training for the work, wanting the investments abroad and the financial institutions in the foreign field which have been the strength of English commerce, trained in large part to believe among ourselves that we could not compete in the foreign markets for various domestic reasons, it would, I say, seem almost impossible for us to enter

the market of open competition with the giants of commerce and win for ourselves a place therein. This, however, would leave out certain elements in the American character quite as effective in their way as the methods and the means used by our competitors.

The American mind is singularly quick and alert. If we lack a highly organized commerce, we in a measure replace it with a highly individualized commerce. We are not bound by precedent or by tradition. For the way things have been done in the past we have as little respect as we have patience for the slow plodding research into final causes. We have a singular mechanical aptitude with great inventive capacity. To see a thing done awakens the desire in us to do it better. This inventive skill and mental alertness, combined with high individual initiative, have carried us far. If to them we shall ever add the scientific outlook and the financial power which our two great competitors have had, we shall go far indeed. It is because in both these respects we seem to be advancing that I feel more hopeful than ever for the building of a great structure of American commerce abroad on a substantial and permanent foundation. Such, briefly and inadequately described, were the three great competitors.

Let us now for the moment consider on what economic basis foreign trade rests. It goes without saying that international trade is of a highly competitive character. The best brains of the most highly developed peoples are active in it. It is an arena for commercial athletes. It calls for the best of brain and body.

Therefore, before going either into review or forecast let us consider some facts about the basis of competition. There are many men who think, or of whom it would perhaps be just to say that they talk as if they thought, that competition is solely a matter of price. The cheapest goods, say they, get the market. Unless, as they believe, one can sell as cheaply as or more cheaply than others, one cannot compete with them. When one hears this view which appears in many forms in press and in talk, one is reminded of the proverb: "All generalizations are false, including this one."

There is so much of truth in the suggestion that price is the essence of competition, and so much of current custom in it, so much of trade actually centers around it that it is easy to overlook the grave errors which so sweeping a generalization involves. There is no one of you who does not frequently buy an article at a higher

price than that at which it is possible to obtain a substitute which might be made to serve. There is no one of you who does not at times prefer cake to crackers. This is because you like the taste of cake. Now the relation of the cake to the crackers is one which illustrates an economic truth. The crackers may do, but you prefer the cake. Stated differently, the element of taste has come in to affect the matter. Undoubtedly it was possible for every one of you to have purchased clothing at less cost than that in which you now make so good an appearance. With the choice before you, however, you have decided to buy that which you now wear. The element of design in fabric and in cut and style of garment, the element of color, the whole wide-reaching element of quality has come in to cause you to pay more than you need have paid for that which would actually serve the physical purpose of clothing. Already in so simple a matter as eating one's supper or attending this meeting there have been developed certain factors in competition other than price, and these factors daily affect your purchases and those of everyone else. You do not always buy the cheapest thing that will serve the purpose. Hence there are different grades of goods, and in saying grades one means not only grades of quality but grades of design and suitability in various ways. If of two articles which are submitted to you for purchase one pleases you and the other does not, you and all your fellows here and abroad will pay more, or at least more willingly, for that which pleases you than you will for that which pleases you not. It follows, therefore, that if I am manufacturing goods for the foreign market there are many things for me to consider beside the sole question—can I undersell my foreign or domestic competitor? As a matter of fact, since you and I choose the thing which pleases us, it is probably true that if one is wise he tries to make that which will please the foreign customer, knowing that by so doing an enhanced price may be had. If one is sure he can please the foreign buyer he may be able by that very fact of pleasing him to ignore at least partially the question of price competition.

We may state the matter differently by saying that in some markets certain designs or colors or widths or textures or weights would not sell at any price at all. The best of men's heavy worsteds or overcoatings would not find a market in Java at five cents a yard. It is appreciated that these statements are elementary, but they are

stated here because it seems as if a number of those who discuss these matters require certain elementary truths. It is not, therefore, the fact that in a factory here or elsewhere it needs to be true in order to develop a foreign trade that one shall make his goods cheaper than goods of a similar class are made by the person or in the country with which one wishes to compete. If it is true, as you all know it to be true, that you will pay for an article which suits you more than you will for one which does not suit you, then it becomes wise for the factory that wishes to compete to find what its customer wants and furnish him that. In so doing it will modify, if not remove, the priority of price as a competing factor.

There are industries in America which do a good foreign business chiefly on the basis of other elements in competition than the price at which the goods are sold. I have always thought it to be a weakness of the protection theory that it necessarily ran on the line of price and could not profess or attempt to be protective of competition as regards quality, design, and many other similar elements which enter constantly and at times controllingly into the processes of trade. One need not be hopeless, therefore, about a future for American international trade even if it were true, which it is not, that American cost of production per unit was equal to or greater than that of every country to which we desire to sell.

It forms no part of my theme today to discuss the broad subject of the relative cost of production in this country and in others. Let us be content with pointing out what nobody ventures to deny, that in many lines of activity we produce the desired result at a lower cost than elsewhere in the world. A striking example is the railway. It will not be denied that railroad wages in America are higher than those in any of the great industrial countries of Europe with which we compete, and that in some respects our equipment is more costly. Neither will anyone deny that American railway freight rates are lower than in any of those countries. There is much loose talk about the cost of operating vessels, but I believe it is correct to say that in three important spheres American vessels are now operating at the lowest cost per ton of freight carried that is known. I think there is no such low cost of carrying bulk freight for similar distances by water by steam as that upon the Great Lakes in the specialized steamers, with the specialized loading and unloading apparatus provided for them, by which our ore and coal and grain

on the Great Lakes are now carried. A possible exception to this may be the second instance, also an American one, namely the carrying of coal on our southern rivers and Gulf from Alabama to New Orleans in specialized power barges. A third instance is the large coasting schooner of the Atlantic which for distances of 250 miles or over is probably the cheapest known form of transportation of large quantities of merchandise. I have often thought that a fleet of steel schooners with auxiliary power constructed for transatlantic voyages would permit of our competing on equal terms as regards cost of transportation with anyone for the class of freight to which such vessels would be suited.

So well known, however, are the facts respecting American costs of production in the places where brains are thoroughly mixed with business and prejudice does not exist in favor of industrial "standing pat," that I need hardly weary you by dwelling on the subject.

American mining machinery is used by foreign-owned mines in the Transvaal. American locomotives pull trains on the railways of many foreign lands. Not long since I was in a factory making articles of women's clothing which sold its goods in fifty countries and which paid, by the way, nearly double the wages paid in certain mills whose owners allege they cannot compete with Europe. It is useless to tell our people that we cannot do that which is daily being done. One cannot see the cargoes outward bound in normal times in our great seaports and look with much patience upon the tales of our inability. I know of no nation of whose industries it can be said that all its factories always produce at lower cost than any factory anywhere else in the world. Neither do I know of any nation where in any industry there are not great inequalities in the cost of production between the most effective and the least effective establishment. There is no such thing as a German basis of cost or an English basis of cost. The costs of production in the industries of those countries are not alike and are changing, some going up, some going down. On the whole, it is true that the application of science to industry in Germany has favored low cost of production. It is because of this that Germany has prospered. She is not a land which, compared with ourselves or the British Empire at large, is one of great natural resources. She must needs draw raw materials for many of her industries from other lands.

It is her commercial triumph that by the application of science to the smallest processes of manufacturing she had won a great place in the world, despite numerous handicaps, by the pure power of brains applied to work. Much discussion proceeds on the basis that cost of production is a fixed thing. It is nowhere fixed. It varies in time and in place everywhere and always. It cannot be predicated that because it is one thing in one mill it is the same in a similar mill near by. This is as true of Germany, of Great Britain, and of France as of the United States.

The various factors described have so operated that both Germany and the United States in the last few decades entered largely into the foreign field and challenged the supremacy of Great Britain therein. It remains to be said that in our own case the change in character as well as in volume of our international trade was striking. We long ago ceased to be chiefly exporters of food and became exporters of manufactures. The group of manufactures in our foreign trade before the war broke out was the largest of all, and in this group the item of fully finished manufactures was the largest and the growing factor. We were, as a matter of fact, in many lands the wide world over competing successfully with Germany and Great Britain in the very field in which they were thought preëminent, namely, the field of manufactures.

Thus stood conditions when the war broke out. It came upon us with a shock and it wrought upon us revolution. The shock is long ago absorbed. The revolution is still going on, bearing us with it. Cautionary signals were not wanting before the stroke of war fell. For about two years before the war the currents of finance, which ordinarily flow out from the treasure centers of Europe into the arteries of commerce throughout the world, were chilled in their courses. The instinct of capital which makes it quick to take alarm felt vaguely that something might be afoot. Hence the arrest of the outward flow and the beginning of an inward one. The tentacles reaching out into all lands grasped such cash as was liquid in them and drew it home and the great reserves of the European continent began to expand and a corresponding depression began to be widely felt. People were not as well able to buy as they had been and therefore less could be sold; enterprise slackened its footsteps and business checked its career. Meanwhile the reserves of Europe grew as if expecting the thing which happened when August

of last year came. At this time we, unlike our competitors, were a debtor nation. They were creditors. It was not in our power to draw from the currents of trade the lifeblood of gold. We, on the other hand, were owing largely both in funded and in floated debt. When the blow smote us it found us unready.

It is not necessary to review the history of the critical months of August and September last. I can never think of this period without thankfulness to the men in private business and finance who with great courage and wise resource pulled us through those trying weeks. I hope they will acknowledge as freely that the government did what it was able then to do to the same end. We are concerned, however, chiefly to consider what the extraordinary change is which has come over the face of our foreign trade since these things were done. A floating debt of perhaps four hundred million dollars has been paid in goods and not in gold. Some of the gold we had exported to pay what we owed before the war has come back to us in payment of debts due to us. We have built up a huge balance of credit. It amounts since the first of December to over six hundred million dollars. We are not struggling now to pay what we owe. We not only owe less than we did but we are spending much less than we were. We are saving money as a nation at an astonishing rate. The nations of the world turn to us for cash. It is probably not too much to say that in direct loans and credits since the war broke out we have, in addition to paying our own floating debt, given financial assistance to others to an extent in excess of two hundred million dollars. The nations turn to us, both belligerent and neutral, not only to furnish them goods but to loan them the money with which to pay for the goods they buy from us. For the first time in your lives you have seen the advertisements of great foreign loans in our daily papers and have known that the money from those loans was to be expended among us for the purchase of the products of our factories. Only the superficial think that the mass of these loans and the bulk of these sales concern munitions of war, as they are called.

We are selling to the neutral peoples great volumes of goods to make good the shortage in the supply they have heretofore taken from other sources now cut off by the war and vast quantities of food both to warring and neutral peoples. Whatever the details, one fact remains clear. We are lending the world money and we are

selling the world goods, and both to such an extent that our foreign financial outlook and the condition of our export trade have taken on within ten months an entirely new significance. That which was strange is becoming familiar. Peoples whom we did not intimately know are borrowing large sums from us and tendering us large orders. A new spirit has come into our commercial life; a new sense of relationship to others and of our power to help them and of our ability to supply them. The change which has come over our commercial life is not unlike that which took place when with the close of the Spanish War we realized that a new vision of our own place in the world had come to us. That was a sense perhaps chiefly of a new political importance in the world's councils. This is a sense of a new financial and industrial power. Would that we had been fully ready for the opportunity. It is our misfortune rather than our fault that at a time when we were struggling hard to pay debts for which creditors were insistent, we were not able to loan largely to those of our sister nations who were needy and who could get funds nowhere else. Not so much in excuse is to be said for our commercial unreadiness to utilize the opportunity. There have not been wanting, indeed, men of light and leading, equipped with knowledge and experience in the foreign field, appreciating its value to our commerce, ready to deal with this crisis in a broad and intelligent way. It is fortunate indeed for us that there have been such and so many of them. The spectacle on the whole, however, has been too much that of industrial inertia—much more concerned with parochial pessimism than with a broad and courageous outlook. Training in national inability had done its work, and when the hour of opportunity struck, relatively few of us were ready to take the step of progress.

Try now, as we have tried, to find trained men of business speaking at least one foreign language well and familiar with the customs of other lands and see how sadly few there are. Go among our industries and test the knowledge of the great world and see how it compares with the thorough training in the German business world. We must not generalize too broadly or forget the many men whom this opportunity has inspired. Yet on the whole there is much that is supine. There is contentment with industrial dependence. If once there could be a year of that devotion which has sent the sons of the belligerents to the war directed in our

own land to pushing forward the power of American commerce and industry throughout the globe, we should alter the face of things in the world's markets. One cannot wisely be pessimistic however. It is perhaps too much to expect that the outlook of our people should change in the mass as rapidly as circumstances themselves have altered. It is a fact that we are looking outward more and more and are less and less nursing our inward and relatively petty troubles. We see in our every morning's mail the cry on the part of commerce and industry for knowledge; the outreach into untried fields. We note with gladness the placing of American banks abroad and we honor the courage and the foresight of the men who do this thing. We see that research is winning her place in our industries and we hope and believe her place is to be a large one. The days of the rule of thumb are passing and it is a good sign that men are sensitive about being inefficient. In all this there are the beginnings of a new and a better day whose sun will see the peaceful flag of America carried on helpful and commercial errands far and wide.

It is, perhaps, nay, it is doubtless, risky to foretell what the ultimate effects of the current war shall be upon our commerce. We know where we were before the war began—a great and growing competitor of others who had many advantages over us. We know where we are now while the war goes on—the one great industrial and commercial country which is at peace and certain to remain so. We know that there is no other land in which a foreign buyer can place an order requiring months for its execution with the reasonable certainty that the alarms of war will not delay it. We know that we are passing over from the debtor to the creditor stage; that our floating debt is paid and much of our funded debt as well, and that we are paying more interest to ourselves and less to others. These things we know and are glad that they are so. No one with vision to see but sees that the United States holds a unique position and one of great dignity in the world today. What shall the future be? This may not be answered broadly, but certain things we think we see are suggestive.

One of our great competitors has for eight months been out of the market. No one has suffered from her competition during that period. Another and a lesser competitor has also been excluded. A third great competitor has been so intensely occupied in the struggle

as to be unable to sustain at highest pitch in other fields the commercial enterprises which have made her great, and a fourth, having much of her industrial territory occupied by hostile troops, is in a measure crippled thereby in her foreign trade. We know that in an industrial organization continuity is a vital factor. One of the weak spots in the factories that pay small wages is the changing character of their working force normal to such conditions, which always means enhanced cost of production. Continuity of operation, keeping the staff together, holding the organization intact, these are cardinal principles of industry. Absence from the market is a hurtful thing. You insure your factory against direct loss by fire and against use and occupancy, but, if you burn, the loss of business during the months taken to rebuild is often serious. Those of our competitors who have been out of business will find it impracticable to pick up the threads just where they were broken. Those of our competitors whose continuity of operation has been broken will find it impracticable to operate soon just as they did before the break. The customers of these nations have not ceased consuming while the nations have been absentees. They have gone elsewhere for the goods they need and they may have found, and doubtless to some degree will have found, goods that please them in the new places. In such a case the work of commercial conquest must be done over if the business is to be turned back into its old channels. It will not be so easy to make the conquest anew if the organization that sustained it in the first instance has ceased to exist and must itself be re-created.

Two factors then will affect America favorably in the coming days. One is the loss of good will by her competitors through enforced absence from business. The other is the injury to her competitors through broken or suspended organization. This is not all. The organization in many cases has not only been broken or suspended but the units which composed it have been slain. It would be hard to find a factory in the belligerent lands which, were all its former staff called to assemble today, would not have many gaps in the ranks. This would be true both of the working and the managing staff. Many a trained hand and many a guiding brain are gone and others are going. Bad as are the loss of good will and the disruption of organization, far worse is the loss of the skilled hand and the trained mind. These are not to be replaced by going

into the market places. They must be found and taught anew. It must in this connection be remembered that the fighting forces have consisted of men, many if not most of whom were at the height of their earning power, and that the economic loss is not to be reckoned as so many human units merely but at the loss of productive power which these particular units represent.

War has this stupendous folly that it destroys most rapidly those we need the most. This process has already gone on to a frightful cost. It continues. What the end may be no one can say save only this that so far as it goes it means growing a greater weakness. Every day means a loss of good will. Every day means more cost from the broken organization. Every day destroys the material with which alone that organization is in time to be replaced. In many an industrial center factories and their equipment have been physically destroyed, and where all was industry nothing tangible survives. Here must an industry be built anew from the very ground, and when it is built must take up anew the work of making its place in the world under the conditions we have described. There has been enormous waste of things which must be replaced, and, ere the normal currents of business can flow, millions must be spent to provide the means of transit and exchange. Some of the fighting nations have thus far escaped in any large measure the actual physical destruction of their industries. What shall be done to them before the war shall end one cannot say. So far as this goes it means building up from the bottom with painful steps and slow that which was before lusty and full grown. The circumstances under which this rebuilding shall be done, whether it be the rebuilding of the physical factory or of the entire good will or the broken organization, whether, I say, it be one or all of these, and it must in most cases be at least two of them and in many cases all, will be circumstances of peculiar hardship.

No one will deny that taxes will be heavier after the war or that before the war they were deemed burdensome and now are to be more so. The price must be paid and it can only be paid by taxation. More will therefore be taken out of purses that are more nearly empty than they were before with which to pay the cost of the frightful folly in which men have indulged. The purses will be more nearly empty, I have said, because capital—the people's savings, the nation's wealth—has been wasted in destruction as

never before. Even to the victor the cost of victory will be enormous, and to those who besides have lost home and furniture and workshop and equipment and many things else, who live in the towns or villages that have ceased to be, to them there must be poverty indeed. The debt must, however, be paid, and there will be less with which to pay it and capital will not be had at the same price to restore a ruined industry at which it could be had to keep that same industry moving in the prosperous days of yore. Say what he will, cheer himself as he may, the manager of industry in the belligerent countries knows very well that his future path is no easy one. If it be his ill fortune to be in the very seat of war itself, the task will be slow and serious indeed. How long it may take will depend upon the extent to which the process of destruction goes on. A single bomb may in a moment destroy that which a year will hardly replace. A single bullet may as truly destroy the highly specialized brain which cannot be replaced. We have no precedents on which to go, for there has not been a world-wide war since the industrial system was founded. But we may be reasonably sure that the recovery will be not sudden but slow and that its possibility and degree will depend upon the extent of exhaustion which the combatants permit themselves.

We may not deny that incidental advantages may come of great value to one or another of the belligerents which will in a measure compensate in time for the sacrifices made. We are, of course, familiar with the wonderful recoveries our own cities have made from overwhelming disaster. The new San Francisco, to which many are flocking now, is a marvel of the time. Nevertheless, the loss of the old remains a true loss, absorbed indeed by the abounding economic power of our people, but we should have been just so much richer had it not happened. I take it, the loss in San Francisco, great and painful as it was and not to be minimized or mentioned lightly, was yet by comparison trivial to that which weekly has gone on for many months abroad with added elements of economic weakness which make the situation worse than at first it seemed.

The suggestion of incidental advantages that may grow out of the war leads to some interesting speculations. How, for example, is Africa to be affected? The projected Cape to Cairo railway, now in operation for long distances northward from the south and south-

ward from the north, seemed to find an obstacle in the conditions near Lake Tanganyika. This great inland sea, four hundred miles in length and but about thirty wide, touches British territory indeed at both extremes, but its entire western front is Belgian territory (the Kongo), and its eastern shore was German territory (German East Africa). Were either of these powers hostile, the line of communication might be cut, and under present conditions it would be seriously threatened had it been built. Is one of the results of the war to be the removal of these restraints and the assurance that the great railway may safely proceed through its entire course? What about crossing Africa from east to west? The last link in the line of railway and steamship communication from the Atlantic to the Belgian frontier of the Kongo at Lake Tanganyika was completed but a few weeks since. A German railway through German East Africa now runs from Tanganyika to the sea. It is therefore now physically possible to cross the African continent by rail and steam. Part of the line, however, is in the territory of a nation hostile to that which owns the rest. Is one of the results of the war to be the setting free of this great transcontinental route from the restraints which are now imposed upon it?

Are we to see the release of Russia from the restraints that have hitherto always bound her? Are the Dardanelles and Bosphorus to be open doors, wide apart without restraint, to the commerce of the great Russian people? Are her wheat and oil and other products to be free from all hindrance henceforth by this route?

Finally, and not least important, turning to Asia, what is to become of the Bagdad railroad? Something like a thousand miles of it have been built by German capital. Its eastern outlet on the Persian Gulf is now held by the British. Cyprus and Egypt, British possessions, are near its western terminal. A glance at the map will show this to be a short line to India which would economize greatly over the passage through the Red Sea and around Arabia. Is India to be thus moved a day or two nearer Europe, and another portion of the burden of distance taken away?

It hardly needs to be said that any one of these things will have far-reaching importance and all of them seem to be among the cards on the table waiting to be played. If all of them are cast into the crucible of progress to come forth in useful form, they are quite as

likely to affect the commerce of the world and with it that of America as seriously as did the Suez or the Panama Canal.

What the effect of all these conditions upon American international trade is to be cannot be limited or defined, but it would seem plain that our resources are undiminished, our capital secure, our labor safe, that we are saving when others are losing, that we are living when others are dying, that with us the path is upward and with them it is in large measure downward. It seems certain that one result is to be our own greater industrial independence. We have learned that for us to depend upon any one foreign source of supply for articles of necessity is to be in a position at once dangerous, expensive and humiliating. We shall hardly be content to rest long in such a position now that our notice has been sharply directed to it. I hope we shall include among the humiliations thus to be thrown off that of depending upon others for the transportation of our sea-borne trade. It is not fit that the commerce which is of our very life should be in the control of others than ourselves. We have been of late, but we ought not to be, depending upon foreign navies for the privilege of transporting the goods which it was necessary for us both to buy and sell. This fact, once known and realized among us, will not long continue to exist among a proud and self-reliant people.

I do not forget the ideals for which the combatants fight nor underestimate the really spiritual forces which are the impetus to the strife for these ideals. There is a side of war in its devotion to cause and country, in its willingness to spend all for what that country needs, and in its heroism which is strong and fine. Nevertheless, we are speaking of trade, and economic destruction is not made good even with the highest ideals save over long years of atonement.

It seems clear to me that if we do our part we shall change our place among the great competitors. The world is never the economic gainer in the last analysis by war. The losses must be absorbed and we must do our share of absorbing, but in the process of absorption places relative to one another may be exchanged. No one, I think, would be surprised to find the United States second in the world's competition, nor, if the war shall long continue, be astonished to find her first. It depends, of course, not merely on what is destructively done yonder but on what is constructively done here.

If we are willing to lay aside passion and prejudice and partisanship, to look at things with an international instead of a parochial viewpoint, to realize that effectiveness is patriotism and that inefficiency is unpatriotic; if we are ready to give up inertia and take a step forward out of ourselves to the help of others; if we remember that commerce is mutual exchange to mutual benefit and not a species of industrial war; if we can learn the lesson that the well-paid workman is the cheapest producer and that science must be applied to industry if we are to win; if these things can be done I see no reason why, with our resources and intelligence and organization, we may not become the first among the world's great trading nations. We shall have to give up a good deal if we are to reach that goal. We must abandon mutual distrust and pull together. We must not think that gain made in any way that greed may dictate is a thing that the conscience and spirit of America will permit. We must remember that in industry a social wrong makes no economic right and that factories cannot be so operated as to injure our fellow creatures for our own personal gain. The men and the women in the mill and the children kept out of the mill must have their chance. We shall not gain by grinding, but by growing. The law of grasp and gouge is not the law of business permanence. That which is socially undesirable cannot continue commercially profitable. We cannot win in the world's markets by driving men and women employed at the lowest market rate that poverty requires them to accept, but by leading our fellow men in such wise that their responsiveness to our leadership will draw forth rewards for them adequate, yes, ample, and for those who lead returns beyond their dreams in personal power and in filled purses, too. For our beloved country the result of these conditions would be that supremacy in the world of which we dream, for which we pray, and of which we hope that it shall be peaceful because it is powerful and powerful because it is filled with the spirit of peace.

THE FUTURE OF AMERICA'S FOREIGN TRADE

BY THEODORE H. PRICE,

New York.

The future of any trade or business is dependent upon two factors that are fundamental. One is the cost of producing the things that are to be sold, and the other is the need for them and the purchasing power of those who are likely to feel that need.

In regard to America's ability to produce the raw material, of which two-thirds of our export trade has hitherto been composed, at a cost which will enable us to compete successfully with the rest of the world, there can be little doubt.

We shall doubtless continue to be able to produce cotton, corn, wheat, tobacco and other agricultural staples just as cheaply as they can be grown elsewhere.

There is a fear that after the war is over, and the millions of men now at the front have returned to peaceful industry, we shall be unable to compete with the cheap labor of Europe, and that in consequence we shall lose whatever trade in manufactured goods we may have been able to develop during the military preoccupation of Germany, France and England, who are our chief competitors. It is because of this fear and upon this theory that the voice of the Protectionist is already heard in the land, urging that a high tariff shall be re-enacted so that our home demand may at least be preserved for American industry.

Whether the apprehension that is professed with regard to the possible effect of the war in reducing the cost of manufacturing abroad is justifiable, it is difficult to say. We are facing unprecedented conditions, and the outcome is almost beyond human ken. It has been calculated that if the war lasts a year, or until the first of August next, the national debt of the belligerent nations will approximate \$42,000,000,000. Adding to this the indebtedness of cities and other political sub-divisions of the countries at war, there is a total of probably not less than fifty billions of dollars, the interest on, and amortization of, which will have to be provided for

by taxes, which will be laid upon an aggregate population of about 350,000,000 persons. This population, therefore, faces an indebtedness of about \$150 per capita.

The United States Department of Commerce has just completed an investigation into the national, state and municipal indebtedness of the United States. Its figures indicate that the total political debt of this country less sinking funds, *i.e.* net debt, is \$4,850,460,713. This debt is distributed as follows:

Federal	\$1,028,564,055
States	345,942,305
Counties, cities, etc.	3,475,954,353
	<hr/>
	\$4,850,460,713

The total is equal to about \$48.50 per capita for a population estimated at one hundred millions.

This comparison between the political debt of Europe and that of the United States is introduced because it brings into relief the most important question to be considered in connection with the future, not only of American trade, but of trade throughout the world. This question briefly stated is: Are the people of Europe willing and able to submit to the heavy taxation which will be necessary to support the integrity of the enormous debt with which the war has saddled them and their posterity? If not, a partial or entire default will occur, and the result will be general financial demoralization, which will restrict trade throughout the world, whether it be intranational or international.

There are, however, two different methods which may be followed by nations which find themselves unable to meet their political or national debts. One is direct repudiation and formal refusal to pay. The adoption of this method seems unlikely. The other is inflation, or the legalization of an irredeemable paper currency, which gradually depreciates in value as compared with real property and so defers or gradually wipes out the obligations of the issuing government to its creditors. Unless this paper currency be ultimately redeemed in gold, the effect is a cancellation of the obligations of the debtor to the creditor class and a confession of practical bankruptcy.

As a matter of fact, gold is now at a premium in all the countries

of Europe, and although specie payment is nominally maintained in Great Britain, it is conceded that unless the war is soon ended a suspension of the Bank Act will be necessary to protect the reserve of the Bank of England, which is already down to less than 19 per cent.

To the practical mind, the immediate future of America's trade as affected by the war is, therefore, largely dependent upon the effect of European inflation upon trade in general.

Fortunately, we are not without precedents in considering the effect of inflation. It has been frequently resorted to. In nearly every case it has given a fevered impulse to speculation and has advanced the price of commodities and labor very rapidly. In his book on *Crises and Depressions*, Senator Burton says:

As affecting crises, inflation of the currency stimulates the speculative fever and promotes unprofitable enterprises. It is particularly true that, if irredeemable paper money is issued in any considerable quantity, prices are sure to rise. An unnatural rise in prices is the most fruitful parent of injudicious investment. Investors do not stop to think that while an article may bring many more dollars than before, the dollar has not the same purchasing power. The result of inflation was never better illustrated than in the period during and after the late Civil War. An increase in nominal values was caused by the large increase in paper money. This created a desire for new and, in many cases, useless undertakings. In the eight years from 1866 to 1873, inclusive, a greater mileage of railways was built than from the completion of the first railway in the United States in 1830 to the end of 1865. Many of these were commenced after the premium on gold had fallen, and prices were more nearly normal; but the buoyant spirit of enterprise, which had been stimulated by rising prices and unusual profits, still continued, and resulted in the severest crises this country ever experienced.

If the experience of the United States during the time when gold was at a premium here is a precedent upon which we may base a prophecy as to the effect of similar conditions in Europe, it seems reasonable to expect that the next four or five years will be a period of advancing prices for both commodities and labor in Europe, and that this advance will enormously stimulate speculation in the purchase of both necessary and unnecessary things.

Beyond this, no one, who has respect for his own reputation, or a consciousness of his mental limitations, can undertake to forecast the future, and even a prediction which looks no farther ahead than four or five years, implies no little temerity in him who attempts it. It may be remarked, however, that in the past, one effect of inflation has always been to permanently advance the wages of labor in the

country where it prevailed, and that thereafter it has been found difficult, if not impossible, to reduce them, even though specie payment was ultimately reestablished. The inflation of our currency during the Civil War greatly advanced the wages paid for all sorts of human energy, and they have never since been seriously reduced, although the purchasing power of the "Green-back" dollar was greatly increased by the disappearance of the premium on gold and the final resumption of specie payment in 1879.

It may therefore be possible, and it seems not improbable, that the effect of inflation in Europe will be to permanently raise wages there and so dispel the fear that we shall be unable to meet the competition of the "pauper labor of Europe" in supplying the domestic, as well as the foreign, demand for our manufactured goods.

What may happen when the "Butcher's bill" comes to be paid, if it is ever really paid, with things of value that are the product of human energy, I confess myself unable to foresee. The war promises to unloose so many social, political and financial factors that have hitherto been inoperative or suppressed, if not unthought of, that only a rash philosopher would be bold enough to dogmatize with regard to the distant future.

That future may reveal to us the existence of a "fourth dimension" in political economy, that we are at present unable to visualize, and it may be that with an expanded vision we shall be able to see that the progress of humanity has been helped rather than hindered by a struggle which has thus far disappointed the pessimists and defied the economist in its effect upon America's affairs.

Since the foregoing was written, the following correspondence of the Associated Press, dated London, April 17, has been published in the *New York Times* of April 28. It indicates that the advance in wages which is nearly always incidental to great wars has already commenced to be felt.

War as a wage raiser has brought to a considerable proportion of the laboring classes in England some compensation for the increased cost of living. Social workers estimate that the increased cost of living average is at least 10 per cent while the average increase in wages is not over 5 per cent. The plentiful supply of overtime work available in most trades makes it easy for most workmen to more than even matters.

The upward tendency of the English workingman's wages was very marked in March. According to the official Board of Trade reports, the increases granted

during the month reached a total of nearly \$365,000. The number of work-people who shared the increases was 440,000.

Increased wages in some of the leading branches of industry are summed up briefly as follows:

Railwaymen—All around increase of 75 cents a week.

Longshoremen—Increases varying from 25 cents to \$2 a week.

Policemen—War bonus of 75 cents a week upward.

Carpenters—War bonus of \$1 to \$1.50 a week.

General Laborers—Increase of 75 cents to \$1.50 a week.

Miners—Employers generally offer 10 per cent advance in pay; miners demand 20 per cent.

Postal Employes, including Telephone and Telegraph Workers—Increase of \$1 a week has been demanded.

Gas Workers—Increases averaging \$1 a week.

Bakers—Increase of \$1.25 a week asked, but employers' offer of 75 cents accepted pending negotiations.

Textile Workers—Bonus for overtime work in factories doing work on army clothing.

Boot and Shoe Workers—War bonus of 5 to 10 per cent granted in some places.

Coopersmiths—Average wage before war, \$9; now \$12.50.

Clerks—Some increases; 180,000 grocers' assistants have asked a readjustment of wages; similar movements pending in other branches.

Engineering and Building Trade Workers—Some sections have secured substantial increases.

The number of unemployed in Great Britain shows a large falling off the past February and March as compared with the corresponding months of last year. The Board of Trade's labor gazette prints statistics from the government's 403 labor exchanges, according to which there were 87,004 names on the register last month as against 100,616 for February and 123,714 for March of last year.

The number of vacancies in employment reported to the exchanges also shows an increase over the late winter of 1914, having a daily average of 5,746, or a hundred more than the average for February and 1,600 more than the average for March of last year.

London passed through the winter with fewer cases of destitution demanding relief from the Poor Funds than any winter within the memory of the present Poor Law officials,

THE EFFECT OF THE EUROPEAN WAR ON AMERICA'S TRADE WITH INDIA

BY DANIEL FOLKMAR,

Editor of *Handbook of India*, Department of Commerce.

Fifteen years ago I heard a distinguished geographer lecture in Paris on the Pacific as the future center of the world's commerce. That is what I want to preach, the gospel of the future of the Far East and of the New Pacific. It can be more easily grasped today than fifteen years ago, for since then the Canal has been dug and Japan has beaten Russia and risen to a place of first importance in deciding the destiny of nations. Japan has forged ahead in our international trade until it takes one-half of all the goods we send to Asia. China comes next, and has vaster possibilities than Japan.

British India stands third among the countries of Asia as a buyer of American goods and is the farthest of the Far East from our shores. It is exactly half-way around the globe from the United States, east and west, and because of its position on the Indian Ocean it must perhaps be considered a permanent appendage of Europe commercially rather than an integral part in the trade of the New Pacific. Yet our trade with India is already of vast importance, and a study of it during the last few months of the war is interesting as an example of the general condition which the European catastrophe has brought on throughout the entire civilized world. It illustrates the results of the stoppage of shipping, especially during the cruise of the *Emden* in Indian waters, the disturbance of financial and general industrial conditions through interference with production in Europe and abroad, and the embargoes laid upon certain exports and imports by England. I also find in a study of the most recent figures, some of which are herewith published for the first time, a complete demonstration not only of the decrease in trade during the first months of the war but of a decided increase during the last month or two as compared with previous years. An interesting question suggests itself:—may this not be one of the cases in which an expected permanent loss in the trade of Germany and Austria is already being diverted to the

United States? And is it not possible that the far greater trade of England in India will be diverted in some measure to this country? In the case of England this may not be because of the war so much as because of serious opposition in India itself to trade with Great Britain, which is just now becoming manifest under the name of the Swadeshi movement.

While the Swadeshi movement was directed in the first place against all foreign goods and strove for the upbuilding of native industries, it is becoming directed against England more and more in the hands of political agitators and revolutionists in India, and to some extent in favor of American trade. I do not know the relation of Prince Sarath Ghosh to the Swadeshi movement, but I heard a significant statement from him, as an expert student of the economic history and industries of his native country. In a recent address in America, he said:

Our importations from England, first, then from Germany, France and Austria, were tremendous. Now the market is open for other goods, and if America seizes the opportunity she can hold much of this trade. You are looking to South America for your market. Meanwhile, you overlook India, where more than 300,000,000 people are making surprising strides in civilization, so that their needs far outstrip the present importations. . . . There are the many products we bought from England and the Continental nations. We must look elsewhere for chemicals, medicine, drugs, machinery, building materials, and scores of other manufactured products. Wonderful opportunities await the alert American merchant.

Notwithstanding the advantage England has over other countries in obtaining the trade of India, British India is already one of the nine or ten greatest purchasers of American goods outside of Europe. In fact, there are only ten countries in Europe which buy more from us annually than does India. But this gives no indication of the vastness of India as a market and the possibilities in the increase of American trade in that country, for the United Kingdom holds at present 70 per cent of its import trade, and, in fact, more than 95 per cent of the Indian purchases in the largest line, that of cotton piece goods.

India has always cut a figure of first importance in the trade of the world. Students of Indian trade point out that the rulers and governments that have controlled it have become the wealthiest of the world. India in 1910 ranked eighth in the list of all importing countries and eleventh in the list of the exporting countries of the

world. India's purchases of British exports were equal to the purchases of Canada, Australia, South Africa and New Zealand, combined. The total import trade of India from Great Britain amounts to \$330,000,000 per year, of which more than \$180,000,000 is for cotton goods. India takes two-fifths of the entire value of the exports of Great Britain to all countries.

This is all the more astonishing when the poverty of the masses of India is taken into account. The purchasing power per capita is only \$2 as compared with \$80 in Australia. This indicates the inevitable character of the greater part of India's purchases. Goods must be cheap. But the total profit is immense because the 300,000,000 of India's population must be clothed—largely with the products of foreign cotton mills—and must have simple agricultural tools and even large amounts of machinery for the equipment of native industries.

India As a Buyer of American Goods

The great proportions that American trade has already reached in India will be better realized from the following details:

British India is the largest buyer in the world of our cheapest cotton goods, excepting only China—I am speaking of our \$15,000,000 export of unbleached cottons. British India, including Aden, which politically belongs to British India, takes one and a half times as much of our unbleached cottons as all South American countries combined. India buys more than \$3,000,000 worth of our iron and steel manufactures and more than \$3,000,000 worth of our petroleum. Among all the countries of the world, India stands tenth in rank as a purchaser of our lamp oils, and sixth in rank as a purchaser of our lubricating oils, the purchases of the latter amounting to more than \$1,000,000 per year. In this line India is equalled as a buyer by only one South American country, Argentina.

As to the particular lines of iron and steel manufactures purchased by India, only one other country, Canada, buys so much hoop and band iron from the United States as India; only three other countries buy more wire nails from us than India; only five other countries buy more non-galvanized iron sheets and plates from us; only eight other countries take a larger share of our \$16,000,000 export of structural iron and steel—including one country in South

America; only ten other countries buy as much of our \$5,000,000 or \$6,000,000 export of tin plate as India; and only ten other countries buy as much structural machinery as India out of our total export of \$8,000,000.

Even our tools are used in India in great numbers. For example, our saws—outside of Europe, India is one of the twelve largest purchasers from us in the world; and of our miscellaneous tools, amounting to an export of \$8,000,000, only five other non-European countries buy so largely from us as India. The same is true of wire: before the war, at least, India bought more barbed wire from us than any country in Europe, except England. Even our patent medicines, typewriters, and automobiles go in amazingly large proportions to India. Only six other countries have taken so much of our total export of \$7,000,000 worth of patent medicines; only twelve other countries have taken so many typewriters—which might have been thought to be a luxury rather than a necessity in so polyglot and primitive a country as is India; and as regards the most notorious luxury of the age, automobiles, India was one of the fifteen largest purchasers of our total exportation of \$21,000,000. Last of all, I will mention a significant and unexpected fact: of our total export of \$3,000,000 worth of lamps, no country in the world bought so many as India, with the one exception of Canada, which is, of course, commercially a part of ourselves.

India is today the world's greatest buyer of the goods upon which America's future development largely depends, that is, certain manufactured products. India is the greatest foreign purchaser of European manufactures. It has been evident for many years that America's trend in commerce has been away from the agricultural exporting business of the earlier years and in the direction of increased production and trade in large manufactures. India, as an agricultural nation, must buy what America most wants to sell as a growing manufacturing nation. It is simply a case of bringing together the buyer and the seller.

Much has been said about capturing South American trade. India has 300,000,000 inhabitants that must be clothed and provided with a wide range of manufactured goods, while South America's population is less than 50,000,000. India has vast wealth inherited from preceding generations and is the most densely populated portion of the globe; South America is as yet the most thinly

populated great division. In railroad mileage India stands fourth among the great countries of the world, ranking below only the United States, Russia and Germany. India has more railroads than Canada, or Great Britain and Ireland; more than all the other countries of Asia combined.

The imports of British India in the fiscal year 1913-1914 amounted to \$752,000,000, and the exports to \$831,000,000. Of the imports, 36 per cent were cotton goods, a line in which the United States is rapidly increasing its production, while its possibilities as the chief cotton producer of the world are almost unlimited. Second in order in the value of India's imports are metals; manufactures of iron and steel form about 9 per cent of the total imports. Thus about 45 per cent of the total imports of British India last year were composed of the classes of articles for which the United States has special facilities of production and ranks among the world's greatest producers, and more than three-fourths of the imports of India were of the classes of merchandise which the United States produces and exports. Yet in spite of this fact, less than 9 per cent of India's imports in 1913-1914 were from the United States.

The exports of the United States to India are increasing more rapidly in value than the imports, although they are much less in value than the imports. According to the official statistics of the United States, imports from British India increased only from \$48,000,000 in 1902 to \$50,000,000 in 1912, while the exports from the United States to India more than trebled in size in the same ten years, rising from a total of \$4,600,000 in 1902 to \$15,600,000 in 1912. The total imports of India from all countries by sea reached the astounding total of \$752,000,000 in 1914, and its exports a total of \$831,000,000. "The wealth of the Indies" is the only phrase that adequately describes it.

*Principal and Permanent Effect of the War—Loss of Trade with
Germany and Austria*

What has been and will be the effect of the war on this enormous trade, especially as concerns the United States? The immediate effect is of small consequence, compared with the final effect, which is sure to come, except in so far as the former indicates the

latter. The final effect that we can clearly foresee is the permanent loss of trade which Germany and its allies will suffer in India as a British possession. England will never let it "come back." Other belligerents also may lose some of their Indian trade permanently to the United States, especially Belgium; possibly also, France. Even England may lose portions of her Indian trade if the United States gets a good start on it during the war; for example, in cotton goods, which you will remember is the chief trade, and even more certainly in those manufactures of iron and steel and machinery in which the United States naturally excels. I do not need to recapitulate our natural advantages over competing trade, residing in our iron and coal fields and the cheaper methods of production which are being introduced, and especially in the natural genius for invention which the world recognizes in America, which has grown in part out of the necessities of a new country, and which has enabled us already to lead the world in agricultural machinery and similar products that characterize America. Desperately as our trade is handicapped at present by the lack of American shipping, this will right itself in time. Our other delinquencies also will be overcome. We shall learn how to adapt our manufactures to the peculiar demands of such great buyers as India and how to pack and mark our goods as England, and particularly Germany, have learned to do, and how to best extend our trade by sending representatives abroad; and when advertising and commercial travellers and commission houses and especially, in India, English houses, will not in the nature of the case extend the sale of American goods as branch American houses, and more adequate organization may do.

What will be our chief gain in India from the war? Note that the three belligerents which will naturally have lost the most of their trade with India have exported four times as much merchandise to that country as did the United States. In other words, first in rank after Great Britain's share in the total imports into British India stood Germany, sending about 7 per cent of the total; and then the United States, Austria-Hungary and Belgium, all nearly even in rank (the United States 2.6 per cent; Austria-Hungary and Belgium, 2.3 per cent each); then came France, contributing only 1.5 per cent of India's imports, and Italy, contributing 1.2 per cent. Germany has been the most important recent competitor of Great Britain in Indian trade. The increase in

German sales of metals, cottons, woolens, hardware and cutlery, machinery, glass and glassware, and paper, was considerable. Germany, next to Austria-Hungary, easily competed in the glass trades. Of Belgium's exports of about \$14,000,000 worth of goods to India annually, many were goods of German origin. The articles from Belgium which showed considerable increases recently were: cotton goods, coal-tar dyes and iron and steel. The coal-tar dyes purchased in India were, of course, mainly German. The steel trade of Belgium with India was the trade which Great Britain had recently most to fear. It consisted chiefly of bars and channel steel.

Excepting Germany and Belgium, other countries of the continent had but a small foothold in the Indian import trade. Austria-Hungary exported only \$10,000,000 or \$15,000,000 worth of goods per year. At times half of this amount was in sugar. Other lines of some importance were glassware, hardware and cutlery, and cotton manufactures. The smaller sales of France in British India amounted to \$6,000,000 or \$7,000,000 per year, consisting mainly of liquors, clothing, woolens and silks. The only other trade worthy of particular notice is that of Japan. Its sales to India have increased greatly, nearly doubling in five years. They amount to more than \$15,000,000, more than one-third in 1913 being silk manufactures. Other leading items were cotton hosiery, metals and matches.

The British and Indian governments have been quick to see the opportunities resulting from Germany's loss in Indian trade and have issued a Blue Book covering the subject. I repeat some figures from it, which sums up the situation during the first months of the war. The figures given are for the calendar year 1913 and the official year ended March 31, 1914:

The total Indian imports from Germany and Austria in 1913 were valued at \$55,000,000, which was more than one-tenth as much as all the imports into India from all other parts of the world. In other words, of India's total import trade in private merchandise in 1913-1914, nearly 7 per cent was with Germany and 2.3 per cent with Austria-Hungary. At least 75 per cent of Germany's imports into India were of goods such as the United States should be able to sell. Thirty per cent of her sales were of metals, including manufactures; 11 per cent were of cotton manufactures; and 8.5 per cent were of woolens: these three items making a total of exactly 50 per cent of the goods sold by Germany to India and

being in lines in which we are best able to compete. Smaller items among the imports from Germany are: hardware, machinery and millwork, railway plant and rolling stock, oils, glass and glassware, haberdashery and millinery, paper and pasteboard, liquors, and silk manufactures, the last and smallest item amounting to less than 2 per cent of the total and the other items being in lines which interest us. The only important line of imports in which Germany has been above competition as a manufacturer has been that of dyes; her sales of dyes into India amounted to 7.4 per cent of the total imports into India from Germany.

India's imports from Austria-Hungary are perhaps of less interest to us, for the largest item, one-third of the entire import, is sugar. Items interesting to us are: glass and glassware, 20 per cent; cotton goods and hardware, 8 per cent each; and haberdashery, 5 per cent. These five items cover three-fourths of Austria-Hungary's sales to India.

Put into dollars, the principal imports into India from Germany that may interest us were as follows: metals (excluding ores), \$12,524,000, of which mixed copper or yellow metal for sheeting was the largest item, amounting to \$3,280,000; cotton manufactures, \$4,596,000, including blankets, \$2,054,000, colored piece goods, \$1,187,000, and hosiery, handkerchiefs and shawls, \$1,071,000; woolens, \$3,484,000, mainly shawls and piece goods; and hardware, machinery and millwork, railway plant and rolling stock, amounting to \$4,725,000. Germany even sold miscellaneous kinds of mineral oils to India amounting to \$1,049,000. Minor imports from Germany which are worthy of notice comprised: engines, electrical and musical instruments, gold, silver, and embroidery thread, cement, bricks, umbrellas, stationery, biscuits and cakes, condensed milk, ivory, furniture mouldings, paints, starch and farina, artificial and mineral manures, motor cars and wagons and clocks and other timepieces.

The values of India's principal imports from Austria-Hungary during the period 1913-1914 were as follows: sugar (16 D. S. and above), \$4,487,000; glass and glassware, \$2,837,000, composed principally of glass bangles; cotton goods, \$1,095,000, principally colored and printed piece goods; and hardware, \$1,085,000, principally unenumerated iron ware. Minor items are: haberdashery and millinery, German silver, nails and rivets, stationery, writing

paper and envelopes, woolen piece goods, safety matches and wearing apparel. Still less in value among imports from Austria-Hungary were: hosiery, strong boxes of metal, iron and knitting wool, timber, electrical instruments, boots and shoes of other material than leather, nails and warp, earthenware and soap.

The total number of vessels cleared at British Indian ports to Germany in 1913-1914 was 163; the total number cleared to Austria-Hungary was 108. While these figures look large compared with American shipping to India, they form only 6 per cent of the total number of vessels which cleared British Indian ports during the year.

Immediate Effect of the War—Freight Increases

Let us turn now to the latest official information regarding the immediate effect of the war on our trade with India. Before quoting the latest American figures available at the Department of Commerce I may say in short that they disclose a rapid increase in trade in January and February as compared with all previous trade, in spite of the decreased trade of the six months ending in December. This increase in the last two months' trade comes despite the fact that shipping facilities between America and India have been worse during these months. The vessels cleared at United States ports for India in January had only half the tonnage of those cleared in January a year ago; the vessels cleared in February, 1915, had but little over a third of the tonnage of the clearances of February, 1914.

This deficiency in shipping is accompanied by gradually increased freight rates and is part of a world-wide situation which need be referred to but briefly and which may be vividly illustrated by consular reports received within the last week. I should premise this showing with the statement that there is at present but one line making direct trips between America and India, the American and Indian line, since the German Hansa line, which was the principal line for direct shipments before the war, is, of course, unable to continue in the trade, and a considerable number of British steamers formerly engaged in direct service between the United States and India have been requisitioned by the British authorities.

It will also be remembered that the German cruiser *Emden* exercised a disastrous material as well as moral effect upon shipping with India early in the war, having even bombarded the port of Madras. The consul at Madras reported that as a result of the official announcement made early in November of the destruction of the *Emden*, two steamers immediately cleared from the port, both of which carried large shipments for the United States.

New freight rates to the Far East amounting to an increase of forty per cent over the rates obtaining before the war were announced a week ago in the daily publication of the Department of Commerce in a report from the consul general at Hongkong. Similar rates have been agreed upon by way of both the Panama and Suez Canals, effective as of April 1. This includes an increase of ten per cent made in the rates soon after the opening of hostilities in Europe. The reasons given for this increase apply to shipping everywhere: the disappearance of German and Austrian vessels from the sea, the use of a large number of British, French and other vessels for transport service or as auxiliary cruisers, and the demand for tonnage otherwise for war purposes.

The reasons for the crisis in Far Eastern shipping are given fully in a memorandum read at a joint meeting of chambers of commerce in Manila thus:

1. The whole large German mercantile fleet is at present either captured or interned in neutral ports. While a few of the captured vessels have already been made available by the allied governments for mercantile purposes, these boats are being used by the Allies themselves for transport purposes.

2. The allied governments have requisitioned a large proportion of the better class of mercantile tonnage for war purposes.

3. For some four or five months some of the main French and British ports have been closed to commercial work, and the remaining ports have been unable to handle the enormous amounts of produce and foodstuffs which have been poured into them. This has caused delay of as much as two months in the discharge of the steamers, and has prevented them from being able to get back to producing countries to load new cargoes.

4. The causes above stated have led to the comparatively small number of neutral vessels being chartered at high rates to go on long trips to Europe, and have thereby cleared the Orient of vessels it depended upon for the shorter trades. The usual supply of Japanese steamers which could formerly be called upon in case of stringency is finding profitable employment partly in these long European charters and partly in its own special work,

The result of this situation in the Philippines is that in Iloilo thousands of tons of sugar are pouring into the market without not only tonnage to move it, but enough warehouses to store it. The steamers now serving the Islands leave them full to their utmost capacity. The irony of fate is that there are seventeen German freight and passenger steamers interned in Manila Harbor waiting the end of the war:

The memorandum further stated that freight rates from the Philippines to the United States had increased about threefold, on hemp increasing from \$15 per ton last year to \$45 per ton at the present time, and on sugar from \$7.50 per ton last year to \$20 per ton at present.

Trade Decreases During Six Months, Then Increases

As I have indicated, notwithstanding the increased freight rates, our export trade with India (excluding kerosene), increased 12 per cent in January, 1915, as compared with January, 1914, and 5 per cent in February, 1915, as compared with February, 1914. This shows a revival in trade following the serious decrease of 7 per cent in our export trade with India during the preceding six months (as compared with the six months ended December 31, 1913). The following figures for January and February apply to the port of New York only, and, together with some of the details for the preceding six months, are from the unpublished customs returns in the Department of Commerce.

It is interesting to note that the increased trade in January and February was largely in the same classes of merchandise that show a falling off in the trade of the preceding six months. Among such articles may be singled out, for instance: plows and cultivators, patent medicines, brushes, unbleached cottons, insulated electrical appliances and motors, bottles and miscellaneous glassware, household goods, bolts and hinges, firearms, iron pipes and miscellaneous manufactures of iron and steel. Many other American manufactures show an increased exportation from the United States to British India even during the first period of six months, as: miscellaneous agricultural implements, of which \$20,198 worth were exported from American ports in the six months ended December 31, 1914, more than three times the value exported during the corresponding period in 1913, and this was followed in January

with an exportation valued at \$4,093 as compared with an export of only \$347 in January, 1914. Other large increases in exports from the United States to India during last January or February as compared with the same months in 1914 were in: oatmeal and other food preparations, lubricating grease, belting, automobile tires, steel bars, metal-working machinery, wire, miscellaneous machines and surgical appliances.

There were many other articles in which our exportations decreased during the first months of the war and had not yet recovered in February. I cite only: illuminating oil, mowers and reapers, passenger automobiles (these decreased from \$239,775 to \$99,441 in the six months' period already cited, slightly decreased in January and decreased again to one-half the exportation of a year ago in February), motor-cycles and miscellaneous vehicles, certain minor cotton manufactures, electrical appliances, medical, optical and other instruments, razors and miscellaneous cutlery, stationary and traction engines, mining machinery, typewriters (our export of \$132,842 worth in July to December 1913, fell to \$93,957 worth during the same months of 1914 but nearly recovered their normal value in January and February), steel plates (the exports of steel sheets increased), axes, saws and other tools, barbed wire, lamps (the sales during the six months' period in 1913 totaled \$314,685, but fell to less than one-third of this sum in the last six months of 1914), men's shoes, harness and saddlery, rosin, spirits of turpentine (a small decrease, the export for the half year being about \$12,000 in each case), paint and varnish, playing cards (we sold over \$20,000 worth during the half year in question), leaf tobacco and cigarettes (exports of plug have increased during the war excepting in January), and, finally, fir lumber (nearly \$100,000 worth being sold in the last six months of 1913 and about one-tenth of this in the same period in 1914). These, I repeat, are articles of which our exports decreased, as might be expected, as a result of the war.

Our trade with India was in some respects more adversely affected by the war than our trade with the world at large—the belligerent powers always excepted—although not so seriously affected, for example, as our trade with South America. Both our imports and our exports in trade with India in January of this year amounted to about 70 per cent of the value of the correspond-

ing trade of January of last year, while, including the United Kingdom, our imports to all countries in January, 1915, were about 80 per cent of the corresponding imports of 1914 and our exports reached the large volume of 130 per cent of the January exports of 1914. Again, during the seven months ended January 31, 1915, our imports from British India ran about as in January, 70 per cent of the imports of the preceding year, while our imports to all countries, including the United Kingdom, were 87 per cent of those for the corresponding period in 1914; but our exports to British India during this period of seven months ran even with our exports to all other countries during the corresponding period. In other words, our exports during the last seven months ended in January were 90 per cent as large as those of the corresponding months of 1914, both in the case of India and of all countries combined.

Our trade with South America shows greater fluctuations than our trade with India. Our imports from South America show an increase of 118 per cent, whether comparing the seven months' periods as before or comparing January last with January of 1914. On the contrary, however, our exports to South America show the smallest per cent I have yet given, a fall to 56 per cent, comparing the seven months ending in January each year. They show a more favorable figure, that is a fall to 81 per cent, comparing the months of January, 1914 and 1915.

In conclusion, I have shown, I think, that the door of opportunity stands wide open at the present moment for great trade with India and that the opportunity will be vastly greater when the shipping problem is solved, as we must and will solve it. I have shown that it is one of the greatest trades of the world; that it is of greater importance, in many respects, in its future possibilities than our trade with South America; and that it makes a special appeal to America as an integral factor of the age-long campaign which we must enter upon in order to sustain our natural dominance in the commerce of the Far East and of the New Pacific, the future center and chief arena, says the Paris savant, of the commerce of the world.

TRADE POSSIBILITIES IN GERMANY AND AUSTRIA

BY ISAAC WOLF, JR.,

President of the American Association of Commerce and Trade, Berlin.

American business men as a class, whether they are doing business in Germany or not, or whether they have in the past had any German trade at all or not, should awaken to the fact that the greatest chance for trade expansion is going to come to the United States as a result of this war, and that this chance for trade expansion is with Germany and Austria.

Americans are talking a lot about the opportunities for trade expansion with South America presented by the war. But there is nothing heard of the far more important field afforded by Germany and Austria. South America has a population of about 35,000,000. Germany and Austria have a combined population of about 115,000,000.

The manufacturers of the United States should arouse themselves to the fact that the Teutonic allies are going to offer a superb market for American goods in consequence of the war. The goods which were hitherto imported from Great Britain and her colonies, from France and from Russia, can in large measure, be supplied hereafter by the manufacturers of the United States if American business men will once understand that there is to be a vast market presented in those countries.

The question is often asked, "What goods will sell well in Germany?" In general any manufacture of first class quality will sell in Germany. When this war is over Germany will need almost all kinds of goods and it will be good time to get into the German market and we shall find Germany one of the best foreign markets. In general, a firm going into the German market should have its own special representative—this special representative will be found to be the connecting line between producer and consumer. This applies to doing business with most countries. The first requisite of foreign trade is superiority of goods. There is no reason why American textiles, especially hosiery and knit goods, in which branches we have made great strides, should not compete with those

of German make. There will always be articles with which we cannot compete, otherwise trade ceases to be reciprocal. The sale of American footwear in Germany has increased about half a million during the past year. Our tanning processes are said to be superior to the German and we are also very careful to put good stock into our footwear. American fur-trimmed clothing could be exported with profit, as furs are cheaper with us—provided however, we consult the tastes of our customers. In hides and leather, also in woolen goods, we could compete. In manufactures of paper we are in many respects ahead of Germany as to variety of good designs and uses to which we put paper—these are finding a ready market in Germany. Instead of importing made-up cotton goods from Germany, we ought to export them and supply our own needs from our own mills. American ready-made suits for men and boys are a new article for Germany and are selling well at present in the department stores in Berlin, where also American collars, cuffs and shirts are marketed. This is a branch that would not fail of a good sale; to be sure we already have our goods there, but in small quantities only. A German collar sells for a quarter, so that there ought to be a good profit. Other things that could be sold in such a store are travelers' requisites and every requisite for a gentleman's outfit, and American steel office furniture. Little attempt has been made to sell office furniture, only one American firm, so far as I know, having made an attempt. Our state department at Washington has lately been in the habit of furnishing its offices abroad with this kind of furniture, a practical advertisement if pointed out to visitors. There are many other articles which would sell well in Germany.

During the few months I have been in the United States the usual greeting I receive is, "Well, you are lucky to get away from Germany just at this time." I mention this as indicative of the erroneous impression concerning present conditions in Germany. I say erroneous—because if you were in the city of Berlin today, you would not imagine that the country is engaged in one of the most formidable wars Germany ever undertook. It is remarkable to what extent normal conditions have been maintained in Berlin since the beginning of hostilities. You see just as many able-bodied men on the streets, you see just as many ladies doing their shopping as ever, you will find the cafés and confectioners as frequented as ever, only you will find the Germans quieter and more

subdued as a natural result of the terrible sacrifices almost every family is making.

The retail stores, especially the great department stores, are still doing a good business. Electric and other power cabs are still running, although in reduced numbers owing to the lack of chauffeurs. The auto omnibuses, however, are running regularly on all lines. A small number of the wives of conductors on the surface lines have been given the places of their husbands, who have gone to the front. Factories, other than those for military needs, are working on half-time, half-wages and half-force. Merchants are meeting their liabilities as in times of peace and there is no moratorium. Everyone is trying his or her best to bridge over the business situation. Those working for the army, in any capacity, are making hay while the sun shines, and the average shoemaker, saddler and petty tailor have for years not reaped such golden harvests as at the present time. Latest statistics show that the improvement of the labor question is making steady strides and the number of unemployed is not as large as might be expected. Of course taking 5,000,000 men for the army lessens the number of mouths to be fed at home.

The Industrial Situation

It is unnecessary to remark that industrial activity underwent many limitations during the days of mobilization, but assumed fairly normal shape after concentration of the military forces. No slack was experienced by the industries connected with the production of food products. The metal and clothing industries are, on the whole, engaged to their full capacity. During the months of September and October the following industries increased their activity and output: the metal, chemical, textile, clothing, leather goods and printing industries.

Prices of Foodstuffs

The harvests in Germany last fall were almost normal. The yield of rye exceeded that of previous years by a million and a half hundredweight, and rye forms the staple article of food. All the crops were harvested expeditiously by aid of the pupils in the higher classes of the schools and the seeding next spring will probably be done by the same persons.

In October the federal council prescribed maximum prices for wheat, to take effect November 4. The maximum price for home-grown rye differs somewhat in the various provinces, but keeps within the limit of between 209 and 237 marks per ton. The maximum price for home-grown wheat amounts to 40 marks more than for rye. The object of these fixed maximum prices is to insure steady provision of food for the population at normal prices.

In scrutinizing the future of American exports into Germany, it can safely be said at the outset that soon after the war a tremendous boom may be expected. Three conditions, however, govern this desirable and hoped-for situation, *viz.*:

First, that the friendly political relations of old between America and Germany continue;

Second, that the same commercial relations continue, unharmed on either side by prejudice or envy;

Third, that American exporters deal with their German customers direct.

In regard to the first item, any sane person does not expect anything but continuation of the old, never disturbed friendship between the two countries.

The second item calls for tolerance on the part of both countries, and efforts in this direction, combined with intelligent study, in order to widen the export possibilities, will surely lead to splendid results.

The third item represents but natural results of the attitude of the English government which now prohibits any commercial intercourse with Germany. American exporters, who have given sales privileges for continental Europe to business houses in England, will in the future have to do their business with the representatives in Germany direct.

COÖPERATION IN EXPORT TRADE

BY WILLIAM S. KIES,

Of the National City Bank of New York.

Organized effort in any line generally succeeds over individual endeavor. Particularly is this true in the contest between nations for commercial supremacy. In highly competitive markets success is attained by the country whose forces of production are most efficiently organized, whose financial resources are capable of the quickest mobilization, and whose sales campaigns reflect intelligent collective effort.

The best example of national achievement resulting from intelligent coördination of efforts is that of Germany. Twenty-five years ago Germany set for herself the task of building up her foreign trade. Her economists saw clearly that national wealth and prosperity were the sure rewards of a successful foreign commerce; that selling to other nations, in return for their raw materials, the products of factory and workshop, meant a permanent income to Germany from the labor and skill of her citizens, and that the value added by the processes of manufacture gave to her either a call upon the gold supply of the world or the option of a credit which could be used in the purchase of foodstuffs or other raw materials. Germany went about the matter in a thoroughly scientific manner. An intensive investigation of the possibilities of the various markets of the world was begun. The characteristics, customs, manners and wants of her future customers were carefully studied in an endeavor to ascertain what goods were desired and those for which a demand could be created. There was to be no attempt to force upon people what they did not want.

Coöperative societies were organized for the advancement of export trade. Chambers of commerce, which were active bodies and not paper organizations, collected data and information for the benefit of all interested.

The government, keenly alive to the fact that commercial supremacy means national power and greatness, shaped its export policies along broad and constructive lines. Export trade needed

encouragement; consequently drawbacks and export bounties were provided. The merchant marine needed to be built up; subsidies were voted. Manufacturing towns distant from the ports were at a disadvantage in the matter of railroad rates; the rates were forthwith adjusted so as to encourage manufacturing for export. Foreign trade had to be financed. Branch banks, under liberal banking laws, were established and became active agencies for promoting trade in foreign countries. In order to safeguard the domestic market, a protective tariff was instituted. To assist the German manufacturer to compete with others efficiency methods became the subject of careful study, and when it was demonstrated that combination meant lessened waste, greater concentration of effort, and more effective production, combination was encouraged. Price agreements, to avoid wasteful competition at home and abroad, were recognized as necessary and made legal. If, in order to meet the competition of other nations in foreign markets, it was necessary to sell below the price prevailing in the domestic market, a public opinion was created which applauded such a course as entirely patriotic, in that the greater the sale of German products abroad the nearer would German manufacturing establishments approach capacity production, and capacity production was early realized by German efficiency experts as the best means of reducing economic waste in production and lowering the unit cost of the products.

Germany saw that successful cultivation of foreign markets must be based upon a thorough knowledge of foreign countries. She planned an educational system for her youth whereby they were taught commercial geography, the business languages, and the financial customs and manners of different peoples, and her young men were encouraged to go into different parts of the world as commercial missionaries to convert the consumer into a user of German goods.

The United States has been given by nature all of the resources necessary to build a great manufacturing nation. We have iron, timber and other building materials with which to construct factories and workshops. We have water power and coal in abundance. We raise in this country vast quantities of raw materials. Not only do we supply our own manufacturing establishments, but each year we export millions of dollars worth of such raw materials to other countries, and we have the power to increase indefi-

nity such production. With these advantages in our favor, the United States should become the greatest manufacturing nation of all times.

We have made great progress in recent years, and the percentage of increase in the export of manufactured articles was greater in the period of 1900 to 1912 than that of Great Britain or Germany, but if the figures for oil, steel products, refined copper and agricultural machinery be deducted, the remaining totals would not be encouraging.

A study of our export figures indicates that the greatest progress in the development of foreign fields has been made by reason of an intensive study of markets and an intelligent organization of sales forces on the part of great industrial corporations like The United States Steel Corporation, The International Harvester Company, The Standard Oil Company, and the selling companies representing the refined copper interests. What has been done in Germany on a national scale, through the coöperative efforts of all classes, with the encouragement of the government, has been accomplished by these large American corporations without government encouragement, and entirely as a result of the skill and ingenuity of the American sales manager with a large vision and a constructive imagination.

In the last few years, however, public opinion, if it has been correctly reflected in recent governmental action and in legislation, has decreed that large combinations of industrial units shall no longer exist, and that production shall be carried on by smaller units, actively competing with each other, irrespective of the economic waste resulting from competitive methods, the duplication of sales organizations, advertising and promotional expenses, and overhead costs in general.

We are in the midst of this period of disorganization of the forces of industry at the exact moment when there is presented to this nation an opportunity which will probably never again come in its history—an opportunity for introducing American goods in markets hitherto closed to this country. Admittedly, the tremendous power developed by great combinations of capital has been in numerous instances abused, and the economic value to the nation of highly organized instrumentalities of production has been lost sight of in the popular indignation aroused as a result of the exposure

of abuse of power, and the injury done by unfair practices to competitors. But we are too often extremists. Our tariff is either unreasonably high or ruinously low. We stubbornly refuse to adjust it scientifically through the agency of a board of experts. We permit our railroads and public service corporations a free rein, and when the abuses which such a policy fosters are brought home, we proceed to hamper their usefulness and to block their growth and development by the passage of unscientific restrictive laws, and by over-regulation on the part of many state commissions. Too often we seem to prefer to tear up by the roots rather than to use the pruning knife. And so in dealing with our trust problem we have refused to recognize the great advantages of concentration of effort in production, and the economies which come with efficient organization. We have been willing to sacrifice all this rather than to attempt, by intelligent, constructive legislation, to preserve that which is economically sound.

The Sherman Act forbids combinations in restraint of trade, or which would tend to restrict competition in foreign and domestic commerce. The recently enacted anti-trust acts do not change the terms of the Sherman Act, but have provided a Federal Trade Commission with very large inquisitorial powers, which, while not endowed with the functions of a court of last resort, nevertheless will have a large influence in determining the boundaries within which coöperative effort may safely be carried on.

The Commission, since its organization, has shown a keen interest in the subject of foreign trade, and, judging from the character of its membership, may be expected to do all within its power toward aiding in the development of constructive plans for building up our foreign commerce.

It is plain, from the experience of Germany and England, that material progress in the development of foreign commerce depends upon coöperative effort, not only between manufacturers, but between the government and those interested in foreign trade. Within the limits of the trust laws, the government has shown a most laudable coöperative spirit. The Department of Commerce is doing splendid work, and the present chief of the Bureau of Foreign and Domestic Commerce has built up an organization of experts who are giving real service to our manufacturers. The Treasury Department has applied itself to the study of the financial needs of the South

American countries, with the desire of being helpful, and is working along constructive lines.

There does not, however, seem to be that spirit of coöperation among manufacturers themselves which is necessary to the accomplishment of permanent results. This, to a large degree, no doubt, is due to the feeling of uncertainty existing in the minds of manufacturers as to the extent of the application of the Sherman Act to combinations engaged in foreign commerce. Some lawyers have held that the Sherman Act does not apply in foreign commerce; others have held that it does. While the process of unscrambling combinations is still going on, and so long as there is any doubt about their validity, there will be hesitancy about forming new combinations irrespective of their economic value.

A great deal has been said recently about the necessity of organizing combinations among industries interested in foreign trade if new foreign markets are to be successfully developed. There seems to be quite a general agreement that the Sherman Act should not apply to combinations organized for export trade. That the Administration itself recognizes the necessity for coöperative effort in opening new markets is indicated by the speech of the President of the United States before the Third Annual Meeting of the Chamber of Commerce of the United States, on February 3, 1915, when he said:

I want to know how coöperative methods can be conducted for the benefit of everybody who wants to use them, and I say frankly that if I can be shown that, I am for them. If I cannot be shown that, I am against them. I hasten to add that I hopefully expect that I can be shown that.

Congress will not meet again until next winter, and, therefore, legislation clarifying the situation by amending the Sherman Act so that it shall not apply to combinations in foreign trade cannot be expected for at least a year. In the meantime, opportunity, kept waiting at the closed door, may turn on its heels.

It would seem of vital importance that the best thought and study of those who are interested in the development of our foreign commerce should at this time be directed toward the finding of some temporary expedient, if possible, which will permit manufacturers in certain lines to combine in organizations for the study and development of new markets.

Opening new markets abroad costs money. Wasteful competi-

tion in such markets injures the American manufacturer, serves to discourage effort, and benefits only the foreign consumer and the foreign competitor. In its last analysis, unprofitable foreign trade is a burden upon the industry at home, whereas profitable export business results in a prosperity for the particular industry, in which capital and labor share, and which ultimately benefits the domestic consumer.

There are no restrictions in the Sherman Act against combination for the purpose of studying foreign markets, collecting and disseminating information, investigating efficiency methods in production, or against promoting in general the interests of the American manufacturer. Combinations under the Sherman Act are only illegal if they restrain or tend to stifle competition among the manufacturers of this country, whether the competition be in foreign or domestic business. Combinations for the doing of export business, which would result in the shutting out of other concerns from the foreign field as the result of a monopolistic scheme of organization, would probably be illegal under the Sherman Act as at present construed. And yet export trade, with its many difficulties and problems, requires such a concentration of resources and effort that the great benefits to be derived by the whole country from a large foreign commerce argue powerfully for the removal of all restrictions upon combinations in export trade.

Without wanting to be understood as favoring, under any circumstances, the retention of the provisions of the Sherman Act which so seriously handicap the development of export business, but realizing that while waiting for congressional action the manufacturers of this country are losing precious time in which should be begun preliminary foundation work of greatest importance in the upbuilding of our foreign business, I desire to suggest in brief outline, for your consideration, a concrete plan for the organization of export societies, which, in its essentials, would appear not to violate the prohibitions of the Sherman Act, when interpreted according to the "Rule of Reason."

Let there be organized under the laws of one of the states a corporation to be known, for example, as The American Drug Manufacturers Export Corporation, The American Coal Producers Export Association, or some similar title; the organization to be incorporated with sufficient capital stock to permit all of the members of

the industry throughout the country, or in certain cases those in a particular locality, who so desire, to become members upon exactly the same terms. Each producer desiring membership to subscribe to a definite amount of stock, his subscription being payable in equal instalments over a term of years; sufficient stock to be retained in the treasury to provide for those who might subsequently desire to become members upon equitable terms fair to the original members, each member to own exactly the same amount of stock.

The general scheme and method of operation, which will constitute the contract between the corporation and the members, as well as between the members themselves, will properly be embodied in the articles of association, and will be along the following lines:

1. The corporation is to be impartially organized in a manner fair to all its members, and the management selected with expert ability as the sole test.

2. Membership on the board of directors to be arranged so that in due course of time every member shall receive representation. To avoid possibility of unfair treatment, there will be provided a permanent arbitration committee, to be selected in an impartial manner, and to be made up of persons having no interest in the industry. To this committee shall be referred any questions in dispute, and its services may be invoked by any member.

3. Each member shall, at the beginning of the year, report to the export corporation the amount of its product available for export during the year, the conditions of delivery and of acceptance of orders, and the price at which it is willing to sell in a foreign market. These tenders may be changed from time to time, under such conditions as may be thought advisable, and special quotations of additional quantities may be named whenever desirable.

4. The sales force of the corporation will undertake the disposal of the exportable surplus of its members on the terms and conditions specified, obtaining the best price possible, making use of the export commission houses, the local representatives, the trained salesman and every agency of value in building up foreign trade. The difference between the price quoted and the price obtained shall belong to the export corporation as a profit, and upon all sales all members shall pay to the export corporation the same percentage as a commission.

5. Whenever a demand shall be found to exist in a particular

market for a certain quantity of goods which must be sold at a lower price than quoted by any of the members in order to meet foreign competition, all members shall be notified of the possible order, and given an opportunity to meet the foreign price. Competitive bids will be received, and the lowest bidder is to receive the order; or, if there are a number of low bidders, the order is to be divided.

6. All profits, after deducting all expenses, and setting aside such a sum as shall be deemed necessary for promotion, advertising, establishment of permanent quarters, etc., shall be distributed equally among the members.

7. The export corporation shall provide an expert who shall collect statistical data and information of value to the industry, which shall be distributed promptly, and under the same conditions, and in the same manner, to all members. The export corporation shall also have on its staff an efficiency engineer, who shall make intensive study of methods of production in the industry, cost of production, competitive margins, and the productive capacity of various plants. His services shall be available to any of the members for the purpose of giving advice as to the development of greater efficiency in production, diminishing the cost of production, or increasing the output. He shall also give to all members technical advice as to the best methods of meeting peculiar requirements of foreign markets.

8. The export corporation may also act as a purchasing agency for raw materials. Being able to purchase in large quantities, as a representative of many consumers in a given line, it will be able to buy in foreign markets at the lowest prices. All members will be entitled to the corporation's services in this respect upon the same terms.

It is, of course, not necessary to limit the membership in such an organization to particular lines. Groups of manufacturers in allied lines could profitably unite to form one export company which could conduct a sales campaign for all, as, for example; a drug manufacturers' export corporation might well include manufacturers of toilet articles, cosmetics, perfumes and bathroom accessories. Manufacturers of cottons, woolsens and silks might combine in one large textile export association.

In the scheme of organization outlined, competition is unrestricted among all the members of the corporation. Each member

fixes the price at which it will sell its product, and in effect tenders to the export corporation the disposal of a certain product at a certain price. If the price is too high, the product of a particular member remains unsold. When special opportunities are found in a particular market, all members are given a chance to bid for the business. Fair competition without favor is thus guaranteed to each of the members. The member with small resources and a minimum output is not placed at a disadvantage if he cannot meet the prices of the more powerful members of the group, because he will receive his share of the profits of the corporation, which will result, in a large degree, from the commission which each member, whose product is successfully sold, must pay.

The corporation cannot be said to restrain the trade of its members or those who are not members. Its benefits are open to all in the industry on the same basis. Its members are not obliged to sell exclusively to or through the corporation, and are thus free to develop trade for special brands, if they can do so better than through the corporation. The prohibitions of the Sherman Act, in regard to restraint of trade, are meant for the benefit of the American consumer and the American manufacturer, and neither the American consumer nor manufacturer can be injured by the operations of the corporation. Competition in domestic markets is not affected. If the American consumer is affected at all, it will be beneficially, because through the disposition of a large part of the output on the foreign field, American manufacturers will be able to approach nearer to capacity production, thereby bringing down the unit cost of the article manufactured, with a possible reduction in price, in the domestic market.

The greatest advantage to be derived from such an organization is the concentration of the resources of different manufacturers in the building of a thoroughly efficient, highly trained, sales organization, under skilled management, devoting all its energies to the development of foreign markets.

One of the greatest benefits to be gained from a thorough organization of our export activities would be unity of thought and action in dealing with some of the large problems connected with foreign commerce.

Experts representing various industries, working in conjunction, could accomplish much toward simplifying the mechanical

details of export trade. Greater uniformity in bills of lading, shipping documents, consular practices and fees, customs house regulations and port charges might be brought about by united effort. Better service could be exacted from steamship companies and with greater knowledge and closer attention to details the numerous delays, exactions, and fines in foreign customs houses, which are so exasperating to the importer and exporter, could, to a great extent, be avoided. To a body of experts of this character could be intrusted the investigations, if not the preliminary formulation of commercial treaties of the United States, which are of such importance in the development of reciprocal trade relations with foreign countries.

The idea of such an association may appear utopian to some, but practical Germany has demonstrated the value of intensive organization and concentration of effort in foreign commerce.

The above plan is put forth not as a finished scheme of organization which should be adopted without modification, but merely as a suggestion in broad outline, in the hope that by focusing attention upon a concrete proposition some definite results might be accomplished. If the scheme of such a coöperative export corporation or society, which is about the only form of legal combination possible under our existing laws, should prove to be impractical in its application to present conditions, that fact in itself should emphasize the immediate necessity of unshackling American business so as to permit freedom of action in the foreign field. On the other hand, if so reasonable a plan for coöperative action as that outlined be considered, in its fundamentals, as violating the provisions of the Sherman Act, then the absurdity of having such a law upon our statute books would appear to be clearly demonstrated.

Of course, it must be recognized that coöperation through the means of some legal form of combination is not essential or necessary to the development of foreign business in all lines, although in standardized lines where foreign competition is keen our manufacturers must have the right of organization if progress is to be made.

For the marketing of many products, the present export or commission house, with its thoroughly efficient organization, furnishes the best of facilities to the exporter, although even here an organization among various manufacturers, for the purpose of de-

veloping a market and carrying on a general publicity and sales campaign for the benefit of all, will prove valuable. Such a selling organization might arrange with the commission house to attend to all of the necessary details in the actual exportation of the goods.

In certain particular lines, too, where a manufacturer is interested in developing a market for a particular brand or design, there might be little advantage in combination with a competitor, except, perhaps, that there should be a clearly recognized right among such competitors to make binding agreements in regard to the extension of terms in foreign countries.

As indicating the necessity of our manufacturers being permitted to make agreements in the matter of the extension of credits, let me quote from a letter received from a large manufacturer a day or so ago. He says:

Of course, our principal trouble at the present time is with credits. We are limiting our dating to "90 days from date of invoice," and we have heard of some competitors who have given 120 days, but we have called their attention to the fact that if the various American manufacturers are going to sell terms in competition with one another, instead of merchandise, we shall all be losers in the long run, because the buyer in Buenos Aires will simply play one concern against the other to secure the longest dating.

The matter of credits, due to the difficulty in obtaining credit information concerning firms in foreign countries, is a serious obstacle to the growth of export business. The long time credit which has heretofore been customary in South American countries and Russia is violative of sound financial principles. A man should receive such time for the payment of his bills as will permit him to realize upon the sale of goods. When he has received the money from the sale of the goods, a part of it belongs to the merchant who sold him the goods and the rest is his profit. If he is allowed to keep that which does not belong to him for a further length of time, he will be tempted to speculate or at least to divert the money into other sources. Too long credits encourage over-stocking, over-extension and speculation. If, in the cultivation of new markets, American manufacturers, in order to get business, will be obliged to compete with each other in the extension of lengthy credits, and will be denied the right of agreement or coöperation in matters of this kind, the results in the long run are bound to prove disastrous.

Injurious competition between our manufacturers in foreign

markets will inevitably result in making the business for all unprofitable, forcing many out of the market in disgust, to the entire satisfaction of our foreign competitors, who derive profit and enjoyment from our attempts to destroy one another in internecine industrial warfare.

It cannot be denied that in the scheme for an export corporation as outlined, there are opportunities for abuses and the growth of practices which may be injurious to some of the members. By the appointment of a permanent arbitration committee, one of whom might very properly be a member of the Federal Trade Commission, any member who felt himself discriminated against, or unfairly treated, could obtain redress. The Federal Trade Commission, too, has power under the law to correct such abuses upon complaint. The important thing is to find some plan of coöperative effort, which is fundamentally legal and at the same time practical; some plan which can be availed of by our manufacturers without danger of criminal prosecution, until such time as the law shall have been changed.

The smaller manufacturer, of necessity, has become interested in the subject of developing export trade. In many instances he cannot afford the cost of a promotion campaign in a foreign market. The very prohibitions of the Sherman Act which are designed to give him an equal opportunity operate to put him at a disadvantage with the larger manufacturer capable of maintaining an effective sales organization in foreign lands.

By combining the resources of manufacturers in a given line, a highly trained and efficient organization can be developed, operating at a minimum expense, which can scientifically study the markets of the world, disseminate information for the benefit of all and conduct comprehensive sales campaigns along educational lines, which will be sure to bring favorable results.

The possibilities of our commercial future carry a striking appeal even to the ordinary imagination. Whether *the* great opportunity in the nation's history will be taken advantage of in full measure, to the lasting benefit of the whole people, will depend upon the education of our people to the value to this country of export trade; upon the development of a genuine spirit of coöperation among our manufacturers in the intensive study of the possibilities of new markets; upon the patience, skill and tact which are exercised

in the cultivation of the foreign field; upon the building up of a public opinion which will compel the removal of the fetters from legitimate business; and, of most importance, upon the assumption of leadership in this movement by men of broad vision, untiring energy and unselfish devotion.

THE IMPORTANCE OF AN AMERICAN MERCHANT MARINE

BY BERNARD N. BAKER,

Baltimore, Md.

I feel highly honored by the request to address your influential body upon the importance of an American merchant marine in the development of our trade with Central and South America. I wish to present this subject from a practical business standpoint and from long experience in the merchant marine.

To begin with, we will take one country, the Argentine Republic, and one class of merchandise, coal, and show you what can actually be done. The annual consumption of coal in the Argentine Republic is about 5,000,000 tons per annum. So far they have been able to find little or no coal there, so they must depend upon other countries for their supply. Now their coal supply is mainly from England. The last quotation of which I have accurate information is of the date of April 17, the average price of coal in Buenos Ayres is about \$9 per ton. For a number of years the price of coal f. o. b. at the various English ports varying from the very best Welsh steam coal to the poorest coal produced on the east coast was \$8 per ton for the best Welsh coal and \$5 a ton for the poorest quality. The rate of freight at the same time to the River Plate is \$7 a ton. Now this would make the coal delivered to Argentine ports of the best quality of coal \$15 a ton, or poor quality \$12 a ton. The very best American coal f. o. b. at the Virginia Capes, or Lambert's Point, the most convenient ports to ship from (and the best American coal is equal to the very best Welsh) can be placed on board vessels at Newport News or Lambert's Point at a cost of \$3 per ton and even less. We have no American ships to carry this coal, but one of the largest ship-building concerns in England would undertake to provide the actual construction of ships to deliver coal to Buenos Ayres, bringing the ships back in ballast, at a cost less than \$3 per ton, making the difference in cost between American and English coal of \$9 per ton, delivered to Buenos Ayres. This is not a theory, these are facts.

Why have not our large coal interests taken advantage of the opportunity to develop such a trade with the United States? First, and most important, is the fact that all the large consumers of coal in the Argentine are almost entirely controlled by English interests and there is in existence today in England a combination known as the Cambria Coal Combine which prevents business being done by agreements with the American coal interests.

But the reply will be made that American steamship companies in their past experience have not been successful. This is true, but anyone who will make a careful study of the cause and condition governing these various American enterprises will find without exception that good and sufficient reasons can be given for their failure.

Until the beginning of 1914 there existed such a powerful combination in the control of the import and export business from the United States and Europe to South America, upon foreign-owned steamers, that it was impossible for any independent service to attempt to secure cargo, particularly coffee, from Brazil to the United States at any rate of freight whatever. Without going into the details of this, I would call attention to the effort made by a New Orleans company as testified to before a committee of Congress as to the impossibility of securing cargo *at any rate*, so powerful was the combination that any shipper that shipped by any independent service could not secure freight room to any ports, not only American, but also foreign for all future time.

With regard to the profitableness of the operation of steamship lines, it is a very remarkable circumstance that while today, and I quote from the report of the Cunard Steamship Company just issued for the calendar year, ending December 31, their business had been so profitable that they had earned sufficient to pay not only a 10 per cent dividend, but a 10 per cent cash bonus dividend and carried over \$700,000 to the credit of profit and loss, while the only large American company (the International Mercantile Marine Company) on April second went into the hands of a receiver. What do we lack? Is it good management or a lack of interest? In 1903 at the time of the formation of the International Mercantile Marine Company a careful calculation was made and the request made of every steamship company or firm owning 20,000 tons of ocean steamers and over for a statement of their accounts. The

result of this was that reports came in from eighty-nine steamship companies representing 2,530 steamships with a tonnage of 7,433,575 tons. This represented every nationality (except American), namely, British, German, French, Japanese, Austrian, Netherlands, Spanish, Italian, Danish, Russian, Norwegian, Grecian and Swedish. The result for a series of years of these companies showed an average net dividend payment of 6.33 per cent per annum. Another fact, the average price today of steamship securities in England is on an interest basis return, regarded more favorably than almost any other possible investment. I will only quote under date of March 25 the last quotations available: Anchor Line $4\frac{1}{2}$ per cent bonds are bringing 105; the $4\frac{1}{2}$ per cent Cunard Bonds 102 $\frac{1}{2}$; Peninsular and Oriental Navigation Company $3\frac{1}{2}$ Debentures 85; this, too, in the time of war. I have been informed that in one hundred years there has not been in the history of the English merchant marine one dollar lost on mortgage investments in the prominent British steamship companies. Can any of our railroads or any of our industrial enterprises show such results? Why, therefore, is it not possible to have in our country a merchant marine under our own flag?

First and most important is the first cost of the ship. This varies, according to the character of the ship from 40 to 60 per cent more in the United States than in any other country, particularly England and Germany. Now, Congress has passed legislation (Act of August 18, 1914) allowing any ship, owned or purchased by citizens of the United States under a foreign flag, to be transferred to American registry without duty, if engaged in the foreign trade, so this provides a remedy.

The second and most important question is that of crews, crews' wages and regulations governing same. These are in a most hopeless state, and until the United States can get all the other important maritime nations to coöperate with her in the regulation of payment of the crews' wages, etc., it will be impossible for an American owner under the American flag to compete in the foreign ocean-carrying trade with other countries. It seems to me that this could be done with the coöperation of other countries. How can we accomplish this?

Let us study what has been done to build up our merchant marine.

The first and most important bill that actually passed at a session of Congress was known as the "Mail Contract Act of March 3d, 1891." Every party platform in every national election has advocated in various forms the upbuilding of an American merchant marine. From the time of the passage of this act in 1891, to the present time, there have been numerous bills introduced, but never could the Senate and the House agree on the passage of a bill, and it has nearly always unfortunately been made a party measure, even down to the last legislation proposed, known as the "Ship Purchase Bill."

In 1911 the post office department, under the terms of the Act of March 3, 1891, advertised for the establishment of services with various ports, especially to use the Panama Canal, and in the proposed service was established a special system of barge service both from Colon and Panama to the north coast of South America and also the west coast, as it was thought there would be an enormous distributing station at both these ports. The only conditions in this advertisement were that the control of any corporation taking advantage of a mail contract should not be held by the railways or by any interest doing business with these countries on their own account. Although this advertisement was twice inserted and was equivalent to a guarantee of 10 per cent on the capital required for the American ships under the American flag, in a trade limited to the American flag, not a single bid was received. The reasons for this could easily be explained, but it would take too much time. But this is only quoted to show the efforts that have been made. Over \$30,000 was expended in the way of placing this proposition of the government (in President Taft's administration) before the public, and yet, as stated, not a bid was received. The proposition, just as it was made, was submitted to a large English interest at present engaged in the steamship business, and their comment was that such a proposition offered by England would have had at least 100 bids. So impressed was one of these interests that they agreed, provided it was agreeable to their New York banking correspondents, to take \$500,000 interest in a company to make a bid. It is hardly necessary to state that these bankers declined to approve of this friend taking any interest.

In my thirty years' active, earnest work before nearly every commission and every important investigation by Congress various

discussions have been brought forward as to how to remedy these conditions, and let me say now that never have I met a senator or congressman from any state that did not think it was a question of vital importance that we should have an American merchant marine. I know of no better suggestion than that contained in an article published in the *North American Review* of January, 1910, by me, over five years ago, and that was that, under no circumstances, could an American merchant marine be established without assistance from the government, and the practical way in which to secure this assistance was by the appointment of a commission of practical, experienced business men who had a knowledge of the subject to outline to the government the necessary assistance, with authority to act and agree with other countries upon condition and regulation governing the operation of oversea traffic. This assistance would vary much according to the different ports to which lines might be established and could only be carried out successfully and to the benefit of our country by men having such practical experience, as to different routes of trade, as it would require a different basis of assistance depending upon the class of ships, and the nature of the business to be developed. This would especially apply to our Central and South American commerce. That this suggestion has not been changed in five years, I would call your particular attention to the recommendations of the Chamber of Commerce of the United States and by a special committee of the Chamber of Commerce of New York, which reported, January 28, 1915, at a special meeting called for the purpose of considering suggestions for the establishment of an American merchant marine, that a commission be created.

Can we not trust good men with practical experience and with a spirit of patriotism independent of what may be their own gain, to carry forward successfully the reestablishment of our merchant marine? The appointment of a commission of such men by the President of the United States under the authority of Congress, to reestablish our merchant marine, giving them full authority to do so, would be a wise move. In the recent bill known as the "Ship Purchase Bill," the main and important objection seemed to be that they could not trust any commission with so much power. How else can it be done? Look at the trust and confidence we are putting, and it has been demonstrated, successfully to our best

interest, in our Federal Reserve Board in control of the finances of the country. Why not do the same thing with the merchant marine?

Did it ever occur to you how jealous and how proud other countries are of the development of the merchant marine in this respect? Do you know that you cannot today, as an American citizen, hold a share of stock in the Cunard Steamship Company which is especially under the control of the British government?

I shall not attempt to weary you further, but I would like to call your attention as to how an American merchant marine was valued by the noted writer, Alexis De Tocqueville in his *Democracy in America*, written nearly one hundred years ago.

The Anglo-American has always displayed a very decided taste towards the sea. The Americans themselves now transport to their own shores nine-tenths of the European produce which they consume, and they also bring three-fourths of the exports of the new world to the European consumer. Thus not only does the American merchant face the competition of his own countrymen, but he even meets that of other nations in their own ports with success. As long as the mercantile shipping of the United States preserves this superiority, it will not only retain what it has acquired, but will constantly increase in prosperity. But I am of the opinion that the true cause of that superiority must not be sought for in physical advantages, but that it is wholly attributable to their moral and intellectual qualities.

Have we the same moral and intellectual qualities which were attributed to us by this noted writer nearly one hundred years ago, or have we lost them all?

THE FUNCTION OF GOVERNMENT IN ITS RELATION TO INDUSTRY

BY JOSEPH E. DAVIES,¹

Chairman, Federal Trade Commission, Washington, D. C.

The subject "Relations of the United States with Central and South America as Affected by the European War," is fertile in its suggestion and most timely. The relations of this country with our neighbors of the South are brought forcibly to our attention by conditions precipitated by the European war. These relations are therefore interesting by reason of several factors in the situation, to-wit: the manner in which our industrial and financial organizations have been affected; the relations that will arise in a business and industrial way between the republics of this hemisphere by reason of the changing of the currents of the world's trade; and the manner in which these conditions will react upon the policies of the various sister republics of this hemisphere, where such policies are practically founded upon a common purpose and conception of the relation of government to industry.

With differing degrees of severity the European war has affected all the republics of this hemisphere, so far as industry, agriculture and finance are concerned, in much the same manner. We have all suffered by reason of this violent change in world conditions.

The possibilities of mutual advantage through the development of new courses in the world's trade and greater intensity of commercial development in the course of trade already established between this country and the governments to the south of us give great promise.

In the development and growth of the business of these countries it should be a matter of congratulation that, fundamentally, there is identity of outlook on the governmental policy which the respective governments take with reference to the relationship of government to industry.

¹ Remarks as presiding officer at the fourth session of the Nineteenth Annual Meeting of the American Academy held in Philadelphia on April 30 and May 1, 1915.

In the evolution of industry and business the world over there are two types of governmental attitude that are fundamentally characteristic. Under the monarchical form there is a tendency toward centralization of power, not only in government, but as well in industry and finance, with the resultant disposition toward the recognition of monopoly, and indeed, perhaps, the fostering of monopoly, with the participation in the fruits thereof by the favored classes. Among self-governing peoples, on the other hand, there has crystallized a fundamental conception in national policies that there must be equality of opportunity in industry under a government that purports to be a government for the benefit of all the people; that the declaration of equal political opportunity is futile unless there be governmental policies that will preserve equality of opportunity for development consistent with the differences of abilities that reside in men. In other words, the policy of self-governing peoples, generally speaking, has been to develop such a governmental attitude as would preserve the channels of trade open through the processes of regulated competition, and practically all of the republics of the western hemisphere have that common attitude of the relationship of government toward industry.

By reason of this common point of view which pertains fundamentally to the governments of this hemisphere, there is great promise of future sympathetic and continuous coöperative development. This common outlook upon the functions of government has been supplemented as well, within the comparatively recent past, by developments of an international character which have created greater confidence in the integrity of motives of the Pan-American republics. I refer to the so-called Mexican Mediation Conference which was held with reference to the Mexican situation last year.

It is therefore but natural that trade should develop in greater and continuing measure between this country and the South American republics. We have not only a common point of view with reference to the function of government in its relation to industry, but also a greater degree of assurance in the integrity and disinterestedness of each other's motives. Trade, to exist and to grow, must be established not only upon mutual advantage arising through trade, but as well upon mutual confidence in the integrity of purpose and points of view of the people trading with each other.

CENTRAL AND SOUTH AMERICAN TRADE AS AFFECTED BY THE EUROPEAN WAR

BY JAMES A. FARRELL,

President of the United States Steel Corporation and Chairman of the National
Foreign Trade Council.

The commercial interdependence of modern nations became strikingly apparent when the first shock of the European war halted neutral commerce as abruptly as that of the belligerents. Although transportation and exchange were dislocated in every country of the globe, probably no other neutral nations were affected to so serious an extent as were the twenty Latin American republics to the south of us. Not only were their business relations with the United Kingdom, France, Germany, Austria and Belgium subjected to an abnormal strain, but their commerce with each other and with the United States was interrupted and is only now beginning to resume encouraging proportions.

The completion of the Panama Canal and propaganda in favor of closer relations with our sister republics are partially responsible for the fact that the American public has developed a tendency to view world trade in terms of Latin America, overlooking the fact that the total trade of the twenty republics with other nations and with each other is but 6 per cent of the total foreign trade of the world, and that the Dominion of Canada normally buys more from us than the whole of Latin America.

Educational Power of Varied Trade

Those who, by reason of their interest in the greater consuming markets, may view this attitude of the American public with disappointment, should realize, however, that the study of the many conditions governing this trade and the tariffs and laws to which it is subject is rapidly acquainting the general public with valuable knowledge concerning foreign trade policy. It is needless to look beyond our Latin American export trade for examples of the strength and weakness of our commercial intercourse with all nations.

In gauging the effect of the European war upon Central and

South American trade and its future development, it should be remembered that European investment has been the chief factor in the growth of these nations. Such financial assistance was essential to the development of their natural resources and the establishment of manufacturing industries.

European Investment

At the beginning of the European war, more than five billion dollars of British capital had been invested in Latin America; while investments of French capital were variously estimated at from four hundred million to one billion two hundred million dollars, and German investments at somewhat less. British investments were estimated to yield an average annual interest of over 5 per cent, or two hundred and fifty million dollars, more than two-thirds of the value of the United Kingdom's yearly imports of Latin American products. In other words, the Latin American natural products imported for the life and industry of the British Isles were largely paid for by earnings of British gold invested in securities of Latin American governments and in the shares of enterprises in those countries, such as railroads, steamship lines, plantations, mines, manufacturing industries, nitrate fields, etc. Moreover, this British investment ensured preference for British exports, as a railroad financed in Great Britain was usually equipped with British materials and British mines were operated with British machinery, etc.

German investment was accompanied by still greater financial influence, as the German industrial system contemplated the importation of raw materials, their fabrication into a much greater volume of products than Germany herself could consume necessitating a wide export market for the surplus. In accordance with the German policy, industry and finance were closely allied, various classes of manufacturers concentrated their resources, supported by the great German banks and upheld by a constructive governmental policy which molded diplomacy, education and national thought to the extension of Germany's influence in world trade, with the result that there was a steady advance in demand for German goods in Latin America.

Each great German financial group was represented in South America by banks which, in addition to conducting a general bank-

ing business for the commercial public, were indefatigable in their efforts to obtain a market for products of the mergers and coöperative foreign selling syndicates which the parent banks in Germany had helped to organize and finance.

Limited American Investment

This influence of financial Europe steadily gained in power in every republic from the Rio Grande to Cape Horn, but its effect was neutralized by American investment in such countries as Mexico and the chain of states extending to Panama and the West Indies. Large American holdings in mines and plantations, fruit trade investments, railroads, tramways, light and power plants and steamship lines, coupled with our greater familiarity with the markets, a fairly considerable American population, and the influence of travel and association, have combined to create an equal opportunity for American goods in the countries north of Panama and in the Caribbean.

Our exports to Central America normally consist more largely of highly finished manufactures than those to any other part of the world. Cuba is the only American country under whose tariff we enjoy a large advantage. To the ten Central American and Caribbean republics and to Venezuela, Colombia and Peru, we sold more merchandise last year than did all the rest of the world, which is sufficient proof of our ability to produce results when supported by helpful association and sound financial investment, in addition to our sound selling methods and high-quality products.

Further south, the influence in behalf of American export trade steadily diminishes, for the reason that our South American investments, except in mines in Peru, copper and iron-ore properties in Chile and packing plants in Argentina, are immaterial; so, also, is American population, while European immigration has been heavy. The importance to a nation of merchants residing in foreign countries cannot be overestimated. British and German merchants scattered throughout the world conducting business as importers of products of their native lands are vital factors in British and German oversea trade, while an American merchant resident in a foreign land is an exception.

Effect of War

Even before the outbreak of the war the effect on Latin American markets of curtailed European investment, beginning with the second Balkan war, was marked. Dependent as new enterprises were upon the selling of securities on the British and Continental bourses, prosperity in South America had long been dependent on the European money market, and all industry and most government finance showed distress a full year before the great European war began.

When hostilities were declared, the situation became the worst in their history, and moratoria were promptly declared in practically every country. Pending loan negotiations were halted, new construction was suspended, sterling exchange, the almost universal currency of Latin American trade, soared to unprecedented heights, steamship communication was interrupted, and confidence was completely impaired. The demoralizing effect of the crisis upon the domestic, as well as the foreign business of the United States, is not yet forgotten; in Latin America it was even more severe. Trade between the United States and South America came almost to a halt and, even after British control of the sea restored transportation, the credit situation and the difficulties of collections prevented the resumption of normal business.

Purchasing Power Curtailed

Those whose enthusiasm led them to believe that, with Germany out of the race for trade, the United States could immediately gain the export trade formerly enjoyed by that country, failed to consider the fact that Latin American purchasing power had shrunk by reason of the curtailment of British investment and the loss of the German, Austrian and other customary European markets for their products. More thoughtful exporters realized that the mechanism of commerce must be restored before present business could be taken care of, leaving aside the question of a greater future trade. The disadvantage of the former custom of liquidating transactions in our trade with Latin America at London in sterling bills of exchange was made apparent, and its excessive expense bred in exporters and importers the desire for the establishment of dollar exchange and direct settlements between this country and southern

markets. In the furtherance of this desire, the federal reserve banking law is timely. Its authorization of the federal reserve banks to deal in acceptances representing transactions in the export and import trade created in each of the great export centers a discount market for this paper, with the result that bills drawn on oversea customers find ready sale when accepted by banks belonging to the federal reserve system, and the extension of credits has been greatly facilitated.

Immediately the war assumed its present gigantic proportions, it was plain that the purchasing power of Latin America had dwindled to the value of its exportable products, and much depended, therefore, upon the state of crops, such as wheat in Argentina, coffee in Brazil, and elsewhere.

Situation Improving

Fortunately, these crops were large and foodstuffs commanded unusually high prices in the European market, with the result that, within the last three months, trade has quickened, confidence has been partially restored, and business is beginning to be conducted "as usual," except that all new construction is at a standstill and no extensive development is contemplated until the end of the war.

A notable effect of the war in our commercial relations with Latin America has been the increasing reexportation of characteristic Central and South American products. New York and other ports of the United States are now important distributing points for international commerce, as shown by the fact that exports of foreign merchandise for the eight months ending February, 1915, were valued at \$33,166,512, as against \$20,541,138 for the same period in the previous year. This gain was especially notable in the case of cacao, the reexports of which increased more than fivefold, reaching, for the eight months ending with February, a total value of \$2,835,591. The reexports of coffee leaped from \$968,530 to \$4,482,368. This was largely due to the closure of Hamburg and conditions prevailing in other European ports, formerly the center of the world-distributing trade. In comparison with these old-world centers, New York became the greatest open port. By reason of restrictions placed upon the export of rubber by the United Kingdom, to prevent its being used by the enemy, the importance of American ports for

the distribution of India rubber greatly increased, the value of reexports growing about 80 per cent.

Trade Balance Adverse to United States

During the eight months ending February 28, 1915, our exports to all Latin America and the West Indies were valued at \$159,742,863, as compared with \$212,227,558 for the corresponding period ending February 28, 1914, a decrease of 25 per cent, while our world exports during the same period decreased $3\frac{1}{2}$ per cent. Our imports from the same countries, during the same period of the present fiscal year, amounted to \$316,374,763 against \$289,318,891, an increase of 9 per cent, although our world imports decreased 13 per cent. This comparison shows a trade balance of \$156,631,900 in favor of Latin America and the West Indies, which will adequately answer the demand of those who are urging us to buy more freely from Latin America, but even in normal times, the balance is in our neighbors' favor. Under the provisions of the federal reserve law, we can reasonably look for largely increased sales of American products.

The reasons for this decrease in our exports were the practical suspension of commerce during the first few weeks of war and the acute depression which followed. This decrease was noticeable in shipments of all construction materials, such as iron and steel manufactures, lumber and cement, agricultural machinery and equipment, automobiles, railway cars, locomotives, sewing-machines and other highly finished manufactures, while exports of actual necessities occasionally increased, by reason of the lack of European competition. For instance, exports of coal, which, before the war, except to Central America, were not heavy, trebled to Argentina, and greatly increased to Brazil, while shipments of American paper, because of the need of replenishing stocks and the elimination of German competition, also grew in volume, while inquiries began to pour in for numerous small lines, thus increasing the diversification of our export trade. At the close of the war, however, we will find it necessary to exert every effort to maintain this newly-won trade against the determined competition of Europe.

The increase in value of imports from Latin America is largely due to higher prices of various products, combined with the fact that trade routes have been changed and New York has become more

active as a distributing point, as shown in the case of cacao, some importers of the Ecuadorian, Brazilian and Dominican product expecting to see it become the greatest distributing point in the world. The use of cocoa and chocolate in the ration of the modern army proved the salvation of Latin American cacao growers.

The demand of the European belligerents for foodstuffs and supplies has saved the situation both in Latin America and the United States. The development of Latin America cannot proceed, however, without foreign capital. Citizens of the United Kingdom are forbidden, during the war, to invest in foreign enterprises, which eliminates England, France, Germany or Belgium, leaving the United States as the only great nation whose trade balance is increasing and whose gold is accumulating.

Source of Future Investment

That American capital is educated to foreign investment is proven by the fact that its holdings in the Dominion of Canada are nearly seven hundred million dollars, exclusive of agriculture, and half a billion dollars in Mexico, Central America, Cuba, Haiti, Santo Domingo, Chile and Peru. Since the beginning of the war, fifteen million dollars of short term Argentine treasury notes have been taken in the United States, one of the conditions of the issue being that the proceeds should remain in the United States as a credit against the Argentine purchases of American merchandise. This unusual condition illustrates the advantage of making loans to countries which can become large purchasers of our products.

British investors are retaining their Latin American properties, which will prove more valuable than ever after the war, in view of their freedom from the heavy taxes which war imposes upon investments in the United Kingdom. How important a part British capital will play in the financing of Latin America after the war remains to be seen, but the consensus of financial opinion seems to be that interest rates will materially increase, and the amount of this increase, as compared with the price of United States loans, will doubtless determine the question of who is to be the chief investor.

Relation of Investment to Export Trade

Of greater importance than the interest rate is the creation of a greater export market for American manufactures through railway and industrial loans. By reason of European investment, the area into which we can expect to send American exports is restricted. For instance, in view of the fact that railways promoted by European capital are confining their purchases of materials to Europe, our only field for railway supplies and equipment has been the government railways. When the output of American factories is increased by foreign investment, the investment becomes in reality a domestic investment and its encouragement by the United States government should naturally be expected. Upon this attitude will depend largely the future of American business enterprise abroad. With governmental support and intelligent coöperation between investors much can be accomplished, although some hesitancy on the part of capital may be encountered, owing to the deterrent effect of the Mexican revolution. However, the awakened interest of the entire American business public in the possibilities of Latin American trade is a great assurance of future increase.

While the establishment of dollar exchange will not, perhaps, entirely replace confidence in sterling bills at the conclusion of war, a beginning has been made for American banking.

Excessive versus Adequate Credits

Although much is said in favor of conducting business in accordance with the desires and standards of our Latin American customers we should remember that this applies only to what is recognized by the world to be sound business practice. Arguments in favor of granting six, nine and twelve months' credit do not recognize the fact that extension of unusual credits was an important factor in the industrial depression preceding the war, Germany's eagerness for British trade having led many German firms to extend credits which deferred merchants' obligations several months beyond the time when they realized on the purchased goods. With this ready money at hand, the merchant frequently speculated in land, with the result that collapse of the land boom caused heavy losses and failure to pay at maturity of even these long credits.

British exporters frequently voluntarily suffered the loss of old and valued business in preference to extending excessive credits, and Americans with experience in Latin American trade are of the opinion that the limit of credit should be sufficient only to cover the time required by purchaser to realize on the goods bought, taking into consideration the harvesting and marketing of crops.

TRADE RELATIONS WITH CENTRAL AND SOUTH AMERICA AS AFFECTED BY THE WAR

BY JOHN HAYS HAMMOND,
New York City.

One of the lessons we learn from the present European war as regards our trade relations with Central and South America, is the dependence of those countries upon Europe and America, and especially upon Europe, for financial assistance, not only for governmental purposes but for the development of their national industries; and, as a corollary, the restriction of the purchasing power of Central and South America when deprived of such financial assistance. South America, particularly, has depended upon European money for the development of its natural resources, from the exploitation of which it has been able to make earnings so as to further increase its borrowing power.

The European war has, however, made it temporarily impossible for the South American countries to obtain financial assistance from that source and for that reason they have suffered in an exceptional degree from financial, industrial and commercial depression. This condition has been aggravated, too, by the loss, in a large measure, of European markets for their products; but, even before the beginning of the great European war, many of the most important South American states were in desperate straits financially owing to the difficulty in meeting their European obligations. It will, in all probability, be many years before Europe will again become the banker and broker of those countries in any adequate measure, at least.

Therefore, it is obvious that if the United States is to realize its ambition to secure a large increase in its Latin American commerce, our capitalists must be prepared to render these countries the required financial assistance. Our country will need a large part of its capital during the next decade for its own industrial development, as in all probability cheap money from European financial centers will not be readily available.

The rehabilitation of the industries of Mexico, when peace shall have been restored in that country, will also require large loans and investments from this country for the protection of the large investments already made there by Americans.

In order to induce our capitalists to supply working capital to Latin American countries they must be assured of the encouragement and coöperation of our national administration and of the guarantee of the protection of their investments against discriminatory laws and confiscation, especially in time of revolutionary movements. Our citizens must be assured at least of the same degree of protection that is guaranteed by other governments to their nationals. This does not by any means imply a truculent attitude on the part of our government toward weaker nations—indeed, nothing would be more prejudicial in the long run to the interests of our citizens than such an attitude on the part of our government. But cheap money is invaluable in the development of new industries, and cheap money can be obtained only by a guarantee of the protection of invested capital against political exigencies.

To obtain the confidence of investors in Pan-American investments, I believe a Pan-American supreme court should be created to deal specifically with disputes as to foreign investments and as to commercial transactions between Pan-American citizens. Such a court should be composed of the leading jurists of our own and of Latin American nations and should sit in neutral territory. If inspired by self-interest only, it would obviously be the aim of such a tribunal to establish confidence in Latin American investments generally and at the same time to reassure our Latin American customers of fair treatment in their business transactions with the exporters of the United States. This is quite as important as the establishment of confidence of our capital in Latin American investments.

Such a court might well be one of final resort. In any event, it should try cases and endeavor to adjudicate them before appeal through diplomatic channels, which almost invariably results in friction and often, indeed, in extreme tension.

Genuine, not merely professed amity, is a great asset in commercial relations, and since the larger South American nations regard the Monroe Doctrine as supererogation on our part, it would seem

good business, to say the least, to restrict the application of the Doctrine to such territory as is necessary for the defense of the Panama Canal and of our sphere of influence in the Caribbean Sea area. As to the rest of South America, the Monroe Doctrine might well be superseded by a Pan-American defensive alliance against attempts at territorial aggrandizement from abroad.

TRADE CONDITIONS IN LATIN AMERICA AS AFFECTED BY THE EUROPEAN WAR

BY EDWARD EWING PRATT,

Chief, Bureau of Foreign and Domestic Commerce, Washington, D. C.

Much has been said in the public prints and in public utterances as to the opportunities for the extension of our trade with Latin America. An almost equal amount has been printed and otherwise circulated with reference to Latin American commercial conditions as affected by the war in Europe. Special emphasis has been laid on the disastrous effects of the war and it is often stated that the financial and commercial conditions in Latin America are so bad that American manufacturers and exporters are not warranted in soliciting trade there at the present time.

What the business world desires in this matter is not opinions but facts—definite concrete facts—as to the actual present-day commercial conditions in Latin America. It is then the privilege of each business man to formulate his own opinions and depend on his own judgment as to whether he desires to take up the active development of Latin American trade today, tomorrow, or at any time in the future.

Let us consider then in the brief time at our disposal, three sets of facts: (1) the general economic situation of the Latin American countries; (2) the immediate effects of the European war upon the Latin American countries; and (3) the recovery, if any, which has been effected up to date. The facts which I shall present are based largely on first-hand information which has been received by the bureau of foreign and domestic commerce from our own commercial attachés and commercial agents who are stationed in Latin America, and from the American consuls and the department of state.

I. The great sensitiveness of Latin American countries to disturbances in Europe and the close interrelation which has existed between the two sections were graphically illustrated two years ago, when the trouble in the Balkans, involving directly only a few small nations in the east of Europe, was sufficient to cause a decided de-

pression over practically all of Central and South America. In some countries it checked a tide of prosperity that had been running high for several years, and in others helped to bring about a liquidation that continued until the outbreak of the present war. It can be realized, therefore, how tremendously the great war, involving all the major powers of Europe, has affected the economic and commercial life of the various South and Central American countries. Although they are separated from the scene of hostilities by 7,000 miles of ocean they were much more severely affected than the nations contiguous to the warring nations. The commerce of Latin America was cut in half, immigration ceased, industry was temporarily paralyzed, thousands of men were thrown out of employment, and all public improvements, except those absolutely indispensable, were suspended.

The reason for the strong and sudden check to every line of activity is to be found in the closeness of the ties that have heretofore bound all the countries of South America, and to a less extent those of Central America, to the great European nations—England, Germany, France, Spain, Belgium, and Italy. It is only recently that the United States has awakened to the strength of those ties, and has come to realize that the growing countries to the south of us are much more closely related to Europe, except perhaps in form of government, than they are to the United States.

The ties between Europe and Latin America are of two kinds, financial and commercial. In both they have been strengthened because of the basic fact that the interests of Europe and South America have been reciprocal. Europe has capital to invest, South America needs capital for development. Europe has manufactures and coal to sell and South America must obtain them from abroad. Europe desires to purchase foodstuffs and raw materials, and South America has an abundance of both to dispose of. It is this fundamental reciprocity of commercial interests that has caused the South American countries to feel so heavily the shock of the war.

In at least three of the largest countries loans involving millions of dollars were in process of negotiation at the outbreak of the war. Negotiations closed at once and no loans were obtained. The impossibility of getting further loans has called a halt on nearly all important projected public improvements and private enterprises. Further development of the rich resources of the continent

must await the accumulation of European capital after the war or the aid of the United States.

The nitrate, coffee, cocoa, hides, tin and rubber of South America have been largely marketed in Europe. On the first of August the European market practically ceased to exist. The vast producing sections of South America were without an outlet for their products. Their chief sources of income were unsalable or salable only at greatly reduced prices. The only hope was in the United States, which at first could absorb but limited quantities of products the consumption of which had heretofore been world-wide.

But all sections of South America do not suffer to the same degree from the lack of a market for their products. Some products are in great demand. Let us hurriedly run over the principal exports of the various countries of the continent: Argentina exports cereals, hides, meat and wool; Uruguay, grain, wool and other livestock products; Paraguay, hides and forest products; Chile, nitrates, copper, wheat and wool; Bolivia, tin, rubber, silver and copper; Peru, sugar, rubber, cotton, silver and copper; Ecuador, cocoa and tagua; Colombia and Venezuela, coffee, gold and hides; the Guianas, sugar; Brazil, coffee, rubber, hides and cocoa. Of these, cereals, meat, wool, sugar and copper are in great demand across the sea. The other products are in little demand and have been left in the hands of the miners and planters. The result is that in a few sections the currents of trade are again running strong and optimism prevails, while in others trade, finance, and enterprise are still marking time, with small prospects of marked revival until the war ends.

II. The continent of South America may be conveniently divided into four general sections, in each of which similar conditions prevail. These are: (1) the River Plate section, including Argentina, Uruguay and Paraguay; (2) the West-Coast section, Chile, Bolivia, Peru and Ecuador; (3) the North-Coast section, Colombia, Venezuela and the Guianas; and (4) Brazil.

As compared with South America the countries of Central America are of much less importance. They need hardly be considered separately because in products, internal conditions, shipping facilities, climate, and general character they are very similar to the north-coast countries of South America.

In normal times the River Plate section is the region of the greatest commercial activity. For example, in 1912, the total import

SOUTH AND CENTRAL AMERICAN COMMERCE WITH EUROPE AND THE UNITED STATES

Items	United States, per cent of total	Principal countries Europe, per cent of total
Argentina, 1913:		
Imports.....	14.7	72.
Exports.....	4.7	56.4
Corn (a).....	.4	27.5
Wheat (a).....	.4	46.8
Wool (a).....	10.2	88.8
Oats (a).....	.1	78.7
Meats (b).....	....	....
Brazil, 1913:		
Imports.....	15.7	62.2
Exports.....	32.5	48.4
Coffee (a).....	42.1	39.6
Rubber (a).....	50.4	49.6
Ox hides (a).....	3.6	89.6
Venezuela, 1913:		
Imports (c).....	38.5	46.8
Exports (c).....	28.7	57.5
Coffee.....	31.2	68.
Cacao.....	14.3	44.3
Peru, 1913:		
Imports (c).....	28.8	63.1
Exports (c).....	33.2	63.1
Copper (d).....	....	....
Cotton (d).....	....	....
Sugar (d).....	....	....
Chile, 1913:		
Imports (c).....	16.7	67.5
Exports (c).....	21.0	70.4
Nitrate.....	21.4	71.8
Copper.....	55.6	43.2
Wool.....	.04	99.1
Bolivia, 1912:		
Imports.....	9.3	64.5
Exports.....	.5	98.
Tin.....	0.02	99.8
Rubber.....	2.3	97.4
Ecuador, 1911:		
Imports.....	23.6	59.88
Exports (e).....	23.6	64.40

SOUTH AND CENTRAL AMERICAN COMMERCE WITH EUROPE AND THE UNITED STATES—Continued

Items	United States, per cent of total	Principal countries Europe, per cent of total
Ecuador, 1911:		
Cacao	19.2	72.80
Hats	18.9	72.18
Coffee	31.9	22.40
Uruguay:		
Imports, 1910	10.6	70.24
Exports, 1912	5.4	65.91
Wool, 1910	3.3	84.34
Hides and skins, 1910	17.3	74.98
Meat and meat extracts, 1910 . . . . .	.2	34.78
Paraguay, 1912:		
Imports	6.	68.12
Exports (f) . . . . .	.01	60.64
Colombia, 1913:		
Imports (c)	28.3	57.38
Exports (c f)	55.	27.92
British Guiana, 1912 (year ended March 31):		
Imports	25.9	49.58
Exports	20.3	25.59
Raw sugar	23.7	13.58
Balata gum	19.3	80.70
Rum . . . . .	....	89.54
Dutch Guiana, 1911:		
Imports	26.1	1.90
Exports	40.8	5.77
Balata gum	19.6	.65
Sugar	52.2	1.49
Cacao	93.3	2.52

(a) Figures for 1912.

(b) Figures for 1914 meat shipments show United States took following per cent of exports: frozen beef, 11.2 per cent; chilled beef, 17.9 per cent; mutton, 7.2 per cent; lamb, 15 per cent. Practically all the rest went to Europe.

(c) Figures include gold and silver.

(d) In 1909, the latest year of record, the United States took 81 per cent of Peru's exports of copper, 10 per cent of cotton, and 8 per cent of sugar.

(e) Includes so-called "optional orders."

(f) Figures of exports by articles and countries not available for a recent year.

trade for the continent of South America was \$965,123,000, and the import trade of the River Plate countries was \$427,533,000. Out of a total South American export trade of \$1,178,829,000, these countries had \$518,070,000. Out of a grand total trade of \$2,143,952,000 for all of South America, the River Plate was credited with \$945,603,000, or almost half. In spite of their strong commercial positions these countries were, at the end of July, in no position to withstand the shock of a catastrophe such as the war in Europe. When the war began Argentina was undergoing a heavy liquidation and the business of both the other countries was affected by it. This liquidation had been made necessary because of the overcapitalization of the country and the eagerness of speculators to realize big profits from its rapid development. Although only about a fifth of the arable land of the country is as yet under cultivation, the expansion over new territory in the last decade or two has been rapid. Trade and commerce have experienced a corresponding expansion. This has resulted in the building up of large fortunes and has stimulated speculation in land to such an extent that values rose beyond the point which even the rapid progress of the country could sustain. Liquidation was thus inevitable and it became pronounced about the beginning of 1913. All through that year the depression prevailed and was at lowest ebb about the close of last July, when the coming of the war deepened it still further. The process of liquidation and the effect of the war conditions are graphically shown by the figures for commercial failures in the various months of 1913 and 1914:

COMMERCIAL FAILURES IN ARGENTINA

	1913	1914
January	\$1,884,902	\$7,154,979
February	2,553,966	13,105,001
March	3,789,540	12,382,677
April	7,894,399	10,468,472
May	4,244,050	15,257,975
June	10,144,167	10,613,880
July	7,597,110	12,409,360
August	6,823,957	36,774,289*
September	4,006,942	17,195,420
October	6,505,357	21,254,864
November	10,141,258	12,808,200
December	7,749,897	13,209,505

* It should be explained that the high mark for August, 1914, was due in part to the failure of the French Bank of the River Plate, which has since opened its doors without loss to depositors or stockholders.

The news of the European conflagration practically put a stop to all business activity and for weeks trade and commerce were practically paralyzed. Foreign trade, on which not only the prosperity and advancement but almost the whole business life of Argentina depend, dropped to nearly nothing. Shipping that had been en route at the time war broke out came in and remained idle in the ports. Industry of all kinds was suspended. The large meat-freezing establishments stopped work and discharged practically all their employees. Public improvements were discontinued. The efforts of Argentina to raise a loan of \$77,000,000 for the purpose of reorganizing the sanitation system of Buenos Aires were frustrated. It was later necessary to float a loan of \$15,000,000 in the United States to pay back advances which had been made in connection with this work. Exchange operations came to a standstill and no regular quotations were made for months. There was of course no trading in stocks and even the government securities, unquestionably sound, fell many points.

Emergency measures taken by the authorities included the declaration of a bank holiday on August 2, which lasted eight days, and the declaration of a moratorium covering all of August. The Conversion Office was closed and gold was no longer given in exchange for paper. This office is still closed and may remain so until the end of the war. The exportation of gold from the country was forbidden by law, and an embargo was laid on the exportation of flour and wheat, which was not removed until December. Measures were taken to relieve unemployment by starting work on the highways wherever possible, opening the large Immigrants' Hotel, and establishing soup kitchens. A large issue of paper money was authorized, and legations and embassies of Argentina in foreign countries were directed to receive deposits of gold, against which equal amounts of paper money might be obtained from the Conversion Office in Buenos Aires. In this way the difficulty of shipping gold or of paying high exchange was obviated. In October an international moratorium was declared, releasing debtors during its continuance from the obligation of paying debts arising from commercial transactions with countries at war or under moratoria. This provision is still in effect and will probably remain in effect until the close of the war.

The commercial effect of the outbreak of the war is strikingly shown by the decrease in the principal exports:

DECREASE IN PRINCIPAL EXPORTS OF ARGENTINA

Exports for week ending	Wheat Metric Tons		Corn Metric Tons		Linseed Metric Tons	
	1913	1914	1913	1914	1913	1914
August 21	14,490	8,385	119,045	23,711	18,641	1,819
August 28	13,318	....	156,422	27,455	12,728	2,046
September 24	4,242	1,734	113,205	83,238	12,212	6,254
	Oats Metric Tons		Wool Bales			
	1913	1914	1913	1914		
August 21	989	600	127	....	
August 28	575	630	778	77		
September 24	5,473	326	1,413	200		
	Meat, Frozen and Chilled					
	Chilled beef quarters		Frozen beef quarters		Mutton carcasses	
	1913	1914	1913	1914	1913	1914
August 28	53,674	6,822	13,681	5,168	14,860	1,051
September 24	50,204	49,745	9,917	54,911	453	25,699
	Lamb carcasses					
	1913	1914				
August 28	10,744	1,000				
September 24	1,400	16,095				

An even more graphic illustration of the effect of the war on the trade of the country is that of the figures showing customs receipts at Buenos Aires for the first weeks of the war as compared with the corresponding weeks in 1913:

DECREASE OF CUSTOMS RECEIPTS AT BUENOS AIRES

Week ended	1913		1914	
	Paper	Gold	Paper	Gold
August 7	\$3,668,177	\$48,286	\$1,130,501	\$16,749
August 14	3,933,219	81,324	....	....
August 21	3,196,412	27,701	3,851,598	2,069
August 28	3,937,137	44,143	2,553,312	....
September 4	3,144,098	31,400	1,765,495	....
September 11	3,047,197	43,074	1,911,563	....

It should be noted that the customs receipts collected at the Buenos Aires custom house comprise a very large part of those collected in the whole country, and show the dropping off in imports. The receipts did not increase during the rest of the year.

It will be unnecessary to consider the immediate effects of the war on Uruguay. They were in general similar to those of Argentina, as the situation and products of the two countries are so similar.

In Brazil the first effects of the war were even more serious. Here, as in the River Plate section, the blow fell just when the country was in the midst of a severe depression which had lasted since the beginning of 1913. It had been brought about by general extravagance, both national and individual, which followed several years of almost feverish prosperity; by the Balkan wars and the consequent difficulty in getting credit and loans in Europe; by uneconomical management of public finances; and by the decline in the prices of rubber and coffee, the two great staples of the country. This depression unlike that in Argentina had been attended by very few commercial failures, owing largely to the praiseworthy cooperation between the banks and the mercantile houses. It had shown itself rather in the almost total lack of fresh enterprise and industrial activity, in the increasing financial difficulties of the government and the continued necessity for raising new loans. The government was just about to conclude arrangements with the Rothschilds for flotation of a large new loan which would have involved the entire reorganization of governmental finances when the outbreak of the war summarily ended the negotiations. It is under-

stood that this arrangement included a plan by which the Rothschilds were practically to assume control of the paper currency of the country. The situation, already serious, was rendered almost dangerous by this turn of events, and Brazil has not yet been able to find a way out.

The immediate results of the war were as in Argentina the paralysis of industry and shipping, and the suspension of foreign trade. The shutting off of imports was beneficial, as it helped to regulate exchange and enforced economy. The drop in the export trade, however, especially in coffee, was little less than disastrous. Upon the sale of this crop depends not only the individual prosperity of the planters but also the maintenance by the government of the exchange rate on its paper. This exchange rate is subject to extensive fluctuations, due to the fact that, except for a small part of the paper currency, it is not maintained by a permanent conversion fund and depends largely on the continued building up of credits abroad through sales of coffee. Shortly after the beginning of hostilities the rate of exchange began to decline, and from a normal rate of sixteen pence or thirty-two cents per milreis it fell to eleven pence. Dire predictions were made that it would go as low as six or eight pence, but instead there was a recovery and it reached fourteen and one fourth pence. This recovery was only temporary, however, and it again declined. On February 23 the exchange rate was twelve and one half pence per milreis. The decline of exchange was materially assisted by the authorization of an issue of \$80,000,000 of new paper money, although the country was already carrying a heavy load of inconvertible paper. Observers at present regard the issue of still further amounts of paper money as inevitable, and if this comes to pass the exchange rate will receive another downward thrust.

Commercially, Brazil benefited greatly in the months following the outbreak of the war through its heavy trade with the United States. This alone prevented the entire loss of one-half or three-fourths of the foreign trade. There was a considerable falling off in the exports of everything except sugar.

The exports of Brazil for the five months of the year following the beginning of the war were only \$76,000,000 as compared with \$164,000,000 for the corresponding period of the previous year, although the export trade up to August had been about normal.

Imports for this period showed an even heavier decline, amounting to only \$42,000,000 as compared with \$127,000,000 for August-December 1913 and \$137,000,000 for the corresponding period of 1912. It should be noted, however, that the imports had fallen off in the first part of the year, amounting to \$130,000,000 from January to July as compared with \$200,000,000 for the first seven months of 1913.

PRINCIPAL EXPORTS FROM BRAZIL

Articles	1913			1914			
	August	September	August and September	August	September	August and September	
Coffee.....	sacks ...	1,132,120	1,590,258	2,722,378	396,333	832,756	1,229,089
	value ...	\$17,943,303	\$21,680,394	\$39,623,697	\$4,389,634	\$9,958,443	\$14,348,077
Rubber.....	pounds..	4,791,952	4,899,600	9,691,552	3,333,095	5,716,856	9,049,951
	value ...	\$2,712,451	\$2,762,462	\$5,474,913	\$1,627,384	\$2,720,910	\$4,348,294
Yerba maté (Paraguayan tea).....	pounds..	13,034,377	15,801,331	28,835,708	12,874,611	11,366,168	24,240,779
	value ...	\$1,090,663	\$1,316,391	\$2,407,054	\$783,824	\$766,839	\$1,550,663
Hides.....	pounds..	5,747,386	3,990,730	9,738,116	1,361,602	3,817,317	5,178,919
	value ...	\$806,221	\$790,272	\$1,596,493	\$175,068	\$424,472	\$599,540
Cacao.....	pounds..	6,276,734	6,756,235	13,032,969	2,168,165	3,914,737	6,082,902
	value ...	\$731,974	\$791,706	\$1,523,680	\$225,873	\$404,805	\$630,678
Cotton.....	pounds..	3,318,757	5,862,322	9,181,079	439,806	676,014	1,115,820
	value ...	\$438,880	\$744,158	\$1,183,038	\$55,659	\$90,257	\$145,916
Tobacco.....	pounds..	3,497,527	4,678,557	8,176,084	219,666	1,339,730	1,559,396
	value ...	\$429,047	\$505,455	\$934,502	\$29,771	\$173,021	\$202,792
Skins.....	pounds..	448,160	977,753	1,425,913	358,730	768,362	1,127,092
	value ...	\$230,397	\$523,316	\$753,713	\$179,598	\$316,390	\$495,988
Sugar.....	pounds..	103,492	84,887	188,379	11,422	5,072,034	5,083,456
	value ...	\$2,786	\$3,391	\$6,177	\$757	\$156,977	\$157,734

The almost desperate situation in which Brazil was placed by the sudden closing of foreign sources of loans, the withdrawal of invested capital, the obvious impossibility of getting fresh supplies of capital, the wiping out of a large part of the market for its chief commodities, and the derangement of shipping facilities, called forth as in other countries a number of emergency measures which have made possible the temporary weathering of the storm. A bank holiday and a moratorium were declared. The latter was twice extended and lasted until the middle of March. The Office of Conversion, which maintained a gold reserve for redeeming a small percentage of the currency, was closed. The semi-official Banco do Brasil, however, was permitted to exchange notes for gold, and did so to such an extent that a reserve of \$50,000,000 on July 31 was

reduced to about \$30,000,000 on March 1. The issue of the \$80,000,000 of paper referred to was authorized, and steps were taken looking to the prevention of the exportation of gold from the country.

These measures did not, however, remove the fundamental difficulty in the situation. This difficulty was the unsound financial position of the government, which for several years had been covering annual deficits by new loans, and which on the failure to obtain the proposed loan from Rothschild & Co., found itself without the means either of meeting its obligations abroad or satisfying creditors at home. The Banco do Brasil was forced to ship considerable amounts of gold to England to cover exchange requirements and could give no assistance to the government in meeting its interest obligations. The result was that the government was unable to pay \$7,000,000 worth of treasury bills due in London, August 21, and was obliged to fund these obligations by issuing new one-year bills at 107, with 1 per cent commission for the exchange. Again in October the government was unable to meet interest and sinking fund payments on its external debt and was forced to fund these also into new loans, secured by a guarantee on the customs revenue. Finally the floating debt due to creditors in Brazil itself could not be paid, thus intensifying the seriousness of the business situation. No way out has yet been found and it is this situation which more than any other, even including the lack of a market for coffee and rubber, is causing the pessimism in the business circles in Brazil.

In the west-coast countries the war has produced varying effects because of differences in the economic resources of the different countries and because some were fortified by sounder financial conditions than others. At first there was the same paralysis of business that obtained on the east coast. During the entire month of August (except perhaps in Ecuador), a state of confusion and uncertainty existed. This was particularly true of industrial establishments, which were either entirely closed or run on part time. Unemployment became a serious problem, the solution of which engaged the attention of the various governments although the measures taken afforded only comparatively small relief. Embargoes were placed on the exportation of foodstuffs and this had a beneficial effect on prices. In none of the west-coast countries, however, is the commercial and industrial life so highly developed

as in the River Plate countries or Brazil. Hence the forced readjustment was rendered somewhat easier.

The prosperity of the west-coast countries, like that of the rest of South America, depends very largely on the continued exportation of a few principal products. In Chile the keynote to the situation is the trade in nitrate. A great part of the nitrate produced in Chile is exported to continental Europe where it is used in agriculture. The war practically eliminated this market and there is no likelihood that normal trade conditions can be attained until after the cessation of hostilities. The extent to which Chile was affected by the war will be realized when it is stated that the exports of nitrate amount to practically three-fourths of all the exports of the country. Out of a total of \$142,801,556 worth of domestic exports in 1913, nitrate composed \$111,454,397.

EXPORTS OF NITRATE FROM CHILE, 1913

Exports to	Spanish quintals (101.4 pounds)
Great Britain (including shipments for orders) ..	21,847,342
Germany	13,680,368
France	2,640,676
Spain	147,725
Belgium	2,580,198
Holland	2,182,410
Italy	232,236
United States	13,712,783
All other countries	2,505,372
Total exports of nitrate	59,529,110

This means not only that the owners of the nitrate lands and factories had their income cut off and that thousands of laborers were thrown out of employment, but that the government revenue was radically reduced. The export taxes on nitrate have amounted to about \$30,000,000 annually and have yielded over 60 per cent of the national revenue. Customs receipts showed a decrease of \$11,683,000 or 23 per cent in the first eleven months of 1914 as compared with the corresponding period of 1913. In August and September the customs revenues were only, \$8,313,000 as compared with \$12,421,000 in 1913, a loss of 33 per cent. This may be expected to continue with perhaps only slight improvement, while

the war lasts, unless the country can quickly turn to the development of its latent mineral and agricultural resources.

The unemployment situation was particularly severe. The northern part of the country, in which nitrates are produced, is a rainless desert which has no other resources. When nitrate production ceased, there was no means of earning a livelihood or providing the necessaries of existence, either water or food, both of which must be imported. The result was that many villages were practically depopulated and thousands of working men and their families were forced to leave and go to the southern sections of the country. The problem of unemployment was thus rendered much more acute in the agricultural and mining regions of the country. Although some government measures were taken looking to relief, the problem remains a serious one.

The general situation in Chile is rendered much more serious by the lack of a stable currency. In spite of the fact that for years the country has had a bountiful source of revenue, it has failed to put its currency system on a sound basis. The result has been a continual fluctuation in exchange. Speculation in paper is the principal business of the stock exchange. Several attempts to remedy this situation have met with the opposition of the large landholders and employers of labor who find it to their advantage to export their products for gold and pay their domestic obligations in depreciated paper. At the beginning of the war, however, a plan was being put into execution to establish a conversion office and stabilize the currency. This plan was to have gone into effect January 1, 1915, and supplies of gold were being brought into the country for that purpose. The war, of course, made the execution of this plan impossible. The result has been great fluctuations in the value of the paper peso. From a normal value of twenty cents it had fallen to nineteen cents shortly before the war. By September 16 it was down to thirteen and one half cents, the next week it rose to sixteen cents, in October and November it fell again to fifteen cents. Since that time its value has been erratic.

Among the emergency measures taken by the government were: the sale of two war vessels building in Great Britain and other vessels, which were said to have brought in a total of \$25,000,000; the issue of \$20,000,000 worth of one-year treasury bills bearing no

interest and guaranteed by the supplies of gold which had been collected to carry out the conversion scheme; the reduction of all government salaries and other economies and retrenchments; and the proposal of new taxes on inheritances, property, and salaries and the increase of taxes on beer, alcohol and tobacco. These measures have been of assistance in steadying the business situation but the fact that the principal financial support of the government and of the productive interests of the country have failed makes readjustment a more drastic and far-reaching process than in the other countries. There is no question that Chile has been hard hit by the war and it will take months or years for her to entirely recover.

Peru is rich in minerals, and mineral production is an important source of revenue. Its chief mineral product, copper, has been in constant demand. The largest single item of export, however, is sugar, which has commanded high prices. Among its important minor products is wool, for which record prices are now being paid. Peru, therefore, was not basically in a bad position. The principal immediate effect of the war was an industrial paralysis. Many factories closed down entirely and others discharged a large percentage of their employees. In most cases this was due to the lack of immediate capital to carry on manufacture. The customs receipts, like those of other countries, showed a considerable falling off and in 1914 amounted to only \$4,699,000 as compared with \$6,483,000 in 1913, a decrease of about twenty-seven per cent. There was a deficit of \$462,000 in the year's budget. An important feature of the situation, however, has been the fact that foodstuffs have remained cheap and that an embargo placed on their exportation temporarily lowered prices. This together with the action of the government in providing work on railway construction has to a limited extent relieved the unemployment situation. The curtailment of copper production has had a depressing effect. In one respect the country was in a good position to meet the crisis—it had no paper money in circulation except that issued by the banks on their own responsibility. The government was, therefore, able to authorize the banks to issue \$5,353,000 in the middle of August to be secured by a 35 per cent deposit of gold and the rest by securities. In October another issue of notes to the amount of \$5,353,000 was authorized. These notes drove gold and silver out of circulation

but the government met the situation by passing a law on November 3 forbidding the sale of gold at a premium. The exportation of gold and silver was also forbidden. A thirty-day moratorium was declared on August 7, was extended several times, and is now effective for an indefinite period. While there are a number of features in the situation in Peru which make for stability, the country can hardly be considered wealthy except in latent mineral resources. It is only in the last ten or fifteen years that Peru has been making economical progress and it has yet a good way to go before it attains healthy conditions of national growth.

Bolivia, from the time when the first white man set foot on its soil, has been a producer of minerals, and with a limited amount of rubber and other forest products, these have continued to form practically its sole output. Until ten or a dozen years ago silver held the center of the stage but the rise in the price of tin has made the mining of that metal more profitable.

Bolivia has depended almost entirely on its tin and to a lesser degree on silver. No tin has been smelted in the United States. This has been a European industry. The United States, however, is the greatest consumer of tin in the world. If, therefore, some provision can be made whereby the tin ore can be smelted in this country, normal conditions will be restored in Bolivia and a new industry begun in the United States. This readjustment has not yet been effected and Bolivia has continued to feel the paralysis of its export trade which followed immediately upon the outbreak of the war.

Ecuador was in the best position of these four countries. Its economic life depends largely on the exportation of cocoa and the very large crop of last year had practically been marketed before the outbreak of the European war. Ecuador, moreover, is not a country of large commercial enterprise and the readjustment to the new conditions was easier for her than for her neighbors.

The principal complaint of the north-coast countries is that since the first of August practically all credit has been withdrawn and they have been unable to obtain their usual supplies. Naturally they felt this most keenly in the matter of foodstuffs. They had been accustomed to long credits from Germany and England and to somewhat shorter credits from the United States. Upon the outbreak of the war, however, even thoroughly responsible houses found

it difficult and at times impossible to obtain goods on credit either from Europe or from this country. The result of this has been a marked falling off in the import trade and a corresponding decrease in the export trade due to the inability to market their principal products. These products are coffee (which is by far the most important), hides, cocoa, gold, and rubber. In Venezuela the previous year's crops had not been wholly marketed by the first of August and the harvesting of the new crops was made difficult because of the lack of money. The immediate cost of gathering the crops of Venezuela amounts to \$2,000,000 or \$2,500,000 which for several years has been supplied by German firms. General stagnation in business resulted with a consequent rise in prices and reduction in salaries. The government of Venezuela cut the salaries of government employees in half and this example was followed to a certain extent by commercial houses. Biscuits, canned meats, cheese, butter, ham, flour, lard, sugar, cotton goods, drugs and medicines, ironware, machinery and other commodities rose from 15 to 20 per cent in price, while rice, one of the most important staples of Venezuela, increased by 40 per cent. These conditions have pretty generally prevailed in Venezuela up to the present time.

In Colombia, as in Venezuela, prices rose on practically all imported foodstuffs, especially rice. This condition has continued to a greater or less extent up to the present. In Colombia, however, one or two features of the situation seem to give promise of more prosperous times in the near future. One of the noticeable features of the situation has been that the government, although considerably affected by the new conditions, has not defaulted in the payment of its interest obligations abroad. A month or two after the war a decided improvement in conditions at the principal port was reported and the outward cargo movement considerably increased. A later report about the first of January noted that the commercial situation was improving, that exports were normal although there were many unemployed. In the Guianas the principal export is sugar and they have therefore not felt the effects of the war so keenly. Their trade, in fact, is not far from normal. Throughout all the north-coast countries as well as throughout the countries of Central America, the inability to market the coffee and other products at good prices and the difficulty of getting the usual imports

on the expected credit terms have created a depression which will hardly disappear before the close of the war.

III. Thus in all parts of the continent there was a paralysis of nearly all activities immediately following the beginning of the great war, and this was followed by a natural revival which was feeble or strong according to the character of the resources of the various sections and the state of affairs preceding the war. In spite of the unfavorable outlook in July, the River Plate countries, or at least Argentina and Uruguay, have recovered most quickly and show the greatest signs of prosperity. This is due in large part to the fact that their chief products are in demand across the sea and very good crops have given them a large surplus for export. By the end of January the exports of all principal products except linseed from Argentina had about reached normal proportions and shipments of all grains, meat and wool have been heavy since the first of the year. The following figures of exports of these products will show the increased volume of the trade over last year, and will serve as a contrast to the comparative figures for August and September previously quoted:

Exports for week ending	Wheat Metric tons		Corn Metric tons		Linseed Metric tons	
	1914	1915	1914	1915	1914	1915
January 29	39,858	23,679	37,322	78,049	46,134	19,619
March 12	56,146	109,426	13,519	62,354	50,815	40,352
	Oats Metric tons		Wool Bales			
	1914	1915	1914	1915		
January 29	31,309	50,185	13,321	16,860		
March 12	9,273	20,526	6,050	20,456		

These figures show that the lifeblood of the country is coursing freely. Prices received for these products are good, and deposits amounting to as much as \$5,000,000 a week are being made in Argentine legations in Europe. Imports, on the other hand, as

indicated by the customs receipts, are still far below normal. At the Buenos Aires custom house the receipts for 1915 up to March 12 were \$6,477,411 paper, as against \$12,863,005 paper and \$372,311 gold for the corresponding period last year. The proportion of receipts to this date in 1915 as compared with 1914 is hardly greater than that of the receipts last August as compared with the previous August.

The following figures will show the steady advance in the volume of business transacted by the banks since last July. They represent the movement in the Bankers' Clearing House at Buenos Aires (figures are in terms of Argentine paper peso, worth \$0.424 U. S. Currency):

Months	1913-14	1914-15
July.....	1,495,935,402	1,144,762,179
August.....	1,322,112,617	446,626,599
September.....	1,372,702,435	664,191,953
October.....	1,447,982,009	739,126,362
November.....	1,249,818,887	814,168,216
December.....	1,407,140,798	1,016,845,465
January.....	1,414,180,605	992,918,636
February.....	1,212,189,351	1,056,520,090

A report of March 8 stated that wheat exports to that date had aggregated 1,200,000 metric tons, or about 44,000,000 bushels, which was more than the entire exports of the 1913-14 crop. The report further says that the crop of all grains at that time promised to be one of the best ever harvested in the country.

The rate on money, which remained at $8\frac{1}{2}$ to 9 per cent during all the latter months of 1914, has been lowered to 7 per cent and even lower, at which figure it stood on March 8.

All this indicates that the country is getting on a sound basis financially, and the coming of prosperity would seem to depend more upon careful management and the restoration of confidence than anything else. The liquidation that has been under way for a year or two, however, is not yet ended, as the record of commercial failures in February shows. The liabilities of these failures amounted to \$8,561,685, as compared with \$13,105,001 in February of last year. This was a notable decrease, but on the other hand, although February is a shorter month than January, the liabilities exceeded those of the previous month which were \$6,504,027. The country is not yet out from under the cloud that has

been hanging over it for two years, and recovery must be gradual. It is said, however, that a decided spirit of optimism prevails and the return before the year is very old to normal times or better is looked forward to.

The recovery of Uruguay is also noticeable, although it is still gradual. Wool shipments up to the middle of March were running only about half those of the previous year, the figures for the 1913-14 season (beginning October 1) being 82,361 bales up to March 12, while those for the corresponding period of the 1914-15 season were 44,121 bales. It may be added that of the shipments this year 24,673 bales went to Genoa as compared with 2,854 bales in the corresponding period of the previous year, and 7,114 bales to the United States, as compared with 9,138 bales. The smaller shipments this year are due partly to the lack of shipping facilities, unfavorable service, and unfavorable exchange rates. The import trade is slowly improving, as is evidenced by the gradual gain in customs revenue, about one-seventh of which comes from export duties and the rest from import duties. The figures of receipts from the customs in each month from last July to February are shown in the following table (these figures are for Uruguayan pesos; peso = \$1.034 U. S. currency):

	1913-14	1914-15
July.....	1,320,517	1,105,750
August.....	1,372,658	829,732
September.....	1,378,187	831,592
October.....	1,179,810	806,026
November.....	1,111,329	707,652
December.....	1,248,386	893,877
January.....	1,422,127	942,270
February.....	1,269,502	925,246
Total.....	10,302,520	7,042,149

The figures for February are somewhat misleading on the surface, as that month has but 28 days. The daily average for February was 10 per cent higher than for January.

The recovery noted in the River Plate region, however, has not been duplicated in Brazil. That country has yet to find a pathway out of the financial and economic ills with which the war and the previous national extravagance have surrounded it. The salvation of the situation seems to depend on the wisdom and resourcefulness of the present government.

Although some observers regard the situation as desperate, it has some favorable elements. Chief of these is the strong position of the banks, which have throughout followed a wise and prudent course, and have been able in the last few months to fortify themselves because of the lack of demand for loans and discounts. On December 31, the cash on hand in the Banco do Brasil and the six leading foreign banks was 60.3 per cent of the demand deposits. It must also be considered that the revival of business in the crisis of 1898 was very rapid after the reorganization of the country's finances, and this may occur again. The present import tariff is said to be much too high, and not only increases the cost of living but keeps down the revenue derived from the customs. A revision of this tariff is likely to take place during the coming session of Congress in May and this may be of benefit not only in relieving internal conditions but also in providing a sorely needed addition to government receipts of gold. If in addition to this the government can obtain considerable loans from the United States (though this is doubtful) its finances may again be set in good order. One feature of extreme importance is the fact that coffee can be stored for years without deterioration, and the surplus that cannot be marketed now will therefore not be a dead loss. The government is doing all it can to establish new agricultural industries such as cotton-raising in the north and cattle and fruit-raising in the south. These efforts if successful will put the country on a sounder basis, although nothing is to be expected from these enterprises in the immediate future. It will be interesting to observe what the genius of the Brazilian people can accomplish in extricating the country from this accumulation of economic difficulties.

Figures showing features of the present situation as compared with that a year previous follow:

	January 1914	January 1915
Federal customs revenue	7,961,333 milreis	3,179,383 milreis
Federal inland revenue	2,153,347 milreis	2,260,690 milreis

Clearances of coffee at Rio de Janeiro and Santos for the week ended February 18 amounted to 427,795 bags, as against loadings of 399,995 bags. Sales of only 127,539 bags were declared at the two ports, as against 273,684 bags for the previous week and 105,795

bags for the corresponding week last year. Entries at the two ports for the week amounted to 319,075 bags, as against 321,648 for the previous week and 123,600 for the week ended February 19 last year. For the crop entries to February 18 were 9,761,849 bags, as against 11,784,861 bags last year. The total cleared from the two ports to February 18 was 8,154,118 bags, valued at £16,546,395 as against 10,737,956 bags valued at £31,373,128 last year.

The heavy drop in quotations of government and industrial securities from 1914 is indicated in the following list, showing quotations for February 20 of the two years (from *Wileman's Review*, Feb. 23, 1915):

	1914	1915
4 per cent, 1889.....	75½	51½
Funding, 1898, 5 per cent.....	101	98
Funding, 1914.....	..	74½
1910 4 per cent.....	74	52
Sao Paulo 1888.....	97	91½
Sao Paulo 1913.....	99½	89½
Leopoldina stock.....	73½	36½
Sao Paulo Railway, Ordinary.....	243½	189
Traction Ordinary.....	91½	50½
Brazil Railway.....	32	7
Dumont Coffee Co. (Ltd.).....	10	8½
Consols.....	76½	68½

Recent advices from Chile are meager and it is thought the country is for the present doing little more than marking time. A report, however, dated February 23, is to the effect that the production of nitrates since August, 1914, has been as follows: August, 4,830,233 Spanish quintals; September, 2,856,600 quintals; October, 2,865,494 quintals; November, 2,659,875 quintals; December, 2,428,759 quintals; January, 1915, 2,082,549 quintals. This is compared with an average monthly production from January to July of 5,404,729 quintals. It will thus be seen that although the output is dropping off slowly month by month it is yet 40 per cent of normal. Stocks are accumulating and it is estimated that there is now enough nitrate on hand to supply a year's export at the usual rate. It is understood that the enterprises in which American capital is in control, nitrate factories and copper mines are continuing active. The increase in copper prices (as noted on page 94) has created considerable optimism among the producers of that metal in Chile,

and it is believed that a number of mines and smelters forced to close down will be reopened or have been so already.

In Peru certain favorable basic elements have led to the gradual improvement of conditions and considerable optimism prevails. This optimism is illustrated by the views of a prominent business man connected with a large American export house doing an extensive business in Peru.

The country is producing on a scale much greater than its consumption and this leaves in its favor a balance of trade representing solid gain. The most important product of this country is sugar, the production of which is increasing daily and it would not surprise me to see the production for 1915 reach a total of 5,000,000 quintals, which at the prices ruling today represents a value of 30,000,000 soles (sole=48.6 cents), of which sum it is probable that 12,000,000 soles go to the producer. Also in cotton, although the year's crop will be very inferior and although the price of Egyptian is less than that ruling in previous years, there is still a margin of profit for Peruvian producers that is relatively satisfactory, and as for the asperos (rough) and semi-asperos cottons, they are selling at exceptionally high prices. Copper is higher today than before the war, and the same with rubber. The wool of ewes and alpacas is bringing very good prices, as well as all the by-products, skins, furs, etc., encountering an easy and profitable market. Inasmuch as Peru is producing normally and can find satisfactory markets for its products, the country is in an exceptionally favorable position. It is a basis so solid and so secure that it augurs an excellent future, even within the critical era through which we are passing.

Furthermore, the general financial situation of the country has improved notably. The issue of banknotes was a sheer necessity because there does not exist sufficient gold in the world, nor will there be, to allow any country to do without paper money. We have been very fortunate in securing a paper issue so strongly guaranteed as that at present in circulation and thus we have a solid base for the financial organization of the country. It is necessary that all of the institutions of the country protect the banknote in every way possible in order to prevent its depreciation. The lack of silver change, which at the beginning was very accentuated, owing to the fact that all of the banknotes were launched upon the Lima market, has already become less marked, and as the banknotes have been circulated through the Provinces the supply of silver money has adjusted itself in such a manner that today throughout the country there is sufficient silver for necessities.

The industrial life of the country is also slowly returning to more normal conditions. Although many establishments are not working up to their full capacity they are operating sufficiently to give their employees enough income to meet their living expenses, and, as a result, in no part of the country are there men out of work, except a very small percentage. Peru in this way is in a very fortunate position and the country has not been forced to face the famine conditions which today exist in many countries of the world.

The government revenue has declined considerably through the decrease in

the customs returns but there has been a similar decrease in all countries. The increase of the revenue from other sources will largely meet this deficit while the remainder would naturally be covered by the economies which the government should practice, as all private individuals with foresight are practicing economies today.

The increase in copper prices in recent months has been one of the chief causes of the better trend of events in Peru. The range of copper prices since January, 1914, as quoted for Peru in accordance with the London standard, was as follows:

1914 Month	Price per metric ton	1915 Month	Price per metric ton
January.....	\$312.92	January.....	\$300.79
February.....	317.63	February.....	306.59
March.....	312.80	March.....	321.67
April.....	315.09		
May.....	307.47		
June.....	298.49		
July.....	295.59		
August.....	No quotations		
September.....	No quotations		
October.....	No quotations		
November.....	259.02		
December.....	276.61		

Late in March one of the large mining concerns was operating at about 70 per cent of normal and another, an American company and the largest in Peru, was operating at 85 per cent of normal.

In the north-coast countries, as in Central America, the principal hope of greater prosperity, at least while the war continues, lies in closer relations with the United States. A project has been under way for some time looking to the establishment of an American bank in one or both of the north-coast countries and if this is effected it will have an excellent influence on the commercial situation. These countries sadly need capital and credit, and both of these, it is hoped, will be forthcoming from the United States as soon as our business men become better acquainted with conditions there. Better steamship facilities are also a requisite. These, if provided in the near future, will greatly brighten the outlook for Colombia and Venezuela. As it is now, however, business must await this assistance or the closing of the war before it can expect a return to normal conditions.

It was only natural that when the crisis arose at the outbreak

of the European war the countries of Latin America should look to the United States for assistance. They have looked and are looking to the United States to supply a market for their surplus products, to secure the credit for making new purchases, and to advance the loans to take the place of European capital which has been withdrawn. Heretofore South American countries have known as little about the United States as this country has known about South America or perhaps even less. Mutual understanding and acquaintance are necessary before the United States can take even in part the place which Europe occupied before the outbreak of the war. This process of getting acquainted is going on as rapidly as might be expected. With the establishment of banking institutions such as the branches of the National City Bank in Argentina, Brazil, and Uruguay, a great advance may be expected in the promotion of more intimate relations between the United States and Latin America.

The pertinent question which every manufacturer and exporter must ask himself, however, is whether or not conditions in South America warrant his taking up the active development of that market. It has been my purpose in the brief review which I have made of the situation immediately following the outbreak of the European war and the recovery which has been accomplished to date, to give the necessary facts for forming a judgment on this point.

The most important aspect of the situation, however, and one which should count most in determining our trade invasion of Latin America is not so much the present conditions there, which on the whole promise hope, but rather the attitude of the American manufacturer and exporter. The American manufacturer should use, in developing the Latin American market, the same sane, common-sense business methods which he has so successfully used in developing the domestic markets in the United States. The manufacturer or merchant who treats the Latin American field as one which is not amenable to the application of the same business methods as he would use at home is not going to be successful.

Whether the American business man thinks that he can get immediate orders in South America or whether he thinks he cannot, his program of action should be substantially the same. It is absolutely necessary that before thinking of making profits out of this

new market which he expects to develop he should give it very careful study. Now is the time for the American manufacturer to lay the foundations of future business in Latin America; now is the time, in spite of any handicaps which may exist in the present commercial or financial situation in Latin America, for the American business man to lay the foundations for future trade; now is the time to send out his investigators, to send out his business diplomats to study and report on the possibilities; now is the time to make his connections and form trade relations which he can follow up and develop in future years.

The countries of Latin America which were almost paralyzed commercially, industrially, and financially by the outbreak of the great European war are showing remarkable vitality and are gradually recovering. It cannot be expected that they will fully recover their normal prosperity before the close of this war, but on the whole they have already gone much further toward recovery than might have been expected from an analysis of the situation which confronted them immediately after the first of August.

EXISTING OBSTACLES TO THE EXTENSION OF OUR TRADE WITH CENTRAL AND SOUTH AMERICA

BY MAURICE COSTER,

Export Manager, Westinghouse Electric and Manufacturing Company,
New York City.

As a preface I may say that we need not look for any great improvement in trade with Central and South America until the war has been brought to a close. English bankers have been forbidden by their government to participate in financial undertakings outside of Great Britain. Undoubtedly, similar restrictions have been imposed by the governments of other warring nations. The Central and South American countries, with the possible exceptions of the Argentine Republic and the United States of Colombia, are not in a position to finance new enterprises.

Some of our American bankers have taken the commendable lead in establishing branches in some South American countries. I doubt, however, if these bankers will, under existing conditions, be justified in extending their business in those countries to any considerable extent or to finance enterprises as was done formerly by foreign banks.

The Second National Foreign Trade Convention, recently held in St. Louis, meetings of various chambers of commerce and export associations, the recent very important annual meeting of the American Academy of Political and Social Science and the Pan-American Financial Conference will assist our foreign trade but little if existing laws and policies are not changed.

In order to insure permanent success and an increase in our export trade, we must revise our statutes in so far as they relate to these subjects. For instance, we should have a law admitting to American registry all vessels, whether built in the United States or not, when owned chiefly by American citizens or by American corporations, and when engaged in foreign trade with the United States, such vessels should be exempt from the provisions of the American navigation laws. The special regulations appertaining to the treatment of crews, to safety appliances, etc., of such vessels

should conform to those of the merchant marine of the great maritime nations.

It may surprise some of you to learn that, in the past, ships of certain foreign nations have not only discriminated against our merchants in the matter of rates, but they have deliberately delayed the delivery of American cargoes in the interest of their own nationals. Frequently the demurrage charges, incident to such wilful delays, have been paid by foreign associations or foreign governments. Hence, the great importance to our export trade of having our own merchant marine.

The Seamen's Bill should be amended so as to apply only to coastwise trade and that of the Great Lakes. It is necessary to have vessels running direct between the ports of the United States and those of Central and South America, providing the very best of passenger accommodations in order to induce our Latin cousins to visit us and spend some of their holidays here so that we may become better acquainted. Before the war they usually went to Europe. Those who came here had to take the additional time of crossing the Atlantic twice or endure inferior accommodations. We cannot have such ships if the Seamen's Bill is not amended as suggested above.

There has been considerable agitation of late regarding the creation of a new merchant marine. How can we hope to succeed in this if, in the face of all the earnest work done on this account, such a law as the recently enacted Seamen's Bill must be respected? This bill has undoubtedly many very good points but it should not apply to foreign trade. If it does, we will kill the small merchant marine we now have and American labor cannot be benefited if there are no American ships. It is also a mistaken idea that this law will protect American labor on ships of other nations trading between this and foreign countries, inasmuch as the vessels engaged in this trade are usually manned by foreigners and the question suggests itself why should we go out of our way to protect foreign sailors at the expense of our foreign trade?

Railroads and steamship lines should be permitted at all times to issue through bills of lading to foreign countries and to make special rates to meet foreign competition. The railroads should make preferential freight rates on shipments of manufactured articles from inland points to the coast. This is the common practice

in foreign countries. The railroads will not suffer by this reduction in rates as it will not interfere with their domestic business and they will be compensated by increased foreign shipments.

The Sherman Act should be amended in order to exclude from its provisions foreign business. The amended law should be so clear as to leave no doubt as to its interpretation.

Laws relating to drawback, being a refund of duties on materials used in the manufacture of articles exported, should be amended so as to encourage our foreign trade and to conform to similar laws already in successful operation in foreign countries for some years past.

In addition to the above, Congress should appropriate sufficient funds to permit the United States to be represented by able men in Central and South America. We should not be content to have the type of man who is limited in his traveling expenses to a daily allowance of \$5 and, consequently, cannot represent our government in a manner to command respect. We need men of the class employed by foreign governments who are able to make reliable reports on the activities and methods of our foreign competitors and the conditions surrounding proposed industrial undertakings, reports on which our banks can place absolute reliance when they are requested to assist in the financing of enterprises.

You will probably be surprised to know that some of these foreign representatives at present act in the capacity of "trade spies," so to say, and furnish their governments with information concerning the business done by subjects of competing countries. They even go to the extent of supplying their governments with detailed copies of invoices of American manufacturers which they can easily obtain when the invoices are made collectable through foreign banks.

Our government should adopt a definite policy favoring foreign trade. Under this new policy it should become impossible to have our experience in Mexico repeated, whereby about one billion dollars of American investments have been allowed to suffer. All present laws and policies, having for their object the benefiting of foreigners at the expense of American enterprise, should be repealed or amended.

Our government should use its influence to induce all the Central and South American republics to make their tariff laws

dependent on specific duties, based on weights or otherwise, and not on *ad valorem* values. The American exporter suffers very much from the illegal practices of some foreign manufacturers who swear to undervaluations amounting to as much as from forty to sixty per cent of the true invoice value, whereby they are enabled to pay less duty on their goods, thus placing American exporters, who will not condescend to these fraudulent practices, at an unfair disadvantage.

After the present obstacles have been removed by the enactment of suitable laws and the adoption of a favorable governmental policy, we will be able to call on the bankers for more help than I am inclined to believe they intend to give under existing conditions. If we wish to compete effectively with foreign countries, our banks should be prepared to assist in financing Central and South American governments and deserving enterprises in those countries just as foreign banks have done for years with scarcely any losses. Our banks cannot be expected to do this under the present governmental policy.

Foreign manufacturers have, in the past, investigated foreign enterprises and, upon favorable report of the government agent or other responsible party, have been able to secure the assistance of their banks in financing these undertakings. Credit was then usually extended on first mortgages as security for acceptances running for a term of from three to five years. These first mortgages provide the investor with the most ample protection. The foreign manufacturers are thus enabled to obtain cash for their goods while their banks have secured from eight to ten per cent interest on acceptances which they have been able to rediscount at from three to four per cent. The French have established several loan associations in South America which, after investigating some of the foreign financed undertakings and having found them to be good properties, have taken over the acceptances of some foreign banks before they became due, thereby enabling the original promoters to come into possession of the funds they have advanced much sooner than at first anticipated.

When referring to financing of foreign undertakings, I do not wish to convey the idea that, if a man comes to this country and asks for, say, six months' credit, he should be accorded this accommodation. In fact, we should refuse to extend to such a man any credit

whatever, for in case he should default, we would not be in a position to commence legal proceedings against him unless we have a representative of standing in his native country. Furthermore, a man asking for six months' credit is not in a position to accurately estimate his profit as, in six months, rates of exchange may be such as to convert his estimated profit into loss. If this man has the proper standing in his own country, he will be able to discount his notes easily locally as the banking facilities in ordinary times have been very good in South American countries, there being in addition to local banks, English, German, French, Italian and Belgian banks which are nearly always ready to discount good commercial paper charging, of course, a greater rate of interest than is customary in the United States.

We must not deceive ourselves in expecting that the war will so cripple our European competitors as to make their competition negligible in the future. We must not expect to take away much of the trade formerly held by our foreign competitors, chiefly the Germans and the British, unless we are put as nearly as possible on an equal footing with them.

In conclusion, I wish to say that the American press have, with praiseworthy activity, taken a great interest in our foreign trade with practically the only result of increasing our mail with applications for imaginary positions in connection with our export business. It seems to me that one of the first things to be done, in order to obtain the somewhat seemingly radical changes of laws and policies suggested, is to educate the press. Show them what really is required to increase our foreign trade and have them in turn, post the masses who, together with the former, should influence necessary legislation. They must make the American public realize that every dollar we export in merchandise makes the American nation so much richer and that the American laborer will be benefited to a proportionate extent. They must also be made to understand that foreign trade is absolutely necessary as a "filler-in" in times of depression. We should encourage our press to write leading articles on the proposed changes and to agitate the matter before the public in such a vigorous way as to make the laboring man understand that what is suggested above is in his interest. The voters should use their influence with their representatives in Congress and with the government to bring about the new laws and policies.

The representatives of the press should interview leading exporters who understand foreign business and obtain their views and reasons for wishing to create the new conditions. Let them explain to their readers that we ask for no special privileges and no subsidies, but on the other hand we should not be hampered by unjust and unnecessary regulations.

We can, in most instances, overcome the difference in cost between American and European labor by our more extensive and ingenious methods of manufacture, but we should not be required to do more than this.

THE PRESENT FINANCIAL SITUATION

BY FRANK A. VANDERLIP,¹

President, National City Bank, New York.

It seems to me that it takes a great deal of courage to tell you what the effects of this war on the finances of America are to be. I know, however, that most of us do not appreciate the gravity of the war. We do not fully appreciate the tremendous forces that have been set in motion, nor do we well apprehend the direction in which we are moving.

Let us take a broad view of the facts which we do all know. We all know that ten billions of war bonds have been issued. Those figures are so large that it is impossible really to comprehend what they mean except by comparison with the indebtedness that has been issued before by these nations or by their total wealth. I happened to note in a newspaper clipping today an estimate of the wealth of different nations and I was struck by the fact that the amount of war bonds already issued is about equal to the total wealth of Spain and the Netherlands. This is a striking comparison. We have suggestive figures, but we do not really know what the cost of this war is for a year—not the cost in the creation of securities alone—but in the capitalized value of the lives lost and in the effect of industry impeded. I do not know how accurate the statement may be, but an eminent English economist has suggested that the cost might reach forty-six billion dollars. That is half the wealth of Great Britain.

This is a destruction that our minds have not attempted really to comprehend. We can hardly take it in. Now, if this great destruction has been going on, why have we not felt it more? Why is it that the world is still fairly cheerful? We have rising stock markets, not only here but abroad, rather an industrial boom in the stock market of Germany, and surprisingly easy money everywhere. Can we stand that sort of destruction of wealth and have nothing serious follow? It might seem so from the facts as we see them now,

¹Remarks as presiding officer at the fifth session of the Annual Meeting of the American Academy held in Philadelphia on April 30 and May 1, 1915.

and as they concern us now, but I believe the effect has not yet been really felt. There have been an inflation of note issues and an inflation of credit which have prevented the world from feeling this shock, but my own opinion is that a shock is eventually going to be felt more severely than our rather superficial consideration has yet given us cause to anticipate. I can however only call attention to what seems to me the seriousness of the situation and cannot attempt at this time to go into any real analysis of it.

THE EFFECT OF THE WAR ON AMERICA'S FINANCIAL POSITION

BY THOMAS W. LAMONT,

Member, firm of J. P. Morgan & Company, New York.

In analyzing the financial effects of the war, our first view must be in retrospect. The first effects which we witnessed were just prior to, or contemporaneous with, the outbreak of the general war. Those effects were calamitous. We saw our high-grade securities fall with great violence; we saw the entire fabric of foreign exchange, built up over many generations, knocked completely awry; we found ourselves unable to buy sterling exchange wherewith to pay our debts in London. Our gold was being exported in great volume. Within the two weeks after the outbreak of war between Austria and Servia we sent out \$55,000,000 of gold. Domestic rates for money advanced to a high figure, and even at that money was scarce and hard to obtain. Ocean transportation was violently disarranged. It was impossible to get bottoms wherein to ship; and the rates for marine and war insurance ran so high that manufacturers could no longer afford to ship. To a period of general business depression that had existed for many months was added almost complete prostration of trade in various lines particularly affected by the phenomena just enumerated.

The remedies that the country took to save these serious situations just described were prompt, logical and effective. Our securities were being dumped upon us in large volume by foreign holders. Therefore, we closed our stock exchanges so as to prevent an overwhelming flood of such sales. Gold was being exported and there was danger of a money panic. Therefore our banks went upon a clearing house certificate basis, and plenty of currency was assured to us by reason that under the Aldrich-Vreeland Act \$400,000 of additional currency was almost immediately issued. Our bank situation was strengthened by the efforts to put into prompt working order the new institutions established under the Federal Reserve

Bank Act. With equal logic, when it was found that our ocean transportation was all upset, the Federal Marine Insurance Act was passed, thus making it possible for manufacturers to ship under reasonable rates of insurance.

When London and Paris, in which two cities New York City had outstanding a total of over \$80,000,000 due and payable before January 1, 1915, began asking whether they were going to get their money, New York City responded through her bankers in the formation of the famous \$100,000,000 syndicate. Under the terms of this syndicate New York City sold \$100,000,000 of its 6 per cent notes, receiving payment therefor to the extent of \$80,000,000 in gold, or adequate exchange, and thus showing the world that under the most difficult conditions she would certainly pay her debts. When other foreign creditors of America raised some question as to their position, the banks of the country organized a gold pool of \$100,000,000 to show that there was plenty of gold that could and would be exported, if necessary. When all the South seemed on the verge of a financial breakdown, owing to the depression in the cotton industry, there was organized a banking pool to lend up to \$150,000,000 on cotton and, therefore, to bring order out of chaos in that region.

All these remedial measures were taken quietly and effectively, a comparatively few active and patriotic men acting as leaders, but with the loyal and united support of the whole financial community, East and West, North and South. Never did all parts of the country act in coöperation more harmoniously than they did at that time, and I believe that the spirit of the harmony then aroused is something to reckon with and to be glad for, for a long time to come.

Those perplexing and even agonizing days seem now to have passed. What is the situation today?

There has, in effect, been a tremendous reversal of conditions. Money is easy, we are importing gold on a good scale, having already brought back over \$50,000,000 of what we sent out last year. Our stock exchanges are opened, with the trading free as air, not hampered by the minimum limits which still rule on the London stock exchange.

As to foreign holdings of our securities, they are still being sold to us in large volume, and we are easily absorbing them. We even welcome such sales, for they serve to ease up the foreign ex-

change situation which now has turned almost as heavily in our favor as, last September, it was against us.

Note well these sure indications of how we are turning from debtor into creditor: it costs England $1\frac{1}{2}$ per cent more than normal to make her remittances to us; it costs France $2\frac{1}{2}$ per cent; Germany over 12 per cent and Russia nearer 20 per cent.

We are piling up a prodigious export trade balance. By the end of the government year, June 30 next, it looks as if it would be over one billion of dollars. Many of our manufacturers and merchants have been doing wonderful business in articles relating to the war. So heavy have been these war orders, running into the hundreds of millions of dollars, that now their effect is beginning to spread to general business which, even if it is still depressed, shows distinct signs of improvement.

And as a climax to all this improvement, America is becoming a large factor in the international loan market. These foreign loans have been so scattered that perhaps the total of them has not been fully appreciated, but just let me enumerate:

To various municipalities and provinces in Canada, American investors have, since January 1, 1915, loaned over \$60,000,000;

To Russia, twenty-five millions, in addition to private credits which that government has arranged to approximately the same amount, I should guess;

To France, forty million dollars, or thereabouts;

To Germany, it is stated, although I am not sure of my figures, about ten millions;

To Switzerland, fifteen millions;

To Norway and Sweden, about three millions apiece;

To the Argentine, forty million dollars;

The grand total, therefore, of these foreign loans that we have made since war broke out is well above two hundred million dollars.

Such is the situation today. Now what of the future? Many people seem to believe that New York is to supersede London as the money center of the world. In order to become the money center we must of course become the trade center of the world. That is certainly a possibility. Is it a probability? Only time can show. But my guess would be that, although subsequent to the war this country is bound to be more important financially than ever before, it will be many years before America, even with her wonderful re-

sources, energy and success, will become the financial center of the world. Such a shifting cannot be brought about quickly, for of course to become the money center of the world we must, as I have said, become the trade center; and up to date our exports to regions other than Great Britain and Europe have been comparatively limited in amount. We must cultivate and build up new markets for our manufacturers and merchants, and all that is a matter of time.

Therefore, I think I am warranted in saying that this question of trade and financial supremacy must be determined by several factors, a chief one of which is the duration of the war. If, as all humanity is bound to hope, the war should come to an end in the near future, our position would still be much different from, and more important than, what it was prior to the war but, on the other hand, we should probably find Germany, whose export trade is now almost wholly cut off, swinging back into keen competition very promptly; and we should find that the building up of our foreign trade would be a much slower matter than if the war were to continue indefinitely, thus leaving those foreign fields of trade endeavor more open to us.

Another factor, depending upon the duration of the war, is the extent to which we shall buy back American securities still held by foreign investors. Just prior to the war and since its outbreak we have bought back hundreds of millions of such securities, but the amount still outstanding in the hands of foreign holders must aggregate several billions of dollars. If we should continue to buy such securities back on a large scale—and the chances are that if the war continues long we shall do that—then we should no longer be in the position of remitting abroad vast sums every year in the way of interest. It would not be necessary for us to secure so much exchange on London and Paris. We should be paying the interest upon our debts to our own people, not to foreigners. Such a development would be of the utmost importance for this country financially.

A third factor, and that, too, is dependent upon the duration of the war, is as to whether we shall become lenders to the foreign nations upon a really large scale. I have pointed out that since the war began we have loaned direct to foreign governments something over \$200,000,000. Yet this is comparatively a small sum. Shall we become lenders upon a really stupendous scale to these foreign

governments? Shall we become lenders for the development of private or semi-public enterprises in South America and other parts of the world, which up to date have been commercially financed by Great Britain, France and Germany? If the war continues long enough to encourage us to take such a position, and if we have the resources to grapple with it, then inevitably we shall become a creditor instead of a debtor nation, and such a development, sooner or later, would certainly tend to bring about the dollar, instead of the pound sterling, as the international basis of exchange.

These thoughts I have thrown out simply in the way of inquiry and suggestion. No one can make a safe prediction and it is idle to attempt to do so. There are so many cross-currents, so many hidden factors involved, that have a bearing on international trade and international finance, that no one can gauge the future. We are witnessing extraordinary developments on the other side of the water; we are seeing government control of industry being undertaken on a gigantic scale. Will such control continue in part or in whole after the war? Will the value of the coöperative effort which is now being demonstrated, be so great as to demand continuance after the war is over? Shall we see in these belligerent countries, after the storm is ended, renewed energy and fresh organization, or shall we see languor and prostration?

Here in America shall our manufacturers and merchants be able to take effective steps, with the active coöperation of the government for the development of foreign business? Will American producers be able to arrange for coöperation among their organizations for foreign sales so as to effect economies in capturing foreign markets? Today our laws do not allow them. Will it be possible to bring about such a change in our shipping laws as to permit the establishment of an American mercantile marine so that Americans, and not foreigners, will reap the benefit of all our enormous trans-oceanic carrying charges? Will our diplomacy be both helpful and courageous? Will our merchants be wise enough in catering to foreign markets, to build always for the long future and to exhibit the best there is in salesmanship, quality and general disposition to please? I believe so. But these are all questions that, like the others I have enumerated, time only can solve.

We must remember, too, that when we talk about this enormous trade balance in our favor, which as I have said may run up

this year to one billion dollars, a considerable part of that balance is due to falling off of imports, rather than simply to an increase of exports; and another part of it is due to the fact that we are securing much higher prices than normal for a great many different commodities, wheat, for instance, selling at almost double the price per bushel that it commanded a year ago. Therefore, we must not look upon this year's heavy balance in our favor as a normal one. It is abnormal because of the two factors that I have just mentioned. In our calculations we must be conservative and bear these most important facts in mind.

In all these questions that we have been considering and that will in the coming months press upon us for solution, Finance must naturally play an active part. Some people fail to realize that finance and general business are so interwoven that the success of manufacture and trade depends entirely upon the coöperation of finance. Finance is not isolated, does not work by itself. Finance is not speculation. It is rather a gigantic fabric, delicately and yet strongly built, patiently constructed through many generations of sound dealing. It is the business of finance to provide the means for the development of mines, our manufacture, our commerce, and even, in some measure, of our agriculture.

For the development of all these industries capital is required in large and increasing measure. On the other hand capital is constantly seeking investment. The frugal are laying by for a rainy day, large estates must reinvest their surplus incomes. It is the important function of finance to bring these two movements together to see that these savings are turned into the form of sound investment for the development of the country's industries. For this reason the conditions of finance are of world-wide importance. In this country they affect every investor who helps to keep industry supplied with funds for development, and every wage-earner who is dependent for continued and contented employment upon the success of such industries.

And furthermore we must remember that Finance is an orderly process, never haphazard, never casual. As we look back we can now realize that those great remedial and protective steps that I have briefly alluded to, the raising here of \$200,000,000 of gold, taken by a few gentlemen quietly and without legislative action,

were all parts of the great engine of finance working steadily through the industries of the country.

One last word, at the end of it all—how shall finance have fared? Am I too fervid when I say this:

When that terrible, blood-red fog of war burns away we shall see finance still standing firm. We shall see the spectacle of the business man of all nations paying to one another their just debts. We shall see the German merchant keeping his word sacred to the English; and the French to the Turk. We shall see finance standing ready to develop new enterprises; to find money to till new fields; to help rebuild a broken and wreck-strewn world; to set the fires of industry blazing brightly again and lighting up the earth with the triumphs of peace.

THE RESULTS OF THE EUROPEAN WAR ON AMERICA'S FINANCIAL POSITION

BY W. P. G. HARDING,

Federal Reserve Board, Washington, D. C.

We hear a good deal nowadays about dollar exchange as applied to the financing of transactions arising from our trade with foreign countries. A year ago this was almost an unknown expression, and, generally speaking, long bills drawn against international transactions were in sterling, in reichsmarks or in francs. Our great incorporated chartered banking institutions were not permitted to engage in the acceptance business, and when a cargo of grain or cotton left an American port for Liverpool, drafts against the shipment were drawn in sterling, or when a vessel laden with dyestuffs or jute bagging cleared from Bremen or Hamburg for Boston or Savannah, credits covering the invoices were expressed in reichsmarks, so that the foreign banker exacted his toll in both directions. In April, 1914, however, the New York legislature, by statute, permitted banks incorporated by that state to accept drafts and bills of exchange drawn against not only shipments of goods to and from foreign countries, but against domestic transactions as well. The federal reserve act, which was enacted by Congress in December, 1913, contained a clause permitting national banks, in transactions involving the importation or exportation of goods, to accept for amounts not exceeding 50 per cent of their capital and surplus; and by a recent amendment, this limitation has been extended to the full amount of capital and surplus. Figures recently compiled show that trust companies in New York State and the national banks have outstanding \$117,000,000 of acceptances.

The development of the American acceptance business has undoubtedly been promoted by the European war, and the progress already made by a large New York City national bank toward establishing foreign branches under the provisions of the federal reserve act indicates a disposition on the part of the national banks to supplement the efforts of the trust companies that have already

established foreign branches and engage in financial operations of an international character. The most inviting field for foreign branches at present seems to lie in the West Indies, in the Canal Zone and in the South American countries. The recent conference with South American financiers held in Washington is an evidence of the interest that our government is taking in the development of closer trade and banking relations with our South American neighbors. While we have for years been large purchasers of South American commodities, such as coffee, rubber, nitrate and hides, our exports to those countries have been negligible as compared with the trade controlled by European nations. The deplorable conditions now existing throughout Europe have not only given us an opportunity of taking over a substantial part of this business, but have almost compelled us to arrange to do so, besides opening the way for an extension of our trade with Europe and with the Orient.

Shortly after the outbreak of the war last summer, international balances against us on current account were ascertained to be around \$450,000,000, and it was estimated at the same time that the total value of American securities held abroad was probably not less than \$6,000,000,000. Notwithstanding the serious depression in cotton, which fortunately proved temporary, the loss in that staple was more than made up in the total volume of our trade by the high prices received for our exports of foodstuffs. The balance against us was in a few months entirely wiped out, and large balances in our favor began to accumulate. Certain lines of industry in this country, such as the manufacture of munitions of war and accessories, have received a tremendous impetus. Reports to the department of commerce indicate, according to a statement made by Secretary Redfield, total exports for the current fiscal year of two and three quarter billion dollars, with a resulting trade balance in our favor of about one and a quarter billions. This balance, however, is due to our smaller volume of imports, rather than to increased exports. For the past nine months our excess of exports over imports has amounted to \$719,000,000, and it is thought possible that our net trade balance for the calendar year 1915 may be as high as \$2,000,000,000, or about four times what might have been expected under normal conditions. As against this all the belligerent powers have been obliged to float temporary loans for enormous sums, to which there is reason to believe substantial subscriptions

have been made in this country, and should the war continue for several months longer, it is thought that American subscriptions will undoubtedly assume far greater proportions. The removal of stock exchange restrictions and the notable rise in the market value of standard stocks and bonds which has been in evidence for some weeks past, together with the breadth of the market, have given foreigners an excellent opportunity to dispose of their American securities, and while there may have been some purchases for European account, it seems certain that sales by foreigners have greatly exceeded their purchases; some authorities contending that since the beginning of the war, net sales have been made in our market for foreign account of about 2,000,000 shares of stock and possibly \$300,000,000 of bonds; these figures, however, are probably exaggerated.

Europe has been selling our stocks and bonds steadily but only in relatively small amounts. It was carefully estimated a month ago that European sales were averaging about \$1,000,000 a day. It is believed that the temptation of rapidly risen prices has led to somewhat heavier selling than within the last week, but even if the European liquidation averaged steadily \$2,000,000 a day it would fall far short of the current excess of exports, which for the last three months has averaged about \$5,000,000 a day. The invisible balance against us is as undetermined as the amount of Europe's holdings of our securities, but it can hardly be \$2,000,000 a day and may be less than \$1,000,000. If it were \$2,000,000 and Europe was selling us each day that amount of securities, we would still be accumulating net credits at the rate of \$1,000,000 a day through our excess of exports over imports.

It is, of course, impossible to predict the duration of the war or its ultimate results, but there are several elements that will enter into our financial position at the close of the war. One is the duration of war, and another is the terms of peace. Should the war be brought to a close in the near future on the basis of a "draw," the demands upon capital would, of course, be much less than would be the case if it is fought to a finish. In that event, our position would be somewhat different should war settlements be made by cession of territory only, than it would be should large cash indemnities be imposed by the victors upon the vanquished, which would involve complicated readjustments of capital. Some authorities hold that the European countries have much greater wealth than is generally supposed, and that their recuperative powers are correspondingly greater, but it seems clear that no nation can withstand for a very

long period of time the tremendous loss of life and property which has characterized the present conflict. The first effects of a peace that follow a great war are by no means a sure indication of what the ultimate results will be, and sometimes it happens that the financial status of nations that have not been engaged in the war is disturbed almost as seriously as that of the participants. When the long series of Napoleonic wars had been brought to a close in 1814 by the exile of the French emperor to Elba, there was a pronounced trade revival in England which came to a sudden halt upon Napoleon's return to France in March, 1815. His final defeat at Waterloo resulted in a great advance in British Consols, but the United Kingdom entered at the same time into a period of industrial and commercial depression which lasted several years. A similar depression was also experienced in this country, which had, since 1812, been engaged in a war with England. Our Civil War witnessed a destruction of life and property and an accumulation of debt somewhat parallel to that now being experienced by European belligerents, and it was also accompanied by a marked inflation of the currency, under the stimulus of which the dominant section experienced a trade revival accompanied by an era of railroad building which continued until 1873. Our Civil War was the source of serious inconvenience to Great Britain, which country was dependent upon the South for the greater part of its cotton supply, yet England was prosperous during the time of our conflict and during the year succeeding its close, so that not until the crash which followed the failure in 1866 of the London firm of Overend, Gurney & Co., did she face the greatest crisis she had experienced in two generations. The war indemnity imposed upon France by Germany in 1871 of 5,000,000,000 francs, made it necessary for French investors desiring to subscribe to the indemnity loan to become heavy sellers of securities in London and elsewhere. British markets, as well as French, were seriously affected, so that within a few months it became impossible to sell American securities abroad, maturing loans were called, and many great railroad enterprises were halted during their construction. Thus the indemnity to Germany was a powerful contributing cause to the great crisis of 1873. Our affair with Spain in 1898, is, according to modern standards, hardly worthy of being dignified with the name of war. It, however, marked the termination of the years of depression which

followed the panic of 1893, and at its conclusion began one of the greatest expansive periods of modern history, which, suffering no serious interruption either from the Boer war or from Russia's war with Japan, came to a sudden end in the fall of 1907.

We should not forget that, although we have passed through no periods of pronounced activity since 1907, there is a strong temptation today towards inflation in this country as well as in Europe, where inflation is a result of war financing. The loans of our national banks were on March 4, according to reports to the comptroller of the currency, about \$142,000,000 greater than they were on the same date in 1914, which were in turn greater by about \$232,000,000 than appeared in corresponding statement in 1913. Restoration of peace will necessarily bring about many readjustments. Demand for war material will cease, and in its place will spring up a demand for the commodities of ordinary trade, and particularly for those materials used in constructive work and repairs. Great Britain, Germany and France will use every effort to recover lost trade and will endeavor to avail themselves of American markets, our margin of exports over imports will shrink, and as war debts are permanently funded, securities will doubtless be sold by citizens of countries lately at war to enable them to subscribe to their national loans. The volume of these sales will be governed partly by security prices and by trade balances, and the effect upon our money market will depend upon the provision we have made in advance to offset or to finance these purchases.

While we have now in operation a sound currency and banking system, we must not permit ourselves to be lulled into a false sense of immunity from all trouble, or to feel that we have a license to disregard well-established principles. We must be discreet, we must resist any tendency toward inflation, and we may be sure, that by avoiding a wild temporary boom which would certainly result in a collapse later on, this country will be in a far better position to reap throughout a long series of years to come the benefits which should accrue to it as the only great world power not engaged in the war. By adhering to this course, by exercising patience and self-control and by adopting a policy of wise statesmanship in husbanding our resources and applying them only in directions which will tend towards bringing the best ultimate results, not to the individual but to the nation as a whole, our position upon the reestablishment

of peace will be far stronger than it was before the war began. We shall be able thereby to hold and to follow up advantages gained, and shall reach ultimately not merely a second or third but a prominent and commanding place in the field of international finance.

AMERICA'S FINANCIAL POSITION AS AFFECTED BY THE WAR

BY ALEXANDER J. HEMPHILL,
Chairman, Guaranty Trust Company, New York City.

The two weeks' period between July 24 and August 7 of 1914 marked the creation of a new epoch in international finance, especially for the United States. During the first week in this period, extraordinary fluctuations in exchange indicated that some portentous event was impending and the second week, after the happening of the event, marked the dislocation, if not the destruction, of the entire financial machine. Ruin seemed to be the inevitable result of the great catastrophe, but its very immensity served to bring about a unity of purpose to restore order from chaos and to recreate the necessary mechanism for the restoration of international transactions. These efforts involved a series of unprecedented remedial methods: the closing of exchanges; the resort to clearing house certificates for settlement of balances between the banks, involving the cessation of payments in gold; the issue of emergency currency; the creation of a gold fund, and of a fund to carry the surplus of a record cotton crop. These are recited merely to illustrate the tremendous difficulties which confronted the bankers of the country and the hard work necessary to restore a semblance of normal conditions. Fortunately, there was a ready public recognition of the necessity for such measures and the runs on banking institutions usual at such times were averted.

For some time prior to the declaration of war, our indebtedness on current account to the European financial centers had been steadily growing so that on August 1 that debt had assumed the very substantial proportions of somewhere between \$250,000,000 and \$400,000,000. In the attempt to avert gold shipments, exchange rates soared to unprecedented figures, transactions taking place at the rate of \$6.50 for sterling exchange, and remaining at \$5.00 for a protracted period. Of course, it was essential in order that the credit of the United States might not be seriously prejudiced, that this discount on American exchange should be

reduced. The bankers of the country, therefore, consented to make contributions to a gold pool of \$100,000,000 and this, in connection with the beginning of a favorable trade balance, shortly restored exchange equilibrium.

For several years prior to 1914 our financial position left much to be desired. Securities were discredited, and at an unfavorable time we were compelled to absorb liquidation by foreign investors which, under the circumstances, entailed great depreciation in the market value of all issues. We had for so many years depended upon the savings of other countries, particularly Great Britain, to finance a part of our undertakings, that we were some time in realizing that we must henceforth depend upon our own financial resources. This forced a period of economy, which was evidenced in the enormous growth of our bank deposits.

Steps taken by the warring nations to protect their gold reserves offered an opportunity to this country to secure a leading position in the world of finance. Fortunately for us, it so happened that the organization of the federal reserve system had just been completed, conferring powers for purchasing bank acceptances and rediscounting, with consequent currency issuing. This for the first time rendered possible the creation of dollar exchange. The abnormal situation in Europe made this step so logical that it met with ready acceptance from all quarters. Bills which had heretofore been drawn on London in sterling were now beginning to be drawn on New York in dollars. This particularly applied to the Latin American republics; commercial transactions with those countries, which under customs prevailing before the war had been settled through London, are now cleared through New York.

The war forced the return to this country of thousands of Americans traveling abroad and a consequent saving for this country of immense sums which were currently spent on the other side. Imports of merchandise showed an enormous shrinkage and as we almost immediately began to supply the necessities of the warring countries in the way of foodstuffs, etc., our exports reached large proportions. The balance of trade in our favor enabled us, therefore, soon to pay off our debit balance, and a large credit balance took its place. To the extent to which foreign holders of our securities were willing to sell we have repurchased from them, but this liquidation since the war although of considerable volume is but a

comparatively small percentage of their total holdings. The balance of their current indebtedness to us must be discharged in other ways. We have in some cases purchased their short-time obligations and in others granted credits. We are not yet prepared to take their long-time obligations. That time will arrive after the declaration of peace.

The reversal in our financial position has been so sudden and complete that it really has been little less than revolutionary. Most of our financiers have had little experience or training in international finance to meet the conditions involved in this sudden change. In addition to this lack of experience we had to cope with defective financial machinery. It was not until the national monetary commission published the result of its investigations of European methods that this country began clearly to see how necessary it was that we should depart from our archaic methods and adopt a banking system which would enable the creation of an acceptance and discount market. These views and findings of the commission were wisely incorporated in the federal reserve law and comprise the chief measure of benefit that the country now derives from that act. State institutions have availed of this new feature in granting acceptances to a larger extent than the national banks.

London has not yet drawn any bills of exchange in dollars. When that is once done we may pride ourselves upon our progress. London financiers recognize our new efforts in the field of finance and applaud our aspirations. No obstacles from that quarter will be interposed. At the present time she is concentrating all her efforts on the one object of financing the war. Nevertheless we must recognize that she will maintain as strong a grip as possible upon the markets which she previously controlled, and our credit will be only temporary unless we make our dollar exchange stable and desirable.

It is essential that our manufacturers who desire to export their products should develop an efficient export organization. To this end they must study the markets which they desire to supply and be prepared to take the financial responsibility involved in the granting of credits and not leave this important feature to agencies. In the final analysis the manufacturer exporter must take the risks of export business rather than the banker. Our

manufacturers desiring to export must understand that they must use the same intelligence in meeting foreign markets as they do in taking care of their domestic business. The clearing of all this business should, in the main, be done through New York.

The conclusion of the war will create new conditions and the greatest demand will then be made upon financial America. The destruction and wastage of capital occasioned by the war has been estimated on the basis of a year's duration at \$40,000,000,000; and while it may not be necessary to restore all of this at once, yet from present indications the demand on us will be enormous. First, there will be the call on our merchants to furnish materials in connection with the rehabilitation or rebuilding of the devastated country and, secondly, we will have to give credit either through making direct loans or through the repurchase of American securities held abroad. From present indications the foreign investors will part from our securities slowly and will be tempted to liquidate only at high prices. It is more than probable that several of the foreign countries will ask us for some of our gold in order that they may restore or build up their gold reserves. These demands upon our financial resources seem to presage more than an active and firm money market.

There is no doubt that should we continue to practice economies and follow the sound business methods which we have recently pursued, we will not only have abundant resources for our own prosperous business but also be able to take care of the reasonable demands of other nations.

THE FINANCIAL MENACE TO AMERICA OF THE EUROPEAN WAR

BY SIMON N. PATTEN, PH.D.,

Wharton School of Finance and Commerce, University of Pennsylvania.

In a national crisis there is difficulty in applying old principles to new situations. It is often said that there is nothing new, every situation being the repetition of antecedent experience. It is equally valid to assert that new conditions demand a restatement of old laws; only through such reconstruction can they be applied to current events.

An attempt to apply the economic theories to the present situation shows a confusion that exists, not so much on account of the fallacy of principles as on account of the particular way in which they have been stated. The data on which they depend have not been worked over, and as a consequence the theories have remained rather as statements of particular forms of experience than as its general statement. This is especially true of the economic doctrines that arose in the last century, since their essence is distributive. Their goal is some rule by which the produce of society can be divided among the various producers. The real question today is how much of the national wealth can be taken from producers and given to the state. The present situation in Europe is described by saying that, in the past, 10 per cent of the annual income of each country has been turned over to the state, while under the new conditions 40 per cent of the annual income must be given to meet the increase of public expense the war involves. How far this can be done and in what ways without interfering with the processes of production is the vital issue. We have thus to do with the total income of the nation, not that of some class or industrial group; only the most material wants are to be kept in mind.

If 90 per cent of the total revenue of England in the year 1913 was devoted to the private uses of its citizens, how can they adjust themselves in 1915 so that 40 per cent of the total income of the nation can be turned over to public uses? If this much is demanded of England, still more is demanded of the people of France or Ger-

many, if they are to meet the situation imposed on them by the European conflict. If this view is taken, certain fundamental relations between people and environment must be maintained to carry on a long struggle under conditions where the resources of the nation go to public needs rather than to private uses.

The first of these is the relation between food and population. Deductions in this field are known as the law of diminishing returns. It is not necessary to discuss the implications from this law as all nations are conserving their food supply and endeavoring to increase it by every means in their power. The relation between capital and industry may occasion more difficulty. Here we find the law of economic cycles, as it has been called by Professor Moore, to whom its best statement is due.¹ Fluctuations in industry are primarily alterations in the annual production of commodities. A series of good years cause also increasing industry and rising industrial values, while a series of bad years result in depression and disaster. Such cycles have come in the past with great regularity, and they show us the danger to industry from any diminution in the total of the food of the community. The importance of this law is, however, not so much in any anticipated diminution of the food supply, but rather that it throws light on what will happen in a community where there is a large decrease in the quantity of capital.

In the past, changes in values have come from fluctuations in the amount of crops. There has never been a material decrease in the quantity of capital, and usually there has been from year to year a decided increase. Now for the first time we face an actual decrease in quantity of capital. How are we to measure its effects on values and on industry? The reply is that its effects will be similar to the effects coming from a diminution in the annual yield of the farms. A poor crop is as much a destruction of wealth as if the crop were produced and then destroyed. If this is true, other types of destruction will have the same general effect on industry.

If we look to the relation of food and population for the basis of our static relations and to the relation of capital to industry for our fluctuating changes, we should measure the progressive changes in society through the relation between the present and the future of which the rate of interest is the best expression. One group of economists assert that interest depends upon productivity, and

¹ *Economic Cycles: Their Law and Cause.*

therefore rises and falls as productivity increases or decreases. Other economists affirm with equal earnestness the theory that the rate of interest depends upon the estimate individuals make of their future welfare. Are we to look upon these two laws as opposing tendencies or as reflecting different conditions under which the rate of interest manifests itself? To my mind, they represent two elements whose combined influence determines the rate of interest. People cut down their present consumption in favor of future consumption, through the fear of future want. Any new conditions diminishing the fear of future want will check the tendency to save and cause an increase of present consumption. The diminution of fear means a rising rate of interest. On the other hand, whatever reduces the risks of industry tends to create a lower rate of interest. Industrial progress is thus from a state where fears are static while risks were diminishing to a condition in which fears are diminishing and risks are static.

Let me explain this formidable but after all simple proposition. For a long time the social conditions under which industrial people lived remained the same, their anticipation of future dangers were correspondingly fixed, and hence the same motive from generation to generation existed to set aside a part of their income to provide for future contingencies. Two generations ago it could be said that if the family income was increased from \$1,000 to \$1,200, the \$200 additional would, in nine cases out of ten, be turned into capital. During this time, however, the risks of industry were diminishing, and as a consequence, the element of danger was reduced. The net result is a falling rate of interest. At the present time, however, risks have come so near their minimum that they are a static element. People think less of tomorrow than their forebears did. There is an increase in present expenditures by those whose forefathers would have saved.

In general terms, we can say that an increasing product raises the consumers' margin and creates a rising rate of interest. The rate of interest is an index of the progressive changes taking place just as is the law of diminishing returns of our static relations. We thus have a law of static change, a law of fluctuating change, and a law of progressive change. These three laws I shall attempt to apply in determining the danger that American industry fares as a consequence of the present war.

The first question to decide is whether industry has been so disarranged that its returns have diminished. During the Napoleonic wars, England was undergoing a tremendous industrial revolution that increased her productive power from 50 to 200 per cent. The result was that after the twenty years' struggle England found herself richer than before. The expenses of the war had reduced the profits of the nation, but had not destroyed them. The same result followed our Civil War. New inventions in agricultural machinery were introduced to such an extent that the diminishing labor supply caused by the enlistments was more than made up by the increase in the power of machinery. As a result, the North found itself wealthier at the end of the war and the rate of profit was also larger than at the beginning. These two examples are often used in a confusing way because they seem to show that war brings prosperity, when in reality they only show that war is a burden a nation can stand if the increase in productive power is sufficiently great. At the present time, with no great industrial improvements in sight, it seems wiser to assume that the burden of the war will rest upon the nations who have taken part in the struggle. How will this burden be distributed, and upon whose shoulders will it fall? In answering these two problems we are likely to be confused. When we discuss the effect of the war on securities we should have in mind, not the ultimate value of these securities twenty or thirty years from now, but what will be their immediate value at the close of the war. After every period of food shortage there has been a depression in industry and in security values. We can infer from this what will follow in the present case for the destruction of war illustrates the same causes as a shortage of food. If bad crops create depression, we have a right to infer that a like depression will follow the destruction caused by war. Professor Moore's conclusions are that the depression in industry lags four years behind the shortage in agricultural crops, and if this holds in the present case, we can infer that the burden of the war will be settled by an industrial depression in the near future.

This inference is justified by what we know of the relation of wealth to value. An increasing product causes a still greater increase in value, while a diminishing product has a powerful effect in lowering values. It is hard to express this relation in simple mathematical terms, but it is an understatement of the facts to say that

a reduction in product produces a double effect in value, and therefore a reduction of 10 per cent in produce may produce 20 per cent in reduction in industrial values.

It is universally admitted that the cost of the war for one year is about \$15,000,000,000 to the nations concerned. If we take into consideration the losses of private property in Belgium, Poland, France, and other places actually within the war zone, and the disturbance of industry in other regions, a like destruction of \$15,000,000,000 has resulted. We thus have an actual destruction of property to the amount of \$30,000,000,000, and if the loss in value is double the loss of product, we must assume that at the end of the year the value of the world's capital has been reduced by \$60,000,000,000. As the world's total wealth foots up to something like \$300,000,000,000, this means that at the end of the year there has been a loss of 20 per cent in values if the distribution of these losses were equal. That, however, is not likely to be the case. What usually happens under such circumstances is, not an even fall in values and an even burden upon all industry, but rather a commercial crisis in which the losses are unequally distributed, and thus greatly increased. If the war continues more than a year, the losses will be enormously increased and the difficulties of readjustment correspondingly great. I do not, however, from this, wish to infer that the total value of the world's wealth will be permanently decreased. No matter how destructive the war is, none of the permanent resources of the world will be disturbed, and sooner or later the liquidation of the losses will take place and then the recreation of values will follow, giving a higher total value than before. Such, at least, has been the result of all the financial crises in the past. It is risky, therefore, at the present time to hold securities no matter how safe they appear to be because they will be seriously affected by the industrial collapse that is bound to follow the closing of the war. The risk in regard to bonds and the effect that the war will have on them is different because the bond market is determined, not so much by the fluctuation in the relation of wealth to value nor by the current rate of profit in the community, as by the rate of interest. A high rate of interest results in a relatively low value of bonds and securities, while a low rate of interest correspondingly raises the value of stocks and bonds. We must determine whether the rate of interest is changing in a way that will

affect the value of bonds. If the American people have to a considerable degree stopped saving, a rise in the rate of interest must take place in order to counteract the growing tendencies toward immediate consumption.

In the past, we have had three classes of savers. The laboring population has its saving measured by the amount in savings banks. There is no reason to assume that they will fall off in the immediate future. The same I take it to be true of the large saver—a man whose income is above \$5,000. If the savings of the wealthy are decreasing, it is more likely to be the result of increased taxation than any change in their character or motives. There is an eagerness on the part of the public to tax this class, and should it take the form of income or inheritance taxes, the savings of the wealthy will be absorbed, and thus limit the additions to capital that now take place. The most interesting group to study is the middle class, those whose family incomes range from one to five thousand dollars. This class has practically ceased to save except as it affects life insurance and the education of their children. They are even ceasing to own their homes. The tendency at the present time is to rent an apartment rather than to live in a house. The eager desire for consumption produces a pressure upon their incomes that causes them to expend all they earn.

These changes may take a generation to work but in the end the normal rate of interest will rise from 4 to 6 per cent. If this prediction proves correct, any person investing in bonds having many years to run will lose 20 per cent of their value when the final payment is made. It is probable that the rate of interest will remain low for a time, but all the more certainly can we predict that a person thinking of his welfare twenty years from now will suffer very serious losses if he buys long term bonds at present rates. The change in values that affects stocks will be immediate but temporary, while the changes in the value of bonds will be slow but permanent.

An illustration will fix these facts more clearly. Take a corporation with an income of \$100,000 a year, \$40,000 of which goes to pay the interest on a million dollars in bonds, while \$60,000 pays dividends on one million in stocks. Both bonds and stocks would be at par if the interest rate were 4 per cent and the average return on investments were 6 per cent. If a rise in the interest rate from

4 to 6 per cent occurs and a corresponding rise in the return on investments increases from 6 to 8 per cent the average profit of industry, the value of the bonds would fall to \$670,000 and that of the stock to \$750,000. This would be the initial loss. When the bonds are refunded on a 6 per cent basis, \$60,000 instead of \$40,000 a year must be paid as interest on the new bonds. This leaves the stockholders a net return of \$40,000 a year which on an 8 per cent basis would give their stock a value of \$500,000. The industrial loss of a 2 per cent rise in the rate of interest can be estimated as follows: bonds 20 per cent; farm values, 30 per cent; stocks, 40 per cent; city real estate, 50 per cent. To offset these losses are the gains from inventions and new industrial processes which, however, everyone must estimate for himself.

This does not fix the real loss America must suffer. It is not the treaty of peace that settles the burden of the war, but the financial adjustment following the crisis which the war creates. The French did not pay the indemnity at the close of the Franco-Prussian War. The ownership of the world's resources was settled by the crisis of 1873 with its destruction of values. The great losses were those of Germany and America and they were thus the real payers of the war expenses.

It should be remembered that at present America is getting nothing but paper credits for the enormous export of food and arms. Imports have fallen off and little gold is imported. The financial crash at the close of the war alone will determine the value of this paper. How much will the farmers gain from selling their wheat for an advance of fifty cents a bushel if at the close of the war their land falls 20 per cent in value? If two billion dollars' worth of securities are returned in exchange for food and war material while the crisis lowers all our stocks and bonds by 20 per cent, we have not only given the food and arms to Europe for nothing but have also paid a bonus. We figure out great profits today, but they are after all only paper promises. Tomorrow the reckoning will come and then the holders of securities will bear the burden. Happy will be the man who has kept gold in his own pocket and has let his confiding neighbor have the glittering gains the stock market offers.

THE PROBABLE CONDITION OF THE AMERICAN MONEY MARKET AFTER THE WAR IS OVER¹

BY JOSEPH FRENCH JOHNSON, D.C.S.,

School of Commerce, Accounts and Finance, New York University.

When I promised to prepare a talk on the probable condition of the money market after this great war is over, I was hoping that I might get some light on the subject by making an inquiry into the phenomena incident to the great conflicts of the last hundred years. I regret to say that I have been disappointed.

The historical method of study, so far as I have been able to apply it, does not yield either convincing or illuminating conclusions. The world of today is very different from the world in which the Napoleonic, the Civil and the Franco-Prussian wars were staged and the wars of later date did not call all Europe to arms as the present war has done. Comparison is, therefore, difficult.

Difficulty of Forecasting

The problem contains so many unknown factors that no scientific forecast is possible. We do not know, for instance, how long the war will last, or which side will be victorious, or whether heavy indemnities will be exacted, or whether at the end the nations of the earth will lessen or increase their outlays for the maintenance and equipment of navies and armies. Furthermore, we are uncertain as to the increase in the world's stock of gold, available for use as money during the next few years. All these matters, nevertheless, possess real significance in relation to our money market.

I shall assume that the war will be over in six months from date, and that its total cost measured in our money will be at least twenty billion dollars. In this estimate I include the extraordinary expenditures which several neutral nations, such as Italy, Switzerland and Holland, have been forced to make by what has seemed to them a most threatening emergency. I assume also that at least seventy-five per cent of this vast sum will have been raised

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by the sale of bonds and by a corresponding increase in the funded indebtedness of Japan and Europe.

Decrease in World's Savings

A Belgian statistician estimates that the people of the earth save about four billion dollars a year for investment purposes. The higher interest rate now paid for capital is doubtless tempting many people to economize and increase their savings; but any such increment will probably be more than offset by the world's lessened productive capacity. Not only are many millions of able-bodied men engaged in destroying property and life, but many other millions are out of employment in all countries because there is no market for the goods they produce. Hence we are forced to the conclusion that not only is the current addition to the world's supply of loanable investment capital inadequate to finance the present war, but that the current saving is less than normal.

Effect on Bond Prices

We must conclude, further, that the price which warring nations must pay for capital will continue to rise throughout the war; and it is even conceivable that, if the war should last another year instead of merely six months, the interest yield demanded might become so high and the prices of government bonds so low that investors would get exceedingly nervous about the prospects of repudiation, and decline to turn over their savings to some, if not to all, the nations at war. What might be the possible effect upon our market if the finish of the war were brought about as the result of such financial exhaustion is a question which I do not care to contemplate at present.

In any statistical inquiry to arrive at the influence which all expenditures have upon prices of bonds and the rate of interest, it is necessary to take into account the effect which is more or less constantly exerted by an appreciation or depreciation of the monetary standard. In a period of rising prices such as the world has experienced since 1897 the general tendency of bond prices, other things being equal, is toward lower levels; while in a period of falling prices, such as we passed through after the Civil War, bonds prove a more attractive investment and their prices rise.

British Consols and Previous Wars

The Napoleonic wars came to an end during a period of falling prices; and during the next five years, that is from 1815 to 1820, England was ransacking the earth for gold in order to place her monetary standard upon a firm basis. In 1815 British consols ranged in price from 61 to 72. In 1816 they were at a lower level, the range being 53 to 65. In 1817 and 1818 they sold above 80 and never below 60. In 1819 the highest price was 79 and the lowest 64. In 1820 they fluctuated between 65 and 70. These figures possess little significance for us, nor does the fact that their level is above the average of the quotations for the last ten years of the war, for a century ago corporation bonds were an almost negligible factor in the investment market; so that government bonds were not in competition with a large mass of other securities, as they are at the present time.

The year 1871 marks the end of a decade during which capital amounting to several billions of dollars was destroyed in wars in Europe and the United States. But it was also a period of gold appreciation, which, in its relation to security prices, tended to offset the destruction of capital in the war and to make for a strong bond market. As a matter of fact, consols were practically stationary for the five years ending with 1874, but lower than they had been in 1867. In the latter year they ranged from 89 to 96, whereas in 1874 the range was from 91 to 93. In 1875 they began to rise; after 1880 they were above par until 1889, when the interest rate was reduced from 3 per cent to 2.75 per cent.

In the decade ending with 1905 a large amount of capital was wasted in war. There was our own war with Spain, costing around a billion dollars. The Russo-Japanese war, lasting eighteen months in 1904 and 1905, is estimated to have cost Japan and Russia each over one billion dollars. It cost England about one billion dollars to subdue the Boer in South Africa in the first two years of this century. All told, it is probable that at least four billion dollars was wasted in war between 1898 and 1905. This was extraordinary expenditure over and above the sums which the nations were already expending in the maintenance of their armaments.

This was a period also of rising prices, as well as of heavy war expenditures, and the bond market, as most of us remember, was steadily weakening. It is not surprising, therefore, that

British consols declined from their high-water mark of 113 in 1898 to between 85 and 91 in 1904, or that their prices have since then been steadily declining.

I think we are justified in assuming that war has been largely responsible for the high investment rate of interest which capital has been able to command in all parts of the world during the last ten years, and it seems inevitable that the tremendous waste of capital now going on in Europe must soon force the rate of interest to such a height that costs of production in general will be increased and the prices of many of the necessaries of life be raised.

Our Home Demand for Capital

We must also take into account certain imperative capital needs in our own country. For instance, there are now in existence at least half a billion of railway securities maturing this year. If we include all the railways in the United States, Mexico and Canada, it is a conservative estimate that they must raise within the next five years at least 750 million dollars to take care of their obligations which will mature within that period; and 250 million more will be needed to take care of equipment trust obligations and provide for new capital expenditures. In other words, the railways in this country will need at least one billion of new capital during the next five years. How much will be needed for industrial corporations cannot, of course, be estimated, for their needs will depend upon market conditions which cannot now be foreseen.

It is evident that the real cost of the war cannot be estimated in money or measured by the sums of money which the nations in combat will expend. The war has blocked the wheels of industry in every country on the globe. It has turned back the hands of the clock of our material or industrial civilization. It is making us all poorer because it is making us produce less and at the same time pay more for the satisfaction of our wants.

Credit Inflation

If I knew that peace were in sight and that its terms might be ratified before the next snowfall, I believe I should be justified in predicting that the governments of Europe, in order to help their people recover from the effects of the war and regain their old

standing in the world's markets, would be as ingenious and daring in their use of credit as they have been during the last eight months in their schemes and devices for financing the war. We have seen England issue between two and three hundred million of what we could call greenbacks, a legal tender government currency redeemable in gold by a private institution, the Bank of England; furthermore, England has floated an enormous war loan, and that same bank has agreed to lend against this debt, sovereign for sovereign. Here we have the possibility of a currency and credit inflation that would promise a financial millenium to any of our most ardent advocates of fiat money.

In France we find the same remarkable extension of credit. The Bank of France has increased its note issues over 50 per cent, and cities and towns throughout France have put forth unrestricted issues of paper money. The business of the country, it seems, is done entirely upon credit; the government bank has increased its holdings of gold until they now equal nearly one billion dollars, but it is evidently the policy of the bank to hold the gold of the country as a reserve and to compel the transaction of business with credit instruments.

In Germany we find the same unprecedented use of credit. By the organization of loan banks throughout the empire with the coöperation and assistance of the government and the Reichsbank, the country has been flooded with a mass of paper currency, and every man possessing any kind of property has been able to get bank credit for the support and furtherance of his business or industry.

Never at any time in the world's history have the leading civilized nations of the earth resorted to any such remarkable financial expedients. We simply do not know what the outcome will be; but we do know that there is a chance that the credit of one of these great nations may be stretched to the breaking point, and we know that a collapse of credit in any one of these nations means its defeat in war.

Government Guaranty of Industrial Securities

It goes without saying that with the advent of peace every possible effort will be made by the people of Europe to vivify their abandoned industries and trade. Of the three factors necessary

to the production of wealth, land alone will be intact and undiminished. There will be a relative decrease in the supply of labor, but this decrease will not be so large or important as many people seem to imagine, thanks to the marvelous developments of modern surgery in the last quarter century. The really deficient factor will be capital. We may leave out of account the factories and workshops that have been destroyed, and assume that a bench or a machine is awaiting every soldier when he lays aside his uniform. Nevertheless industry and trade cannot be resumed on the old scale unless money can be got for the payment of wages and for the purchase of raw materials. I do not believe that this necessary supply of capital can quickly be obtained unless private industrial credit is reinforced by government or national credit. I am disposed, therefore, to predict that the end of the war will be followed by issues of industrial securities backed by the direct or indirect guarantee of a government. Just as our own government assisted in the construction of our Pacific railways, so I expect to see European governments, in the not far distant future, lending their aid to private enterprises.

Whence will come the money that will place Europe industrially and commercially again on her feet? There can be but one answer to this question, for there is only one country with resources and wealth great enough to be of real assistance—and that country is the United States. If Europe is to make quick recovery from the effects of the war, she must borrow capital. That capital will go to Europe not in the form of gold but in the form of foodstuffs and raw materials, and the bulk of them will go from the United States. This means, if I am right, that during the first years of peace our export of goods will be abnormally large, and that we shall sell goods mainly on credit. We shall take in payment not gold, but the guaranteed industrial securities of European nations. These securities will necessarily bear a high rate of interest, for otherwise they will make no appeal to the American investor.

Danger To The United States

If Europe does draw capital from us, what is to become of our own industries? Will our march of industrial progress be halted or can we, in some way that is without precedent, manage to convert bank credit into capital and continue the extension of our railroads

and the enlargement of our industrial plants? Here we are entirely in the realm of conjecture, for we have no idea what will be the temper or attitude of the American people or of the American banker. It is possible, however—nay, I think it even probable—that the close of the war will have a strong psychological effect. The burden of debt, anxiety and uncertainty, which now everywhere restrains enterprise, will be lifted. The business sky will be free from clouds. Once more the world will seem eager to take our surplus products at high prices, and we shall be in danger of overlooking the fact that our best customer, Europe, is buying with borrowed money. We may also overlook the fact that European purchases from us will be abnormally large for not more than two years after the end of the war, and that thereafter her people will practice the severest economies in order to get out of debt. This country will then be exposed to the same peril which destroyed its temporary prosperity in 1818 following the Napoleonic wars—namely, a flood of European imports for sale at ruinous prices. That, of course, would mean panic in the United States.

The New Banking System

I shall close with no such gloomy prospect in view. Fortunately, we now have a banking system upon which we can place some reliance. Its power to protect the business interests of the United States will certainly be tested within two years after the war is ended. Although it is not an ideal system, it is so much better than anything this country has had during the last seventy-five years that I believe we may look to it with confidence, trusting that its managers will keep business men fully warned as to the dangers that threaten them, and will be prompt and powerful in the application of measures of protection and relief.

If our federal reserve banking system had been in full operation at the beginning of last August, with power to mobilize our enormous gold reserve, there would then have been more than an even chance that New York City would have become the world's financial center, and that the American dollar would have elbowed the British sovereign out of its "place in the sun."

Finally, since it is so easy to make predictions when you don't know too much about a subject, let me call your attention to an

interesting possibility, if not probability. I have said that Europeans will come to us after capital. They will get it by the offer to us of new securities and by the resale to us of our own securities. Protests will go up from all quarters of the United States, and I shall not be surprised if societies are organized for the protection of the American dollar against foreign greed. But no tariff or tax barriers will prevent an efflux of capital if the foreigner only bids high enough. So it is quite possible that this war, besides imposing on us an abnormal rate of interest, will also work an unlooked-for miracle and transform the United States from a debtor nation into the world's commanding creditor nation. If this happens it will be an involuntary achievement on our part; and it certainly will not happen at all unless the American people have a change of heart and cultivate the favor and good will of the goddess of sane living, namely, economy.

THE SITUATION OF THE UNITED STATES AT THE
CLOSE OF THE WAR AS A QUESTION OF
NATIONAL DEFENSE

BY EDWARD S. MEAD, PH.D.,

Wharton School of Finance and Commerce, University of Pennsylvania.

The financial situation of the United States at the close and as a result of the European war can be forecasted with a fair degree of accuracy, and the result of the forecast can be regarded with a degree of satisfaction. Indeed it is difficult to understand the basis of the forebodings expressed in many quarters that the interests of the United States will be in any way injured in the process of world readjustment which must follow the conflict. The probable results of the war upon our principal competitors have been set forth in the various papers read at this and previous sessions with substantial unanimity of opinion. We know that European nations will be burdened with enormous debts, with resulting heavy taxation which must increase the overhead charges of industry. We know that the loss in their working population, and especially in their directing and executive population, has already been severe and continues to increase. We have no reason to expect that the war will settle anything except the endurance of the fighters, so that the crushing burdens of armament will continue to be borne.

We can reasonably expect, moreover, that the conflict, when it finally dies, will leave a legacy of hatred, of jealousy and suspicion, among the warring powers which will, for many years, interfere with the extension and cultivation of friendly commercial relations. That the United States is certain to profit from this situation is evident. While no fighter loves the neutral bystander, at any rate he does not hate him. The American manufacturer will have in future an easier time in competition with his foreign rivals in the markets of their enemies. No matter if the temporary war trade dies with the war, the connections formed can be turned to profitable account in advancing the interests of American export trade.

Apprehensions are expressed that American markets will be flooded with low priced European goods at the end of the war. European manufacturers, with their regular trade disorganized, will be forced to invade on a large scale the markets of the United States. It is not, however, contended that this situation will be permanent. The handicap of a high protective tariff still continues and it is not beyond the bounds of possibility that the handicap may be increased in the near future. Certainly a general European fire sale after the war will furnish a strong argument for at least a temporary advance in duties.

The same answer can be made to the argument that a flood of European laborers will, at the close of the war, endanger the American standard of living and lower American wages. Europe's machinery of protection is substantially untouched. This war, costly to human life, has not been characterized by wholesale devastation and destruction of property. Factories, mills, ships and railroads are intact. Outside of the foreign trade of Germany, industries are being still carried on on a reduced scale. When the war is ended, the millions of men, those that are alive and whole, will return to the places whence they came out. The demand for labor will remain, but the supply, by wounds, disease and death, will be much reduced. Why the European laborer should run away from the opportunity of higher wages and more assured employment here presented to try the doubtful hazards of the new world, even if his governments will let him run away, a most unlikely permission, has not been clearly explained.

So much for the immediate effects of the European war upon this country. We have not been seriously injured by war and the immediate results of peace will not, apparently, work to our disadvantage.

It is not the proximate, but the eventual, situation of the United States which should concern us.

This war is not likely to establish so great a preponderance of international advantage as to make future wars impossible. The machinery, the organization, the habits and instincts, the hatreds, jealousies and envies, the phrases and the songs of war will survive the conflict. Man is by nature, as one philosopher put it, a fighting and quarreling animal. He likes to fight. He likes to watch other men fight. His life, if successful, is a conflict with his competitors;

a conflict which President Wilson and his supporters are doing their best to make permanent by statute and commission. So it always has been, and so, at least in the time of our grandchildren, it is likely to be. Within the confines of each national state, he fights according to rules which keep the struggle within certain decent bounds. But beyond the international boundary line, law ceases. Nations make their rules as they go along. When national advantage indicates the time for war, war is declared without warning, on any pretext, and war is waged without any regard to any rule except the rule of expediency in the light of military advantage.

Observe the present conflict. When we objectify the war, look at it, if we can, unbiased by our own inherited prejudices, and unbiased also by the unconscious though powerful motives of trade advantage, both proximate and remote, which incline us to the allies, can there be any question of who is right, can there be any doubt that the blame is shared by every one of the combatants? Each one entered the war for selfish reasons of national advantage, although publicly, especially when invoking divine blessings upon the respective armies, they claim for themselves the loftiest motives of patriotism; or even beyond these, they assert that the organized and wholesale murdering in which they are engaged is inspired by the pure passion of international brotherhood and sympathy for oppressed peoples. Where is international law? In the face of broken pledges and torn scraps of paper, in the face of the slaughter of civilians, the shelling of unfortified towns, the attempted starvation of great nations, the forced levies upon captured cities, the sinking of neutral vessels; what has become of the laws of war? They do not exist except in times of peace.

And what assurance has the United States that we shall be able, because of the friendliness which the cosmopolitan character of our population disposes us to show to all nations, to keep out of future conflicts? Inevitably the tendencies of our foreign trade, the pressure of capital for investment in the profitable fields of exploitation of Asia, the West Indies, South America, are drawing us into the international field. We have asserted and are prepared to maintain a suzerainty over the countries to the south of us. At present we do not feel sufficient responsibility to make the Mexicans or any other Latin American nation, except Cuba, keep the peace. We allow them to settle their own difficulties in their own way, but

even the most pacific administration in American history would not tolerate meddling in Mexican affairs by European powers.

Of course this policy of responsibility without duty cannot be continued. The commercial, and to a large extent, the financial interests of the United States, are bound up with the orderly development of the countries to the south of us. These territories form, with the United States, an economic unit entirely self sufficient. These Latin American countries have enormous natural resources. They offer an almost untouched field for industrial and commercial exploitation. They are the natural field for American energy and enterprise. It is unreasonable to expect that the policy immortalized by the late Wilkins Micawber will be continued by future administrations; that United States' lives and property will be left unprotected while Mexican mob armies, in the sacred name of liberty, fight each other to determine what set of plunderers shall control the offices and the graft.

For the present, it is true, the tendency is to deny to the investor the right to large profits in the development of his own country, and when he goes into foreign lands with his money, to deny him protection because he did not remain at home. This tendency, however, it is fair to presume, will be changed at an early date.

A vigorous, sustained, consistent foreign policy, carried on without reference to party politics, or the fortunes of statesmen, but with exclusive reference to perceived national advantage is necessary for the future development of the United States. It is necessary to keep the trade we now have, to get more trade, to safeguard our large investments in certain foreign countries, and to make new investments. All this means a vigorous foreign policy.

A vigorous foreign policy will naturally bring us into conflict with the interests of foreign nations. Even more urgent will be their pressing into the foreign trade. Already their trade interests in Asia and Latin America are enormous and these interests will continue to grow. It is altogether likely that our interests, in these undeveloped regions, will clash with theirs. And when the clash comes, if we are found unprepared; if any of our European or Asiatic friends of whom we never speak publicly, save in terms of lofty and affectionate compliment, think that they can wrest from us with impunity any of our possessions, we may be certain, if the gain is

greater than the hazard, that they will make the attempt. The only thing that will restrain them is the size of the hazard, represented by the army and navy of the United States.

And so we come to the conclusion that the financial destiny of the United States, so far as it relates to the foreign trade, is bound up with the question of national defense. No one ever attacks in war. Japan did not attack Russia in 1904. The South did not attack the North during the Civil War. Germany did not attack Belgium and France. Attacking is bad form. The thing to do is to defend, always remembering the military maxim that the best defense is a strong, sudden, unforeseen attack. So we will assume that the United States would never attack anyone, no matter what the provocation, no matter how vital the interests involved. We should, however, defend ourselves if attacked, and at present we are by no means prepared even to protect our shores from invasion, much less to carry the war to our foes.

It is time that the American people—the richest, and at the same time, the most excitable and sensitive people in the world—should realize that they are living in a world of force and should make their preparations accordingly; that they should draw from the Scriptures not merely the mild doctrines of peace, non-resistance and submission to wrong, but should remember that the same Scriptures contain the warning, peculiarly applicable to the United States at the present time, "When a strong man armed keepeth his palace, his goods are in peace, but when a stronger than he shall come upon him, he taketh from him his armour in which he trusted, and divideth the spoil."

THE EFFECT OF THE EUROPEAN WAR ON AMERICAN BUSINESS

BY A. B. LEACH,

President, Investment Bankers Association, New York City.

The question uppermost in the minds, not only of the bankers but of the business people of this country today is, just how will the European war effect American finance, American business. The subject is so broad and there are so many elements still undetermined that any opinion must be given with great reserve. My thought is that the points best settled today are:

First. For a long term of years Americans will not be able to finance new improvements or developments in the railway or commercial world through funds obtained from Europe. We must finance ourselves.

Second. As affairs become more stable, the rate of investments, at least upon government obligations in Europe, will so nearly approach the investments held from this country, that there will be a continuing return of bonds and stocks now held in Europe. This will result in a partial extinction of the indebtedness of our industries to Europe.

Third. During the continuance of the war and probably for a year or two afterward, all of the countries who have been at war will be practically upon a paper basis. Gold will be principally used for exchange between countries, and as long as this continues, money should remain cheap for short terms and the real pinch will not come until an effort is made to get back to a gold basis.

Fourth. In spite of the best credit facilities, after the war it will be extremely difficult for the European countries to finance their oversea trade for long periods and on such liberal terms as they have done in the past. This should enable American merchants and manufacturers to obtain a very much better hold upon the South American and Far Eastern business. At the close of the war and the return of the men now in the armies, a very large output of manufacturing products will be pushed forward with almost unheard of haste because of the needs of these various

countries to supply goods for export, and I believe that our American manufacturers must face a very strong competition.

Fifth. Out of these different currents of business and trade brought on by the war, I believe that America is practically the only country in this world that will be benefited and I believe that we will be very substantially benefited. We are not equipped perhaps today to assume the first position in business, in trade world-wide, but backed by the enormous home consumption and home trade, I believe that the future for this country is brighter today than it has ever been.

THE MEANING OF NEUTRALITY

JOHN BASSETT MOORE,¹

Professor of International Law, Columbia University.

The subject of American neutrality and the European war is one intimately and vitally connected with the history and policy of the United States. One hundred and twenty-two years ago, or less than five years after the federal constitution was established, the government of the United States was required to make a momentous decision. The wars growing out of the French Revolution were well under way and the circle of conflict had just been rounded out by the entrance of the power which then held and has since continued to hold the world's naval supremacy.

Those who speak in awe-struck whispers of the problems, grave though they be, that confront us today, perhaps are not always acquainted with the appalling uncertainties and awful responsibilities that rested upon the statesmen of an earlier day, who furnished us with the chart and compass by which we have since sailed. Regarding Europe as having a set of primary interests in which the United States, with its geographical and political detachment, had no direct concern, the administration of Washington announced to the world that the United States would pursue a neutral course. The history of American diplomacy during the twenty-two years that followed, down to the close of the Napoleonic wars, is chiefly concerned with the efforts of the United States to perform the duties and maintain the rights appertaining to it as an independent and neutral nation. This period of storm and stress has well been denominated the struggle for neutrality, and in it were formulated the fundamental principles on which the modern system of neutrality is based. In the task of formulation, the chief part was borne by Thomas Jefferson, whose philosophic discernment, keen intelligence, and extended learning enabled him to give to his work a peculiar logical and original character. What we call neutrality

¹ Remarks as presiding officer at the third session of the Nineteenth Annual Meeting of the American Academy of Political and Social Science, held in Philadelphia on April 30 and May 1, 1915.

is a system of conduct regulated, not by the emotions nor by individual conceptions of propriety, but by certain well defined rules, and it is synonymous with impartiality only in the sense that those rules are to be enforced with impartial rigor upon all belligerents.

It is proper to advert to the fact that, during the war that is now going on in Europe, various neutral nations have issued embargoes under which the exportation of various articles is forbidden. These are commonly interpreted, I think erroneously, as "neutrality proclamations." In reality they are essentially regulations of a domestic nature, employed for the purpose of preserving a proper supply of articles, including even arms and munitions of war, in the countries concerned.

THE NEUTRALITY RULES ADOPTED BY BRAZIL

BY HIS EXCELLENCY, THE BRAZILIAN AMBASSADOR,
SENHOR DOM DOMICIO DA GAMA.

I crave your indulgence for a brief presentation of the rules adopted to define, secure and maintain the neutrality of Brazil in the present European war. I will not undertake a detailed discussion of them; I only desire to call your attention to them as a contribution towards the maintenance of friendly relations between belligerents and a country not involved in the war. The observance of these rules, which was announced at the beginning of the war, seems to have been approved by the belligerents, and particularly by one of them, which has gone so far as to propose that they be taken as an example elsewhere. But the fact that the rules wisely adopted by Brazil in matters of neutrality could not be followed by others is another proof that international problems have to be treated according to internal conditions, and their solution subordinated to national conveniences. "For geographical reasons" was a rather elegant phrase lately used in the declination of official invitations to coöperate in defensive actions of government. This is a new proof of the fact that, in some cases and particularly in those involving responsibility, governments may feel safer in acting alone than in finding themselves in good company.

I am prepared to admit that reflections such as these may serve to cool the generous enthusiasm of the honest preachers of international solidarity; nor should I wish to appear to be sarcastic as I credit philanthropy with taking the initiative in the improvement of international relations. And I also recognize that optimism is at the basis of every constructive work, and should be an altogether good thing. But we must also know that virtue among nations has not reached such a pitch as to justify the belief in an international society of nations, ruled by the same restraining, virtuous, moral principles that preside over the relations of individuals living in society. We are well acquainted with lessons of history which not only sadden our hearts and darken our minds with the tragedies of ambition, both in individuals and in nations, but which

also teach us that optimism, especially in the sense of undue self-confidence, may hurry us on to grave catastrophes. We are all thinking of the present war—this war, that none of us would like to be responsible for; this, to the cool-minded man, suicidal war, was rendered possible by optimism in that sense. Some good people, honestly believing that they had grievances to redress, felt that all they had to do was to start and strike at those who stood in the way, and that they would get their due for being brave and strong and having confidence in themselves. And they went out and struck and have been striking ever since, but cannot yet say when the fighting will cease, because there are others in the way, equally brave and strong and self-confident. The lesson of this tragic mistake cannot destroy the hope that is immortal in the heart of men, hope for better times when peace will rule the world; but it may warn us against the dangers of miscalculation through optimism and, if some good may arise from so much evil, it will come through fear—which in many respects is the beginning of wisdom—fear that we are not safe, that we are not sufficiently protected by our overestimated and over-trusted civilization.

Rules of neutrality appear as a consequence of the salutary fear of entanglements and complications with other peoples' troubles. These rules are rather precarious, being based on precedents or, more exactly, upon the respect of the belligerents, a respect that may naturally diminish as it comes to conflict with the needs of war. When the rules are violated, protests are promptly made, explanations and excuses follow, for the sake of international good feeling; and the history of violations of neutrality is augmented by another page on which is specially recorded yet another incident connected with the solving by arms of the conflicts between nations.

For this, among other reasons, neutrality suffers a certain disparagement in the minds of plain people, not to say of belligerents. Nor are we neutrals credited with absolute impartiality before the struggle, and, although "the state of neutrality avoids all consideration of the merits of the contest," it cannot go so far as to sincerely "recognize the cause of both parties to the contest as just," unless a man has arrived at that degree of cynicism in which all human ambitions and strifes appear as mere foolishness. From the average man, even from professors of international law, hardly can we

expect such unearthly detachment as to preclude sympathy in the decisions of absolute justice.

There is nothing to prevent us as individuals from making a choice. We are free to have preferences, to take sides, if only morally, in a contest of such magnitude and far-reaching consequences. This is our personal right and almost bounden duty. Where political reasons intervene it is in not showing our preferences, in expressing opinions and sentiments that might carry a moral weight in favor of one of the contending parties; and such a reservedness, amounting to more than usual discretion and propriety in social relations, is not obtainable without much care and a real effort on the part of the governments.

Now, there seems to be no real reciprocity on the part of the belligerents for such a consideration from the neutral. Enemies are sometimes shown courtesies that are omitted with friends that are neutral, and this is perhaps because they are neutral, that is to say, friendly to the other party also. If it is true that the friends of our friends are not always our friends, the friends of our enemies may easily be found to be our enemies; or, at least they cannot be of the best we may have in matter of friends. Oh! it is a poor friendship,—the one which simply reads as the contrary of enmity. It goes by degrees and has restrictions and wears out at the first and lightest friction, as a label of no consequence upon a bottle of doubtful wine.

This is what we imagine belligerents feel about neutrality, if they do not really express themselves so clearly about it. And the mortification of being under suspicion is thus added to the worries and cares of the neutrals in their dealing with the special situation created by an international war; a situation which should prevent nations from armed conflicts, if the memory of past sufferings could appear as vivid in our mind at the critical moment; which at all events could be considerably improved if the interests of the neutrals were properly taken into consideration and their rights clearly defined and respected by belligerents. A movement in this sense was initiated last year by the governments represented at the Pan American Union. A committee of study was appointed, which has been working steadily and has already nearly completed its report, and the nations of our continent, taken by surprise and finding it difficult to legislate in time of war without affecting positions ac-

quired and advantages gained by one or other of the belligerents, prepare themselves to codify the rules of neutrality that may be adopted in common and will in future conflicts serve the interests of peace without interfering with the contest. I am not authorized to speak about this preliminary work, which has still to be submitted to the consideration of our governments, unless it is to say that it was conducted upon the most liberal principles. The Brazilian rules of neutrality given in full in the footnote¹ were among the elements that were considered by the sub-committee in charge of this codification. And from them, because so much has been said about the exportation of arms and ammunitions of war to belligerents, I select two articles which read:

ART. 4th. The exportation of arms and ammunitions of war from Brazil to any port of the belligerent nations under the Brazilian flag, or that of any other nation, is absolutely forbidden.

ART. 5th. The states of the Union and their agents are not permitted to export or to participate in exporting any kind of war material for any of the belligerents, severally or collectively.

These rules are not new. The first of them was promulgated by the Minister of Foreign Affairs of Brazil on April 29, 1896, on the occasion of the war between the United States and Spain. The second is an extension of the first, and affirms the authority of the federal government on an international matter.

Lately a circular dispatch dated February 22 of this year was sent by the Minister of Foreign Affairs to the Brazilian Embassies and Legations, saying that:

According to our law, that follows in this the principles of commercial law common to all civilized nations, the commercial associations established and operating in the country and registered in the Brazilian boards of trade are considered as Brazilian irrespective of the nationality of their individual members. Although this may bring as a consequence a difference between the juridic personality of these societies and that of their members, the Brazilian government will not give its support to the claims made by commercial societies composed of foreign members, against acts of any of the belligerent nations, until and when, having duly examined the facts and carefully considered the circumstances, it will be convinced, not only that the claim is absolutely well founded, but also that it is free from any political objects. It is the aim of the government of Brazil to see by this decision that a juridic principle true and useful in time of peace, may not be diverted from its moral purposes of tutelage and organization so as to cover acts not consistent with the neutrality that Brazil has so rigorously maintained. (Signed) Lauro Müller.

¹ For General Rules of Neutrality see following pages.

Everything points to the practical wisdom of these rules. They have proved satisfactory so far, but I am not aware of their being put to a test. It was not so long ago when the papers reported that reply of the commander of a British squadron to the captain of the enemy warship, who claimed the right of asylum in neutral waters: "I have to sink you first: diplomacy will settle the matter afterwards." Brazilian diplomacy has not been settling questions of violation of neutrality in our territorial waters.

GENERAL RULES OF NEUTRALITY

ART. 1st—National and foreign residents in the United States of Brazil must abstain from any participation in aid of the belligerents or any act that may be deemed hostile to one of the nations at war.

ART. 2nd—The belligerents are not allowed to promote in Brazil the enlistment of their nationals, or of Brazilian citizens, or of subjects of other nations, for service in their forces on land or sea.

ART. 3rd—The government of Brazil does not consent that privateers be armed and equipped in the ports of the Republic.

ART. 4th—The exportation of arms and ammunitions of war from Brazil to any port of the belligerent nations, under the Brazilian flag, or that of any other nation, is absolutely forbidden.

ART. 5th—The states of the Union and their agents are not permitted to export or to participate in exporting any kind of war material for any of the belligerents, severally or collectively.

ART. 6th—A belligerent is not permitted to have a naval base of operations against the enemy at any point in the littoral of Brazil or its territorial waters, not to have in said waters wireless telegraph stations to communicate with belligerent forces in the theatre of the war.

ART. 7th—In case the military operations or the sea-ports of any of the belligerents are situated at less than twelve days from the United States of Brazil, reckoning travel at twenty-three miles an hour, no warship of the other belligerent or belligerents will be allowed to stay in Brazilian ports, harbors or roadsteads longer than twenty-four hours, except in case of ships putting in on account of urgent need.

The case of urgent need justifies the staying of the warship or privateer at the port longer than twenty-four hours;

1. If the repairs needed to render the ship seaworthy cannot be made within that time;

2. In case of serious danger on account of stress of weather;

3. When threatened by some enemy craft cruising off the port of refuge.

These three circumstances will be taken into consideration by the government in granting a delay for the refugee ship.

ART. 8th—If the distance from the Brazilian port, harbor or roadstead of refuge to the next point of the littoral of the enemy is greater than twelve days'

sail, the duration of the stay of the refugee ship or ships of war in the Brazilian waters will be left to the determination of the government, acting according to circumstances.

ART. 9th—Regardless of the distance between the Brazilian ports and the principal field of military operations or between the Brazilian ports and those of one of the belligerent countries, privateers will not be allowed to stay in ports, harbors or territorial waters of Brazil longer than twenty-four hours, except in the three cases mentioned in Art. 7th.

ART. 10th—The rules established by Articles Nos. 7 and 8 for the limitation of the stay of ships in the ports, harbors and territorial waters of Brazil do not apply to ships of war occupied in scientific, religious or philanthropic missions, nor to hospital ships.

ART. 11th—Any act of war, including capture and the exercise of the right of visit, by a belligerent warship in territorial waters of Brazil constitutes a violation of the neutrality and offends the sovereignty of the Republic.

Besides due reparation, the government of the Republic will demand the release by the belligerent government or governments of the vessels captured, with their officers and crew, if such captured vessels are already beyond the jurisdictional water of Brazil and immediate repression of the abuse committed.

ART. 12th—Once war is declared, the federal government will prevent, by all means, the fitting out, equipping and arming of any vessel that may be suspected of intending to go privateering or otherwise engaging in hostilities against one of the belligerents. The government will be equally careful in preventing the sailing from the Brazilian territory of any vessel there adapted to be used as a warship in hostile operations.

ART. 13th—The belligerent warships are allowed to repair their damages in the ports and harbors of Brazil only to the extent of rendering them seaworthy, without in any wise augmenting their military power.

The Brazilian naval authorities will ascertain the nature and extent of the proper repairs, which shall be made as promptly as possible.

ART. 14th—The aforesaid ships may take supplies in Brazilian ports and harbors:

1. To make up their usual stock of food supplies as in time of peace;
2. To take fuel enough to reach their next home port or complete the filling of their coal-bunkers proper.

ART. 15th—The belligerent warships that take fuel in a Brazilian port will not be allowed to renew their supplies in the same or other Brazilian port before three months have elapsed since their next-previous supply.

ART. 16th—Belligerent ships are not allowed to increase their armament, military equipment or crews in the ports, harbors or territorial waters of Brazil. They may claim the services of the national pilots.

ART. 17th—The neutrality of Brazil is not affected by the mere passage through its territorial waters of belligerent warships and their prizes.

ART. 18th—If warships of two belligerents happen to be together in a Brazilian port or harbor, an interval of twenty-four hours shall elapse between the sailing of one of them and the sailing of her enemy, if both are steamers. If the first to sail is a sailing vessel and the next being an enemy is a steamer, three days' ad-

vance will be given to the first belligerent ship. Their time of sailing will be counted from their respective arrivals, exceptions being made for the cases in which a prolongation of stay may be granted. A belligerent ship of war cannot leave a Brazilian port before the departure of a merchant ship under an enemy flag, but must respect the aforesaid provisions concerning the intervals of departure between steamers and sailing vessels.

ART. 19th—If a belligerent warship having received due notice from the competent local authority does not leave the Brazilian port where her stay would be unlawful, the federal government will take the necessary measures to prevent her sailing during the war.

(a) The officer in command of a ship of war flying the flag of a nation having ratified the 13th convention of The Hague, October 17, 1907, or having adhered to it afterwards, is under obligation to facilitate the execution of those measures.

(b) If a commandant of a belligerent ship refuses to comply with the notice received, for some reason nonapplicable, or for lack of adhesion to that and other clauses of said convention of The Hague, the federal government will command the naval and military authorities of the Republic to use force to prevent the violation of Brazilian neutrality.

(c) A belligerent ship being detained in Brazil, her officers and crew shall be detained with her.

(d) The officers and men thus detained may have their quarters in another ship or in some place ashore, to be under the restrictive measures that are advisable, keeping aboard the warship the men necessary to her upkeep. The officers may have their freedom, under written pledge, on their word of honor, not to leave the place assigned to them in Brazilian territory without authorization from the minister of the navy.

ART. 20th—The captures made by a belligerent may only be brought to a Brazilian port in case of unseaworthiness, stress of weather, lack of fuel or food provisions, and also under the conditions provided hereinbelow in Article 21st.

The prize must depart as soon as the cause or causes of her arrival cease. Failing that departure, the Brazilian authority will notify the commander of the prize to leave at once, and, if not obeyed, will take the necessary measures to have the prize released with her officers and crew, and to intern the prize-crew placed on board by the captor.

Any prize entering a Brazilian port or harbor, except under the aforesaid four conditions, will be likewise released.

ART. 21st—Prizes may be admitted that are brought, under convoy or not, to a Brazilian port, to be placed under custody pending the decision of the competent prize-court. The prize may be sent by the local authority to some other Brazilian port. If she is convoyed by a warship, the officers and prize-crew put aboard by the captor may return to the warship. If she sails alone, the prize-crew put aboard by the captor is left at liberty.

ART. 22nd—Belligerent warships that are chased by the enemy, and, avoiding attack, seek refuge in a Brazilian port, will be detained there and disarmed. But they will be allowed to go if their officers in command take the pledge of not engaging themselves in war operations.

ART. 23rd—No prize will be sold in Brazil before the validity of her capture

is recognized by the competent court in the country of the captor. Nor is the captor allowed to dispose in Brazil of the goods in his possession as a result of the capture.

ART. 24th—From the officers in command of naval forces or warships calling at Brazilian ports for repairs, or supplies, a written declaration will be required that they will not capture merchant ships under their adversary's flag, even outside territorial waters of Brazil, if met between 30 degrees Long. W. Greenwich, the parallel of 4 degrees, 30 minutes N. and that of 30 degrees S., when these merchant ships have taken cargo in Brazilian ports or are bringing cargo to the same.

ART. 25th—Belligerents cannot receive in Brazilian ports goods sent directly to them in ships of any nation, since this would mean that the warships did not put in in a case of urgent need, but intended to cruise in these waters. To tolerate such an abuse would amount to allowing Brazilian ports to be used as a base of military operations.

ART. 26th—Belligerent warships admitted into the ports and harbors of Brazil shall remain in the places to them assigned by the local authorities, perfectly quiet and in peace with the other ships, even with the warships of other belligerents.

ART. 27th—The Brazilian military, naval, fiscal and police authorities will exercise the greatest care to prevent the violation of the aforesaid measures in the territorial waters of the Republic.

Department of State for Foreign Relations, Rio de Janeiro, August 4th, 1914.

FREDERICO AFFONSO DE CARVALHO.

DECREE No. 11,141 OF SEPTEMBER 9th, 1914, COMPLETING THE RULES OF NEUTRALITY APPROVED BY DECREE No. 11,037 OF AUGUST 4th, ABROGATES THE LAST PART OF THE 22ND ARTICLE OF THE SAME DECREE

The President of the Republic of the United States of Brazil

Resolves to incorporate into the Decree No. 11,037 of the 4th of August ultimo the following rules:

ART. 1st—No merchant ship will be allowed to sail from a Brazilian port without a previous declaration from the consular agent of her nation, stating the ports of call and destination of said ship, with an assurance that she is employed only on commercial business.

ART. 2nd—In case it will be known, by the length of her voyage or the route of her sailing, that a ship sailing from a Brazilian port went to other ports than those declared in her statement, and she returns to Brazil, she will be detained by the Brazilian naval authorities to be considered as belonging to the fleet of war of her nation and as such submitted to the dispositions of Article 19th of the Decree No. 11,037 of August 4, 1914.

ART. 3rd—Abrogates the last clause of Article 22nd of the rules approved by Decree No. 11,037 of the 4th of August, 1914.

Rio de Janeiro, September 9th, 1914.

HERMES DA FONSECA.

LAURO MÜLLER.

NEUTRAL RIGHTS AND OBLIGATIONS OF AMERICAN REPUBLICS

BY PAUL FULLER,

New York City.

The fortunate isolation of our hemisphere from the turmoils and political rivalries of the eastern world has, with a few notable exceptions, hitherto made our neutral obligations easy and our neutral rights safe.

The present war, with its new methods, its novel and destructive enginery, its wide scope, has brought forward with some sharpness the limits of our obligations and the need for defining our rights.

Materials hitherto innocent, and now adapted to warfare, to the manufacture of explosives and asphyxiating gases, to the construction of aeroplanes, have made unexpected additions to contraband; the scale and magnitude of warlike operations have made endurance the vital, rather than an incidental, element in the ultimate outcome, and have brought foodstuffs into the forbidden circle; the aircraft threatens the humane limitation that hitherto kept undefended towns and their non-combatant population safe from bombardment; the submarine, with the floating mine, while subverting the character of blockade and demonstrating the inadequacy of its prior limitations, makes restricted navigability the plea to justify the disregard of neutral flags and of non-combatants, and threatens to convert the restricted right of search and seizure into a right of destruction without warning. The predominance of sea power is met by the converted cruiser roaming the western and eastern oceans in search of unarmed and peaceful ships of commerce, recalling and surpassing the palmiest days of the universally discarded and rejected privateer.

The time is opportune to define and to emphasize the protection due to neutral interests, and it behooves all neutrals to unite in every effort to minimize the dangers and the injuries arising from these changes in modern warfare.

I should be sorry, in pleading for the rights of neutrals, to show

any lack of sympathy with the stress and strain that war brings upon belligerents, or to minimize those perils and that anguish of war which justify offensive and defensive measures, of necessity involving considerable interference with the normal commerce of neutral countries. This recognition, however, must be reconciled with the proper consideration for the industrial and commercial life of those who have no part in the unfortunate conflict, and are not to be held responsible for its inception. And there should be no especial difficulty in establishing rules for the protection of our western hemisphere, hitherto considered so safely distant from the dangers of European wars. The great concern of belligerents, even among many of those of today, has been, as it always should be, to circumscribe the area of any unavoidable conflict. In this design, which has so lamentably failed on the present occasion, belligerents would be greatly aided to their own relief, as well as to the benefit of the world, by the joint coöperation of all neutrals.

It is a satisfaction, in discussing this question before the American Academy of Political and Social Science, to recall the initiative taken by our South American brethren on the same subject at the session of the Pan-American Union in December last (1914). On that occasion the distinguished representative of the Argentine Republic moved the formation of a committee of nine members, which should study the new problems of international law arising from the present war, and submit such suggestions as should seem to be for the common interest. It was noted that the new problems arising were of interest to the whole civilized world; that the methods of warfare now in vogue were such as to threaten grave injury to neutrals; and that a precise definition of those rights, in view of the new contingencies, was urgently called for; to the end that the freedom of commerce should not be infringed upon beyond the limit absolutely requisite for the military operations of the belligerents. The committee was formed, with our own secretary of state as chairman, and the ambassadors of Brazil, Chili and Argentina, and the ministers of Uruguay, Peru, Honduras, Ecuador and Cuba, as members. No more timely a task could be undertaken, I venture to say, under the lead of this Academy than to awaken the widest interest in the propositions there made, and in the forthcoming work of the committee there appointed. It is an opportunity, moreover, in seconding the initiative of our southern

brethren, to thus give them a formal assurance of the coöperation which they may always expect from us in any movement which may testify to our solidarity in all that can help towards good government and towards just and equitable international relations; and at the same time to forward the immediate purpose of defining clearly the limitation of the privileges accorded to belligerents and framing an equally clear definition of the rights of neutrals in war times. We cannot do better than to join hands with our sister republics to the south in helping to establish these new rules, and with them, broader privileges for the neutrality of this hemisphere.

It is not inappropriate to meet the new creation of war zones with the creation of corresponding and more beneficent peace zones.

In 1820 it was one of the hopes of Jefferson that some day there might be established "a meridian of partition through the ocean which separates the two hemispheres, on the hither side of which no European gun shall ever be heard." While so large a hope may still be of distant realization, the suggestion is pertinent and timely today. With the advent of guns carrying their dreadful missiles a distance of twenty miles, the reason for the three-mile limit of olden times has vanished, and the limit itself should be enlarged to meet the new possibilities of the ordnance of today. The large increase of coasting trade, moreover, calls for a much extended and thoroughly safe zone around the two Americas, beyond which no belligerent should venture without incurring the peril of internment; not otherwise can even our distant shores carry on their commerce with absolute freedom.

The liberty of coaling in neutral zones, so liberally accorded to belligerents, defeats its own purpose when the coaling of European vessels is done on the South Pacific. The injunction that sufficient coal may be furnished to a belligerent vessel to enable her to reach her nearest home port, never had in view the possibility of war-vessels from the ports of Europe marauding in the Indian Seas or the Pacific Ocean. The result of this unlooked for activity has been that belligerent vessels have coaled in the ports of South America, obtaining a sufficient provision to bring them to their nearest home port, and, instead of accepting the corollary of such liberal provision and proceeding to their home ports, have utilized as war material the provision of coal so furnished and have continued their belligerent cruising in close vicinity to American shores.

I indicate this simply as one of the points with reference to which the rights of neutrals on our hemisphere require a new and a more protecting definition.

The invitation by the South American republics to take up the study of such a question in a joint conference is a welcome and a not unexpected addition to the friendly service extended to us by the Argentine Republic, Brazil and Chili, in the offer of their mediation to put an end to controversies arising from the unfortunate events in our sister republic of Mexico. And as we welcomed that friendly and pacific suggestion, so it seems to me it would be appropriate that we should act in concert with South America upon this broader and equally beneficent proposal. The proposal is itself comforting as a manifest assurance that the men entrusted with the political destinies of these sister republics do not share in the doubts, too often and, perhaps I may add, too vehemently expressed by publicists upon whose shoulders do not rest the present burden of government. Only such distrust could stand in the way of profitable coöperation between North and South America at this stage. This distrust, I am confident, is not universal, and I am still more confident is quite unfounded. Our coöperation today must tend to dissipate it and correct any misconceptions of our attitude towards our sister republics.

The basis of this distrust is largely a misinterpretation—not to say a distortion—of the policy adopted by this country nearly a century since, and which has become to many a household word—to others a by-word—under the title of the “Monroe Doctrine.” This misinterpretation has not been confined to our South American brothers. A large share of it was born on our own soil, and many Americans have been anxious to avoid joint political action, while the South Americans have dreaded it, as the insidious approach to a control inconsistent with the respect due to independent nationalities.

“Yankee imperialism” is the term applied to the American policy by Mr. Perez Triana, while admitting that from the time of the declaration of President Monroe “Europe has acquired no colonies in America because the United States has prevented it,” and admitting the danger of the present war to be that “no matter which group may win, victorious militarism will impose itself for a long time upon the official policies of the nations”; and conceding

the fact that if European conquerors have not invaded America in the past, and will not in the future, this may be attributed entirely to "the potential power of the United States."

Yet, as early as October, 1808, Jefferson voiced the feeling of this country when he wrote to Governor Claiborne—"We consider the interests of Cuba, Mexico and ours as the same, and that the object of both must be to exclude all European influences from this hemisphere." How truly that represented the feeling of the American people may be attested by what happened to Cuba nearly a century later, and although at no time during that century were we blind to the strategic importance of that island for the protection of the United States against the European influences from which the South American continent has been so long protected, the distinguished Argentine statesman, Senor Saenz-Pena, gives utterance to the same distrust, and both of these gentlemen emphasize the fact that the policy enunciated in Monroe's message was one of self-interest and self-protection for the United States. This need not be questioned, but it remains none the less true that only by securing our own protection could we obtain or retain the power to extend equal protection towards our new-born brethren. Nor can it obscure the fact that, in adopting such a policy, our own interests were happily at one with the higher and nobler cause of political freedom.

The distinguished Peruvian, Garcia Calderon, in a profound study of the Latin democracies, while acknowledging that all the efforts of the new republics could not have prevailed against the aspirations of Europe to establish their supremacy over them, unless the Monroe Doctrine had stood in the way of such conquests and extended its tutelage as a protection; while admitting that the United States had upheld the independence of feeble states, proclaimed the autonomy of the continent, and contributed to conserve the nationalities of Southern America by forbidding the formation of colonies, and defending the republics against reactionary Europe; that South America cannot dispense with the influence and the exuberant wealth of the Anglo-Saxon North—who, he generously concedes, has created an admirable democracy, reconciled equality with liberty, given to all her citizens fair play and equal opportunities, liberated Cuba, and transformed an exhausted island into a prosperous country, installed schools which furnish adequate educa-

tion to the "impressionable and nervous race"—yet insists that the aim was to make a trust of the South American republics; and that to save themselves from "Yankee imperialism," the American democracies would almost accept a German alliance or the aid of Japanese arms; that our patriotism has been transformed into imperialism, and our policy passed from defense—through intervention—to offense, and that the autonomy procured for Cuba at such sacrifice of blood and treasure may well be a treacherous gift—like to the Trojan horse!

Yet, Mr. Calderon, in pleading for a thorough South American union, is forced to concede that the United States have used all their influence to bring it about in the case of the Central American republics.

What can we do to allay these suspicions of our southern brethren?

Surely, to unite with them in pressing for a proper definition of neutral rights on this hemisphere, and a proper limitation of neutral obligations, must have some weight in convincing the doubtful.

Calderon himself admits that contact with Anglo-Saxon civilization may partially renew the South American spirit without infringing upon its originality, or its traditions, or its ideals.

In 1869 William H. Seward wrote:

All that remains now necessary is the establishment of an entire tolerance between the North American states and the South American republics, and the creation of a mutual moral alliance—to the end that all external aggression may be prevented, and that internal peace, law and order, and progress may be secured throughout the whole continent.

Some form of coöperation is essential to the carrying out of a program so beneficial to both North and South America; not necessarily an alliance, but surely an understanding, or, to use the French phrase, an "entente."

We have—not unwillingly—tendered our offices to stand between Latin-American republics and forcible seizure by European powers. Let us now show that these were amicably extended, as from one independent sovereignty to another, by today acting in unison with these same independent sovereignties upon an international subject that concerns us all equally, even though not to the same degree.

An early evidence of our anxiety, not to interfere in any manner with South American autonomy, was the message of President Adams of the 26th of December, 1825, in which, treating of the forthcoming Panama Congress, he suggested an agreement that each of the countries represented should undertake, by its own means, to prevent the establishment of European colonies within its limits; and that the acceptance of this principle should be urged upon the new nations to the south of us, so that this national responsibility should be recognized as an essential corollary of their independence. And again in March, 1826, Mr. Adams declared that whatever agreement should be arrived at should not go beyond the mutual covenant of all to maintain the principle, each upon his own territory.

Surely, this gave no evidence of the desire to impose an undesired hegemony; nor does our patience with the internal struggles of our immediate neighbor to the south, with whose privileges of nationality we are unwilling to interfere, although as Calderon tells us, "there anarchy is paving the way to servitude."

It is small wonder, then, that Carlos Calvo, the great international publicist, who does such honor to Argentina, should have said of the policy of the United States that it was "declaratory of complete American independence," or that Anibal Maurtua, from Peru, should have said, as late as 1901, that the message was "a Pan-American declaration," or that Carlos Arena y Loayza should have said in 1905 that the policy is

linked with our past, and with our present, and gives us the key to the future of these Republics . . . which are called upon to have one and the same spirit, and to work in accord, in edifying friendship, for justice and peace on earth.

Nor should our friends forget, in taxing the policy with total selfishness, that, in the very incipency of their movement of liberation, as early as the 14th of May, 1812, Monroe—then secretary of state—wrote to Alexander Scott—then already established as a United States agent to Venezuela:

Instructions have already been given to their ministers at Paris, St. Petersburg and London, to make known to these courts that the United States take an interest in the independence of the Spanish Provinces.

We are told that the possibility of armed invasion is a thing of the past, and that, in the words of Mr. Maurice Low, "the lust for

land no longer exists." This may be doubted if we consider how recently the Treaty of Berlin proved rather an aid than an obstacle to the absorption of Bosnia and Herzegovina; when we recall the appropriation of Turkish Tripoli, explained by Mr. Ripardi-Mirabelli in the *Belgian Review of International Law* as a necessity for the expansion of Italy's new national life, and the logical outcome of the absolute freedom of states to make war upon another whenever they consider it indispensable for the satisfaction of their primary needs.

That this "lust for land" has not disappeared, but, quite the contrary, is searching for new fields, is the testimony of Dr. Kraus, of Leipzig, who warns us that if Southern America has not yet become the field of fierce rivalry among European nations, it is because of the policy to which the United States has firmly held, to which he adds, that

it would require a conscious effort for the people of a continent whose political sense and feeling are at present influenced by an incessant rivalry for colonial expansion, to conceive that a state may have any other political ideal—that its ambition may not necessarily strive for increase of power by colonial acquisition.

Calderon also tells us that German professors are condemning the Monroe Doctrine and

regard the Yankee thesis merely as a perishable improvisation upon a fragile foundation. The interest of Germany demands that the United States should abandon their tutelage, and that the swarming Germanic legions should invade the southern continent.

But, assuming that Mr. Low's "lust for land" has so far diminished that its satisfaction is not likely to be sought for by deliberate invasion, the old method has been supplanted by the more subtle influence of economic advantages, of commercial and financial penetration. Professor Loria, of Turin, who does not take the advanced (or retrograde) view of Ripardi-Mirabelli, calls our attention to these monetary relations, which he warns us have acquired great importance in our times and may be the cause of seriously undermining the independent sovereignty of smaller states. The non-payment of interest on bonded debts—no matter by what cause payment is delayed—exposes the debtor state to an intervention of the creditor states, which, beginning by the appoint-

ment of a mixed commission, often ends in actual political interference.

The logical application of the policy which would preserve intact democratic sovereignties on this hemisphere, must find some remedy for this twentieth century method of possible political control by European powers. Mr. Poincaré, writing an appreciative preface to Mr. Calderon's keen exposition of the South American situation, expresses particular approval of Calderon's warning against excessive loans. Calderon's warning is against the influence of capital. "Against flat invasion by any power the tutelage of the United States is a protection," he tells us. But he adds, as already noted, that South America cannot dispense with the "exuberant wealth" of the Anglo-Saxon North, and that "the defense of the South should consist in avoiding the establishment of privileges or monopolies, whether in favor of North Americans or Europeans." Beaumarchais, an unsparing analyst and critic of the American policy, declares that the policy involves the freedom of the former Spanish colonies from the commercial subjection to Europe.

That such an application of the American policy should not interfere with activities "*purely* economic"—to use Dr. Kraus' words—or "*merely* commercial activities"—as Professor Wambaugh phrases it—goes without saying. But the record shows too vividly how difficult it is to restrain within these bounds financial operations which may result in such eventualities as the enthronement of Maximilian in Mexico, or as the loud demands of European cannon for economic redress at the ports of Venezuela and of San Domingo. Even with larger and more prosperous nations within the European boundary, examples of a financial bondage are not wanting. It is notorious that German capital in Italy was so intrenched, so interwoven with her pressing needs, that liberation was indispensable to give Italy a freed hand—a liberation brought about by allied advances which cancelled the indebtedness towards Germany. So that, while it is universally conceded that the policy first expressed in international form by Monroe stood in the way of European occupation of American territory, or the establishment of European governments on this side of the Atlantic, the logical development of that policy and its application to new situations require that this hemisphere shall also be defended against such financial situations as may result in the practical subjection to

European influences, with the danger of armed interference as a result of financial disaster.

That this should still be a live question is largely due to our own lack of appreciation of the opportunities and of the duties which lay before us, due to the natural difficulties of assimilation and to our own apparent unwillingness to bend ourselves to the necessities of the situation and get a better comprehension and a more sympathetic appreciation of the qualities of our southern neighbors. It is this which has permitted the commercial and economic primacy of Europe, as well as its intellectual dominance over the South American continent. Only within the most recent period has the enterprise of an American bank brought Argentine exchange to New York, and not yet is it feasible to make as rapid, or as comfortable, a journey from Buenos Ayres to New York as from Buenos Ayres to London.

This is the new application and logical expansion of the policy enunciated in 1823; and I speak of it as a policy rather than as a doctrine. It is the enunciation of a system countenanced by America in the conduct of its public affairs and relating to its intercourse with European countries in reference to this hemisphere. As such a policy, it is in consonance with the aspirations of all America. Between those who choose to treat it as dead, those who would abandon it, those who misinterpret it, those who make of it the vehicle of swaggering imperialism, those who dread the consequences both to ourselves and to our neighbors of its expansion into, or acceptance as, an American "entente," is there no happy medium, no middle way which would bring us all together on the path of unselfish and wise unity, in reaching which we may find that sincerity, fair dealing, regard for the rights of others, strict respect for national autonomy, comprehension of others' needs, as well as of our own, make not only for peace but for mutual prosperity?

This is the policy as today understood and as today applied.

It is not amiss to repeat here the words of our distinguished president on this subject. Addressing a commercial congress at Mobile, in October, 1913, he says:

You hear of "concessions" to foreign capitalists in Latin America. You do not hear of concessions to foreign capitalists in the United States. They are not granted concessions. They are invited to make investments. It is an invitation, not a privilege; and states that are obliged, because their territory does not lie

within the main field of modern enterprise and action, to grant concessions are in this condition, that foreign interests are apt to dominate their domestic affairs, a condition of affairs always dangerous and apt to become intolerable. What these states are going to see, therefore, is an emancipation from the subordination, which has been inevitable, to foreign enterprise and an assertion of the splendid character which, in spite of these difficulties, they have again and again been able to demonstrate. The dignity, the courage, the self-possession, the self-respect of the Latin American states, their achievements in the face of all these adverse circumstances, deserve nothing but the admiration and applause of the world. They have had harder bargains driven with them in the matter of loans than any other peoples in the world. Interest has been exacted of them that was not exacted of anybody else, because the risk was said to be greater; and then securities were taken that destroyed the risk—an admirable arrangement for those who were forcing the terms.

I rejoice in nothing so much as in the prospect that they will now be emancipated from these conditions, and we ought to be the first to take part in assisting in that emancipation.

We must prove ourselves their friends and champions upon terms of equality and honor. You cannot be friends upon any other terms than upon the terms of equality. You cannot be friends at all except upon the terms of honor. We must show ourselves friends by comprehending their interest whether it squares with our own interest or not. It is a very perilous thing to determine the foreign policy of a nation in the terms of material interest. It not only is unfair to those with whom you are dealing, but it is degrading as regards your own actions.

Comprehension must be the soil in which shall grow all the fruits of friendship. . . . I want to take this occasion to say that the United States will never again seek one additional foot of territory by conquest. . . .

She must regard it as one of the duties of friendship to see that from no quarter are material interests made superior to human liberty and national opportunity. I say this, not with a single thought that anyone will gainsay it, but merely to fix in our consciousness what our real relationship with the rest of America is. It is the relationship of a family of mankind devoted to the development of true constitutional liberty. We know that that is the soil out of which the best enterprise springs. We know that this is a cause which we are making in common with our neighbors.

In emphasizing the points which must unite us in sympathy and in spiritual interest with the Latin American peoples we are only emphasizing the points of our own life, and we should prove ourselves untrue to our own traditions if we proved ourselves untrue friends to them.

At a still earlier date—on the 12th of March, 1913—the president made this formal announcement:

One of the chief objects of my administration will be to cultivate the friendship and deserve the confidence of our sister republics of Central and South America, and to promote in every proper and honorable way the interests which are common to the peoples of the two continents. I earnestly desire the most

cordial understanding and coöperation between the peoples and leaders of America, and, therefore, deem it my duty to make this brief statement.

Mutual respect seems to us the indispensable foundation of friendship between states as between individuals.

The United States has nothing to seek in Central and South America except the lasting interests of the peoples of the two continents, the security of governments intended for the people and for no special group or interest, and the development of personal and trade relationships between the two continents which shall redound to the profit and advantage of both and interfere with the rights and liberties of neither.

This "cause which we are making in common with our neighbors," and these "interests which are common to the peoples of the two continents," unquestionably embrace a proper limitation and a clear definition of American neutral rights and obligations, and the occasion offers us an opportunity to unite with our sister republics of the south in this common cause, which in this instance is also the common cause of humanity.

Surely, all the nations of both Americas are desirous of avoiding entanglements with European or Asian nationalities; all are at one in the determination that they must be unhampered in developing their own political future in the democratic forms of government which they have adopted; safe from either forcible or insidious influence of other powers. To this their distance from the shores of the eastern hemisphere is some protection, but their own mutual understanding and coöperation will always be far more potent.

As for material progress and development, a like understanding and coöperation must surely enhance it; a more active commercial intercourse; more and better means of communication will open additional markets for their exports, and greater competitive fields from which to draw their imports. The financial center is no longer safely anchored in Europe; the present growth and the immediate possibilities of our own money markets offer opportunities for trade which, in the interest of all, should be availed of and fostered; it is the part of wisdom that every portion of the western world should come to an intelligent and amicable understanding of the respective advantages which each portion offers to the other, and by such understanding make them the more fruitful.

It is time for suspicion and distrust,—restless and disturbing bedfellows,—to give way to confidence. It is time for united action in all those things which are unquestionably of common interest.

Fair and liberal commercial relations are one of these things; favorable credits on the one hand, reasonable security on the other; mutual helpfulness in the enhancing of transportation facilities, due regard for local requirements in shipping; all these are helps which will be of equal benefit to all.

The safeguarding of our distant and neutral shores from any noxious effects of eastern wars is a prerequisite condition of uninterrupted economic activity, to ensure which we can and should unhesitatingly unite.

To work this forward step in the international relations of war will be also, let us hope, a step in our further union; our further union for the protection and enhancement of our mutual economic interests; our union in an earnest endeavor to bring about that financial and economic emancipation of all Latin American countries, which President Wilson has so earnestly and eloquently advocated—precisely as in the message of President Monroe a like emancipation was sought against political and governmental influences on this western hemisphere. We may thus hope to give assurance to the world that America—the two Americas—stand together, and that, far from becoming imperialistic and oppressive, the policy of Monroe has blossomed into a newer and larger fraternity which henceforth may be known as the “Wilson Doctrine.”

THE RIGHT OF CITIZENS OF NEUTRAL COUNTRIES
TO SELL AND EXPORT ARMS AND MUNITIONS
OF WAR TO BELLIGERENTS

BY WILLIAM CULLEN DENNIS,
Lawyer, Washington, D. C.

Since the beginning of the present war two questions as to the rights and duties of the United States have engaged the attention of our people before all others, I think because of the human interest which they involve. The first of these is the question whether the United States as one of the leading neutral nations signatory to the Hague conventions had a right and duty to protest against the violation of the neutrality of Belgium. People were interested in this because, beyond the technical questions of conventional law, they saw the ruin of a rich country and the destruction of a brave people, and ultimately a great injury to civilization itself.

The second question which has evoked general interest, and to which I propose to ask your attention for a few minutes is whether the United States has either a legal or moral duty to forbid the exportation of arms and munitions of war to the belligerents. This question is not a new one, or peculiar to the present contest; witness Lowell's complaint in his inimitable *Biglow Papers* of a similar traffic on the part of British subjects during the Civil War, when he said:

You wonder why we're hot, John,
Your mark was on the guns,
The neutral guns that shot, John,
Our brothers and our sons.

Witness also Sir William Vernon Harcourt's masterly defense under the pen name of *Historicus*, of the right of the citizens of neutral nations to engage in this trade, a defense to which it is submitted practically nothing can be added at the present day aside from bringing it up to date.

The Present Rule of International Law is Clear

Fortunately there is not and cannot be any serious dispute as to what the rule of international law upon this subject is. It was

laid down in unequivocal terms over one hundred years ago by Jefferson¹ and Hamilton² in the midst of a crisis which, as our chairman has pointed out, was infinitely greater for our infant nation than that through which we are passing today. And it is interesting to note that it was defended by them upon practically the same grounds upon which it is defended by the official reporter of Convention V³ of the Hague conference of 1907, "Respecting the

¹ "In one of these memorials it is stated that arms and military accoutrements are now buying up by a French agent in this country, with an intent to export them to France. We have answered that our citizens have always been free to make, vend, and export arms; that it is the constant occupation and livelihood of some of them. To suppress their callings, the only means, perhaps, of their subsistence, because a war exists in foreign and distant countries, in which we have no concern, would scarcely be expected. It would be hard in principle, and impossible in practice. The law of nations, therefore, respecting the rights of those at peace, has not required from them such an internal derangement in their occupations. It is satisfied with the external penalty pronounced in the president's proclamation, that of confiscation of such portion of these arms as shall fall into the hands of any of the belligerent powers, on their way to the ports of their enemies. To this penalty our citizens are warned that they will be abandoned, and that the purchases of arms here may work no inequality between the parties at war, the liberty to make them will be enjoyed equally by both." (Jefferson to Ternant, French Minister to the United States, May 15, 1793. *American State Papers*, Vol. 1, p. 147, quoted in Moore's *International Law Digest*, sec. 1308, Vol. 7, p. 955.)

² "A neutral nation has a general right to trade with a power at war. The exception of contraband articles is an exception of necessity; it is a qualification of the general right of the neutral nation in favor of the safety of the belligerent party. And it is from this cause, and the difficulty of tracing it in the course of commercial dealings, that for the peace of nations, the external penalty of confiscation is alone established." (Hamilton to Washington, May 15, 1793. *Hamilton's Works* (Lodge), Vol. 4, p. 416.)

³ This convention was reported to the conference by a sub-commission over which the distinguished Dutch jurist, M. Asser, presided, and which numbered among its members: Major General de Gündell, military delegate of Germany; Brigadier-General George B. Davis, U. S. A.; Baron Giesl de Gieslingen, major-general and military delegate of Austria; and the distinguished jurists M. Beernart, M. Louis Renault, and Lord Reay. Colonel Borel, professor at the University of Geneva, and plenipotentiary delegate of Switzerland, was the official reporter; and he explains and justifies the rule laid down in Article 7, in the following language:

"The rule which this article lays down is justified in itself independently of the reasons of a practical nature which militate in its favor. As a matter of principle, neutral states and their peoples ought not to suffer the consequences of a war which is foreign to them. The burdens and restrictions which it places upon their

rights and duties of Neutral Powers and Persons in case of War on Land," to which both Germany and the United States are parties, and which reads, Article 7, as follows:

"A neutral power is not called upon to prevent the export or transport on behalf of one or other of the belligerents, of arms, munitions of war, or, in general, of anything which can be of use to an army or fleet."

It may be granted that this convention is not technically in force in the present war, but it affords a concise and authoritative statement of the acknowledged rule of law, a rule of law which appears to be recognized by Germany, which while strongly remonstrating against the contraband trade engaged in by the citizens of the United States as inconsistent, under the circumstances, with "the spirit of true neutrality" appears to admit that it does not constitute a "formal breach of neutrality."⁴

liberty of action should be confined to what is absolutely necessary. There is no good reason for prohibiting or burdening the commerce of the inhabitants of neutral states even in regard to articles mentioned in the text just cited. Every restriction upon neutral states in that matter which might be suggested would bring about in practice the greatest difficulties and would create inadmissible burdens on commerce in general." (Proceedings of the Second Hague Conference, Vol. 1, p. 141. Free translation.) Hague Convention XIV of 1907, "Concerning the rights and duties of neutral powers in naval war," to which the United States and Great Britain are parties, has an identical provision with Article 7 above quoted of Convention V.

⁴"The German government believe that they are obliged to point out very particularly and with the greatest emphasis, that a trade in arms exists between American manufacturers and Germany's enemies which is estimated at many hundred million marks.

"The German government have given due recognition to the fact that as a matter of form the exercise of rights and the toleration of wrong on the part of neutrals is limited by their pleasure alone and involves no formal breach of neutrality. The German government have not in consequence made any charge of *formal breach of neutrality*. The German government cannot, however, do otherwise, especially in the interest of absolute clearness in the relations between the two countries, than to emphasize that they, in common with the public opinion in Germany, feel themselves placed at a great disadvantage through the fact that the neutral powers have hitherto achieved no success or only an unmeaning success in their assertion of the right of trade with Germany, acknowledged to be legitimate by international law, whereas they make unlimited use of their right to tolerate trade in contraband with England and our other enemies. Conceded that it is the formal right of neutrals not to protect their legitimate trade with Germany and even to allow themselves knowingly and willingly to be induced

It would be a work of supererogation to pile up diplomatic and judicial authorities in support of the right of the citizens of a neutral nation to engage in contraband trade with a belligerent.⁵ Despite the protest which the belligerent frequently makes, neutral nations have almost universally asserted and maintained this right. The exceptional cases in which the ordinary rule has not been followed in practice by neutral nations—such as the very significant exception to which His Excellency the Brazilian ambassador has called attention,⁶ the prohibition of the exportation of arms and munitions of war by Brazil during the Spanish-American war and during the present struggle, only serve to bring out more clearly the practical unanimity with which the nations of the world have not only accepted the ordinary rule, but acted on it. There is perhaps no important rule of international law better settled than that which permits the inhabitants of neutral countries to sell and export contraband to belligerents, subject to the belligerent's right to intercept on the high seas and confiscate contraband destined for its adversary.

When any rule of international law emerges from the perennial conflict between neutrals and belligerents with such unanimous acceptance it may be safely assumed that whatever may be said of it in theory it is based upon sound practical considerations. The justification for the particular rule in question is not far to seek. So long as war is to be waged, a fair balance of convenience must be

by England to restrict such trade, it is on the other hand not less their good right, although unfortunately not exercised, to stop trade in contraband, especially the trade in arms, with Germany's enemies. . . . In regard to the latter point [contraband trade especially in war materials by neutral merchant vessels], the German government ventures to hope that the American government upon reconsideration will see their way clear to a measure of intervention in accordance with *the spirit of true neutrality*." (The German minister for foreign affairs, to the American ambassador at Berlin, February 16, 1915.) See also the note of the German Embassy to the secretary of state, of April 4, 1915, transmitting a "memorandum on the German-American trade, and the question of delivery of arms" in which the Imperial government observes that "It is necessary to take into consideration not only the formal aspect of the case, but also *the spirit in which the neutrality is carried out*"; and further says that "If it is the will of the American people that there shall be a *true neutrality* the United States will find the means of preventing this *one-sided* supplying of arms, or at least of utilizing it to protect legitimate trade with Germany, especially that in foodstuffs." (The italics in all cases are those of the present writer.)

⁵ See Moore's *International Law Digest*, Vol. VII, sec. 1308, *passim*.

⁶ See page 150.

struck between the necessities of belligerents and the rights of neutrals. It would be oppressive and impracticable to call upon a neutral nation to harass its own citizens and restrain their conduct in their own country in manufacturing, selling and exporting munitions of war. On the other hand it would be futile to expect a belligerent to sit passively by and allow these munitions of war, once they have left the country of their origin and are embarked upon the high seas, to reach its adversary. Hence the compromise. Neutral citizens may sell and export; a belligerent nation may intercept and confiscate if it can.

Is it desirable in the abstract to change the present rule?

It is to be conceded, of course, that there is nothing sacred about the compromise embodied in the present rule of international law. The rule can naturally be changed by common consent or international convention, and the United States can, if it sees fit, without reference to the rule of international law, change its municipal law by forbidding the exportation of arms and munitions of war to belligerents. Several bills to this effect were introduced at the last session of Congress, and there is an organized propaganda in the country working to this end.

In considering the proposed embargo, two general questions are presented for consideration: first, whether or not the proposed change is desirable in the abstract at any time; and second, whether or not it is desirable at this time. The abstract question will be first considered.

If the rule of international law is changed, if the inhabitants of neutral countries are inhibited from exporting munitions of war to belligerents, then immediately it becomes the duty of the neutral nations to prevent such exportation just as it now is their duty to prevent armed expeditions from being set on foot on their territory to attack belligerents. And in like manner belligerents become entitled to take an interest in the performance of this duty on the part of neutrals, and to make reclamations for damages if the duty is not fulfilled with "due diligence." Of course the United States could not work a change in the general rule of international law by laying an embargo. But it could enlarge the international duties of the United States. As soon as the embargo act became a law, belligerents, by virtue of the Hague convention of 1907, No. V,

above referred to (Article 9), as well as by the general principles of international law, would be entitled to demand that the new legislation should be "impartially applied." The practical result would be, therefore, that, whereas at present we have no responsibility with respect to ordinary commercial shipments of munitions of war, the day after the proposed law went into effect we would find ourselves liable to representations with possible claims for damages in the background, from any and all of the belligerents because, say, of alleged failure to use "due diligence" impartially to apply the new law by stopping the exportation of Winchesters from Portland, Maine, or Oregon, ostensibly for lion-hunting in Abyssinia, or blasting powder from El Paso, Texas, billed to some American mine-owner in Mexico. If in enforcing the new law we looked merely to the primary destination, it would be a farce. If we endeavored to look to the ultimate destination, it would impose an intolerable burden.

Moreover, the belligerents would take an interest, not merely in the final act of exportation, but they would naturally be watchful of the manufacture and shipment within the United States of arms and ammunition which might ultimately be destined for export, and would diligently seek to keep themselves informed thereof by their secret agents, and as diligently bring the reports of their secret agents to the state department with requests for preventive action.

Far from tending toward international harmony, the proposed legislation would, it is believed, tend to multiply our duties and burdens, and thereby create international claims and international animosity. Neutral duties would be enormously increased and neutral rights restricted in an age when we had been taught to believe that peace and not war was to be the normal status of the nations. As Sir William Vernon Harcourt said in his *Letters of Historicus*, with reference to a similar proposition advanced at the time of our Civil War:

If the sale of munitions of war is to be held a breach of neutrality, "instantly upon the declaration of war between two belligerents, not only the traffic by sea of all the rest of the neutral powers of the world would be exposed to the inconveniences of which they are already impatient, but the whole inland trade of every nation of the earth, which has hitherto been free, would be cast into the fetters. . . . It would give to the belligerent the right of interference in every act of neutral domestic commerce, till at last the burden would be so enormous that neutrality itself would become more intolerable than war, and the result of

this assumed reform, professing to be founded on 'the principles of eternal justice,' would be nothing less than universal and interminable hostilities." ⁷

Moreover, although the proposition now being most discussed is limited to forbidding the exportation of arms and munitions of war, once the principle of such legislation finds approval it is likely to lead to still further encroachments on neutral commerce. The next step will naturally be to demand an embargo on conditional contraband,⁸ whatever that may be, and no one can well foresee the complications to which this might lead.

"If Mexico," said Mr. Seward, "shall prescribe to us what merchandise we shall not sell to French subjects, because it may be employed in military operations against Mexico, France must equally be allowed to dictate to us what merchandise we shall allow to be shipped to Mexico, because it might be belligerently used against France. Every other nation which is at war would have a similar right, and every other commercial nation would be bound to respect it as much as the United States. Commerce in that case, instead of being free or independent, would exist only at the caprice of war." ⁹

Such being the justification for the present rule and the practical objections to the proposed change, what can be said in the abstract in favor of changing the established rule of international law in the manner proposed? So far as the writer is aware the two main arguments which have been urged in favor of such a change are: first, that it is wrong for neutral governments to permit their citizens to trade in munitions of war to be used against nations with which they are at peace; and second, that the prohibition of this traffic would tend to diminish the frequency, duration and severity of future wars. The ethical argument is, of course, sound from the point of view that all war is wrong, and that any assistance—direct or indirect—toward carrying on war is wrong under all circumstances. Unfortunately, however, the world is not yet prepared to accept this viewpoint. If it was, war would cease to exist at once, and there

⁷ Quoted in sec. 1308, Moore's *International Law Digest*, Vol. VII, p. 970.

⁸ If it be suggested as against this particular argument, that "conditional contraband" should be abolished and a single list of contraband agreed on, as recently proposed by the distinguished chairman of this meeting, the answer is, first, that this proposition has not yet been adopted; and second, that any agreed list of absolute contraband is likely to be so lengthy as to involve a most serious stoppage to neutral commerce in time of war.

⁹ Mr. Seward, secretary of state, to Mr. Romero, Mexican minister, December 15, 1862. Moore's *International Law Digest*, sec. 1308, p. 958.

would be no necessity for the legislation proposed. But granting that wars must for the present be endured from time to time, it is submitted that it is very doubtful whether the proposed change would tend to render them less frequent or less bloody. It would simply result in largely increased purchases of munitions of war during times of peace (unless it is also proposed to prohibit commerce in munitions of war in time of peace), and in the great increase in every country, and particularly in the United States, of the amount of fixed capital invested in the business of manufacturing munitions of war. In other words, if international commerce in munitions of war were forbidden while war itself remains, every country, according to its capacity, would have to do as Germany has done in anticipation of failure to control the seas, and every nation would have its own Essen and its own "Kanonen König." And if by any chance a peaceful country like the United States became involved in war before it had adjusted itself to the new rule by building up great establishments for the production of arms and armaments, it would pay dearly for its neglect. Instead of decreasing, it is believed that this would increase the influences in every state which make for war, unless the whole business of the manufacture of arms and munitions of war was everywhere made a government monopoly, which would raise other interesting questions—among them, whether or not the entire world has yet progressed to the point where liberty would be safe if revolution were made practically impossible through universal governmental control of the manufacture of munitions of war—questions which would lead us too far afield.

Let us not be deceived into thinking that we can abolish war by making it more burdensome for neutrals, and compelling even the non-military nations to join in the competitive construction of gun factories.

Is it desirable to change the present rule at this time?

So much on the abstract question as to changing the long-established rule of international law. But how stands the case for the proposed change in view of the actual conditions now obtaining? The proponents of the embargo proposition before Congress maintained "that it is a condition, not a theory which confronts us"; that as a practical matter England commands the seas, and arms and munitions can only be exported to the Allies and not to Ger-

many and Austria; that the rule of international law therefore lacks under these circumstances the "moral background"¹⁰ which supports it; and to maintain it, is to fail in genuine neutrality. In this connection reference is made to Jefferson's statement that in order that "the purchases of arms here may work no inequality between the parties at war, the liberty to make them will be enjoyed equally by both." But the answer to this suggestion is obvious. The liberty to make purchases, to which Jefferson referred, is still "enjoyed equally" by both belligerents, and it is no more the concern of the United States that Germany is unable to import contraband because the British fleet commands the seas, than it would be if her failure to make use of her liberty to purchase resulted from lack of money to pay for the arms, or, as might well be the case, from the abundant ability of the Krupp works to supply her necessities.

With all deference to those who talk about "changed conditions," it is submitted that suddenly to change our law which conforms to our international duties, because England commands the seas rather more completely than she did a hundred years ago, is simply to intervene to undo the effects of her naval preparedness and naval victories. There was a time not so very long ago when Germany was victorious in the South Pacific. Would it have been fair for Chile immediately after the German victory to have forbidden the exportation of arms and ammunition, on the ground that none could get through to England?

Again, it is suggested, and this time in an official memorandum of the German government, that it makes a difference that "all nations having a war material industry worth mentioning are involved in the war themselves, or are engaged in perfecting their own armaments," and therefore the United States is "the only neutral country in a position to furnish war materials."¹¹ With all defer-

¹⁰ See Congressman Barthold's statement before the House Committee of Foreign Affairs, December 30, 1914, Hearings on H. J. Res. 377, 378, p. 25, etc. See also the reference in the memorandum of the German government handed to the State Department by the German ambassador, April 4, 1915, to "this one-sided supplying of arms," and to the "theoretical willingness to supply Germany." See *supra*, p. 171, note.

¹¹ "The situation in the present war differs from that of any previous war. Therefore any reference to arms furnished by Germany in former wars is not justified, for then it was not a question *whether* war material should be supplied to the belligerents, but *who* should supply it in competition with other nations

ence it is submitted that it would be very singular if either the legal or the moral rights of the United States as a neutral could be affected by the number of the belligerents or the character of their industries.

It is argued in the same German memorandum that it makes a difference at least "in accordance with the spirit of true neutrality" that the arms industry of the United States is being developed through the enlargement of the present establishments and the building of new ones.¹² But surely it is no new thing for war to create as well as to destroy industries in neutral nations. One is as legitimate as the other, provided the rules of international law are observed. Belligerents cannot eat their cake and have it. Similar suggestions to the effect that the legitimacy of trade in contraband was effected by its size have been made in the past,¹³ but have never found a lodgment in the law. It is submitted with all deference that they are totally impractical—as impractical as it has been found to be to make mere bigness a test of the violation of the Sherman anti-trust act.

Precedent for the proposed action under such circumstances as the present, there is absolutely none. Obviously our embargo on the exportation of munitions of war in 1794, when war with England threatened, our general embargo of thirty days just before the war of 1812, and our embargo on the exportation of arms and munitions

In the present war all nations having a war material industry worth mentioning are either involved in the war themselves or are engaged in perfecting their own armaments, and have therefore laid an embargo against the exportation of war material. The United States is accordingly the only neutral country in a position to furnish war materials. The conception of neutrality is thereby given a new purport, independently of the formal question of hitherto existing law." (German memorandum enclosed in the note of the Imperial German Embassy of April 4, 1915.)

¹² "In contradiction thereto, the United States is building up a powerful arms industry in the broadest sense, the existing plants not only being worked but enlarged by all available means, and new ones built. The international conventions for the protection of the rights of neutral nations doubtless sprang from the necessity of protecting the existing industries of neutral nations as far as possible from injury in their business. But it can in no event be in accordance with the spirit of true neutrality if, under the protection of such international stipulations, an entirely new industry is created in a neutral state, such as is the development of the arms industry in the United States, the business whereof, under the present conditions, can benefit only the belligerent powers." (German memorandum enclosed in the note of the Imperial German Embassy of April 4, 1915.)

¹³ See Moore's *Digest*, Vol. VII, p. 960.

of war in 1898, just before we went to war with Spain, are not in point, unless the pending legislation be advocated as a precaution in view of our possibly becoming involved in the war. The recent embargoes on the exportation of arms and ammunition, instituted by neutral nations such as Italy and Holland, which have mobilized and are admittedly making every preparation for possible if not probable participation in the great struggle, are likewise not in point. Nor are similar embargoes recently declared by certain other neutral nations of Europe which, in addition to their desire to keep all their munitions of war for possible use at home, are also probably influenced by their desire to free their commerce as far as possible from interruption by English cruisers searching for contraband destined for ultimate trans-shipment from the neutral country to Germany.

As little relevant is our prohibition (under the old Spanish war resolution of 1898) of the shipment of arms and ammunition to San Domingo, in 1905, in aid of the pacification of the republic in connection with the administration of the Dominican customs and the adjustment of the Dominican debt through the aid of the United States.

But the great reliance by way of precedent of both the domestic and foreign critics of our present and time-honored policy of permitting unrestricted trade in contraband is the act of March 14, 1912, which provides:

That whenever the president shall find that in any American country conditions of domestic violence exist which are promoted by the use of arms or munitions of war procured from the United States, the president is hereby authorized, in his discretion, and with such limitations and exceptions as shall seem to him expedient, to prohibit by proclamation the export of arms or munitions of war from any place in the United States to such country until otherwise ordered by the president or by Congress.

This is not the place for a discussion of the merits of this law or the action which has been taken under it by President Taft and President Wilson, with reference to Mexico, except to submit that the whole policy of the United States in this connection has been founded upon what were thought by Congress and the executive to be the peculiar relations existing between the United States and the other American republics, and not upon the general principles of international law governing the relation of neutrality. As was said

in a statement given out at the White House at the time of the president's proclamation, February 3, 1914, raising the embargo on the exportation of arms and munitions of war to Mexico, "The Executive order under which the exportation of arms and munitions of war into Mexico was prohibited was a departure from the accepted practice of neutrality."¹⁴

¹⁴ Certain general expressions in President Wilson's address to Congress in regard to the Mexican situation on August 27, 1913, are sometimes relied on as supporting a different view. These expressions are: "It was our duty to offer our active assistance. It is now our duty to show what true neutrality will do to enable the people of Mexico to set their affairs in order again and wait for a further opportunity to offer our friendly counsels. . . ."

"For the rest, I deem it my duty to exercise the authority conferred upon me by the law of March 14, 1912, to see to it that neither side to the struggle now going on in Mexico receive any assistance from this side of the border. I shall follow the best practice of nations in the matter of neutrality by forbidding the exportation of arms or munitions of war of any kind from the United States to any part of the republic of Mexico—a policy suggested by several interesting precedents, and certainly dictated by many manifest considerations of practical expediency. We cannot in the circumstances be the partisans of either party to the contest that now distracts Mexico, or constitute ourselves the virtual umpire between them."

It is submitted, however, that these general expressions should be considered in connection with the precise point under discussion here which was the question of prohibiting the export of arms and ammunition to both sides and not merely to the Constitutionalists, as had theretofore been done. If the Constitutionalists and the forces of General Huerta had been independent nations, correct neutrality would of course have required any embargo on the exportation of arms and ammunition to be enforced equally against both. It is submitted that the recent German memorandum is not entirely happy in its reference to this Mexican precedent. It is said:

"On February 4, 1914, President Wilson, according to a statement of a Representative in Congress in the Committee for Foreign Affairs of December 30, 1914, upon the lifting of the embargo on arms to Mexico, declared that 'we should stand for genuine neutrality, considering the surrounding facts of the case. . . .' He then held that 'in that case, because Carranza had no ports, while Huerta had them and was able to import these materials, that it was our duty as a nation to treat (Carranza and Huerta) upon an equality if we wished to observe the true spirit of neutrality as compared with a mere paper neutrality.'"

President Wilson's proclamation of February 3, 1914, lifted the embargo on the ground that "as the conditions on which the proclamation of March 14, 1912, was based have essentially changed, and as it is desirable to place the United States with reference to the exportation of arms or munitions of war to Mexico in the same position as other powers, the said proclamation is hereby revoked."

(OVER)

Another incident which has been very much overworked is the supposed stopping by the German government of a ship "loaded with arms and munitions of war"¹⁵ bound from Hamburg to Spain during the Spanish-American war of 1898.

According to press dispatches the German ambassador at the time of giving out the text of the German memorandum of April 4, 1915, mentioned the incident, and quoted a portion of Mr. Andrew D. White's account in his autobiography. The facts of this incident briefly related by Mr. White¹⁶ are more fully shown in the appended statement obtained on informal application at the department of state.¹⁷ It will be observed that no shipment of contraband was

This proclamation was accompanied by the White House statement quoted in the text, from the press dispatches of February 4, 1914, which asserts in the clearest terms that *the original imposition of the embargo* by the United States under act of March 14, 1912, was not an expression of this government's conception of its duty as a neutral.

¹⁵ Hearings before the Committee of Foreign Affairs of the House on H. J. Res. 377-378, December 30, 1914, p. 28.

¹⁶ "As to the conduct of Germany during our war with Spain, while the press, with two or three exceptions, was anything but friendly, and while a large majority of the people were hostile to us on account of the natural sympathy with a small power battling against a larger one, the course of the Imperial government, especially of the Foreign Office under Count von Bülow and Baron von Richthofen, was all that could be desired. Indeed, they went so far on one occasion as almost to alarm us. The American consul at Hamburg having notified me by telephone that a Spanish vessel, supposed to be loaded with arms for use against us in Cuba, was about to leave that port, I hastened to the Foreign Office and urged that vigorous steps be taken, with the result that the vessel, which in the meantime had left Hamburg, was overhauled and searched at the mouth of the Elbe. The German government might easily have pleaded, in answer to my request, that the American government had generally shown itself opposed to any such interference with the shipments of small arms to belligerents, and had contended that it was not obliged to search vessels to find such contraband of war, but that this duty was incumbent upon the belligerent nation concerned." (Autobiography of Andrew D. White, Chapter XVI, pp. 168, 169.)

¹⁷ "It appears that on May 18, 1898, Ambassador Andrew D. White received a telephonic message from the American consul at Hamburg that the Spanish ship *Pinzon* would sail within an hour for Cardiff to take on a cargo of coal for Spanish port; that a part of the message was indistinct, and that it could not be clearly understood whether the ship was or was not liable to seizure on other grounds. The ambassador, therefore, not desiring to incur delay by asking explanations went immediately to the Foreign Office and asked for the arrest and search of the vessel, and it was promised that everything possible should be done.

"On the next morning the ambassador received a telegram from the American

"stopped" but at the request of the ambassador a ship was searched, no contraband being in fact found. The ambassador requested a search of the ship on the strength of an indistinct telephone message from the American consul at Hamburg which left Mr. White in doubt as to whether or not the ship in question might not be liable to seizure on other grounds than the carriage of contraband. Delay was impossible since the ship was about to sail. As soon as the department of state heard of the incident it instructed the ambassador to ascertain whether or not there were "any laws or regulations in force in Germany, forbidding the shipment of contraband of war," observing that

It is important that if any such laws or regulations exist this government and its agents may be informed of them so as to avoid the embarrassments which might arise if it should appear to protest on the general principles of international law against neutral governments allowing articles regarded merely as contraband of war to be shipped from their ports.

The ambassador reported that there were no such laws or regulations in force, and the matter was dropped.

It is submitted that neither as an abstract proposition, nor in consul that the *Pinzon* when passing Cuxhaven the preceding night was searched for war contraband by order of the German Chancellor, but that nothing was found.

"Upon receipt of this information on June 6, 1898, the Department instructed the ambassador that:

"In view of the reported action of the Imperial German government in directing the search of the *Pinzon* for contraband of war the Department desires to be advised as to whether there are any laws or regulations in force which forbid the shipment of contraband of war from Hamburg or any other German port. It is assumed that you can obtain such information without applying to the German government for it. It is important that if any such laws or regulations exist this government and its agents may be informed of them so as to avoid the embarrassments which might arise, if it should appear to protest on the general principles of international law against neutral governments allowing articles regarded merely as contrabands of war to be shipped from their ports.'

"In reply to this instruction the Ambassador on July 22 informed the Department without application to the German government for positive information on the subject that he had been unable to ascertain that there had ever been any legislation upon the subject of contraband in the Empire. The ambassador added that Germany had never issued a proclamation of neutrality, and that the Reichstag had not discussed the question of contraband since 1894, and that the Embassy had no knowledge of the issue of any regulations on the subject since the existence of war with Spain."

view of the particular facts now obtaining, neither as a matter of reason nor of precedent, should the United States depart from the well-established rule of international law which secures to the inhabitants of neutral countries the right to engage in trade in contraband of war, subject to the customary external penalty of capture and confiscation at the hands of the belligerents.

THE SALE OF MUNITIONS OF WAR BY NEUTRALS TO BELLIGERENTS

BY CHARLES NOBLE GREGORY, LL.D.,
Washington, D. C.

With respect to the rights of our citizens as neutrals to sell munitions of war to any belligerent power, it is submitted:

1. That these rights are in no way denied by the rules of international law.

2. That these rights are not forbidden by any municipal statute or ordinance except as to vessels of war and, in certain limited cases, as to our neighboring American republics, when the latter are involved in civil strife.

3. That such rights have been constantly exercised in this country since the beginning of its history and in like manner have been habitually exercised by the manufacturers of the most enlightened commercial nations of the world, not only in remote times, but during all recent wars.

4. That such rights were fully recognized and reserved by the conventions of the Second Hague Conference in 1907.

5. That the maintenance of such rights is wise and necessary as their abolishment would force upon all nations a policy of the highest military and naval preparedness, which policy is one of vast economic loss and deeply hostile, instead of favorable, to peace.

6. That the fact that certain belligerents are prevented by the forces of the other from taking advantage of our markets does not make sales to those who have such access a breach of neutrality.

7. That the powers which most severely attack this right have greatly profited by habitually exercising it in all recent wars and, under parallel circumstances, where the market was accessible to but one of the belligerents, have continued these sales to the other.

As to the three first propositions that the right is denied by neither international nor municipal law and has been constantly exercised, one cannot do better than to quote a communication by Thomas Jefferson, Washington's secretary of state, and often deemed

the founder of one of our great political parties, to the British minister, May 15, 1793. Mr. Jefferson says:

Our citizens have been always free to make, vend and export arms. It is the constant occupation and livelihood of some of them. To suppress their callings, the only means perhaps of their subsistence, because a war exists in foreign and distant countries, in which we have no concern, would scarcely be expected. It would be hard in principle and impossible in practice. The law of nations, therefore, respecting the rights of those at peace, does not require from them such an internal disarrangement in their occupations. It is satisfied with the external penalty pronounced in the president's proclamation, that of confiscation of such portion of these arms as shall fall into the hands of any of the belligerents' powers on their way to the port of their enemies.¹

Alexander Hamilton is clear in his declaration to the same effect in his Treasury Circular of August 4, 1793, which declares:

The purchasing within, and exporting from the United States, by way of merchandise, articles commonly called contraband, being generally war-like instruments, and military stores, is free to all the parties at war, and is not to be interfered with.²

In 1796 Mr. Adet, minister of France, complained of the export of contraband of war, namely horses, to the enemies of France but Mr. Pickering, secretary of state, maintained such practice, subject to the right of seizure in transit. He collects judicial decisions, both state and federal to support his views.

When in 1862 our neighboring republic of Mexico complained of the export of military supplies from the United States to that country, on French account, Mr. Lincoln's secretary of state, William H. Seward, replied:

If Mexico shall prescribe to us what merchandise we shall not sell to French subjects, because it may be employed in military operations against Mexico, France must equally be allowed to dictate to us what merchandise we shall allow to be shipped to Mexico, because it might be belligerently used against France. Every other nation which is at war would have a similar right, and every other commercial nation would be bound to respect it as much as the United States. Commerce, in that case, instead of being free and independent, *would exist only at the caprice of war.*³

¹ Mr. Jefferson, secretary of state, to British minister, May 15, 1793. *5 M. S.; Dom. Let. 105; 1 American State Papers 69, 147; 3 Jefferson's Works*, Pp. 558, 560. quoted, *7 Moore's Digest*, p. 955.

² *American State Papers, Foreign Reports*, p. 140; quoted, *Moore's Digest*, p. 955.

³ Mr. Seward, secretary of state, to Mr. Romero, Mexican Minister, December 15, 1862. *M. S. Notes to Mexico VII*, 215-7; *Moore's Digest*, p. 958.

The above extract has especial force when we recall the strong opposition of this government and of Mr. Seward to the French occupation of Mexico, yet the principle was announced though contrary to national sympathy and personal feeling.

Mr. John Bassett Moore collates, in his invaluable digest, eighteen pages of extracts from the utterances of our presidents, secretaries of state and other high officials, to like effect, including in addition to those named, Presidents Pierce and Grant; secretaries of state Henry Clay, Marcy, Fish, Evarts, Bayard, Frelinghuysen Blaine, Foster, Olney and John Hay; attorneys general Speed and Harmon; also a clear and strong opinion by Mr. Elihu Root, when United States district attorney for New York.⁴

Turning from the utterances of our executive officers to the courts, we find the latter hold consistently that a contract for the export of contraband by neutral citizens to a belligerent is neither unlawful nor immoral; that it is merely subject to frustration by the other belligerents by seizure on the high seas or in belligerent territory; that courts of justice, therefore, though refusing to aid all illegal or immoral contracts, or those against public policy, yet fully recognize, enforce and give damages for breach of such contracts as above, recognizing them as innocent and the rights founded thereon as meritorious.⁵

In that case Lord Chancellor Westbury quoted the opinion of our own Supreme Court per Story J. (perhaps our greatest judicial scholar in international law) in the *Santissima Trinidad* (7 Wheaton, p. 240) that "there is nothing in our laws or in the law of nations that forbids our citizens from sending . . . munitions of war to foreign ports for sale. It is a commercial adventure which no nation is bound to prohibit, and which only exposes the persons engaged in it to the penalty of confiscation."

In 1905 the English courts held like doctrine as to the shipment of contraband during the Russo-Japanese war.⁶

In 1901 the United States Circuit Court for the Eastern Dis-

⁴ See 7 *Moore's Digest*, pp. 955-973.

⁵ See *Ex Parte Chavasse In Re Grazebrook* 34 L. J. N. S. Bankruptcy 17 (*Scott's Cases on International Law*, p. 779).

⁶ See *Law Guarantee and Trust Soc. vs. Russian Banks* K. B. Div. H., Ct. Law Times, Vol. XVIII, p. 503. See also: 2 *Oppenheim International Law*, p. 431; *Taylor International Law*, p. 741.

tract of Louisiana was applied to by three persons, owners of property in the South African republic, to restrain the export of horses and mules from the United States by Great Britain for use in the Boer war, but such relief was denied, and the traffic in contraband was held by the court to be lawful and the rule not changed by the treaty relating to the Alabama Claims.⁷

The Hague Conference of 1907 adopted the following convention as to neutral duties in war on land and also as to maritime war:

A neutral power is not bound to prevent the export or transit on behalf of one or the other of the belligerents of arms, munitions of war, or, generally, of anything which can be of use to an army or fleet.⁸

The note in Hershey's *Essentials of International Public Law*, page 459, to the above shows that official protests by belligerent governments against this right are heard in nearly every war. That the view represented by these protests is championed by a small band of publicists, notably Hautefeuille, Phillimore and Kleem, Professor Hershey, who, by the way, holds a doctorate from Heidelberg University, adds very justly, "It is without sanction, either in theory or practice."

One of the expert delegates of the United States at The Hague told this writer within the week that he remarked at The Hague that apparently the main object of the Conference was to prevent any interference with the export of arms by the Krupps at Essen.

These Hague Conventions were generally ratified—Austria-Hungary and Germany both ratifying them on November 27, 1909. I do not refer to these conventions as establishing any new rule but as stating clearly and agreeing explicitly to the existing rule.

Turning from the legality to the policy of the rule in question, it is submitted:

That a system under which a peaceful commercial state may not, when attacked, use her cash and her credit in the international markets to equip herself for defense is intolerable and in every way pernicious.

The war-like and aggressive nation chooses the moment of attack and is naturally fully equipped. If the nation assailed

⁷ See *Pearson vs. Parson*, 108 Fed. R. 461. The number of judicial citations might be much increased if it were necessary.

⁸ See Hershey's *Essentials of International Law*, pp. 459 and 467.

cannot replenish her supplies from outside she must always maintain them at the top notch of efficiency or she exposes herself to ruin.

If a nation, the moment she becomes, willingly or unwillingly, a belligerent, is helpless to augment her defensive equipment from outside, if she cannot, as this writer, if he may be allowed to quote himself, said recently in the *Outlook*, import "a pound of powder, a gallon of petrol, an ounce of copper, a gun, a sabre, a harness or a horse," then a wasteful system is forced on all nations under which they must always, without intermission or relaxation maintain their defenses and warlike supplies on a war footing of the highest efficiency and amplitude.

One of the ripest scholars in international law was the late Professor Westlake, one of the founders and presidents of the Institute of International Law. Moreover, his was one of the clearest, strongest and fairest minds addressed to international questions. In 1870, when a former Count Von Bernstorff, then German ambassador at London, protested against the export of military supplies from England to France during the Franco-German war, Professor Westlake discussing the effect of forbidding such export wrote:

One disadvantage of no ordinary magnitude I can plainly see. The manifest tendency of all rules, which interfere with a belligerent's power to recruit his resources in the markets of the world, is to give the victory in war to the belligerent who is best prepared at the outset; therefore, to make it necessary for states to be in a constant condition of preparedness for war; therefore to make war more probable.

In other words, as Professor Westlake has pointed out, it would tend strongly to force all nations to the extreme of militarism, a policy economically impoverishing and also most perilous to peace. The policy of open neutral markets for war supplies enables peaceful wealth to be transmuted and defense to be rapidly provided. Neutral markets would not be denied the aggressor by the restriction since he, knowing his plans, could largely provide for them before belligerency. As this writer lately observed:

Wars now are sudden as conflagrations in their origin and the advantages of preparation and initiative are immense. Why make them vastly greater? Why tempt to secret preparation and sudden aggression by greatly reducing the re-

* Collated papers, *Westlake on Public International Law*, p. 391.

sources and avails of the defending power? *Why aid the wolf and hamstring the lamb?* Why by a change of law and policy aid and encourage the predatory policy and debilitate defense? Such change must stimulate war and discourage peace.

It is therefore opposed to the general interest of mankind and the present rule is wiser and more pacific tending to maintain the safety and stability of the nations whose main employments are in the peaceful arts.

To bring the matter to a more recent date, a letter from the present secretary of state, Mr. Bryan, to Senator Stone, chairman of the senate committee on foreign relations, published on January 25, 1915, and understood to have been drafted by Mr. Robert Lansing,¹⁰ is in accord with the above. Mr. Bryan says:

There is no power in the executive to prevent the sale of ammunition to the belligerents. The duty of a neutral to restrict trade in munitions of war has never been imposed by international law or by municipal statute. It has never been the policy of this government to prevent the shipment of arms or ammunition into belligerent territory, except in the case of neighboring American republics, and then only when civil strife prevailed. Even to this extent the belligerents in the present conflict, when they were neutrals, have never, so far as the records disclose, limited the sale of munitions of war.

His Excellency, the German ambassador to the United States, communicated to this government, and on April 12, 1915, gave to the press a statement criticising the conduct of this government in permitting the export of munitions of war to belligerents as "in contradiction with the real spirit of neutrality." His Excellency further urged an embargo against the shipment of war munitions to the allies or the use of this trade to force the allies to permit the export of food from the United States to Germany.¹¹ In the communication, this passage is found:

In reality the American industry is supplying only German's enemies, a fact which is in no way modified by the purely theoretical willingness to furnish Germany as well, if it were possible.

In reply an able note was sent to His Excellency signed by the secretary of state, Mr. Bryan, but said to have been penned by President Wilson. This impliedly treats the rights of neutrals to

¹⁰ See *New York Herald*, January 25, 1915.

¹¹ See *New York Herald*, April 15, 1915.

export munitions of war to belligerents as settled and assured and declares our government holds:

That any change in its own laws of neutrality during the progress of a war which would affect unequally the relations of the United States with the nations at war, would be an unjustifiable departure from the principles of strict neutrality by which it has sought to direct its action, and I respectfully submit that none of the circumstances urged in your Excellency's memorandum alters the principle involved.

It is constantly strongly urged that since the allies command the seas, and the Germans cannot get access to our markets, while the allies can, that real neutrality requires us to refuse such supplies to the allies. It is submitted that nothing could be more impossible or confusing than to shift the rule of neutral obligations with the varying events and successes of war. The risks of capture may thus shift, but not the obligation of the neutral.

As Professor Westlake says:¹²

The standard set up is equality of treatment in the sense of permitting or furnishing to both belligerents the same things which are permitted or furnished to either, without regard to the fact that the passage of troops through neutral territory, coaling of fleet in neutral waters, or any other thing, may mean victory or *salvation* to the one, while the other *may be unable to avail himself of the licence or may find it of no value.*

German citizens have habitually sold vast quantities of military supplies to belligerents. Essen is perhaps the very center of military supplies and has exported on an enormous scale to belligerents in all modern wars, making, it is understood, vast profits from this traffic in the late Balkan wars. It will be interesting to know what has been Germany's practice when one of the belligerents had access to her markets and the other had not. Has the rule been observed, which she now presses upon us? Has she recognized this situation as compelling her to deny to the power having access, the right to buy, on the ground that *real neutrality so required?*

The war between the South African republic and Great Britain began in October, 1899, and was closed by the Treaty of Pretoria at the end of May, 1902. During the earlier portion of the war, supplies were received by the Boers through Lorenzo Marques, a neighboring Portuguese port with some freedom, but in August, 1900,

¹² *International Law*, p. 172.

all the customs officials at Lorenzo Marques were dismissed and their places filled by military officers and a force of 1,200 men was sent out from Lisbon. The frontier was guarded and the trade stopped.¹³

The strictness of the Portugese authorities increased with the decline of the fortunes of the Boers.

England had seized and searched a number of neutral steamers—including three German steamers—and positively claimed the right to seize contraband bound to the Boers though through a neutral port. She relied for this largely on the precedents of our Civil War, and it would appear that the access of the Boer force to German markets was substantially destroyed. The question occurred to the writer, would it be found that during the later years there were imported from Germany into England large quantities of arms and military supplies notwithstanding this situation? He therefore took the liberty to apply to the British Embassy at Washington which very obligingly cabled to London for information. April 27, a letter from the Embassy advised that “when the Boers were shut off from supplies by sea, Great Britain got from Germany 108 Fifteen-pounder quick-firing guns and 500 rounds per gun. They were purchased from Ehrhardt by private negotiation.” It is respectfully submitted that this is sufficient to support the practice of our government. But this writer had made other investigations which showed vastly larger military supplies passing from Germany to Great Britain at this time. This appears from the statistics as to the foreign trade of the United Kingdom compiled at the custom house, and presented to both Houses of Parliament by command of His Majesty and printed for His Majesty’s stationary office. These published records long anterior to the present unhappy controversy preserved in the Library of the Department of Commerce of the United States show that there were imported from Germany into Great Britain.

In 1899. Swords, cutlasses, matchets and bayonets, cwts. 782.

1900. Swords, cutlasses, matchets and bayonets, cwts. 1,664.

1901. Swords, cutlasses, and arms of other sorts not Firearms, cwts. 12,560.

1902. Swords, cutlasses, and arms of other sorts not Firearms, cwts. 50,734.
Many more than from any other source.

Rifles, carbines, fowling pieces, muskets, pistols or guns of any sort.

¹³ See Campbell’s *Neutral Rights in Anglo-Boer War*, p. 60.

1899. Value £655; in 1900, £428.

In 1901. Metal cartridge cases, other than small arms ammunition (more than six times as many as from any other source), 1,378,600.

1901. Cordite and other smokeless propellants, 231 cwts.

1901. Gunpowder, 318 cwts. 1902. 253 cwts.

Dynamite and other high explosives.

1901. 11,029 cwts. 1902. 14,771 cwts. and in latter year these explosives were worth £84,894.

Rockets and other combustibles for warlike purposes. Explosives and ammunition unenumerated.

1901. Of the Value of £29,546. 1902. Of £26,171.

Small Arm Ammunition

1901. Numbers 3,350,040. 1902. Numbers 4,732,500.

Fuses, Tubes and Primers

1901. Numbers 898,007. 1902. Numbers 2,033,116.

The consumption of ammunition in the present war is on so vast a scale that the above figures may seem trivial but we must remember that Mr. Lloyd George has recently said that in a single battle in the present war more ammunition was consumed than during the entire Boer war.

It is submitted that the above trade figures between Germany and Great Britain embalm a principle and afford a German precedent in entire accord with the law and practice announced by our own government. They are the more convincing because Germany's sympathy was strongly with the South African republic and strongly against England.

It is submitted that the practice of the government of the United States in declining to forbid the sale and export by its citizens of munitions of war to either belligerent at the present time is not in conflict with international or municipal law. It is in accord with a wise and salutary international policy. It is in entire harmony with the express declaration of the last Hague Conference and with the long continued practice of this country, and of those countries which have questioned the practice.

AN ARGUMENT AGAINST THE EXPORTATION OF ARMS

BY EDMUND VON MACH,

Cambridge, Mass.

The Democratic Text Book, 1914, issued by the Democratic Congressional Committee and The Democratic National Committee, contains on page 43 the following announcement by Hon. W. J. Bryan, Secretary of State:

The announcement made by this government, that it regards the making of loans by American citizens to the governments of nations engaged in war as inconsistent with the spirit of neutrality, has created a profound impression throughout the world. It is the first time that a great nation has taken this stand on the subject of war loans. The matter has been discussed at The Hague and at peace conferences, but it encountered so much opposition that nothing tangible has resulted. The president, therefore, blazes a new way when, without conference with other nations and without support from Conventions, he commits this nation to his policy.

It is inconsistent with the spirit of neutrality for a neutral nation to make loans to belligerent nations, for money is the worst of contraband.

In these two paragraphs Mr. Bryan himself has refuted all the arguments of the opponents of a law laying an embargo on the export of munitions of war.

It is, moreover, noticeable that he uses the expressions "loans by American citizens to the governments of nations engaged in war" and "a neutral nation to make loans to belligerent nations" as synonymous so far as America is concerned. And so it should be, for here the sovereignty is the people's, and the government is theirs, too. It is impossible to quote as true for America those passages of the so-called Law of Nations—which really represents the crystallized customs of Europe—which say that citizens either individually or collectively can do what the government cannot do. The American government is, at least in theory, the expression of the collective will of the people.

President Cleveland expressed this idea in his annual message to Congress, December 2, 1895, when he said:

The performance of this duty [*i.e.*, to observe in "good faith" neutrality toward Spain] should not be made more difficult by a disregard on the part of our

citizens of the obligations growing out of their allegiance to their country which should restrain them from violating as individuals the neutrality which the nation of which they are members is bound to observe in its relations to friendly sovereign states.

And the Supreme Court of the United States has said (14 How. 38, 49):

For as the sovereignty resides in the people, every citizen is a portion of it, and is himself personally bound by the laws which the representatives of the sovereignty may pass, or the treaties into which they may enter, within the scope of their delegated authority. And when that authority has plighted its faith to another nation that there shall be peace and friendship between the citizens of the two countries, every citizen of the United States is equally and personally pledged. The compact is made by the department of the government upon which he himself has agreed to confer the power. It is his own personal compact as a portion of the sovereignty in whose behalf it is made. And he can do no act, nor enter into any agreement to promote or encourage revolt or hostilities against the territories of a country with which our government is pledged by treaty to be at peace, *without a breach of his duty as a citizen, and the breach of faith pledged to the foreign nation.*

From the foregoing quotations, the authoritative importance of which for the conduct of American citizens and their government is undeniable, it would appear that:

1. What is morally wrong for the government is morally wrong also for each individual citizen.

2. When a large number of individual citizens persist in the commission of acts which run counter to the moral obligations of their government, the government has the right and the duty to take steps to prevent such acts.

3. It is contrary to the spirit of American institutions and the ideals of the American people, for the government to disclaim responsibility for the continued and open acts of a large number of their citizens.

4. American dealings with other nations must be *bona fide* and according to the spirit, and not only the letter, of any compact or understanding.

5. It is *not* unneutral for America to "blaze a new way," or to regulate the conduct of her citizens by laws, proclamations or otherwise, even during the progress of a war.

This last assertion has been severely attacked by the advocates of an unlimited trade in death-dealing arms. They have argued

that the Allies would be justified in considering the laying of an embargo on the export of arms to be an unneutral act. The Allies could not claim this, because they themselves have forced several—if not all of the neutral states of Europe—to declare embargoes of various kinds against Germany and Austria *since* the war began.

The case in favor of stopping the traffic in munitions of war, therefore, may be summarized as follows:

1. The government of the United States cannot, either legally or morally, export arms to either of the belligerents.

2. The export of arms by the citizens of the United States has grown to such large proportions that it is known to all.

3. The government of the United States cannot advance the excuse that it is not morally responsible for the acts of its citizens.

4. The president and secretary of state have publicly declared, and asked for votes on the strength of their declaration, that the government has the *right* "to blaze a new way" and that it is not restrained from giving expression in law to the moral sense of right and wrong of the American people.

5. It is, therefore, the right and consequently the duty of the American government to have legislation enacted which will make it legally wrong for individual citizens to commit acts, the moral wrong of which nobody can deny, in view of the decision of the United States Supreme Court quoted above.

6. The present American government itself has acknowledged the moral wrong of the trade in contraband, in the passage quoted above from the Democratic Text Book.

7. It is, therefore, committed to the enactment of legislation—if it has no other means of accomplishing the same end—prohibiting the traffic in munitions of war.

GERMANY AND AMERICAN POLICIES

BY BERNHARD DERNBURG,¹

Formerly Minister of Colonial Affairs of Germany.

I did not come here except as a listener, but after the discussion of this morning, which, I dare say, has been one of the most interesting, one of the most conservative, that it has been my good fortune to listen to, I feel that it is a debt of gratitude to say something as to the resolution that the previous speaker has just spoken of, regarding the safeguards for a permanent peace. I dare say that, of course details omitted and left open, I am in entire sympathy with it, and I do not think that this matter ought to be left to a Hague convention.

This is a world war and must be followed by a world peace—a permanent one—and I do not think there are now a great many people who do not know what the war means and who will not do everything to avert such a catastrophe in the future.

If I may, with the permission of the presiding officer, I will refer to something that was said last evening. One speaker, discussing the shipping of arms and ammunition, said that Germany had protested against the legality or right of shipping arms and ammunition from this country. He made this statement the subject of an attack against the representatives of this country in the United States. I shall not enter into this question, but I do want to say that a nation should not be attacked in this way. I want to state here most emphatically that Germany at no time has disputed the right to ship or to sell arms. This statement that she has is absolutely false.

Every just endeavor by the United States to extend its trade toward South America meets with sympathy in Germany. We believe that the greater the possibility of free intercourse, that the

¹ Remarks made by Dr. Dernburg at the fourth session of the Nineteenth Annual Meeting of the American Academy held in Philadelphia, on April 30 and May 1, 1915.

richer the people get, the more chance they have to provide themselves—the better off everybody is. We believe in specializing according to the genius of nations. All of us, Americans, English and French, can get along very well together. I have been greatly satisfied by the attitude of this country when at the beginning of the war there came statements from England and Russia that this was a time to steal German trade—You said No, this is not in our line and we are not going to take advantage, except a fair advantage, a competitive merchant advantage, against Germany.

You have been told here that Germany has been selling to these countries her cheap goods and that you in this country could not compete with Germany. You have been told that we have been extending credit beyond what was wise. I think this is an overstatement of the case. Very poor people can buy only very cheap goods. If you go to China and see how poor those people are, you would, I think, see that you could not sell them a suit case for one hundred dollars. You must give them less expensive things, and, if you have confidence, some credit.

As far as imports into South America go, you are in a way able to control them as to size. As for exports from South America, you are not able to control them. Supposing you wanted to extend your trade to Brazil in buying more of her coffee crop? What are you going to do with the coffee? You cannot buy more than you are able to consume. As far as Argentina is concerned, you are sellers of cereals and not buyers. Those who want coffee and those who want cereals have got to buy them from Brazil and Argentina. We cannot detach at any one time the trade between two countries from their intercourse with the rest of the world. This world is just one interdependent, interlocking commercial machine, and whoever loses that conception is bound to make a serious mistake. I want to say this because I believe that even in this commercial world there should be a spirit between nations of a greater friendliness. You cannot assist backward nations without extending some facilities—that is, credit—and you cannot do that without extending friendliness; and as the United States was helped by Europe, I hope that the United States will extend help to South America by allowing credit to her, like the rest of the world.

FORCE AND PEACE

BY H. C. LODGE,
United States Senator.

In the general Commination service to which Carlyle devoted so much time and space he always found opportunity to hymn the praise of the strong, silent man who looked facts in the face. Very characteristically he dismissed with a sneer the most silent perhaps of all great men, one certainly who looked at the many hostile facts which he encountered in life with a steady gaze, undimmed by illusions, to a degree rarely equalled. I do not mean by this that Washington never spoke, never in speech or writing uttered his thoughts. Many volumes attest the supreme sufficiency of his dealings with all the crowding questions of war and peace which in such victorious manner he met and answered. But there was one subject upon which he held his peace, and that was himself. I once searched every printed line of his printed writings, as well as those of his contemporaries, and all that could be found in regard to the man himself were a few sentences of his own capable of an inference and elsewhere some stray anecdotes. We have his opinions, frank and free, on all the transactions of his life but nothing about himself. There silence reigns and hence he may be called in the truest sense the most silent of the great men of modern times. A very noble quality this, worthy of consideration in any age and especially in an age of much delivery of personal feelings and much self-advertising where publication is easy and passing notoriety extremely cheap. From the many necessary words, however, written and spoken by this most silent man upon all the far-reaching business of his life and about the world of men and things which he touched at so many points there emerge, very luminous and distinct, an unfailing power of looking facts, whether favorable or unfavorable, in the face, a fine freedom from illusions and complete refusal to admit self-deception or to attempt the deception of others. In these days when the readiness to accept words for deeds, language for action and a false or maudlin sentimentality for true sentiment, one of the noblest and purest of human motives; when, I repeat,

the cheerful acceptance of these unrealities seems at least to be extremely prevalent, such veracity of mind and character as that possessed by Washington would appear more than usually worthy of contemplation and imitation.

I am well aware that in saying this I lay myself open to the familiar charge of having nothing to suggest but an effort to make ourselves resemble:

"Some of the simple great ones gone
Forever and ever by."

I can hear the well worn accusation coming from earnest and intelligent youth, that I am incapable of a new idea. Alas, it must be confessed that any man who has passed middle life would be dull indeed if he was not painfully aware of his incapacity in many directions. He knows that it is to youth he must look for the energy and faith which will keep the waters moving and save the world from stagnation. Whether it is hopeful, happy youth which cries out in the charming words of Miranda,

"How beautiful mankind is! O Brave, new world!
That has such people in't:"

or Emerson's "fine, young, Oxford gentleman" who declares,

"There's nothing new and nothing true and no matter,"

or earnest youth, serious and sad, which, bending under the sense of responsibility, says with Hamlet,

"The time is out of joint; O cursed spite,
That ever I was born to set it right;"

all alike are interesting and attractive and awaken a melancholy envy in the breasts of those who have passed through the early shining years which to them are never to return. How keenly do we long to have all those fascinating attributes of the young and wise, to behold again all the fair visions of the morning of life. How we wish we could possess once more, whether as optimists, pessimists, or cynics, the finality, the completeness of judgment, the certainty of decision, the unfaltering condemnation of all who seem to differ with us in which we rejoiced in the days when the limits of life were hidden in the mists of the future. There are no compensations for such losses as these, but the merciless years bring at least their lessons, for they are the most effective if the most severe teachers to all who cannot avoid thought. He, whose

mournful incapacity for the production of new ideas has come sharply home to him, has the added pang of knowing how eagerly he thirsts for those new ideas from others and how much his ability to recognize an old idea has been developed and increased. Setting aside the endless inventions and discoveries of science, he becomes aware of the extreme rarity of really new ideas in all that concerns society and government or the relation of men to each other. He takes up the book of intelligent and earnest youth in which the world is to be set right and after receiving the Rhadamanthine sentence upon himself and his coevals, a sentence from which there is no appeal, he sets out with the hope that springs eternal to find the new ideas for which he longs and which will solve the problems which have for so long pained and troubled him. He reads the book, clever, confident, often ingenious, not marked by a sense of humor, which is an older quality, but sure of everything and splendidly condemnatory of all differences of opinion. Then he lays it down with a sigh of disappointment. The ideas, however tricked out and newly dressed, are old friends with whom he has much more than a bowing acquaintance. They may be new to the writer, but they are old to the reader who has had the misfortune to live longer. So the reader, as so often before, tries to be philosophical and begins to reflect upon the alleviations for his disappointment. In relation to society and government it may be repeated that new ideas are rare; in regard to the latter, perhaps not more than two really large and new ideas have been developed in as many millenniums. Has not all progress, moreover, been attained chiefly by the energy of youth in striving to apply old ideas to changed environments and new conditions? There is comfort in the thought. The only suggestion to be made is that an ardent zeal to reform the world need not necessarily be accompanied by an entire recklessness in dealing with existing arrangements which have slowly been evolved and which represent the thoughts and hopes of mankind to which they have been adapted. It would seem that in making changes and what we believe to be advances by the application of old ideas to altered facts we should do well to remember that the prime factor in our many problems is human nature and that human nature, after all, is very permanent. I do not mean permanent in terms of the universe, which we have reason to think is never at rest, but permanent relatively within the very contracted limits

of man's recorded history. This, by the way, is not a new idea. The best known of Roman poets wrote nearly two thousand years ago, "Naturam expellas furca, tamen usque recurret," and the thought, if ne'er so well expressed, was probably some thousands of years old when Horace wrote it down. Setting aside differences of place and race and time, which are largely superficial and perishable, there is nothing within our knowledge at once so uniform, so widely distributed and so unchanging, as human nature in its broad outlines and fundamental qualities.

A brilliant French critic has said that two great emotions have governed mankind and made his history—love and greed; the one as beautiful as the other is unlovely and potent. Whether these are the only ruling passions need not be discussed but they certainly are examples of two at least of the enduring elements in human nature. The young voices murmuring under the shadows of the great Pyramid in the days of Chefredjef;

"the whispers
Of plighted youth and maid,
In April's ivory moonlight
Beneath the chestnut shade,"

so beloved, we are told, of Venus, did not differ in essence from the words and vows interchanged by maidens and youths in appropriate circumstances under our own superior and more refined civilization. We may also be sure that selfishness has always been an attribute of human nature. I note this here because nations of whose affairs and relations I am about to speak are but aggregations of human beings and therefore selfishness is their attribute also, but with this important difference, that in masses of men it is almost never controlled or conquered by the nobler emotions as it is constantly and very splendidly in the individual man.

So it is that when we come to attempting changes in society or government, it is well to remember that the prime condition of our problem, human nature, is a permanent one and that the past, therefore, whether our guiding idea is most improbably new or is an old idea with a new adjustment, may possibly furnish some useful hints as to the method and outcome of such changes. I know by heart the reply to this suggestion: "Oh, that is all very well, but all these things happened a long time ago and everything is different now." As an objection, this, if I may venture to say so,

has never appeared to me quite conclusive. The Ten Commandments happened a long time ago but that does not seem to justify us in not inculcating them today. It is nearly two thousand years since the beautiful and immortal teachings of the New Testament were given to mankind but no one, I imagine, would suggest that for that reason they should be laid áside. The Epistles of St. Paul, the dialogues of Socrates, the writings and discourses of Plato and Aristotle are all old as finite man computes time, but I should be sorry to dismiss them or refuse to consider them because of their age. The writings of these men dealt with what was most lasting in human nature, with right and wrong, with good and evil, with the highest morals, with things spiritual and things of this world. These thoughts were ancient at their birth and never have grown old. They are always old and always new. So it is with great men, the chosen exemplars of the race of man. Some of them at least have shown qualities which we may do well to study and imitate, which it might be wise to apply to our own problems as they applied them to theirs. Thus, after a long circuit, I come back to where I began. We, most fortunate, have one of these great men, who was also a good man, a very shining figure in the forefront of our nation's life. He dealt with life on a very large scale with high and rare success. One of his most salient qualities was the power of seeing facts just as they existed, without fear or favor, and therefore of meeting them with clear veracity of purpose and with all the strength of mind which had been granted him.

A great quality this, a great power, always much needed, as I have said, in our daily life here in the United States but more particularly demanded at this present moment when the world is facing one portentous and awful fact which has excluded almost everything else from the thoughts of men. For nearly a year that fact has been with us in the form of the most desolating and destructive war which has ever afflicted mankind. In this country, far removed from the scene of strife, with its daily existence flowing on untroubled, with its habits of life unbroken, untouched by the war until the wanton killing of unresisting men and helpless women and children on the Lusitania except in its trade, its commerce and its monetary interests, the great conflict is none the less ever present in our minds. Its dark shadow falls across the pathway which

from day to day is trodden by each one of us. We wake in the morning with that vague sense of trouble which anxiety brings and which defines itself in sharp outline as the merciful oblivion of sleep passes away. Like a personal sorrow there comes between our eyes and the page we read, or the sheet of paper on which we write, a vision of fighting men and blood-stained trenches, of women and children homeless, outraged, mutilated, dead; of the houses of God and man shattered into hideous ruin. Our sympathies have been awakened as never before and have manifested themselves in a generous aid to the suffering across the ocean to a degree never shown by a neutral nation in all the recorded wars of history. To the unhappy and innocent people who in the twinkling of an eye have been deprived of a country and have found themselves cast forth, penniless wanderers upon the earth, we have held out our hands to lift them up with a generous kindness which will always be one of the best memories of the American people. If such has been the effect upon us, far distant, sheltered in our neutrality, how infinitely greater has been the effect upon the nations engaged in war and throughout those wide regions of Europe which for months have resounded with the clash of arms and where the air has been rent by the thunder of cannon and darkened by the dust and smoke of crumbled towns and desolated farms. In the presence of that vast struggle the interests, the habits of the life which seemed so permanent, have disappeared. The fantastic growths in art which absorbed the public attention and sought to make eccentricity pass for originality; the sexual novel, the effort to make us believe that clinical lectures and medical reports were drama, with much else of imaginary importance have withered in Europe before the fierce heat of the struggle of nations for life. The veils of what we call civilization have been torn away. Those conventions, which are merely its manifestations but which we are wont to mistake for fundamental principles, have been flung aside. An unrelenting, a grim reality stares us in the face. If we are to learn anything from it, if we are to do anything to prevent its return, we must first look at it with steady eyes and see just what it is. I am not concerned here with the rights or wrongs, with the guilt or the innocence of those engaged in the war, nor by reality do I mean the horrors of war. Every man and woman who can think knows what those horrors are. Death, destruction, physical anguish, sorrow, misery,

have been before our eyes for months. The vocabulary has been worn out in describing them. There is no need of repeating more exhausted words when all words are vain. What we need to look at is the great dominant fact which stands out in the midst of all the horrors and all the fighting. I read a letter not long since from a young French officer who said that the one thing which filled his mind was not the daily danger and the constant suffering but the return of all about him, on both sides, to the condition of primitive man. In a few weeks they had crossed all the evolution of centuries with its slow upbuilding of civilization and returned to the state of mind which was of immemorial antiquity when the little space covered by our recorded history began. If we pause to think, although we ourselves are not engaged in the struggle, we shall realize that we have felt:

“That jar of our earth, that dull shock
When the plowshare of deeper passion
Tears down to our primitive rock.”

And now what is it that is disclosed? We can put it all into a sentence. What we see is unchained physical force multiplied beyond computation by all the inventions and discoveries of an unresting science, as potent in destruction as it is in beneficence.

How is such a use of physical force, unlimited in its power, terrible in its consequences, to be avoided? How is peace to be established and maintained hereafter among the nations of the earth? One thing is certain, it cannot be done by words. Nothing will be accomplished by people who are sheltered under neutrality, gathering outside the edges of the fight and from comfortable safety summoning the combatants to throw down their arms and make peace because war is filled with horrors and women are the mothers of men. The nations and the men now fighting, as they believe, for their lives and freedom and national existence know all this better than any one else and would heed such babble, if they heard it, no more than the twittering of birds. In our Civil War when we were fighting for our national life, England and France and other outsiders were not slow in telling us that the Union could not be saved, that the useless carnage ought to cease, that peace must be made at once. Except as an irritating impertinence we regarded such advice as of no more consequence than the squeaking of mice behind the wainscot when fire has seized upon

the house. Neither present peace, nor established peace in the future for which we hope, is helped by fervent conversation among ourselves about the beauties of peace and the horrors of war, interspersed with virtuous exhortations to others who are passing through the valley of the shadow, to give up all they are fighting for and accept the instructions of bystanders who are daring and sacrificing nothing and who have nothing directly at stake. Peace will not come in this way by vain shoutings nor by mere loudness in shrieking uncontested truths to a weary world. No men or women possessed of ordinary sense or human sympathies need arguments to convince them that peace among nations is a great good, to be sought for with all their strength, but the establishment and maintenance of peace cannot be accomplished by language proclaiming the virtues of peace and demonstrating the horrors of war. The many excellent people who may be described as habitual if not professional advocates of peace appear to be satisfied with uttering and listening to speeches about it. They seem to think great advances are made if we put our official names to a series of perfectly empty and foolish agreements which it is charitable to describe as harmless follies, for they weaken and discredit every real treaty which seeks to promote international good will and settle international differences. They are so vain and worthless that, when the hour of stress came, no one would think it worth while even to tear them up. Treaty agreements looking to the peaceful settlement of international disputes and which can be carried out are valuable to the extent to which they go, but treaty agreements which go beyond the point of practical enforcement, which are not meant to be enforced, and which have neither a sense of obligation nor force to sustain that obligation behind them, are simply injurious. If we are to secure our own peace and do our part toward the maintenance of world peace we must put rhetoric, whether in speech or on paper, aside. We must decline to be satisfied with illusions. We must refuse to deceive ourselves or others. We must pass by mere words and vague shows and come clear-eyed to the facts and the realities. The dominant fact today, I repeat, is the physical force now unchained in this great war. Some people seem to think that if you can abolish force and the instruments of force you can put an end to the possibilities

of war. Let us for a moment go to the roots of existing things. Let us make the last analysis.

When I was a very young man I saw a large part of my native city swept away by fire in a single night. The calamity brought with it an enormous destruction of property, of the accumulated savings of years and much consequent suffering, both direct and indirect. What was the cause of this destruction and suffering? There was only one—fire. Not fire from the Heaven above or the earth beneath, but fire produced and used by man, set loose without control. The abolition of fire would undoubtedly have prevented a repetition of this disaster, but no one suggested it. The impossibility of attempting to stop the destruction of life and property through fire by abolishing fire itself was as apparent as its absurdity. Somewhere in the dim unwritten history of man upon earth a great genius, perhaps several great geniuses, discovered the production and control of fire. In the earliest traces of man there is, I think, as yet no proof of his existence without fire, and yet we know that at some period he must have discovered its production and control. Even when we come far down to the little fragment of time covered by man's recorded history we find that the thought of the production and control of fire as the greatest of discoveries still lingered in the human mind and found its expression in the symbolism of the beautiful Promethean myth. Fire, therefore, has probably been with man as his servant for a period which could only be expressed in the vast terms of geology. In large measure, society and civilization rest upon the use of fire. Without it, great spaces of the earth's surface would become not only useless to man but uninhabitable. Without it, the huge and intricate fabric of modern civilization in its present form would not exist. Therefore no argument is needed to convince men that the miseries and misfortunes caused by uncontrolled fire cannot be escaped by the abolition of fire itself. Relief must be sought not in abolition but in a better and wiser control which will render it difficult at least for man's best servant at any time to become his master. It is unchained force with the dread accompaniments of science which is today destroying life and limb, happiness, industry, property, and the joys and beauties of the art and devotion of the dead centuries. Is the terrible problem here presented to be solved by the abolition of the physical force possessed by nations? Go back again to the dark beginnings and study the

comparatively few years, eight or ten thousand at the outside, of which we may be said to have a record.

In the dim light of that remote dawn we see men engaged in an unending conflict with the forces of nature, struggling with the wilderness, with wild beasts, with heat and cold and continually fighting with each other. Gradually they emerge in tribes with leaders, and then come states, communities, kingdoms, empires. But among all these confused events which make up history we find, I think, that the one fact which marks the development of every organized society, whether rude or complicated, of every political entity whether great or small, is the substitution of the will of the community and the protection of the community for the will of the individual and for the self-protection which each man naturally exercises. The one unfailing mark of what, for lack of a better word, we call civilization is this substitution of the force of the community, embodied in law and administered by what we describe as government, for the uncontrolled sporadic force of each individual member of the community. Wherever man is left to his own protection and his own defense there is nothing possible but personal fighting and general anarchy. The man possessed of the greatest physical force and the most effective weapons is the best protected. About him others gather and submit to his leadership and give him their support in return for his protection. Then we have the predatory band which found its highest expression in the feudal system. Gradually one band or lordship conquers or unites with itself other bands or lordships and they establish control over a certain territory; a state emerges, and the process is repeated on a larger scale by the conquest or union of other states. Physical is supplemented by intellectual force and we have at last the kingdom, the great republic or the mighty empire. But under it all lies the replacement of the scattered force of the individual by the consolidated force of the community and power, order, commerce, art and peace, rest in the last analysis upon the force of the community expressed in government of some sort, such government being merely its instrument and manifestation. You may carry your inquiry across the whole range of history and over the earliest human societies of which we have knowledge to the vigilance committees of the far West and you will find that law, order and peace, were brought about by men coming together and exercising the united force of the community, great or

small, in order to put an end to the chaos and disorders of uncontrolled force exercised by each individual. When the civilization and the society reach a high point of organization, the underlying force upon which the entire social and political fabric rests is exerted and is often effective through what may be called merely a symbol. The longest period of general peace covering a large region of the earth of which we have knowledge in historic times was probably that of the Roman Empire, which endured for some three centuries. There was fighting on the widely extended frontiers at intervals diminishing in length as the end approached. After the decline began there were internal wars also at intervals with the imperial purple as the prize, but on the whole through the first three centuries of our era the general condition of the Roman Empire and throughout most of its extent was one of peace. That time is still referred to as the period of the Pax Romana.

In his romance of the "Last Days of Pompeii," Bulwer makes a dramatic point of the Roman sentry motionless at his post while the darkness and the flame and the burning flood were rushing down upon the doomed city. That solitary sentry was the symbol of the force of the Roman Empire. Peace, order and law reigned throughout all western Europe, but it was the gleam upon the sword and corslet of the Roman legionary which made men realize that behind that law and peace and order was the irresistible force of the Empire of Rome. Even before that time the force which the sentry in Pompeii represented found like symbolic expression when the younger Scipio went upon a mission to the eastern kingdoms accompanied by only five servants. He went thus alone in safety and with respect attendant on his footsteps because behind him invisible but ever present was the fighting force of the dreaded Republic.

Let me take a more homely illustration. We have all seen in London and New York police officers stationed at points where the traffic is densest, regulating and guiding its movement by merely raising one hand. They would be perfectly incapable of stopping the vehicles carrying on that traffic, by their own physical force. It could pass over them and destroy them in a moment, and yet it is all governed by the gesture of one man. The reason is simple; the policeman is the symbol of the force of the community against which no individual force can prevail, and of this the great

mass of individuals are thoroughly if unconsciously aware. Law is the written will of the community. The constable, the policeman, the soldier, is the symbol of the force which gives sanction to law and without which it would be worthless. Abolish the force which maintains order in every village, town and city in the civilized world and you would not have peace—you would have riot, anarchy and destruction; the criminal, the violent and the reckless would dominate until the men of order and the lovers of peace united and restored the force of the community which had been swept away. It is all obvious enough, it all rests on human nature, and if there was not somewhere an organized force which belonged to the whole community there would be neither peace nor order anywhere. No one has suggested, not even the most ardent advocates of peace, that the police of our cities should be abolished on the theory that an organization of armed men whose duty it is to maintain order, even if they are compelled often to wound and sometimes to kill for that purpose, are by their mere existence an incitement to crime and violence. If order, peace and civilization in a town, city or state, rest, as they do rest in the last analysis, upon force, upon what does the peace of a nation depend? It must depend, and it can only depend, upon the ability of the nation to maintain and defend its own peace at home and abroad. Turn to the constitution of the United States. In the brief preamble one of the chief purposes of the constitution is set down as provision for the "common defense." In the grant of powers to Congress one of the first powers conferred is to provide for the "common defense of the United States." For this purpose they are given specific powers; to raise and support armies, to provide and maintain a navy, to provide for calling forth the militia, suppressing insurrections and repelling invasions. The states are forbidden to engage in war unless actually invaded, and the United States is bound to protect each of them against invasion and, on their request, to protect them also against domestic violence. In other words, the constitution provides for the maintenance of order at home and peace abroad through the physical force of the United States. The conception of the constitution is that domestic order as well as peace with other nations rests upon the force of the nation. Of the soundness of this proposition there can be no doubt, I think, in the mind of any reasonable man. This obvious principle embodied in the constitution and recognized by every organized govern-

ment in the world is too often overlooked at the present moment in the clamor against armament. The people who urge the disarmament of one nation in an armed world confuse armament and preparation with the actual power upon which peace depends. They take the manifestation for the cause. Armament is merely the instrument by which the force of the community is manifested and made effective, just as the policeman is the manifestation of the force of the municipal community upon which local order rests. The fact that armies and navies are used in war does not make them the cause of war, any more than maintaining a fire in a grate to prevent the dwellers in the house from suffering from cold warrants the abolition of fire because where fire gets beyond control it is a destructive agent. Alexander the Great was bent on conquest and he created the best army in the world at that time, not to preserve the peace of Macedonia but for the purpose of conquering other nations, to which purpose he applied his instrument. The wars which followed were not due to the Macedonian phalanx but to Alexander. The good or the evil of national armament depends not on its existence or its size but upon the purpose for which it is created and maintained. Great military and naval forces created for purposes of conquest are used in the war which the desire of conquest causes. They do not in themselves cause war. Armies and navies organized to maintain peace serve the ends of peace because there is no such incentive to war as a rich, undefended and helpless country, which by its condition invites aggression. The grave objections to overwhelming and exhausting armaments are economic. A general reduction of armaments is not only desirable but is something to be sought for with the utmost earnestness. But for one nation to disarm and leave itself defenseless in an armed world is a direct incentive and invitation to war. The danger to the peace of the world then lies not in armament, which is a manifestation, but in the purposes for which the armament was created. A knife is frequently dangerous to human life, but there would be no sense in abolishing knives because the danger depends solely on the purpose or passion of the individual in whose hand the knife is and not upon the fact that the knife exists. The peace of a nation depends in the last resort, like domestic order, upon the force of the community and upon the ability of the community to maintain peace, assuming that the nation lives up to its obligations, seeks no con-

quest, and wishes only to be able to repel aggression and invasion. If a nation fulfills strictly all its international obligations and seeks no conquest and has no desire to wrong any other nation, great or small, the danger of war can come only through the aggression of others, and that aggression will not be made if it is known that the peace-loving nation is able and ready to repel it. The first step then toward the maintenance of peace is for each nation to maintain its peace with the rest of the world by its own honorable and right conduct and by such organization and preparation as will enable it to defend its peace.

This should be our policy. We should show the world that democracy, government by the people, makes for peace, in contrast to the government of a military autocracy which makes for war. We should demonstrate this by our own conduct, by justice in our dealings with other nations, by readiness to make any sacrifices for the right and stern refusal to do wrong; by deeds, not words, and finally by making the whole world understand that while we seek no conquests we are able to repel any aggression or invasion from without for the very reason that we love peace and mean to maintain it. We should never forget that if democracy is not both able and ready to defend itself it will go down in subjection before military autocracy because the latter is then the more efficient. We must bear constantly in mind that from the conflict which now convulses the world there may possibly come events which would force us to fight with all our strength to preserve our freedom, our democracy and our national life. But this concerns ourselves and will only have the slow moving influence of example. What can be done now? What can we do in the larger sense toward securing and maintaining the peace of the world? This is a much more difficult question, but turn it back and forth as we may there is no escape from the proposition that the peace of the world can only be maintained, as the peace and order of a single community are maintained, as the peace of a single nation is maintained, by the force which united nations are willing to put behind the peace and order of the world. Nations must unite as men unite in order to preserve peace and order. The great nations must be so united as to be able to say to any single country, you must not go to war, and they can only say that effectively when the country desiring war knows that the force which the united nations place behind peace is irresistible.

We have done something in advancing the settlement by arbitration of many minor questions which in former times led to wars and reprisals, although the points of difference were essentially insignificant, but as human nature is at present constituted and the world is at present managed there are certain questions which no nation would submit voluntarily to the arbitration of any tribunal, and the attempt to bring such questions within the jurisdiction of an arbitral tribunal not only fails in its purpose but discredits arbitration and the treaties by which the impossible is attempted. In differences between individuals the decision of the court is final, because in the last resort the entire force of the community is behind the court decision. In differences between nations which go beyond the limited range of arbitrable questions peace can only be maintained by putting behind it the force of united nations determined to uphold it and to prevent war. No one is more conscious than I of the enormous difficulties which beset such a solution or such a scheme, but I am certain that it is in this direction alone that we can find hope for the maintenance of the world's peace and the avoidance of needless wars. Even if we could establish such a union of nations there might be some wars which could not be avoided, but there are certainly many which might be prevented.

It may be easily said that this idea, which is not a new one, is impracticable, but it is better than the idea that war can be stopped by language, by speechmaking, by vain agreements which no one would carry out when the stress came, by denunciations of war and laudations of peace, in which all men agree, for these methods are not only impracticable but impossible and barren of all hope of real result. It may seem Utopian at this moment to suggest a union of civilized nations in order to put a controlling force behind the maintenance of peace and international order, but it is through the aspiration for perfection, through the search for Utopias, that the real advances have been made. At all events it is along this path that we must travel if we are to attain in any measure to the end we all desire of peace upon earth. It is at least a great, a humane, purpose to which, in these days of death and suffering, of misery and sorrow among so large a portion of mankind, we might well dedicate ourselves. We must begin the work with the clear understanding that our efforts will fail if they are tainted with the thought of personal or political profit or with any idea of self-interest or self-

glorification. We may not now succeed, but I believe that in the slow process of the years others who come after us will reach the goal. The effort and the sacrifice which we make will not be in vain when the end in sight is noble, when we are striving to help mankind and lift the heaviest of burdens from suffering humanity.

UNARMED NEUTRALITY

BY ALBERT BUSHNELL HART,

Harvard University.

The administration at Washington in its policy of neutrality is navigating a foggy sea strewn with rocks, along coasts where the lighthouses have been put out and the buoys changed into floating mines. President Wilson is still manfully trying to use the regular charts of treaties and international law; and insists upon sailing the good old compass courses. In a world full of roarings and vaporings, the United States is the one great power in the world which continues to base its policy upon permanent lines of good will. Even Italy and China, the only other populous nations of the earth which have not been drawn into the war, find their neutrality strained to the utmost by the demands of neighboring powers. Every belligerent has set up some new and strange doctrines of its own in international affairs, put forward in the hope to realize some small and temporary advantage over its military adversaries. While it is not true that international law has for the time being gone into "innocuous desuetude," it is true that the three powers with which we come closest into touch—Great Britain, Germany and France—all make use of what we might call an eclectic international law, choosing the principles that suit them, and filling in the gaps with new ideas of their own.

Confusion Worse Confounded

One reason for the present confusion on this subject is that too much stress has been laid upon documentary international law, such as Hague Conferences, Declarations of London, treaties, and the generalizations of the text writers; and too little attention has been paid to the fundamental reasons why there should be neutrals, neutral rights and neutral trade. Hence an international mix-up. Germany notifies the world that the seizure of provision ships and cargoes is so contrary to all principles of international law, that it justifies the sinking of American merchantmen bound to English ports, without even the opportunity for the crew to escape. Then

in the *Frye* case, the Germans insist that the capture of the cargo of the *Frye* was justified because it was consigned "for orders" to Liverpool, which is a fortified port; and the German presumption was that it was intended for the British government. Germany then turns round and politely promises reparation for the destruction of the vessel because of a treaty of 1828 between Prussia and the United States to which the United States had not alluded. This treaty, by the way, like the Belgian neutrality treaties of 1831 and 1839, was made by Prussia but is recognized as valid by the Empire of Germany; while many German writers have insisted that the Belgian treaties ceased to have binding force when Prussia and other states joined in a federal union.

England is equally illogical. In 1908 that power asked that the question of maritime law in time of war be left out of the Hague discussions, in order that they might be treated in a separate conference in London. The resulting Declaration of London of 1911 was satisfactory to Great Britain and was signed by her representatives, but appears to have been held up by a technicality in the House of Lords. Nevertheless when the present war breaks out, Great Britain announces that she will stand by the Declaration of London; then modifies the list of contraband in that Declaration; again alters that list to the extent of including rubber as contraband, which by the Declaration is declared to be under no circumstances contraband; then throws the whole theory of contraband to the winds by claiming the right to capture any vessel bound to enemy's ports, or cargoes ultimately destined to enemy's territory. This is not so much a "scrap of paper" as a scrap heap of papers.

Disturbed Neutrality

The only way out of this mix-up is for the United States to insist, yesterday, today, and every day to the end of the war, that whatever mean or brutal thing the belligerents may do to each other, the United States stands unmoved upon its right to be a neutral and to act as a neutral. From that safe and sane position, steady efforts have been made to drive the United States. Both continental Eurus and insular Boreas have blown with all their might to deflect the United States from its steady middle course. Englishmen write with grief and disappointment of the unwilling-

ness of the United States to realize that the Allies are fighting the battles of America; and that we ought to come to their aid by land and sea. Their treatment of our neutral ships, however, is not prepossessing. It gives some color for the German charge that the purpose of Great Britain is to get control of all the seas and make the laws of trade for other nations. On the other side, the Germans, officially, unofficially and German-Americanly insist that the United States has made itself one of the allies by furnishing munitions to the enemies of Germany. We are told that the blood of German soldiers killed by shrapnel manufactured in America will cry out against us. Just what would be the legal status of the blood of British soldiers who were killed for the lack of our shrapnel does not distinctly appear! Nor is it plain how to classify the blood of the Servians, killed by German shrapnel fired from Turkish guns in 1912, and from Bulgarian guns in 1913.

Nevertheless, nothing is clearer than that there is a steady accumulation of anger and hostile feeling toward the United States. The English are not altogether displeased that the United States should remain neutral, because they are getting the goods. The United States shows no moral objection to furnishing superior shrapnel to shed the blood of soldiers in any uniform. The English have driven all but one of the German commerce destroyers off the seas; they are feeding and supplying themselves, notwithstanding the German submarine campaign; and they are receiving supplies of food and ammunition from the United States in any desired quantity. It is true that they have accomplished this by their superior naval power, combined with a sublime indifference to their own principles of neutral trade.

The Germans, however, are in a very different case. Quite contrary to their expectations and to the probabilities as shown by the experience of the Southern Confederacy in our Civil War, they have been unable seriously to damage British merchant commerce. Great Britain is relentlessly uprooting neutral commerce, which means substantially the American commerce with Germany and her allies. The English have hoped to starve out the Germans, exactly as the Germans have hoped by battleships, aircraft or submarines, to starve out the British Islands. The consequent frame of mind among thoughtful Germans seems to be not unlike that of thoughtful Northerners during our Civil War. We felt

a sense of passionate resentment against the British people because they were akin to us in civilization, and were supposed to be a lofty and high-minded people who should sympathize with the aspirations of a great nation. The Americans insisted that the British government was bound to take precautions against commerce destroyers, such as it had never taken before. The United States rolled up, and once actually presented, a bill for a thousand million dollars for the prolongation of the war. That fierce feeling, which we now see to be not wholly reasonable, lasted for thirty-five years. It was extinguished only by an apology from Great Britain followed by a so-called arbitration in which Great Britain accepted a hand upon which she must inevitably lose the game. Fifteen and a half million dollars for the Alabama Claims were paid in cash. Still it was not till the Spanish War of 1898 that John Bull again became the favorite cousin.

It looks now as though there would be a similar experience between Germany and the United States. From the first week of the war to the present time the point of view of the most intelligent German subjects in the United States has been that they were unwarrantably deprived of the natural sympathy of the American people. What they expect of the United States government is what we expected of the British government—not a cold impartiality but a decided leaning in their favor. Without insisting on a direct violation of neutrality as a mark of friendship, the Germans have expected that the United States would go to the extreme in their behalf. They would like a prohibition of export of military munition, or, failing that, an embargo like that of 1807 which cut off all exports. They want the American newspapers, universities and chambers of commerce to think that the Germans are in the right; and they feel that a failure so to think must have a malevolent motive. This is a serious state of things for America—one of the most troublesome results of the war; and it is likely to leave behind it a legacy of international irritation.

Neutral Obligations

Nevertheless it is impossible for the United States to avoid this distressing state of things. First because it is not only a bad moral policy to rob Peter in order to pay Paul, but because Paul is likely

to make himself heard on the subject in the future. Still more because it is not the duty of the people of the United States to give either physical or moral support to either side. The woe of Belgium has led the Americans to join in one of the most magnificent outbursts of practical charity ever known to mankind; but if the United States felt itself bound to go to war to defend the neutrality of every neutralized state and strait, it would be in the position of the gendarme in the play written by the boys in a French lycee. The culminating incident is the benevolent gendarme discovering a poor woman on the curbstone.

"What is the matter, my unfortunate one?" he inquires. "Alas, I am so wretched. I have lost my husband, my brothers and sisters, my children. I am homeless, I am starving. I have nowhere to go." "Poor woman, what can I do for you?" says the gendarme. Thereupon a happy thought comes to him. He draws his hanger and stabs himself—you understand, to show his sympathy! A cooler-headed gendarme might have taken the poor woman into the nearest restaurant and revived her with nourishing food and drink, and then he could have rescued another unfortunate on some other day.

The United States has troubles of its own—present and impending—and may thank God that it is outside of the realm of trenches and bombs and poisonous gases. It is the duty of this country to stand solidly and continuously by the great principle that it has a sovereign, national right to stay out of a war just as much as to go into it. We cannot command the great belligerents to lay down their arms, nor can they compel us to take up arms. The United States has an unrivalled opportunity to show that personal sympathies with either side cannot push the government from its consistent duty of preventing military expeditions, or the building of warships or the enlistment of troops, within our boundaries; that it will allow no foreign ships of war to make the United States their base of operation. When the war is over,—for that date also is written in the books of the fates—the United States will have an honorable record in this respect. The difficulties of the Washington government during the Civil War, and its insistence at that time on more than common neutrality on the part of other powers, are the best examples for the present.

Meaning of Contraband

In spite of all efforts to befog the issue the United States has a body of neutral rights, to which it is the more entitled because of its care to fulfill its obligations. Those neutral rights do not depend upon treaties, or Hague conventions or the good nature of desperate antagonists. It lies in the nature of human society and the organization of states. The bottom principle in the civilized world is that peace and commercial intercourse are normal among nations; and that no two powers are required to become enemies because one of them is engaged in war. The seizure of the property of belligerents at sea has been a factor in wars for many centuries. If it is an undesirable part of war—which is far from being self-evident—nevertheless it does exist in the year 1915. No matter how ferocious the belligerents have been between themselves, how regardless of the ordinary methods of making war; still their misbehavior carries with it no right to interfere with the relations of the United States to both sides. If my neighbors right and left are engaged in a hullabaloo because the chickens of one stray into the backyard of another, and the other's dog disposes of them; why shall not my children continue to slide down the cellar door of both premises?

We seem to forget that the ships of the United States and other neutrals have the same right to sail the seas and to enter the ports of all the belligerents as though there were no war going on—subject only to the principle that neutrals must not interfere with actual military and naval operations. Mines are now the ordinary defence of seacoasts and neutrals must take every precaution against them when approaching a coast or entering a port, and an area where a sea-fight is going on is not a suitable place for merchant steamers of any kind. With those exceptions there are only two substantial limitations on neutral trade. The first of these is contraband—a term which every student of international law thought he understood until the present war. The reason for seizing contraband is simply that it is a direct participation in land and sea operations. Although by the custom of nations no government is bound to prevent the shipment of contraband, no government will protect it, once outside its ports; or make any reclamation for its capture, if it be truly contraband.

Partly through the attitude of the United States on that ques-

tion in the Civil War, the world has adopted the principle of "continuous voyages," which is in effect that a contraband cargo destined for a belligerent may be seized if on its way to a neutral port.

The crux with regard to contraband is the list of contraband articles. And here the only question is whether the cargoes do actually and directly aid the recipient to carry on hostilities. The suggestion of the English that cotton ought to be contraband because a very small proportion of the cotton shipped might be transformed into explosives is ridiculously far fetched. Copper seems to be a necessity for making of munitions, and perhaps might be added. Petrol is obviously likely under present conditions to be used in the field; but what about steel, without which guns could not be cast and automobiles could not be built? Upon this whole question of the list of contraband the State Department has been weak; for while manfully protesting against delays and exasperations in the proceedings on vessels seized on the basis of contraband, it has never formally protested against the ever expanding British list; it has never clearly applied the touchstone of actual military use to the articles held up by the British; and it has once incautiously admitted the "law of necessity" as a valid reason for altering the ordinary practices of international law.

Meaning of Blockade

In the discussions of blockade, also, there has been a hesitancy to base the position of the United States on the solid ground of the real nature of blockade. It is a common practice of war to invest a port by sea, partly to cut off its commerce, partly to prevent supplies reaching the coast—always as a positive, active military measure. The United States, during the Civil War, captured vessels anywhere on the high seas bound to the ports of the Southern Confederacy, because outside each of those ports it had a competent blockading squadron. Any vessel attempting to enter or to leave that port was therefore directly interrupting the operations then going on, and if captured was good prize.

That was the sort of blockade which it was supposed the immense British fleet would institute against the German coast, and the United States would never for a moment have questioned the capture of ships bound to actually invested ports. For reasons

best known to themselves the British have not thought it prudent to establish such forces off the coast. They do not feel physically able to keep up such a blockade. Having failed therefore in what was supposed to be its obvious method of attack, Great Britain has now declared a blockade which is not a blockade. The use of the word in the British Orders in Council is delusive. And this bitter pill is to be sugared by the declaration that neutral vessels and cargoes which may be bound to belligerent ports shall be captured and then paid for.

The American government has officially admitted to England that "the methods of modern naval warfare . . . may make the former means of maintaining a blockade a physical impossibility." Then instead of drawing the logical deduction that if a blockade is a physical impossibility it can neither be instituted or respected, our government accepts the new kind of blockade, which is practically the closing of the English Channel and the water routes to the north of the British Islands, which had for uncounted ages been the common property of mankind. A neutral vessel entering the North Sea without the consent of Great Britain in no way interferes with British warfare. The action of the British and German governments in declaring areas on the high seas to be "military areas" or "zones of war" has no more justification than it would be to hold that the Straits of Belleisle or the channel between Key West and Cuba were no longer open for American commerce.

Protection of Neutral Rights

To protect these rights which have been so wantonly violated by two great powers is a hard matter. The United States has remonstrated in a manly and dignified tone, though at no time covering the whole ground of just complaint. In the days of the Orders in Council and Decrees, more than a century ago, we learned the stern lesson that appeals to humanity and common sense are of little weight in the midst of such passions. It has been suggested that the remaining neutral powers ought to organize as did Russia, Holland and other European powers in the famous Armed Neutrality of 1781; that they should lay down a program of their rights as neutrals, and insist that the neutrals should respect them. Such joint action would doubtless have some influence, and it would

remain on record as a counsel of perfection. Both Great Britain and Germany in this controversy have argued courteously for the absolute necessity of their behavior as a special measure intended to countervail the awful depravity of the other's action. And Great Britain on the question of the procedure of seizing vessels and prize courts promised amendment which has hardly been carried out. On the essential point, however, of capturing or destroying American merchantmen which have a right to an untroubled voyage, they are alike stubborn. Perhaps sometime a bill for damages may be presented to one or to the other offending power.

Certainly the United States could protest with vastly more effect if it had a navy of the same kind as that of Great Britain and Germany—that is, a navy including a number of fast and massive dreadnoughts, and also including a large flotilla of destroyers and of submarines, and a suitable aerial contingent. The friendship and the trade and good will of the United States are worth having, but not sufficiently so to protect our interests in a time of crisis. The neutrality of the United States has to be maintained with a slender military backing. The United States is standing up as the champion of the neutral world, and is maintaining principles which would otherwise go under. Nevertheless nine months of war have been a sufficient proof that unarmed neutrality is a steam launch in a cyclone. However sound or seaworthy, the most it can expect is to live through the storm.

SIX ESSENTIALS TO PERMANENT PEACE

BY AUGUST SCHVAN,
Stockholm, Sweden.

A year and a half ago The Lord Chancellor of England passed through New York on his return from the meeting of the American Bar Association in Montreal. Before he embarked he said to a reporter that as far as he could see America would fifty years hence become the leading intellectual nation of the world. At that time, I happened to be in Canada and in a Canadian paper I observed the following comment upon Lord Haldane's utterance. "His only excuse," it said, "for not having seen that the U. S. A. already is the leading intellectual nation is that he only passed two days on American soil." The test whether Lord Haldane or the Canadian editor was right will come at the end of this war. It gives to the United States the greatest opportunity for service to humanity which ever was given to any nation. If the United States seizes that opportunity, I believe, with the Canadian newspaper, that the Lord Chancellor of England made a false statement. The whole of his address to the huge meeting of the prominent lawyers who assembled in Montreal centered in the proposition that "Sittlichkeit" ruled the world to a far greater extent than mere law.

Through the events of the last eight months we have been able to somewhat scrutinize the truth of this proposition. Culture and "Sittlichkeit" have received some startling interpretations.

Let me at once add that this German word might very well be translated into the very good English noun "Righteousness" of which Colonel Roosevelt speaks as often as he wants to impose his own standards upon the rest of the world with the help of the armed forces of this great country. He evidently forgets that righteousness can no longer be an outcome of theological conceptions. He overlooks the timely withering away for inspired doctrines as they have been promulgated in the past either by priests or by emperors.

With the birth of the concept of evolution, righteousness can

mean nothing else but adaptation to the environment, taken in its largest meaning, that is to say, embracing not only the whole of nature apart from man but also all those human beings who happen to live on this little planet at the same time.

If this definition of righteousness be granted, as it needs must be by all those who care for scientific truth, the real cause of the awful calamity which at present ravages the earth is easily discernible. The disastrous effect of outlived traditions and sepulchred shibboleths becomes apparent.

As far as war and peace are concerned, mankind is moved by ethical, political and economic considerations. Whatever their specific interrelation may be, they no longer correspond to the actual conditions of life. They have one and all a more or less national basis. They must clearly be out of date when the environment of every single individual is no longer a town, a province, a state or a continent but the whole planet, from which every one of us draws more or less in order to satisfy even the simplest material and mental needs.

The ethical conceptions of the so-called civilized world go back to a time when even the most advanced thinkers thought the earth a pancake with a heaven above and a hell below. Its political conceptions are the direct descendants of the doctrines of Imperial Rome confined to the shores of the Mediterranean and surrounded by unknown hordes of savages. Our economic conceptions are still older. They have an almost prehistoric origin when the secret of steam was hidden in every boiling kettle and the greatest labor unions were innumerable isolated tribes.

Yet the nations of the earth have endeavored to regulate their intercourse according to these time-honored and unborn conceptions. No wonder that they have failed! No wonder that the very men who have striven to replace war by peace have so ignominiously drawn the ridicule of the rest of mankind upon themselves. All the empty talk of the pacifists during the last three decades has accomplished nothing but the ludicrous increase of armaments which led to the European war. Their pious inadvertences made the slumbering military interests take to overstating their case, to overemphasize their importance. Belonging to the circles that had close connections with the governments, sprung from those vested interests which control the majority of the advertising

organs which daily poison the public mind, the spokesmen of armies and navies met the assault of the pacifist with a steadily increasing offensive. The columns of the press were filled with a more intense nationalism than ever before.

At such a time the modern pacifists are proposing to abolish war by the formation of peace leagues, by laying down certain rules for not using the armaments which they are too meek to do away with. What would be thought of anybody who proposed to root out crime by asking the criminals to form societies for not committing murder and burglary and establish certain rules for the use of their implements? How does up-to-date criminal therapeutics proceed? Don't we try to prevent crime by doing away with those causes, with those social conditions as poverty and unwholesome surroundings, which produce criminals?

If we want to see the last of war, we have to proceed in the same manner. The only possible way of abolishing war is to root out nationalism. As long as the pacifists refuse to tackle this side of the question of peace and war, they will continue to "accomplish precisely and absolutely nothing." If we want to make this war the last of all wars, we must preach not internationalism which presupposes nationalism but cosmopolitanism or universalism. We must at once drop all that insidious teaching in nurseries, schools, colleges, universities and on the political platform which arouses the patriotism of the people. We must put those demagogues who want to wield the Big Stick out of commission and let them keep company with those other politicians who don the shining armor and shake the mailed fist, who long to hold the trident and in the meantime carry on their bloody trade with the help of God. Then and only then will we cease to act as slaves of the past and become the gods of that present, which science has and constantly is unveiling for us in all its limitless and matchless possibilities.

The leading statesmen, or let us rather give them their true name, the shouting politicians, have themselves in so many words told us that statesmanship as it has been evolved out of the history of the dim past has played out its nefarious rôle. In every country they have cried out against the madness of armaments. But at the same time they have taken pains to assure their patient hearers that they could do nothing to stop this insane increase in unpro-

ductive expenditure which burdens every shoulder to destitution and poverty before it bleeds it in ghastly misery and deadly suffering. They have declared the bankruptcy of modern statesmanship.

As a matter of fact, the old historical conception of government has rapidly become obsolete. The state, the nation, have no longer any reason to exist as separate entities, to focus men's attention as they did but a generation ago. Today, for the first time in human history, all national frontiers are practically coterminous. The earth harbors no longer any unknown territories from which surprise attacks can be sprung on civilization. The menace is far greater. It comes from within the very walls of civilization. It springs from the fact that I have already mentioned, that our accepted and blindly obeyed ethical, political and economic conceptions no longer correspond to the real conditions of the planetary epoch.

In this, the most wonderful time that mankind has ever seen, there is no need for national governments as hitherto conceived. The need for their appearance and continuance, the desire for knowledge of the unknown surroundings, the desire for expansion, is no longer an absolute necessity. The conquest of the globe has been accomplished. For the first time in its history, mankind knows the ultimate sphere of its action. The whole of the earth is known and this knowledge has been spread to all its parts. Unless we constantly bear this salient message of our time in our minds, we shall never use our magnificent and unique opportunities to their greatest advantage.

This conquest of the globe by knowledge, by science, or whatever we choose to call it, brings with it the foundations for permanent peace and disarmament, provided we draw all the consequences which it implies. The most important is that the national governments no longer should be allowed to retain any functions of sovereignty outside the borders of their respective nations. The time has come when national governments should occupy the same positions as our municipalities. They should simply become administrative boards over such wide areas as the needs of nationality demand.

Then public international law will become as superfluous as it is fictitious. It can be replaced by a code of international behavior so simple, so definite and so concise, as to be the intellectual in-

heritance of all men and women in every clime while that fiction which is commonly supposed to regulate the most momentous intercourse between the nations is known only by a few hundred professors of whom no two agree to the exact meaning of the different stipulations of the international law.

In order to establish this code and thereby secure permanent peace, I would suggest that the coming Peace Congress should eliminate the functions of political government from the field of international relations. Though somewhat hidden from the public, this process has already begun. We are today all aware that practically no idea, no discovery, no invention can for any length of time remain purely a national possession. But how many of you realize that there already exist nearly one hundred and fifty international public unions like the postal union, the sugar commission, the institute of agriculture and other similar institutions where national sovereignty is more or less yielding to cosmopolitan experts.

In order to eliminate political influences from international intercourse, in order to do away with that secret diplomacy which has deluged the annals of mankind with oceans of blood, we have but to proceed further on that road. National sovereignty must at all times and in all circumstances stop at the national borders. The state must cease to be an entity opposed to other states. To reach this goal the general acceptance of six cardinal principles should form the basis of the coming peace treaty.

These six are: the principles of nationality; of universal free trade; of a world citizenship; of a planetary jurisdiction; of an oceanic police; and of a standardization of the national police forces.

The principle of nationality I do not need to discuss. It means that every people shall have the right to have that kind of government that it wants to have or is willing to submit to. It is of the essence of peace that all independent communities should be internally so sympathetic that they are willing to grant to others the same rights which they claim for themselves.

The principle of universal free trade is intimately associated with the principle of nationality. The map of Europe cannot be satisfactorily arranged so long as the policy of tariff walls necessitates the violation of the principle of nationality in order to give land-locked races access to the sea. It would be just as unjust to have

Poles and Bohemians rule over Germans as it is to see the latter have dominance over the former or the Southern Slavs choke under the yoke of Hungary. Universal free trade means the greatest deterrent to war that it is possible to imagine. It means such a specialization, such a diversifying of production, whether industrial or agricultural, that no single area could afford to shut itself off from unhampered intercourse with the rest of the world. Protection has as its moral support the theory that the foreigner should be exploited. Its practical results mean the exploitation of the many by the few who manage to sell their produce at an inflated price behind the Chinese walls which they have raised under the cover of patriotism. It is such an expression of unabashed selfishness that no protectionist should be allowed to talk of justice, righteousness and humanity. On his lips they really are nothing but the worst kind of hypocrisy. With universal free trade, a nation of two million inhabitants will be just as well off as a people of hundred millions because both get the same market, the biggest to be had, the whole earth. Efficiency and industry will reach their proper reward while there will be no reason for conquest in order to enlarge the market. Thus the fallacious cry for a place in the sun will lose much of its driving power.

It will lose all meaning if the principle of a world citizenship is carried out so that every individual, of whatever nationality he may be born, gets the right to be treated everywhere as a full-fledged citizen. The world citizenship means that from the moment anybody is admitted into any country he should in all respects be treated as a citizen of that country. It means that no single individual will put his native country in the absurd position of having to sacrifice thousands and thousands of lives and hundreds of millions of dollars to repair a wrong which if committed within its own borders simply would have resulted in a lawsuit. In relation to those parts of the earth which cannot yet govern themselves, which constitute the white man's burden, the world citizenship should imply the right of admission according to a certain percentage of population. Only thus can the principle of the open door be fully carried out.

If those three principles, of nationality, universal free trade, and world citizenship, are firmly established, diplomacy will become a lost art. Trickery and dishonesty will cease to filter through

the body politic from above. Foreign offices, embassies, legations^s and consulates can be shut up provided a jurisdiction is brought to play which can adjust all those legal difficulties arising out of planetary intercourse. But this supreme court of courts must receive the same competence as the supreme court of this country which unlike the present Hague Tribunal is open to appeals from individuals. If national sovereignty stops at the national borders, no government as such should logically be able to come before the supreme court of courts.

The majesty of the law would everywhere gain by such a conception. The state as a personality would be dead. There would in fact be no public law. Everyone would see that the pretended opposition between social and individual aims is a result of the shallow thought of pre-evolutionary days.

The supreme court of courts should be composed of the necessary number of judges allowing a world-wide distribution of its numerous divisions. Those judges should in no sense represent the different nations but the best judicial talents to be found all over the earth. Elected according to the number of the population they should be well paid out of a common fund and with a life appointment so as to be perfectly independent of any national ties.

If national sovereignty is really to stop at the national borders, the high seas should be put entirely under the authority of the supreme court of courts. This would materially enhance its importance and daily bring home to millions of people the entity of humanity. To be able to control the highways of commerce, the supreme court of courts must possess a fleet which would constitute the oceanic police. It need not be very large. Some hundred small cruisers manned by sailors from some small nationalities without political, colonial or economic ambitions like Norway and Denmark would suffice. If need be this force will be quite sufficient to make any national government which should refuse to carry out a judgment delivered by the supreme court of courts come to its senses. With universal free trade, the mere possibility that the ships and floating merchandize belonging to such a nation could be seized by the oceanic police, would secure due respect for the planetary jurisdiction.

Then the pretext for national armies and navies is forever gone. No other armed forces than those necessary for keeping law and

order within every independent community should be allowed. In order to prevent secret preparations for warlike action it is, however, advisable that the Peace Treaty should standardize the strength of the national police forces. All armament works should be destroyed. We only require an arsenal at Malta, for the oceanic police, a rifle factory in the United States and an ammunition factory in Australia supplying the police forces of all nations according to a fixed schedule.

This may seem to be nothing but a Utopia. So it would be if peace were a matter of prayer and hope. But fortunately permanent peace is a matter of will and intellect. Let the American people who already represent more than one-eighteenth part of mankind take the firm lead on the basis I have outlined and war will soon be a thing of the past. It is so little inherent in human nature that Europe has had to resort to conscription in order to get enough men to fight the cause of the governments, because at the bottom most men are reasonable human beings as soon as they are freed from superstition and ignorance, prejudice and tradition.

AMERICA'S POSSIBLE CONTRIBUTION TO THE WORLD'S PEACE

BY OSCAR S. STRAUS,

Former Ambassador and member of the Permanent Court of Arbitration at the
Hague.

Any discussion of America's possible contribution to the world's peace must at this time, in the nature of things, be purely speculative and hypothetical. Whether this war will end by the decided victory of the one side or the other, or whether it will be prolonged to a state of exhaustion, or whether, before such a state is reached and in recognition of the probability that such will be the result, the warring nations may come together by their representatives in conference to arrange for the conclusion of the war and for plans to secure by negotiation what they may have failed to secure at the cannon's mouth—these are questions surrounded with so much uncertainty at the present time that no one is justified in forming a definite conclusion.

President Wilson and his administration, animated by the high and noble desire to conserve the moral influence of our country as a mediator and peace-maker, have made and are making every effort to maintain not only a strict attitude of neutrality, but also a spirit of impartiality on the part of our people. To quote the President's words from his recent address to the members of the *Associated Press*:

Let us think of America before we think of Europe, in order that America may be fit to be Europe's friend when the day of tested friendship comes. The test of friendship is not now sympathy with the one side or the other, but getting ready to help both sides when the struggle is over.

And yet with all this effort on the part of our government, which has been consistently urged by the President and followed since the beginning of the war and sometimes in the face of severe provocation, our government's attitude has been misinterpreted, as is evidenced by the press not only in Germany but likewise in Great Britain and in the other belligerent countries. This misinterpretation, fault-finding and even reproof have been officially expressed in a

statement authoritatively given out a short time ago by the German ambassador, protesting against our not observing our neutral obligations. Utterances in some of the leading British papers would indicate that our attitude of neutrality likewise does not satisfy public opinion in that country.

I refer to these facts because the attitude and the disposition toward us of the belligerent nations will have a direct bearing upon what contribution we may be invited or permitted to make in aiding in the establishment of peace among the warring nations and in the development of plans for securing the permanent peace of the world.

There is yet another important consideration which we shall have to determine for ourselves before it will be possible for us to have a part or take a part in devising plans for the peace of the world. The American traditional policy has been expressed in two important state papers, in Washington's farewell address, and in President Monroe's message to Congress, which state papers have a prestige and authority second only to the Declaration of Independence and the Constitution of the United States. Washington, in his farewell address, stated that Europe had "a set of primary interests which to us have none or very remote relations." His thought was, that it was the course of wisdom so far as possible to disassociate America from the ordinary vicissitudes of European politics.

Monroe, in his message, amplified the Washington policy as the changed circumstances and the immediate necessities demanded, by reminding the powers of the Holy Alliance of our policy in regard to European nations, that we would not interfere in their internal concern, and that we would not regard their interference in the affairs of the government of the states on the American continent with indifference. This American policy in its double form was annexed to the signatures of the American delegates to the Hague convention, and was spread on the minutes of the conference, and as such recognized by the nations of the world.

The question, therefore, naturally arises: has America the right to demand participation in the conferences of the belligerent nations following the present war, for the purposes of arranging for the future peace of the world? Another question presents itself: even if we should not have the right, and in the event that we should

be invited by the belligerent nations as the leading neutral power to participate in such a conference, can we do so without impliedly, if not expressly, relinquishing our traditional attitude of exclusive control over purely American questions?

This contingency will bring to the foreground the consideration, if not the wisdom, of a further extension if not a reversing of the American traditional policy as outlined by Washington when he said:

The great rule of conduct for us in regard to foreign nations is in extending our commercial relations to have with them as little political connection as possible. So far as we have already formed engagements, let them be fulfilled with perfect good faith. Here let us stop.

The question that would present itself, have not the world relations and the interdependent interests of nations since Washington's admonition was given, become so closely and intimately related so that our duty to other nations as well as our own "enlightened self-interests" make it imperative upon us not to "stop," but to unite with the nations of the world in such a policy, be it by international agreement, by entering into a league with the leading nations of the world, or by becoming a member of a world federation, or by uniting in such a joint arrangement, as in the wisdom of nations may be determined upon as the most practical and effective for the establishment and maintenance of the peace of the world?

From generation to generation we have been making radical changes in our internal policies, and notably in the direction of the enlargement of the powers of the central government. The Interstate Commerce Laws and the Federal Reserve Act are themselves distinct evidences of those changes. A nation cannot remain stationary any more in its national than in its international relationship and policy. "New occasions teach new duties."

It is not improbable that the outgrowth of this war will affect the future policies not only of the belligerent nations but of neutral nations as well. Norman Angell says that if we do not mix in European affairs, Europe will mix in our affairs, and that the day of isolation for us, whether we like it or not, is over. He may be right. It is much easier for a country when it is small in population and in interests to remain aloof, than when it becomes one of the great powers of the world. Our country with its population of a hundred million and its expanded world commerce is too large a

factor to stand aloof from world questions. In the event of a league or confederation of the leading nations, for us to separate ourselves by refusing to assume our share of responsibility might conflict with our national interests and our international duties and have the result of placing ourselves in opposition to the world policies of the new world-state. In such an event, would it not be better for such a world-state as well as for ourselves to form a part of such a state and help to shape its policies as one of the important constituent members, than to conserve our traditional policies and stand aloof?

These are questions that not unlikely, I might say, very probably, will present themselves to the American government at the outcome of the present war or even before, in contributing its mediatory offices in bringing the war to a conclusion.

Our country has as deep a concern, not only morally, but economically and industrially, in the peace of the world as any one of the larger nations. A war such as this, or upon such a considerable scale, affects under the changed economic and commercial conditions and relationships of modern times the neutral nations only to a lesser degree than the nations actually at war. And, therefore, have we not the right and is it not our duty to coöperate to the fullest of our power in the perfection and the maintenance of a plan for the preservation of peace?

It is to be hoped that the extreme suffering and sacrifice that this war entails may have the compensation of developing supreme wisdom on the part of the nations. The nations of the world, to be at peace, must develop a broader patriotism as distinguished from a national jingoism, a more enlightened sense of justice which does not preach one gospel on one side of a national border and a different or opposite gospel on the other side. In other words, so long as the standards of national justice and international justice are not in consonance but on different levels, and in many respects directly opposed to one another, the security for peace must largely depend upon the doctrine of might. Until the international conscience is brought under the majesty of the law, there can be no permanent security for international peace.

Perhaps the most guiding and impressive contribution that America can make to the world's peace is the successful experiment and example of its federated union of forty-eight separate common-

wealths, which affords to the world a striking illustration that its preservation is due to the fact that behind the *right* of each one of these commonwealths, the smallest as well as the largest, stands the united *might* of all. This greatest of all wars, involving directly nearly two-thirds of the population of the world, is a glaring and ghastly evidence that international relationship has to be reconstructed, that the plans heretofore devised, of nations standing alone or separating themselves into two or three great divisions under dual or triple alliances and ententes, have lamentably broken down, and instead of lessening the area and the horrors of war, have had the opposite result and drawn nations into war that otherwise would have remained at peace.

Therefore, the federation or league of all the states in the American union embodies the ideal, if not the plan, for a universal league or federation of the nations as the surest and safest guarantee for securing the permanent peace of the world. In such a federation power will be needed, not for aggression but to prevent aggression. Power will be needed, not to promote the selfish ends of individual nations but to curb them. Power will be needed, not for making war but for repressing war, for maintaining peace. Power will be needed, not for breaking treaties but for maintaining them; and this power must not be vested in *one*, but in *all* the nations.

BOOK DEPARTMENT

NOTES

BLAND, A. E., BROWN, P. A. and TAWNEY, R. H. *English Economic History*. Pp. xx, 730. Price, \$2.00. New York: The Macmillan Company, 1914.

Documentary material touching every phase of the economic history of England from the year 1000 to 1846 is presented in this volume. To students and teachers of English history, political or economic, this work should prove an invaluable aid. The material is well chosen and the explanatory notes at the beginning of each chapter are good. An especially pleasing feature is the presentation of a list of the leading authorities who have written on each topic considered.

BOSANQUET, HELEN. *The Family*. Pp. vii, 344. Price, \$2.25. New York: The Macmillan Company, 1915.

This very valuable treatise is simply a reprint of the edition of 1906 without revision. It is fortunate for students of society that the publishers have not allowed it to be out of print.

BROWN, HARRY G. *International Trade and Exchange*. Pp. xviii, 197. Price, \$1.50. New York: The Macmillan Company, 1914.

In part I, the author takes up the subject of foreign exchange. The first two chapters are introductory; in them he develops briefly the principles governing the use of money, and describes the functions of a commercial bank. The remaining four chapters are devoted exclusively to an analysis of the underlying principles influencing changes in the rates of foreign exchange. The subject is treated in such a way that the student can easily comprehend the theory and practice of international exchange operations. Illustrations and hypothetical transactions serve to simplify the subject.

Part II, the "Economic Advantages of Commerce," treats the question as to how it is possible for gains to be made in trading and how such gains may accrue to communities and nations as well as to individuals. He goes on to show how tariff duties and protective tariffs affect a nation's wealth through rent, interest, and wages. One of these chapters is devoted to answering protective tariff arguments. In the last two chapters the author enters into a discussion of the nature and effects of government bounties and of ship subsidies; and concludes that both of these aids are without economic justification.

The arrangement of the material is good and makes the work a satisfactory text for a course on international commercial policies.

BULLOCK, EDNA D. (compiled by). *Single Tax*. Pp. xxxviii, 199. PHELPS, EDITH M. (compiled by). *Federal Control of Interstate Corporations* (2nd and Enlarged Edition). Pp. xxx, 240. *The Recall* (2nd Edition, Revised and Enlarged). Pp. xlvi, 273. *Monroe Doctrine*. Pp. xxviii, 253. Price, \$1.00 each. White Plains, N. Y.: The H. W. Wilson Company, 1915.

BURGESS, THOMAS. *Greeks in America*. Pp. xiv, 256. Price, \$1.35. Boston: Sherman, French and Company.

This is the second book dealing with the Greeks in America, the first being that of Professor Fairchild entitled *Greek Immigration to the United States*, published in 1911. This volume is less comprehensive but more personal, and includes besides the general descriptive matter two chapters on Famous American Greeks and an extended bibliography. Compared with Fairchild's work which the author characterizes as lacking in "fairness, care, and accuracy" one is impressed by the fact that this work is a brief for the Greeks in the United States; an attempt "to describe the Greeks picturesquely and as far as possible from the Greek standpoint," rather than an unbiased description of all phases of the problem. It should supplement rather than replace Fairchild in library and classroom.

CABOT, ELLA L., ET AL. *A Course in Citizenship*. Pp. xxiv, 386. Price, \$1.25. Boston: Houghton, Mifflin Company, 1914.

A text-book for the grades in which the pedagogical order, rather than the formal, logical one, dominates. The book is a notable experiment illustrative of new methods of approaching the teaching of civics.

CLOUGH, JOHN E. *Social Christianity in the Orient*. Pp. xiii, 409. Price, \$1.50. New York: The Macmillan Company, 1914.

This is the inner history of the famous Telegu Mission. It recounts the life and labors of John E. Clough, D. D., a Baptist missionary, among the Telegus in India. The story is told in the most direct manner, in his own vigorous words, and is written by Emma Rauschenbusch Clough, Ph.D., his second wife.

A remarkable book has been achieved. The fire, enthusiasm, humor and vivid personality of Dr. Clough have been preserved, and yet it has been possible—since the speaker is not the actual writer—to throw upon the man and the scenes amid which he wrought, the light of critical observation and of discerning appreciation, and thus to present to the world both Dr. Clough and great missionary triumphs in an exceptionally brilliant and impressive way.

It may be noted that the title of the book is in itself a recognition of the great social work that is being done by Christian missions, and that the volume has five points of intrinsic and permanent interest:

1. Just as a live, fascinating story, it is the best kind of a book for growing boys.
2. As a missionary document, it is an authentic and stirring account of one of the largest missionary successes.
3. As a work in social science, it is full of amazing social facts, and should be carefully studied by social workers.
4. For governmental and colonial administrators it contains definitely helpful thoughts.
5. As a theme in psychology, it is of incalculable value to any minister, missionary, philanthropist or educator who is seeking to know how best to plant any form of institution, or to impress his spiritual ideals upon a community.

FOUCHÉ, LEO (Ed. by). *The Diary of Adam Tas (1705-1706)*. Pp. xlvii, 367. Price, \$3.75. New York: Longmans, Green and Company, 1914.

Printed in Dutch and in English on parallel pages, this diary, with the long appendix, gives an account of colonial life and misgovernment of "the Cape"

(South Africa) under the Dutch East India Company during the opening years of the eighteenth century.

Originally the free burghers had been settled there to furnish agricultural supplies to the company's ships and garrison. At the start, the company also owned and cultivated land. Later this was discontinued, but the colonists could sell their produce to the company only. Willem Adriaan Van Der Stel, the governor, and his subordinates decided to become farmers as well as officials, using the company's materials, slaves and men, and to crowd out the free farmer from this his only market. They were so nearly succeeding by 1705 that the burghers, who "foresaw the speedy disappearance of their whole means of subsistence," sent a "memorial" to the directors, complaining of the scheming governor and of the oppressive measures he was using to enrich himself and his henchmen.

Adam Tas was secretary and a leader in this "revolt" of the colonists. Van Der Stel used intimidation and torture to wring from the leaders recantations which would clear him before "the Seventeen." This book is significant for the light it throws upon this "Van Der Stel Question" in South African history and for its picture of community life of the period. It shows also that this reaction against the governor was the first fusing of Dutch and French settlers into a national consciousness.

FRAZER, J. G. *Psyche's Task*. 2nd Edition, Revised and Enlarged; to which is added the Scope of Social Anthropology. Pp. xi, 186. Price, \$1.25. New York: The Macmillan Company.

Those who are loath to find the traditionally good aspects of social life founded on crude and coarse superstitions will wisely avoid this treatise. Those who look for the foundations of our culture in the conditions of contemporary savagery will welcome it as a valuable contribution to genetic sociology. According to Mr. Frazer, to less noble motives, to superstition and senseless fear must be attributed the golden fruits of law and morality. "While the parent stem dwindled slowly into the sour crabs and empty husks of popular superstition on which the swine of modern society are still content to feed," the offshoot of rationalism and superimposed ethical motives makes of these social habits noble institutions. Such has been the case in regard to property rights, insured, first of all, by protective charms whose sole efficacy depended upon their ability to engender illusions in would-be trespassers; so in regard to marriage, violation of the marital vows being punishable, first, because of the malign magical effect of such violation upon nature or upon the tribe of the offender, similar respect for human life was originally only superstitious fear of immediate or remote supernatural consequences visited upon society.

GERSTENBERG, CHARLES W. *Materials of Corporation Finance*. Pp. xxi, 1008. Price, \$4.00. New York: Prentice-Hall, Incorporated, 1915.

The teaching of applied economics has passed through the stage of fact enumeration regarding business phenomena. With the arrival of source-books on general economics, business combinations and, lately, corporation finance, we perceive an attempt to introduce research methods and individual thought. Gerstenberg's *Materials of Corporation Finance* is intended to encourage the inde-

pendent collection of facts and the extraction of principles. This volume also aims to sustain interest in the subject matter, but because of the inclusion in full of much that might have been omitted without excessive loss it is not entirely satisfactory in this respect.

Certain documents respecting the methods of the security market bear only a very indirect relation to corporate finance. The inclusion of four annual reports, some of them very voluminous, seems unnecessary. Finally, some arrangement of the contents which would bring together related subjects or an outline of topics with page references would appear desirable.

All of these points are, however, of minor importance in comparison with the attainment of the general purpose—to bring together original documents in a convenient form for class use. In the main, the author has exercised wise selection and his extracts will prove a valuable aid in many courses. Not the smallest service of such a volume is the suggestion to students of sources of information which they will avail themselves of in the future.

GOW, WM. *Sea Insurance According to British Statutes*. Pp. xxxvii, 478. Price, \$4.25. New York: The Macmillan Company, 1914.

Those interested in marine insurance are familiar with the works of Gow, his *Marine Insurance* having passed through four editions and being recognized as authoritative. The legal principles explained in this earlier work were derived from decisions of the English courts, although the last edition contained a brief reference to the British Marine Insurance Act of 1906. This Act is an attempt to reproduce as exactly, as possible, in statute form, the existing law relating to marine insurance. Mr. Gow, in his usual able, concise manner, has written a commentary on the Act whose clearness and illustrative material excellently describe the intent and scope of the law. In some cases he points out the possibility of misconstruction of certain of its provisions. In addition he has furnished alphabetical, chronological and subject lists of the leading cases in English maritime law, as well as seventy-seven extracts from the same. While this court law is not permitted to modify the provisions of the statute, it may be referred to for purposes of interpretation. A general index of nine pages increases the usefulness of the volume.

HEPBURN, A. BARTON. *Artificial Waterways of the World*. Pp. xi, 171. Price, \$1.25. New York: The Macmillan Company, 1914.

A revision of *Artificial Waterways and Commerical Development*, published in 1909. The author has brought down to date the accounts of the New York Barge Canal, the Panama Canal and other important American and European waterways. The final section contains a forcible argument in favor of the creation of a Department of Internal Navigation under the Secretary of Commerce. Several appendices present valuable statistical material concerning waterways and water-borne traffic of the United States.

HOOPER, WILLIAM E. *Railroad Accounts and Accounting*. Pp. xi, 461. Price, \$2.00. New York: D. Appleton and Company, 1915.

After a brief discussion of the general principles of accounting, the author analyzes critically the accounting system prescribed by the Interstate Commerce

Commission for the railroads of the United States. He then describes the organization of the accounting department of a large railway and discusses the work in its three leading divisions, passenger revenue, freight revenue and disbursements. A chapter is devoted to the work of the treasurer's office and a final chapter to the question of allocating revenues and expenses as between freight and passenger business; a problem that the Interstate Commerce Commission is now wrestling with. This work is distinctly the best that has appeared on the subject. Illustrative material has been selected with discrimination, and the criticism of existing conditions is sound.

KAHN, JOSEPH and KLEIN, JOSEPH J. *Methods in Commercial Education*. Pp. xiv, 439. Price, \$1.40. New York: The Macmillan Company, 1914.

This is a text-book for teachers, students and business men. It "is intended to give the teacher in the commercial school the broad vocational outlook upon his subject, to acquaint him with the pedagogical principles underlying it, and to discuss the special methods in the different subjects included in the curriculum. To the business man the book is intended to convey a knowledge of the value and content of a business education, to give him a sympathetic view of the work of the school, and a better understanding of the needs of it, so as to enable him to coöperate with it in a direction which will be of benefit both to the school and to the community at large."

VAN ORNUM, J. L. *The Regulation of Rivers*. Pp. x, 393. Price, \$4.00. New York: McGraw-Hill Book Company, 1914.

A scientific treatise on the work of controlling and regulating the flow of rivers. The first chapter discusses the commercial value of rivers, and the remaining chapters set forth the general principles of regulation and the various methods of carrying out the numerous engineering projects connected with river improvement. A wealth of illustrative material from work done in the United States and foreign countries is presented, and numerous charts, illustrations and diagrams are employed to illuminate the text.

REVIEWS

CARE, W. K. *Capitalistic Morality*. Pp. 298. Price, \$1.50. Washington: Woodward and Lothrop.

In the author's words, "the object of this fragmentary essay is to prove that government, morality and law are simply instruments of class rule" (preface), and that "the ideals of the dominant class are alone governmental factors, and that these ideals are based exclusively upon the economic advantages which that class enjoys" (p. 102). In other words, the author holds that the capitalist class controls and exploits government, custom and education to promote its own peculiar economic interests. The attempt is made to demonstrate the validity of some of the principles of Marxian philosophy, but there is absent the usual socialistic terminology.

Two fundamental defects prevent the book from receiving serious consideration. The first is its fragmentary character. The author's title, *Some Odds and Ends*, is fully justified. The disconnected and unrelated material produces confusion and leaves the feeling that no clear evidence has been adduced to support the author's thesis. The second defect is the omission of references in regard to quotations. This leaves the reader unable to determine the accuracy or completeness of interpretation. Quotations from newspapers, historical works, and governmental publications are freely made, and the interpretation of many questions may easily be open to question. The omission of references prevents verification and destroys any scientific value the book might have.

As a protest against the exploitation that exists in the capitalistic system the book will find a responsive chord in the feelings of many who have suffered from the defects of the present industrial order. Its only value will consist in its protest. Its utter lack of scientific treatment will prevent its serious consideration by students of class conflict and class relations.

J. G. STEVENS.

University of the South.

COIT, STANTON. *The Soul of America*. Pp. xi, 405. Price, \$2.00. New York: The Macmillan Company, 1914.

In this suggestive but utopian book, the leader of the Ethical church outlines at length his religious program. Part I presents at once the main thesis and identifies *Religion and Nationality* instancing the patriotism of America. There is much uncritical idealism in the portrayal of American "cultural unity" and our democracy that includes the poor and glorifies women. The difficulty in so highly regarding "that state of mind which is America" is that, as the author admits, one is "too far removed from the fact"; but he claims that the falsehood "will be made true" by "the very ideals of our country." Any "subsidiary patriotisms" are regarded as sins against America. Thus, the Jews are asked to identify their aims with the national ideal; and other forms of "international fanaticism,"—"individualistic humanitarianism," the International Peace Movement and its economic interests, the anti-nationalism of the church of Rome, and anti-patriotic socialism, are all condemned as undermining the psychic integrity of the nation.

As the plan is outlined for the new American church, there would be but "one new center of public worship in each state." An "Institute of Religious Research" is to be founded for investigation in the psychology of religion; and "the new synthesis will link up religion with patriotism, and God with the Spirit that quickens men into Moral Fellowship." Somehow, "argument will be rendered superfluous," at last, and "liberty of intellectual interpretation" will be assured. The new church is not to be a state church but a "voluntary and national" one. The denominations, the differences and prejudices suddenly abolished, are to exist as "parties" in the larger whole, devoting themselves to "national idealism." The attempt is made, in explanation, to show the sociological function of religion, and to prove that it springs from group rather than from individual needs, "The social genesis of conversion" and "the saving power of spiritual environment" are discussed as illustrations.

Part II, *Christianity to be Reinterpreted in the Light of Science and American Idealism*, shows the indebtedness of the author to the theories of natural religion of his master, Sir John Seeley. Christianity must be stripped of miracles, guidance from the dead, mediumship and demonism. The humanistic meaning of theological language is analyzed at length; all of the old religious terms are retained and the attempt is made to give them new content in keeping with the new national needs. A long argument is presented for the humanistic significance of prayer "to the God in man." New grounds are sought for the millennial hope, for a material and spiritual heaven, to be attained on the earth by the use of wealth, science and eugenic knowledge. For in the new religious order the church services are to express the democratic faith, and religious coöperation is to become the dynamic of democracy.

In Part III, *Christianity to be Expressed in Scientific Language and Democratic Symbol*, Mr. Coit deals more minutely with the changes in church creed and service that are to be embodied in *A New Manual of National Worship*. He shows how doctrines and hymns have been readily adapted in the past and calls upon the poets for aid in meeting the present need for revision. The psychology of public worship is analyzed to show the effectiveness of religious form and ritual and every aesthetic ethical and social means is to be used to vitalize and enhance the power of democratic ceremony.

Aside from the casual criticism of the rhetorical, hazy, verbose terminology, and the indefiniteness and haphazardness of arrangement of the book, the insuperable objection is to the utopian impracticability of the whole scheme. The organization of a voluntary national religion is opposed by deep-seated traditional prejudices that are firmly institutionalized and slow of change. In considering the book from the theoretic viewpoint, however, it should be admitted that religion is significantly interpreted as comprising those values held by the group to be supremely worth while. God, for instance, is conceived as "that real being which men ought to focus their steadfast and reverend attention upon in order to derive from Him those benefits which are really the greatest blessings to mankind." Yet the fundamental criticism of Coit's religious philosophy is that the identification of religion with national interests outside of the realm of idealism might be dangerously irreligious; for here the highest Christian sanctions are not upheld and nationalism has ever found easy recourse to the use of the force in the name of religion and patriotism. In any case, the world changes, economic and social, which at last make possible the realization of the Christian ideals in international relations, are ignored entirely.

FRANCIS TYSON.

University of Pittsburgh.

CORWIN, EDWARD S. *The Doctrine of Judicial Review*. Pp. vii, 177. Price, \$1.25. Princeton: Princeton University Press, 1914.

At a time when the American public is beginning to show impatience with a judicial assumption almost unknown in other constitutionally-governed countries, this exposition has especial interest. Judicial review is treated as a natural and inevitable growth, very far from conscious usurpation. This view should tend to allay our impatience, if the courts will but learn to be moderate.

The purpose of the book is to answer the question, "What is the *exact legal basis* of the power of the supreme court to pass upon the constitutionality of acts of Congress?" Dr. Corwin is not satisfied with what were merely the hopes of the framers, but seeks what they understood to be incorporated in the constitution for the purpose of establishing judicial review. He is unable to find any clause which was inserted for the specific purpose of conferring this power upon the courts. Accordingly, he is driven to the conclusion that judicial review was rested by the framers "upon certain general principles which in their estimation made specific provision for it unnecessary."

In his search for these general principles, he criticizes a brilliant essayist who found them in the three doctrines: (1) of the courts as interpreters of the law; (2) of the judiciary as a coördinate branch of the government; and (3) of the right of everybody, including judges, to refuse obedience to an unconstitutional law. Dr. Corwin declares these principles to be mutually inconsistent, for the second, so far as applicable to this question, was a Jeffersonian and Jacksonian idea advanced in opposition to judicial review, and the third is quite untrue. He agrees with President Grant that officers and other citizens are bound by acts of Congress until such acts are declared unconstitutional by the courts. It is therefore in the expansion of the first of these doctrines that the desired general principles are to be found. These principles are three and no more: (1) that the constitution binds the organs of government; (2) that the constitution is law enforceable by the courts; and (3) that the function of interpretation of standing law appertains to the courts alone.

It is in the constructive part of Dr. Corwin's argument that he is most convincing, even though he omits significant points made by Dr. McLaughlin and Justice Baldwin. Here Dr. Corwin traces the growth of these general principles between the years 1761 and 1787, showing how rapidly the idea of judicial review developed, though now retarded and now modified by the quick revulsions of a revolutionary period.

The framers of the constitution were familiar with the idea from its progress in the several states, and the debates show that they devised a government in which judicial review was fundamental, though no more specifically expressed than in the state constitutions. So far from concealing their hopes and expectations, they openly proclaimed in the ratifying conventions the doctrine as inherent in the proposed system of federal government.

Opposition to judicial review, however, was sometimes violent in the states and outspoken in the convention. After the new government was set up, the doctrine made gains in both state and federal courts in spite of rising discontent. Then the opponents of judicial review gained control of two branches of the government, but Chief Justice Marshall at the head of the Federalist Supreme Court struck back by a decision which, in the words of Dr. Corwin, "bears many of the earmarks of a deliberate partisan *coup*." This decision, however, became an historic precedent that fastened the doctrine of judicial review upon the country. Therefore, the conclusion is: "The judges do not exercise a revolutionary function in pronouncing acts of the legislature void, but an official function"; and, "So far as constitutional theory is concerned, there is small ground for the complaints levelled by reformers at judicial review."

It may be conceded that the researches of such men as Messrs. Corwin, McLaughlin, Beard, Melwin and Haynes have proved that the American doctrine of judicial review is an evolutionary development, yet it must be answered that it is none the less an anomaly, and now in this period of reform has become a bar to social progress. The courts have made themselves the repository of public policy and legislative discretion. They change laws and constitutions. A superstitious popular reverence has driven them to this improper assumption of power. An enlightened public opinion must drive them back to the exercise of their legitimate functions.

CHARLES H. MAXSON.

University of Pennsylvania.

CRAMB, J. A. *Germany and England*. Preface to an American Edition by Moreby Acklom. Pp. x, 152. Price, \$1.00. New York: E. P. Dutton and Company, 1914.

The introduction given this little volume by the late Lord Roberts in England and by Mr. Joseph H. Choate in America, and the assertions that the questions discussed should have an important bearing on the future foreign policy of the United States add an interest to the book that it would not otherwise merit. The four lectures that it contains were published very early in the present European war with the object of establishing the thesis that the war is not only a supreme but a necessary conflict between two powers, Germany and England, for dominance over the rest of the world. The neutral powers, in the opinions set forth, carry even less weight in world affairs than the present allies of Great Britain and Germany. To question the sanity of a struggle for world empire at this late day in history, and the value of such a thing even if attained by either power, does not seem to have come within the author's view any more than that the other nations of the globe might have a word to say on the subject. With his premise assumed, it is easy enough in the way of the schoolmen, for the author to draw his conclusions.

The lectures chiefly demonstrate the late Professor Cramb's acquaintance, unusual in its scope and interesting for an Englishman's, with a phase of the literature and thought of modern Germany; but they are in no sense convincing as establishing the ultimate and true causes of the war, nor even in proving (unless mere assertion be proof) that Nietzsche, Treitschke, and Bernhardi, that much-heralded trinity, are the dominating or moving spiritual forces behind the thoughts and actions of the German General Staff. Though this book, like Usher's republished *Pan Germanism*, won a ready and deserved sale as a remarkable prophecy of the coming struggle, it was a prophecy as unheeded when it was made as the warnings of Lord Salisbury in 1900 and of Lord Roberts after the Boer War. If the late great field-marshal's own estimate that "nowhere else are the forces which led to the war so clearly set forth" as in this "Reply to Bernhardi," and to the school of thought which von Treitschke, Delbruck, Schmoller and Maurenbrecher are supposed to represent, if this estimate, I repeat, be a true one, if the notes of warning by Mr. Choate and Mr. Acklom for American ears be not misdirected, and if the views expressed of Germany's mind and England's be correct, it is the

saddest and most depressing book amongst the mass of so-called literature that the war has brought forth.

Condemning Treitschke's doctrine of "force" and "Prussian Militarism," the author proceeds to scorn the "cry" of the Pacifists; of "Christ," "Tolstoi," and "Alberdi," etc., "this hubbub of talk," as he calls it, "down all the centuries" to the time of Sir Edward Grey, and "all the froth and loathsome sentiment and empty vapping around President Taft's Message." Yet he offers no substitute but English militarism, more dreadnaughts, more aircraft, more war preparations, etc., etc. He not only preaches war as a necessity, a thing "not only beyond man's power, but contrary to man's will," but he glorifies the scourge of nations as a thing inspiring and heroic in itself. He bows down to an idol of Greek conception,

"Heroes in battle with Heroes
And above them the wrathful gods,"

imagining that wornout deity of Teutonic kindred looking "serenely down" from the clouds "upon his favorite children, the English and the Germans locked in a death struggle, smiling upon the heroism of that struggle, the heroism of the children of Odin the war god."

This is an illuminating reply to Bernhardt and militarism.

Were it not for the Kaiser's and von Hindenberg's bombastic speeches to the German troops, which the charitable might perhaps ascribe to military "necessity," and were it not for a struggle that has surprised as much as it has shocked the world, whether it be for world empire or not, one might say this English conception is a nightmare due to England's exasperated celebration on the subject of her great rival's economic and political advance in world affairs. Might it not have been wiser for the lecturer and author, and for those formulating government policy, to have laid less stress on the *talkers* of modern Germany and to have refreshed English memory as to the *doers* of Prussia; Frederick William, the great elector, and his generosity to the exiled French; King Frederick III, and his services to learning; Frederick the Great, and his contributions toward the beyond-the-sea power of this same England that abandoned him when her empire was securely wrested from the French; Stein, Hardenberg, Fichte, and others of the days when England and Germany made common cause against the imperial ideas of Napoleon? So perhaps, if even for a moment, might men's minds have turned to Prussian accomplishments more beneficial to humanity than those of militarism, and thought have been directed to a policy of *natural* friendship and alliance rather than to a program of enmity and a war of fear.

JAMES C. BALLAGH.

University of Pennsylvania.

CROLY, HERBERT. *Progressive Democracy*. Pp. 436. Price, \$2.00. New York: The Macmillan Company, 1914.

Reform movements are seldom accompanied by well-advised social or political philosophy. They are usually uncritical. Mr. Croly's book outlines what he conceives to be the historical origin and the social justification of the radical

movement in American politics. The line of argument presented may be summarized as follows:—Our federal constitution is essentially undemocratic. It was accepted nevertheless by a society little disposed to suffer governmental restraint because the powers of the central government which it created were few and the occasions for their use infrequent. Free sway for individualistic effort for the moment coincided with democratic ideals. Our national development has now changed our attitude toward government. We have approached a social ideal which now demands state action to insure our real rather than our technical equality before the law.

The position which the courts came to occupy under the constitution brought a worship of legalism. The conservative classes came to look upon the courts as an essential protection against popular vagaries. As a result, the rule of reason as interpreted by the courts has become the standard of what democracy can accomplish. Such a standard is unwelcome to a conscious rapidly-growing state. To preserve the advantages of constitutional government it is at least necessary that the constitution should be made more flexible. The amending article will thus ultimately be an object of popular attack. The people will demand a right to reshape their fundamental law with less effort than is now required.

In the states a similar condition of inability to express the popular will has been brought about by constitutional limitations on the power of the legislature, which, when it made mistakes, was punished by cutting down its powers, a process which in fact amounts to treating symptoms, not causes. To insure that the forward-looking forces in state government shall have an opportunity for expressing themselves, the government should be reorganized by removing the swaddling clothes of constitutional limitations, adopting direct legislation as a supplement to legislative action, and increasing the powers of the executive so that it may have greater power to initiate and carry through a legislative program. To insure that its action shall conform to the popular will, the long-term officers should be subject to popular recall.

Unlike most exponents of reform, Mr. Croly is not swept away by his arguments. Reform must be constructive rather than revolutionary. He suggests numerous queries as to whether the new expedients he discusses may not be pushed too far or adopted in forms which will make perversion of the real popular will possible. His closing chapters dwell upon the necessity of a social education for the attainment of a "live-and-help-live" attitude on the part of the citizen, which is the fundamental principle of a progressive democracy.

CHESTER LLOYD JONES.

University of Wisconsin.

DOWD, JEROME. *The Negro Races: A Sociological Study.* Vol. II. Pp. 310. Price, \$2.50. New York: The Neale Publishing Company, 1914.

The announcement of this volume stated that it would give an account of the African slave trade but one does not find such a discussion in the contents. There is given, however, a digest of considerable reading about the various African peoples. The author divides the African continent into zones, viz.: The goat zone, the Northern and Southern cattle, the Eleusine, the banana and manioc zones. He describes the various tribes and races in the several regions beginning with the

Nubians who inhabit the goat zone, "lying between the Nile and the Red Sea and extending from Assuan near the first cataract to Khartum," and ending with the Bantus of the Southern cattle zone, which zone "before the white man's appearance included all of South Africa except the Kalahari desert." After a brief description of the physical characteristics of each region a statement about the economic life of the various tribes, about the family life, political, religious, "ceremonial," aesthetic, and "psychological" life of the same is given.

In Volume II the author frankly confesses his failure in the first volume to interpret correctly the primitive characteristics as compared with those of civilized races and points out a reason for the mistake. Yet in several instances in this volume he takes ground which seems hardly more tenable than some of his former views. For instance, he bases a conclusion as to the psychological superiority of Europeans on the theory of differences in brain weight—a correlation not yet proven, to say the least. Again, his view of the negro's possession of a greater gregarious instinct than European races is hardly borne out by many of the facts given in his own discussion. Further his conclusion that by archaeological and anthropological evidence "the African negro seems to be a survival of the first human inhabitants of the earth" needs only to be quoted to show its questionable quality.

The absence of any maps further reduces the value of the book. The bibliography, including some general works on sociology and anthropology, comprises a "list of the principal books referred to in the text," about one hundred twenty-nine titles.

GEORGE EDMUND HAYNES.

Fisk University.

EMERY, LUCILIUS A. *Concerning Justice*. Pp. 170. Price, \$1.35. New Haven: Yale University Press, 1914.

This essay attempts to state the philosophy of the reactionaries of the day, by which it is hoped to establish that there is no need for any change in our constitutional or judicial systems. It is of peculiar interest to note that this philosophy is essentially the *laissez-faire* policy of the American Revolution, and is indeed but a slight step removed from philosophic anarchy.

"Justice," decides the author, "is the equilibrium between the full freedom of the individual and the restrictions thereon necessary for the safety of society." It is based essentially on the old conception of "the economic man" and leaves out of the account various virtues—pity, sympathy, philanthropy, generosity and the like. Though these make social life more agreeable and contribute much to the sum of human happiness, they are not essential to the existence of the race of society, says the author.

The author frankly admits that the justice which he defines is not the justice of the golden rule, "that we should do to others as we would have them do to us," but is the justice of Confucianism "that we should *not* do to others what we would *not* have them do to us. The golden rule is a precept of philanthropy, of charity, not of justice."

The spirit and argument of the volume is strangely out of accord with a twentieth century conception of society. Society is possible only because the individual is unrestrained save only when the safety of society so demands and is not a

sentient organism that can move constructively and positively toward real justice—industrial, religious, political. The basis of all such arguments by the author is that society must not arouse the resentment of individuals. Nowhere is there acceptance of an obligation to serve others or of a responsibility individual or social for current economic and industrial conditions. The philosophy of the pessimist is restated in such language as the following: "It is not society, however ill-organized, that has caused, or today causes, poverty. That is the primitive condition of the human race."

CLYDE LYNDON KING.

University of Pennsylvania.

FAGUET, ÉMILE. (Translation by Emily James Putnam.) *The Dread of Responsibility*. Pp. xv, 221. Price, \$1.25. New York: G. P. Putnam's Sons, 1914.

This work is a suggestive interpretation of French character and its social causes and results. The dread of responsibility is held to be the fundamental characteristic of the French people. "They want to be irresponsible. They form their ideas of law in accordance with this design; they organize and practice their professions to this end; they have a family life governed by this thought; they have a social life controlled by this principle" (Preface).

By a detailed description of the French legal system the author attempts to show the irresponsibility of the judges, the irresponsibility of the jury, and the irresponsibility of the criminal. These irresponsibilities enervate justice and make France "a country where the most complete security . . . is that of criminal" (p. 102). In family life the dread of responsibility limits the numbers of children and withholds from them vital knowledge in their adolescent years. In professional life the French strive to enter the service of the state where risk and responsibility are at a minimum. Political customs and the constitution divide responsibility, subdivide it, disperse it, scatter it until it cannot be located anywhere. Such are the results of the dread of responsibility in French life, legal, social, professional, and political.

The reason for the existence of this irresponsibility in political life is the democratic government of France, a government tending toward an absolute democracy—the first principle of which is "absolute equality and next that responsibility be lodged nowhere . . ." (p. 180). The remedy for this situation is a government by an aristocracy, under democratic forms—an aristocracy with social capacity and social responsibility, having a responsive and coöperative appreciation by the people.

It is interesting to note the similarity between the author's account of the political problems of the French and their remedies and our own American problems and remedies under different conditions. The failure of criminal law under the French inquisitorial system is as striking as the failure of our own. The scattered political responsibility described by the author is a vexing problem in American political life, as well as the French. The author holds that the solution in France is government by an aristocracy under democratic forms. American government is exhibiting a tendency to return to concentrated responsibility.

City government by commission and the advocacy of the reduction of elective officers in state government are notable examples.

To appreciate fully the value of the book a thorough knowledge of French life would be necessary. But even to the ordinary reader it is full of stimulus and suggestion in that it shows the way in which the intimate life and character of a people lie at the basis of its peculiar political and social problems.

JAMES G. STEVENS.

University of the South.

FLEXNER, BERNARD AND BALDWIN, ROGER N. *Juvenile Courts and Probation.* Pp. xii, 308. Price, \$1.25. New York: The Century Company, 1914.

Few matters of public policy have assumed so quickly a place of importance in popular thinking as that of the juvenile court since its organization in Chicago in July, 1899. The movement spread rapidly in this country and in Europe and developed a great diversity both as to concepts and as to methods of administration. Efforts to standardize procedure have made slow progress. The reason for this has been a diversity both of ideals and of conditions in different states and countries. The literature which the movement has produced has been, in the main, fragmentary and has dealt with specific aspects of the subject. In the present volume, the authors have attempted for the first time a thoroughgoing intensive study and statement of the whole subject in concise form and have produced a text-book of the juvenile court and its necessary accompaniment, probation. Beginning with Part I we have a short history of the juvenile court movement together with a discussion of its underlying principles. Part II deals with a detailed and analytical analysis of the organization and procedure of the court throughout the United States. In addition we have the best concurrent opinion of what an ideal procedure should be. Part III considers probation in the same manner, giving valuable suggestions as to the best methods of organizing and conducting probation. Part IV criticises methods and statistics, emphasizing the value of both in securing adequate results. In Part V many pages of sample forms are presented with criticisms and suggestions. The appendix contains drafts of laws and rules representing the best examples of procedure so far incorporated in the codes of the various states, and finally a lengthy selected reference list of the most valuable sources of information. The volume is the report of the special committee on Juvenile Courts and their Administration appointed by the National Probation Association, and is endorsed by the entire committee consisting of Bernard Flexner, Roger Baldwin, Ben B. Lindsey, Julian W. Mack, Julia C. Lathrop, Homer Folks, Maud E. Miner, Edwin Mulready and Arthur W. Towne.

The book should be accessible to every social student and social worker, whose interest in any way touches this important subject.

J. P. LICHTENBERGER.

University of Pennsylvania.

FREEMAN, ARNOLD. *Boy Life and Labour.* Pp. xiii, 252. Price, 3s. 6p. London: P. S. King and Son, 1914.

This volume is the result of a year of intensive investigation into the lives of seventy-one working-class boys of the city of Birmingham, England. The

author selected from the files of the local Juvenile Labor Exchange every boy in his seventeenth year who had had four or more jobs since he left school. While this method of selecting his cases for intensive study excluded the "superior" boy who tends to remain in one job or changes but rarely, the author believes that the large majority of the boys selected are typical of the mass of uneducated boy labor in Birmingham. The boys studied divided themselves into three groups: Class I, those who had emerged into positions where they were beginning to learn skilled work or its equivalent, after drifting about and doing unskilled work for three years (6 boys); Class II, those who were still doing unskilled work and of whom the author assumes that they would continue to do unskilled work in adult life (44 boys); Class III, those who were still doing unskilled work but appeared to be destined for unemployableness in later life (21 boys). The author gives a summary of the home background of each boy and reaches the conclusion that the relative failure of them all is due mainly to such environing factors as home, factory, picture palace, music halls and cheap literature.

The rôle assigned to heredity is dismissed in several pages of discussion, and the author's case for it is not convincing. It is unfortunate that in presenting this factor the author should have cited the shape of the skull as due solely to heredity (see p. 80) thereby ignoring the results of the researches of Professor Boas in this field, and should further argue that intelligence is almost synonymous with shape and size of the brain. It is the opinion of the reviewer that whatever the rôle of heredity, the miserable home conditions pictured, the amount of under-nutrition and the degrading social conditions generally obtaining among many of the families were alone sufficient to explain the high percentage of inefficiency among the boys studied.

In seeking a remedy for this "manufacture of inefficiency" the author looks not to the errors of schooling but to the abrupt termination of education at the age of fourteen and the entire neglect of society of the development of the boy during the adolescent period which is that most fraught with weal or woe for the future of the individual concerned. In the words of Mr. Freeman, "We have to devote ourselves, therefore, to an examination of the social and industrial environment through which the adolescent is condemned to pass. As we do so, we shall discover why it is that the bright, promising school lad becomes the dull, incapable adult" (p. 108). The author suggests the following remedies: first, the statutory reduction of the hours of juvenile labor which he holds is the fundamental remedy on which all others depend; second, compulsory continued education of such a sort as to fit the lad for the threefold rôle of efficient worker, efficient citizen and efficient husband and father. Supplementary remedies include increased coöperation between the boy and the employer and between the school and the home. Mr. Freeman writes well and as one having a message. His conclusions appeal so strongly to common sense and tally so accurately with common observation that one wonders whether the author need have devoted so much space to the life histories of his seventy-one cases, especially in view of the fact that the small number of cases studied invalidates their use for statistical purposes.

FRANK D. WATSON.

Haverford College.

GEIJSBEEK, JOHN B. *Ancient Double-Entry Bookkeeping*. Pp. 182. Price, \$5.00. Denver: Published by Author, 830 Foster Bldg., 1914.

An exhaustive and comprehensive study of ancient bookkeeping and the beginnings of modern accounting.

Lucas Pacioli, Manzoni, Pietra, Stevin, are to most of us unfamiliar names, but they stand for those who sought to expound the crude ideas of bookkeeping current in their times, and are known today as the pioneers of bookkeeping literature.

The most striking and unique feature of this treatise is the reproduction of the works of these writers as they originally appeared, together with translations by the author.

Pacioli's contribution to Accounting literature is contained in his work entitled, *Review on Arithmetic, Geometry and Proportions*, published in 1494. The section dealing with double-entry bookkeeping entitled, *Particularis de computis et Scripturis* (Particulars of Reckonings and their Recording), contains a thorough exposition of the subject from, one may say, Alpha to Omega, which varies but little from modern practice. Incidentally also Pacioli gives some sound advice to the merchant and business man of his day, which applies with equal force to conditions of the present.

We are prone to think that Accountancy is of recent development and that accounting systems are mainly the result of modern conditions. That this is not so, is evidenced by the fact that Stevin's manuscript of 1607 describes a system of Municipal Accounting; while in 1586, Pietra described an Economic Ledger for Capitalists and Bankers; in 1632 Mainardi attempted to describe a system of accounting for Trustees and Executors, and was the first one to advocate the use of combination journal entries.

The real worth of this book is not in the curiosity it satisfies, nor yet in its uniqueness and the interesting data it contains, but in the explanations of the underlying principles expounded by these early writers themselves, and in the preserving of old thoughts which to many today seem to be new.

EDWARD P. MOXEY, JR.

University of Pennsylvania.

GUÉRARD, ALBERT LÉON. *French Civilization in the Nineteenth Century*. Pp. 312. Price, \$3.00. New York: The Century Company, 1914.

At a time when France is so prominently before the world and when a large portion of the American Public has been forced to change its evaluation of French civilization and the French character, M. Guérard's book is of more than passing interest. Originally intended as an introduction to the regular courses in French Literature at Leland Stanford University, it retains some pedagogical features in its make-up. This, as the author is careful to point out in the preface, involves a certain amount of repetition, but the material and handling are adaptable to the purposes of the general reading public.

M. Guérard starts out with a consideration of the physical situation and surroundings of France. He avows that "there is no French race, properly so-called," and assigns the existence of the French nation "neither to homogeneity nor uniformity," but to "environment and history."

With this as a point of departure he briefly traces the history down to and including the Revolution, pointing out its highly dramatic character. He follows this with chapters on Napoleon, the Constitutional Monarchies (including both the Restoration and the July Regimes), Napoleon III and the Third Republic, devoting a part of each chapter to a discussion of the social and cultural character of the period. Then follow special chapters devoted to "The Social Question," "Education," and "The Religious Question." In these chapters the author takes up a chronological discussion of each of the topics, thus repeating some things already given in the earlier pages. To each chapter is appended a short critical bibliography and a chronological table of events. In the case of the chapters on special topics, these chronological tables are devoted exclusively to these subjects and are very helpful.

M. Guérard emphasizes the deep cleavage made in French society by the Revolution, and by this means explains the many and quick political changes in France during the last century—a phenomenon which Americans are apt to explain by assigning it to the innate fickleness in the French character. "The history of France in the nineteenth century is the tragedy of a nation with a divided soul. This is no immemorial curse, no taint in the blood of the people. For eight hundred years the French, proud of their common heritage, had remained remarkably loyal to their dynasty and to their faith." He says the terrible events of the Revolution "created a chasm between the old world and the new. . . . France lives in the dread of radical reaction or revolution, in an atmosphere of latent civil war. In this atmosphere of conflict, every new problem gives rise to passionate antagonism." Thus we see the French are divided into irreconcilable factions—factions which arise directly out of the fundamental cleavage of the great Revolution or are engendered by the hatred and strife arising out of it.

The author considers incidentally the question of degeneracy. He confutes the assertion that the average height of the French conscript is falling off, and explains it by saying that this seems to be so only because the number of conscripts has been so much increased. He cites the annual reports of the Conscription Committee as authority for the statement that the average height of the French is actually on the increase. In the matter of the falling birth-rate, M. Guérard calls attention to the fact that it is now recognized as a universal phenomenon throughout the civilized world. The cry of decadence was raised by "malevolent rivals," by "sensationalists," by "aesthetes," in quest of a new pose, by "earnest patriots who had lost their star." In the light of present-day occurrences, it is safe to agree with him in exclaiming "When a belated echo of this cry reaches us now, how faint and strange and silly it sounds!"

PAUL LAMBERT WHITE.

University of Pennsylvania.

HARRIS, GEORGE. *A Century's Change in Religion*. Pp. ix, 266. Price, \$1.25. Boston: Houghton, Mifflin Company, 1914.

SHOTWELL, JAMES T. *The Religious Revolution of Today*. Pp. viii, 162. Price, \$1.10. Boston: Houghton, Mifflin Company, 1914.

These two volumes with somewhat similar titles approach the subject from widely different points of view. The first is descriptive, the second analytical.

President Harris has taken up the subject of religion and, in turn, the principal doctrines, and shown the shifting of emphasis in their statement and even in the content of beliefs concerning them, especially as they are disclosed in American life and thought. The process is one of the simplification of beliefs and the harmonizing of these beliefs with the developments of science. Religion has become more rational but has lost none of its power. He maintains that while some opinions have been discarded there is a deeper sense of awe, of reverence, and of aspiration. Man remains essentially religious.

Professor Shotwell regards this change as more than a gradual modification of old beliefs. It is a revolution. It is part of an intellectual process that concerns not only theology but affects anthropology, psychology, sociology and history as well. Religion is not only changing, but its basis has shifted. All aspects of life are undergoing a process of secularization. "Charity has become a business and a social duty, a thing of the head rather than the heart, a coöperation in social uplift rather than as a mere avenue to saintliness for the giver of alms." The state is not a divine creation, but a human evolution. "Disease is no longer a divine affliction, but a violation of natural law." Morality is no longer absolute but relative. Even the truly religious man of today is "less interested in heaven and hell than in unemployment and sanitation." The heart is being disciplined by the head. Nevertheless, Professor Shotwell insists that "Religion seems as constant a factor in humanity as gravitation in the material world," and this despite the fact that science continues to banish mystery, to destroy taboos, and to construct a world of rational experience. The supreme mysteries of "life" and of "matter" remain as the chief stimulus to both science and religion and guarantee the permanence of both in the life of the race.

Both books arrive at very much the same conclusion though they pursue very diverse paths.

J. P. LICHTENBERGER.

University of Pennsylvania.

HAYES, HAMMOND V. *Public Utilities: Their Cost New and Depreciation.* Pp. xii, 262. Price, \$2.00. New York: Van Nostrand Company.

Books and magazine articles upon the subject of valuation of public utilities are appearing at frequent intervals. There is great need for literature upon this subject for the guidance and the assistance of railway commissioners, public service companies and engineering firms, many of which are actively engaged in the valuation of railroads and other public service properties. A successful book upon this subject must be written by one who has an appreciation of both the engineering and the economic questions connected with valuation.

Mr. Hayes has written an excellent book that deals concisely, clearly and comprehensively with the different aspects of the subject of valuation of public utilities. The book is not too technical to be understood by the intelligent layman, nor is it so voluminous as to discourage the layman. One seeking an introduction to a detailed and specialized study of valuation may do well to begin with Mr. Hayes' volume.

The purpose of the author was to set forth "the principles, as far as they have been established, which must form the basis of a valuation of the property

of a public utility undertaking." The author conceives the duty of the engineer to be to investigate, ascertain and set forth the facts as to the original cost, replacement cost, depreciation, market value of stocks and bonds, and "going-concern" value. It is not the function of the engineer to determine the fair present value of public utility companies, Mr. Hayes' belief being that "the court or commission, depending upon the nature of the case, is alone competent to ascertain the true present value of the property of an undertaking." The function of the valuation engineer is to ascertain the cost and other data, by means of which the commission or the court may determine the fair valuation of the property.

The only portion of Mr. Hayes' volume that may be considered technical is that which concerns the discussion of depreciation and reserves for depreciation. The author explains, with some detail, the results produced by the "straight line" and "sinking fund" methods of providing reserves for depreciation. The conclusion of the author upon the important question of the method of providing for depreciation is that "when the property of a public utility consists of plant alone, the loss in value must be determined by the straight line method, and when the property consists of plant and depreciation reserves, the loss in value must be ascertained by means of what has been called the sinking fund method."

EMORY R. JOHNSON.

University of Pennsylvania.

HOLDSWORTH, JOHN T. *Money and Banking*. Pp. 439. Price, \$2.00. New York: D. Appleton and Company, 1914.

In reading the recent book by Professor John T. Holdsworth, of the University of Pittsburgh, one must bear in mind the purpose of the work and the many subjects with which he deals. The book is so arranged as to make it suitable for use as a textbook, covering the whole general subject of money and banking. The scope necessarily involves a large number of economic subjects—history of banking, principles of money, history and principles of credit and many others, each one of which constitutes a specialized field to which many volumes might be devoted.

The book is designed primarily to serve as a textbook for those just beginning the study of money and banking, but it will also prove of value to those who have entered the field before, for in a single volume the author has presented the whole general subject in a concise way.

The book is divided into two parts: the first, reviewing the essentials in the history, theory and principles of money; and the second, discussing the principles and practices of banking.

Part one, in addition to giving a thorough review of the money system of the United States, contains an excellent chapter on the value of money and prices, discussing the quantity theory of money, the multiple standard and the compensated dollar. In chapter five, the use of the circulation statement is somewhat confusing and it is believed that were the "Daily Statement of the United States Treasury" used in its stead, a better understanding of the relation of the Treasury Department to the money of the United States would be obtained.

Part two contains a large amount of general information on the subject of

banking. The chapter on Foreign Banking Systems is very brief, due no doubt to lack of space for a more detailed discussion. It would seem that a more thorough treatment of foreign banking systems, here, would be desirable, as establishing a foundation for the proper appreciation of the remaining chapters, Defects of the National Bank System and The Federal Reserve System.

To one specializing in any particular phase of money, credit, or banking, the book is of less value than many others. Its value lies in that it presents in convenient form the whole general subject of money and banking. It fills a long-felt want of the student and young business man for text on this subject.

EARLE H. RAUDNITZ.

New York City.

JONES, ELIOT. *The Anthracite Coal Combination in the United States.* Pp. xiii, 261. Price, \$1.50. Cambridge: Harvard University Press, 1914.

Here is a fearless fact portrayal of a complex combination movement in America—the anthracite coal industry.

The author first presents the early history of coal, giving a brief description of the three great fields—the Wyoming district, the Lehigh district and the Schuylkill district. The development of the industry from the discovery of coal to the present is divided for extensive study into four more or less well defined periods. The first period, extending from the middle of the eighteenth century to 1843, represents the earliest developments, and gives a clear description of the problems and methods of transporting the coal by canals and navigable rivers. The second period, from 1834 to 1873, portrays the entrance of the railroads into the coal trade. It is in this period that the railroads made extensive purchases in coal lands. The third period, 1873–1898, contains as its distinguishing features the growing influence of the railroads, their domination over the independent operators, their pool formations, and the making of other arrangements to secure monopolistic harmony in the trade. The fourth period, beginning with 1898, shows the formation of the coal combination which has since effectively controlled the anthracite industry.

The author then gives a very careful and enlightening study of the effects of the combination in its control of output, transportation, price and sale of coal, and closes his work with an investigation into the efforts made by the government to dissolve the combination.

This book is of exceedingly high value chiefly for its concrete facts, showing how step by step a great combination has been formed and also because of the clearness with which it develops the enormous power resulting from a natural resource coming under railroad control.

As regards regulative measures, Dr. Jones gives us little hope of immediate solution. "Even if the present combination should be dissolved," claims the author, "it would be difficult, in view of concentrated ownership of supply, to prevent the establishment among the coal companies of an *entente cordiale* that would effectively maintain prices and yet be less open to attack. . . . The people of the United States have not as yet a fixed and definite policy, and until a definite policy is adopted a permanent solution of the anthracite coal problem is not to be expected."

The power of a combination such as Dr. Jones portrays surely must have had at least appreciable effects on the wage problem and the labor situation. Nothing, however, can be found in this work which shows the relations of the combination with the wage-earners. Much trouble was experienced in 1902, and those who have their ears to the ground report rumblings of trouble in 1916; therefore it seems a pity that nothing has been given us on this side of the anthracite industry.

Just as in 1902 Dr. Montague gave us his valuable book on the rise of the standard oil, so Dr. Jones has worked out the anthracite coal combination, but in a far more detailed and scientific manner.

CHARLES E. REITZEL.

University of Pennsylvania.

KENNEDY, SINCLAIR. *The Pan-Angles; A Consideration of the Federation of the Seven English-Speaking Nations.* Pp. iv, 244. Price, \$1.75. New York: Longmans, Green and Company, 1914.

In the face of the great war now raging, this book, although in press when the war began, attracts attention. It is a plea for governmental federation of Pan-Angles, the "English-speaking, self-governing, white people of New Zealand, Australia, South Africa, Newfoundland, Canada, the British Isles and the United States." The "civilization" of this group is based upon the political understanding that "self-governing white men cannot be the possession of another" but they may possess others. Originally of British blood, the population of these countries has been enriched by Continental immigrants who have soon learned to speak English and to understand the Pan-Angle "habits of mind and forms of government."

With "individualism" as the basis of all his theories and practice, the Pan-Angle is eager to act alone, yet knows how and is willing to combine with his fellows when necessary. When presentative government becomes impracticable, he develops representative forms, final sovereignty resting with the voter. But from this suffrage power, he would exclude all non-whites. Pan-Angles will be called upon to preserve the wide territory they have wrested from those whom they regard as the lesser breeds and to secure themselves in the rights of individualism.

For dangers to their "civilization" may rise. Civil strife may break out within any of the seven groups or war may arise between any of them. Both of these dangers have been experienced in the past.

The third danger comes from rival "civilizations" of others who "need land for their children" and who "wish to see the world 'bettered' by their ideas." The fate of one-time world rivals, Spain, Portugal, Holland and France, is a warning. Germany can be made an ally. Both Russia and the yellow peril of Japan and China are future concerns. Pan-Angles the world over have anti-asiatic feeling and they have large subject populations "to control and protect."

So to meet these dangers, there should be "a machinery of government tried and tested before the crash comes." This "common government" should be a closer union than now exists, and it should consist of a federation, with national existence intact and with local autonomy for local affairs. It should be an Imperial union of not only Britannic nations, but of all Pan-Angles. The author holds that steps in this direction have already been made and that men over the

Pan-Angle world are working for closer union. The final accomplishment must come by the force of popular opinion within each national group.

So much for a summary of the views of the book; what of their value? The author's denial of jingoism is taken in good faith. Beyond doubt, a combination of powerful national groups to preserve such a heritage as *civilization* is a "consummation devoutly to be wished." Some combination of English-speaking peoples, because of common language, mutual understanding and world power, would doubtless be very effective. But the present results of the *entente* of England, France and Russia do not permit the author to claim that only Pan-Angles will work and fight to preserve democratic *civilization*.

Furthermore, any Pan-Angle policy, which would exclude English-speaking non-whites from the full enjoyment of political, religious and personal liberty would be as short-sighted as it is dangerous. When Senegalcse, Turcos and Indians are sending the best of their breed and abundance of their treasure to help Pan-Angles save their children and preserve their ideas and possessions, self-interest alone should tell English-speaking whites to accord these "lesser breeds" a full share of the dearly bought freedom. Unless white Pan-Angles wish to build up a flood of hate for the future, they should heed the "Recessional" of the great living prophet.

GEORGE EDMUND HAYNES.

Fisk University.

LOWELL, A. LAWRENCE. *Public Opinion and Popular Government*. Pp. xiv, 415. Price, \$2.25. New York: Longmans, Green and Company.

President Lowell has given a considerable portion of the first part of his book to a discussion of the nature of public opinion. "The essential to this motive force of democracy," says President Lowell, "is not only that the opinion be shared by a majority, though unanimity is not required, but that the minority ungrudgingly give its acceptance to the conclusion held by others, usually referred to as public opinion." This does not preclude the minority from attempting to restate its opinion as the opinion of the majority, but it does mean that in countries where public opinion can be really said to be the controlling factor in government, minorities cannot be irreconcilable, as, for instance, are the Monarchists in the French Republic. To President Lowell, public opinion is only in part rational. He does not recognize it as the mature judgment of a sentient community, certainly not within the meaning of such men as Cooley and Giddings who define public opinion in terms of "an aroused, mature, organic social judgment."

Two agencies of public opinion only are discussed: political parties, and direct legislation and the recall. The discussion of parties is along more or less traditional channels. The contribution of the volume is in its direct and illuminating analysis of what public opinion is and the extent to which direct legislation and the recall are acceptable agencies for the creation and expression of public opinion on the social, economic and political questions of the day. The votes cast and the nature of the questions submitted under the initiative and referendum in Switzerland and in the states of this country are carefully analyzed and inclusively presented.

The author concludes that the referendum and initiative will not bring the

millennium they are expected to bring though they will and have proved to be valuable when used in an appropriate way. The objection made by the author that no attempt has been made to confine popular votes to that class of questions upon which a public opinion can readily be formed, is not followed by any definite suggestions as to just how that division, which all would admit would be advisable, could be made. A comparison of referendal measures with constitutional amendments shows that the measures referred to the people under either the initiative or referendum are more clearly questions upon which a public opinion can be readily formed than have been the constitutional amendments submitted to the electorates throughout our history. The history of the referendum reveals a tendency to submit to popular vote questions of policy primarily. Custom and usage are thus tending to develop just the line of demarcation which President Lowell would have indicated by hard and fast rule.

Part IV of the book has to do with the regulation of matters to which public opinion cannot directly apply. Attention is given to representation by sample, rotation in office, committee and public hearings and the questions as to how experts can be secured and retained in governmental problems. President Lowell's discussion of the need for and value of experts is always suggestive and valuable.

CLYDE LYNDON KING.

University of Pennsylvania.

MABIE, HAMILTON WRIGHT. *Japan Today and Tomorrow.* Pp. ix, 291. Price, \$2.00. New York: The Macmillan Company, 1914.

The plan of sending "a literary impressionist" as an apostle of peace and good-will to the Japanese was adapted happily in itself to the temperament of that impressionable people, and the selection of Mr. Mabie for the delicate mission was equally happy. Mr. Mabie is much more than a pleasing painter in words and phrases. The keen insight, quick sympathy, calm judgment, the *μῆδεν ἄγαν*, so characteristic of this writer and critic, must have appealed as forcibly to the Orientals in his lectures on American ideals, character and life, as these qualities in the book before us now appeal to us.

A man of this fairness of mind would naturally escape contamination in the atmosphere of the smoking-room, generally surcharged with anti-Oriental and anti-missionary prejudice, whether on board the American and British Pacific steamers or in the foreign hotels and club of Yokohama; but an additional safeguard is to be noted in the names of the three Japanese, "wise counsellors and loyal friends," to whom the book is inscribed. Among these is Professor Nitobé, whose own book concerning Japan (formerly reviewed in these columns) is a valuable contribution from the inside. In the chapter entitled East and West, the judicial calm of the author shows itself capable of properly discounting the biased claims of both hemispheres. From Count Okuma, perhaps the broadest of living Japanese public men, the author was able to gather first-hand information concerning present political and social conditions in Japan, and its international attitude. See the chapter entitled, A Japanese Prime Minister on Japan, being a conversation with the author, stenographically reported.

While the main purpose of the book is thus well carried out, the brief, yet

adequate historical sketch, in the early chapters, should clear away much of the fog that still envelops the early period in the minds of most. As to the descriptive portions, whether relating to natural scenery or to the life of the people in city and country, the sympathetic, yet accurate delineation must prove alluring to readers who have never seen Japan, while to foreigners who have spent years there, the old familiar scenes stand out in these pages touched with the charm of fond recollection. In the fine chapter on *The Japanese Hand*, Mr. Mabie's appreciation of the qualities of Japanese art approaches an enthusiasm that would almost satisfy Professor Morse of Salem, whose name, by the way, on page 283, erroneously appears as Mr. Edward M. Morse.

In the account of *The Genius of Shinto* and possibly in the absence of consideration of missionary labors, some may think to detect an unfortunate influence exerted by the "wise counsellors and loyal friends," of the inscription. The Japan of today could not be what Mr. Mabie finds, had those wise and devoted Americans, Doctors Verbeck, S. R. Brown, and Hepburn, true apostles of the broadest national regeneration, not been on the scene during the period of transformation, beginning as far back as 1860 their beneficent work, both religious and secular.

The fact remains, however, that among the many books about Japan that have appeared during the past fifty years, in Europe and America, the present work must take high rank for accuracy; in fairness of estimate and in charm of portrayal it is unsurpassed.

WILLIAM ADDISON HOUGHTON.

St. Petersburg, Fla.

MATTHEWS, NATHAN. *Municipal Charters*. Pp. vii, 210. Price, \$2.00. Cambridge: Harvard University Press, 1914.

This publication is the first of the publications of the Bureau for Research in Municipal Government in Harvard University, the second being a bibliography on municipal government by Prof. William Bennett Munro.

Mr. Matthews was mayor of Boston from 1891-1895, and chairman of the Boston Finance Commission from 1907-1909, and sometime lecturer on municipal government in Harvard University. The essentials of an American city charter are discussed at length and in great detail, with special emphasis on the administrative provisions. But two brief chapters are devoted to the political features of the charter and the city's relation to the state respectively, while eight longer chapters are devoted to administrative provisions, relating particularly to the city's quasi-public service corporations, to officers and employees, to appropriations, taxes and loans and to general rules for the conduct of business, to the assessment of taxes, accounts and reports and to the management of municipal enterprises.

Part II is devoted to a model draft of a city charter, including primarily the responsible executive type and only secondarily the commission type.

The author includes in his charter suggestions only those that have been well tried and found "safe and sane" in practice. Many of his provisions may be classed as reactionary. Thus he provides in section 2 of article 8 of his model charter, in giving the general rules for the conduct of business, that "repairs and

work necessary for the maintenance of city property, including additions, alterations and improvements to an amount not exceeding in any case one thousand dollars, may be executed by day labor or by contract; but work of original construction and additions, alterations and improvements costing in any case more than one thousand dollars shall be let out by contract." The tendency in progressive American cities, as in progressive European cities, is decidedly toward direct work by the city instead of indirect work through contract. The author argues that there is greater danger in the city's doing public work directly than in doing it under the contract method. But the experience of other cities and the judgment of most progressive city workers is distinctly against this conclusion. Again, Mr. Matthews provides that nominations to office may be made only by a petition signed by 3 per cent of the total votes cast at the preceding city election, a number that is much higher than is usually found in charters. The duties of all the departments of the city are specified in six pages of the charter while twelve pages are devoted to restricting in greatest minutia the powers of the city over public ownership and operation of profitable enterprises.

CLYDE LYNDON KING.

University of Pennsylvania.

MITCHELL, WESLEY CLAIR. *Business Cycles*. Pp. xviii, 610. Price, \$5.00. Berkeley: University of California Press, 1913.

A monumental work of over six hundred pages, this book undertakes a quantitative method of investigation into the causes of the rhythm of business activity. If the statistical method as such is not new in this connection, it is at least unique here in the extent of its application.

Following a brief review of former explanations of business cycles which he finds to be only partial explanations or explanations of but one of a number of complex factors, the author makes a detailed study of the annals of business from 1890 to 1911. This period is chosen because of our greater knowledge of recent business and financial history and because of the greater accuracy of the statistical data of more recent years.

The plan of the book makes possible its use by the economic theorist, who wishes to study it in great detail, or by the business man or general reader who is interested only in conclusions. The gist of the conclusions on the causes of business cycles is presented in the last of fourteen chapters. In fuller detail, the same results are given in chapters ten to thirteen, while the statistical materials and methods used are given in part two, including chapters four to nine.

The controlling factor in economic activity, according to the author, is the quest of money profits. Through differences in cost prices and consumers' prices, the business man is enabled to obtain a money profit. The business cycle comprises a swing from prosperity to crisis, from crisis to depression, and from depression again to prosperity. Prosperity begins by a revival of business activity, a rise in prices and an increase in profits either because costs rise slowly in comparison with the physical volume of business or because costs lag behind selling prices. At the apex of prosperity the business man's endeavor lies not in immediate profits, but in the maintenance of solvency. Through increasing costs and tension on the money markets, prospective profits decline, business credit is

undermined, and a period of liquidation begins. Business is reduced in volume, prices fall, prices and costs are readjusted and depression prepares the way for another period of prosperity.

Undoubtedly one of the valuable features of this book is the wealth of statistical materials upon which the author's analysis rests. As he himself states (p. 570): "The case for the present theory . . . and also the case against it, is to be found, not in the summary . . . but in the difficult chapters which precede (viz. the statistical data)." The data here presented furnish excellent material for class purposes or for independent investigators in studying the fluctuations of economic activity, and for testing quantitatively this or other theories.

BRUCE D. MUDGETT.

University of Pennsylvania.

MÜNSTERBERG, HUGO. *Psychology and Social Sanity*. Pp. ix, 320. Price, \$1.25. New York: Doubleday, Page and Company, 1914.

This collection of essays is the latest product, save of course for *The War and America*, of the tireless pen of the distinguished German American professor at Harvard. It seems to him, as the preface states, "a particular duty of the psychologist from time to time to leave his laboratory and with his little contribution to serve the outside interests of the community." Some "characteristic topics of social discussion" are selected, to be "solved" by psychology; the succeeding chapter headings are: Sex Education, Socialism, The Intellectual Underworld, Thought Transference, The Mind of the Juryman, Efficiency on the Farm, Social Sins of Advertising, The Mind of the Investor, Society and the Dance, and Naïve Psychology.

With regard to the sex problem, the author, perversely enough, advocates earnestly in the preface "the policy of silence," and forthwith proceeds to violate that policy harshly in some sixty-eight pages. Discussion of the questions of sex, taken up by the drama, treated in magazine literature, or involved in the education of boys and girls, he feels is fraught with the gravest danger. More thorough knowledge of sex will mean simply increased desire and calculated sinning. Certainly it is just to say that such an obscurantist plea for the efficacy of total depravity doctrine and such a defense of mystical belief and ignorance, is not far short of sheer indiscriminate reaction in this time of knowledge and discussion. Moreover, the essay seems to reflect a wilful refusal to consider objective facts impartially; this alone would negate any claim for its consideration as a contribution to social science.

Nor does the long chapter on Socialism deserve comment except as reflecting upon the author's limitations as a sociologist. Here Professor Münsterberg, the platitudinous, dispenses ancient commonplaces about incentives and ideals and happiness. Such writing can scarcely be very effective in combating the claims of Socialism. He seems not at all to understand the vital social and economic issues presented. Indeed, it is rather futile to attempt to apply the ideas of individualistic psychology to group relations, where the broader critical analysis of social psychology is needed. Again, to take another instance, *The Mind of the Juryman* is of interest as revealing the possible scientific catastrophe which may follow upon this utilization of the laboratory method of introspective psychology to

settle social questions. In a little Harvard experiment to determine the efficacy of the jury system, which involved a process of discussion and persuasion with regard to the number of dots on pieces of cardboard,—with male students, 52 per cent of the first votes were ascertained to be correct, and 78 per cent of the final votes. But, alas, with the poor female students only 45 per cent of the first votes were right, and the proportion of correct votes remained unchanged to the last. Upon this slender thread of evidence the following remarkable and naïvely impartial social conclusion is reached at the end of the essay: "The psychologist has every reason to be satisfied with the jury system as long as the women are kept out of it." The impulse to quote along with this statement these delightful words from the preface is irresistible: "If some may blame me for overlooking the problem of suffrage, I can at least refer to the chapter on the jury, which comes quite near to this militant question."

In *Efficiency on the Farm* the author makes out a case for the much-abused farmer, and shows the need of applying tests of scientific efficiency to farmers and agricultural life, similar to those now used with workingmen in industry. *Social Sins of Advertising* points out convincingly, with clever and justifiable use of laboratory experiment, the psychological mistake that commercialism has made in mixing advertising material with the written word in our magazines. *The Mind of the Investor*, while not a startlingly original contribution, is a worthwhile study of certain mass phenomena. *Society and the Dance* is one of the best of the essays. The author shows a very considerable knowledge of the dance, and as well a discriminating appreciation of its social influence and aesthetic possibilities.

In the remaining chapters, *Thought Transference*, *The Intellectual Underworld*, and *Naïve Psychology*, Professor Münsterberg is quite at home in his chosen and reputed field of popularizing the fascinating material of abnormal psychology and of shattering popular misunderstandings and superstitions. Like all of the professor's many books, this volume holds the reader's interest by the very nature of its appeal; it will be widely read. The ingenious experiments of the professor and his deductions are most attractive; but it would be a mistake, of course, to take too seriously the rather extravagant claim of the preface with regard to the solution of complex social problems.

FRANCIS TYSON.

University of Pittsburgh.

PHILLIPS, WALTER ALISON. *The Confederation of Europe*. Pp. xv, 315. Price, \$2.50. New York: Longmans, Green and Company, 1914.

The confederation of Europe is of particular interest at a time when the world is beginning to ask itself what guarantees of peace are possible after the outcome of the present struggle. One or other of the great alliances of European powers will find itself in a position somewhat analogous to that of the allies after the downfall of Napoleon. Mr. Phillips' book traces in some detail the efforts made at that time to erect the alliance into some sort of permanent European confederation. He points out that all such efforts failed because there were such widely different and sharply conflicting systems of government represented within the several states that composed the union, and he adopts the attitude that even today the

same disparity between the political institutions and ideas of different nations would effectually frustrate any general confederation. He recognizes, however, that without such an attempt the Hague Conference would have been impossible, and he also credits it with having given added sanction to international law. In an introductory chapter, the author traces the chief efforts at European confederation from the Grand Design of Henry IV of France onward, establishing the fact that each in turn grew out of a former effort and that none would have been attempted without the preceding steps. In this way he views the whole history of such movements as an entity, the last step in which was the establishment of the Hague tribunal.

Mr. Phillips gives special prominence to Castlereagh, and goes far towards correcting the shallow judgment of that statesman, which has persisted to our own time. The discussion of the genesis of the Monroe Doctrine is particularly interesting to Americans. The author calls attention to the apparent inconsistency that this famous instrument, formulated for the express purpose of frustrating the altruistic and idealistic conception of a world confederation to regulate the family of nations, has become one by which we ourselves claim the right of intervention.

The fascinating and unfortunate Alexander I is depicted more sympathetically than is usual at the hands of an English author. While clearly demonstrating that the English attitude of opposition to the confederation was the only sound and practical one, Mr. Phillips insists that Alexander was both sincere and persistent in his effort to bring about a successful confederation at first of Europe and later of the whole world.

It is unfortunate that Mr. Phillips has at times not drawn a clear distinction between the Holy Alliance and the Quadruple and Triple Alliances. The effectiveness of the book is also marred by long quotations, but the theme is interesting, and the lessons to be learned from the facts pointed out ought certainly to be well considered before we attempt to deal with the problem of world peace.

PAUL LAMBERT WHITE.

University of Pennsylvania.

STOCKTON, CHARLES H. *Outlines of International Law.* Pp. xvii, 615. Price, \$2.50. New York: Charles Scribner's Sons, 1914.

The author of this volume has long been recognized as an authority on international law, and this is not the first book which he has given to the public. He was one of the two American delegates to the London Naval Conference in 1909. His knowledge of the laws and usages governing maritime warfare is especially full and accurate. The entire volume is written with a clearness, conciseness, and directness of style well befitting a textbook for the average beginner of the subject.

As regards arrangement and method of treatment, the volume presents nothing striking or new. It is a textbook rather than a treatise, and the statement of rules occupies more space than the discussion of principles. There are five appendices, containing, among other documents, the Declaration of London, together with the general report presented to the conference on behalf of its drafting committee, and the proclamation of neutrality issued by President Wilson at the beginning of the present war.

Following the practice of Oppenheim, Wilson, and other recent writers on international law, Admiral Stockton has embodied in the text extensive quotations from the various Hague conventions and a large part of the Declaration of London. In view of the indefinite status of the Hague conventions and of the Declaration of London, the embodiment of their rules in a textbook appears to be unfortunate. As to the status of the Hague conventions during the present war even government officials seem to be hopelessly at sea, while it has been conceded by all parties that the Declaration of London as such is not now in force. It is true, of course, that the Declaration represents an attempt on the part of a conference of experts of wide reputation and unquestioned ability to codify the existing rules of international law relating to maritime warfare, but on some points where English and American practice was widely at variance with that of the continental Powers, the framers of the Declaration undertook to lay down definite rules, and the rules so laid down have not been agreed to by all the powers. The Declaration, therefore, carries with it merely the authority of the delegates who participated in the conference, and not necessarily the sanction of the powers they represented. In view of the wholly unexpected developments of the present war, it seems likely that the rules of maritime warfare will have to be again thoroughly revised. The present volume, as well as several other recent textbooks which are made up so largely of concrete statements of rules, will in all probability be rendered entirely obsolete, whereas many of the older treatises dealing more largely with the discussion of fundamental principles and cases will always possess a certain value.

JOHN H. LATANÉ.

Johns Hopkins University.

TOUR, T. F. *The Place of the Reign of Edward II in English History.* Pp. xvi, 421. Price, \$3.50. New York: Longmans, Green and Company, 1914.

The traditional conception of Edward II, Professor Tout leaves unaltered. "There is," he says, "little fresh to be said as to the personal deficiencies of the unlucky Edward II" (p. 9); but the commonly accepted *dictum* of Stubbs concerning the reign, that "outside of the dramatic crisis it may be described as exceedingly dreary" (*Chronicles of the Reigns of Edward I and Edward II*, II, lxxv), Professor Tout refutes once for all. The opinion of the bishop of Oxford reflects accurately enough the impression created by the narrative and documentary sources which had been printed when his opinion was formed, if they be studied from the standpoint that by far the most important institutional development of the period was that of parliament. Professor Tout has gone far behind these sources and has dug deeply into the mass of unpublished manuscripts written by clerks of Edward's chancery, exchequer, and wardrobe. He looks at the reign through the medium of these records and concludes that it was a turning-point of fundamental significance in the administrative history of the latter middle ages. To the establishment of this point of view he devotes the major portion of his book.

As a preliminary to the administrative history of Edward II's reign, Professor Tout describes the system which Edward II inherited from his father. His chapter on this subject is intended only as a sketch; nevertheless it contains the best survey known to me of the administrative machinery of the chancery, exchequer, and wardrobe as it existed at the close of the thirteenth century and the

only clear statement of the relations of the wardrobe to the other two departments. The wardrobe was a well organized department of the household which duplicated in part the functions of the chancery and the exchequer, the two great departments of state. The existence of the wardrobe may be explained partly by the customary lack of organization common in mediaeval administrative systems. But there was another reason. By the time of Edward I the exchequer and the chancery practically were independent of the household and consequently subject more easily to influence from the barons when they might attempt to check the royal power. The officials of the wardrobe, on the other hand, were still in close personal contact with the king and more likely to be amenable to his will. The significance of this distinction becomes apparent at once when Professor Tout deals with the baronial activities of the reign of Edward II. This he does at some length, largely from the viewpoint of the personal changes wrought in the offices of state and household. Old evidence is weighed in this new balance and combined with much new material to yield a story of these struggles more intelligible and more interesting than any previously told. It appears obvious that the ordainers understood the necessity of controlling the household as well as the offices of state, if any progress were to be made with reform. They had little success, however, and it was only after Pembroke's middle party had gained power in 1318 that any extensive changes were made in the personnel of the household. With the triumph of the middle party there began also an attempt to reorganize the household on an extensive scale. This effort was continued despite the reaction of 1322 and was accompanied thereafter by a reform of the exchequer. "The result . . . was to establish the royal household as it existed for the rest of the middle ages, and in most respects as it continued until Burke's economical reforms in 1782" (p. 157).

The chief reforms accomplished, as Professor Tout describes them, were in the direction of delimitation and differentiation of functions. Because the ordainers objected to the control of the privy seal by the controller of the wardrobe, Edward somewhat unwillingly allowed the appointment of a keeper. The office of the privy seal thus created became a sub-department of the household separate from the wardrobe, and so was begun the development which ultimately removed the privy seal from the household entirely and made it like the great seal, a seal of state. Before this evolution had been accomplished, however, a new personal seal had made its appearance. For the purpose of eluding the baronial attempt to secure control of the finances for the exchequer, Edward II revived the chamber which had long been dormant. It became virtually a royal privy purse independent of the exchequer and a secretarial department of the household in possession of a secret seal distinct from the privy seal. The wardrobe, on the other hand, had its activities limited. The revival of the chamber and the separation of the privy seal deprived it of many powers and the household ordinances of 1318 and 1323 ended its supervision of several outlying offices (*e.g.*, the great wardrobe and the butlery) by making them accountable directly to the exchequer. This was the beginning of a decline which before the end of the century had made the wardrobe actually the "wardrobe of the king's household." In the chancery Professor Tout finds fewer changes than elsewhere. The innovations in the exchequer which occupy his attention chiefly were in

the methods of transacting business and keeping accounts. Here as in the household he sees an important turning-point.

There is little doubt that Professor Tout has established his main thesis. It may be true that he has stressed too much the importance of some administrative changes of Edward II's reign. The reforms of the exchequer of Edward I, for example, were probably more important relatively in comparison with those of Edward II than may be gathered from Professor Tout's statement. Final judgment must be withheld until we have a fuller knowledge of the administrative system as it existed both before and after the reign of Edward II than the chronological limits of Professor Tout's present work permit him to furnish us. Doubtless his promised study on the history of the wardrobe, chamber, and small seals will supply the essential detailed evidence. But though further research may alter the emphasis placed on some aspects of the subject, it is not likely to affect materially the conclusion that the reign of Edward II is "the point in which the marked differentiation of what may roughly be called 'court administration' and 'national administration' first became accentuated" (p. vii).

Professor Tout maintains further that the reign of Edward II is of prime significance in several other fields of development. His belief that "the ineffectiveness of Edward II's reign made permanent the constitutional machinery of the reign of Edward I, and so began that differentiation between English and French history which certainly did not exist under Edward I, but was clearly evident under Edward III" (p. 33) receives illustration in the chapters devoted primarily to administrative history. Two final chapters are concerned with external and ecclesiastical policies; warfare, and social and economic conditions. These subjects are passed over summarily mainly by way of suggestion, although room is found to give to the staple and to the relations of Clement V to Gascony the most complete treatment they have yet received. The conclusions stated here are for the most part more tentative in character. In a field such as the relations between England and Scotland the main facts are perhaps sufficiently well known to render unnecessary the production of new evidence before making deductions, but such a topic as the nature of the relations between England and the papacy cannot be settled till we have much more evidence than Professor Tout offers. These chapters, however, were written rather with the hope of stimulating others to enter profitable neglected fields of investigation than with the intention of attempting a thorough survey (p. 205), and for this purpose they are well adapted.

The book is supplied with two long appendices which contain a reliable text of the household ordinances of 1318 and 1323 and an invaluable list of the holders of administrative and judicial offices during the reign. There is also an ample index.

The extent of Professor Tout's contribution cannot be measured solely by the number of new facts he has presented, great as that number is. His is a pioneer work of exceptionally high quality. He has not only blazed a broad trail into a nearly virgin forest; but he has also indicated numerous bypaths which may be followed by others to fertile but uncultivated fields, and he has harvested a bountiful crop in the large clearing which he has made for himself. He has made it impossible longer to ignore the great part played by the administrative organs in the development of the English constitution of the later middle ages. And not

the least of his accomplishments is to rescue the reign of Edward II from the undeserved position of comparative insignificance which it has hitherto occupied.

W. E. LUNT.

Cornell University.

VEDDER, HENRY C. *The Gospel of Jesus and the Problems of Democracy.* Pp. ix, 410. Price, \$1.50. New York: The Macmillan Company, 1914.

This is an interpretation of the message of Jesus to the twentieth century. The author discusses in the light of a "reconstructed theology" the problem of social justice, the woman problem, the problem of the child and the problems of the slum, vice, crime, disease, poverty and lawlessness. The treatment of each topic, though necessarily brief, is brought down to date. The style is vigorous and popular. There is no uncertainty in Dr. Vedder's mind as to what the attitude of Jesus would be toward any of the above problems nor is the reader left in doubt as to what the author considers that attitude to be. There is so much that is splendid about the broad social spirit that pervades the book and so much that reveals a sincere and dauntless effort on the part of Dr. Vedder to give us a new glimpse of a vitalized Christianity that one regrets to detract from the merits of the undertaking. One wishes that certain passages of which the following is illustrative showed a firmer grasp of the science of economics: ". . . when all forms of profit, and especially rent, dividends and interest, will be recognized as profoundly immoral, since all alike violate the law 'Thou shalt not steal.'" A little more clear thinking and a little less dogmatism on such an economic question as the justification of interest which is at least debatable, would have given Dr. Vedder's main message greater weight with many people equally interested with him in the common welfare.

Again to no advantage the author alienates another group of readers by so sweeping a statement as that "It is estimated that \$1,500,000,000 is spent by the business world every year in advertising, of which every cent is economic waste. . . ." The waste of advertising is so enormous that there is no excuse for stating that the waste amounts to 100 per cent when most students of the subject agree that advertising which is educational serves a truly social purpose.

Despite the above shortcomings which have arisen from a blind adherence to the economics of Karl Marx, the book is well worth reading. It has the merit of challenging thought.

FRANK D. WATSON.

Haverford College.

WALLAS, GRAHAM. *The Great Society.* Pp. xii, 333. Price, \$2.00. New York: The Macmillan Company, 1914.

This book is a companion, and in some particulars, a sequel to the author's *Human Nature in Politics* published in 1908. In this volume the broader scope of social organization is reviewed on its psychological side. It is an attempt to analyze collective human behavior within the tremendously complex conditions of *The Great Society*—a term used to describe our interrelated and interdependent social life created by the industrial revolution as contrasted with the simpler

forms of society prior to the nineteenth century. Social psychology so far, the author feels, has dealt merely with collective social phenomena. It must go farther and apprehend a complexity never before realized. With less acute brains and less retentive memories than the Greeks, we must attack a problem "ten-thousand-fold" more complex. Modern social development has "drifted" long enough. It is now creating forces that must be "controlled," and the first element of control is an adequate comprehension of the problem. It is not a little disconcerting, however, to learn that "the influence of the professed psychologists upon either sociological writers or the practical politicians has been curiously small."

In the earlier chapters the author discusses the function of social psychology as the analysis of "dispositions," as the inherited type facts of social consciousness and their relation to instincts and intelligence. "Human nature" is the sum total of human dispositions. Every individual through organic heredity begins with innumerable psychological tendencies which from the moment of birth are modified by acquired experiences. If this concept brings us perilously near determinism we are reminded that "throughout the history of mankind and in every branch of science, those who have really advanced our knowledge of causes and effects have felt their energy, and even their sense of 'freedom,' to be increased rather than paralyzed by what they have learnt." This fearless pursuit of the laws of social action seems hardly to accord with the proposition that "The purpose of social psychology is to guide human action." One may ask whether it is the business of any science to guide or control the phenomena it describes. We are inclined to agree with Pearson in his *Grammar of Science* that the business of science is *accurate description*. As a matter of fact, the value of the present volume is in proportion to the accuracy with which it describes the psychic processes which mould, rather than control, the great society.

In tracing out the psychological processes in the social complexity of the great society due to habit, to motives of fear, to pleasure and pain, to love and hatred, to thought and suggestibility, the author has exhibited a great deal of keen penetration that will help to make clear the wider value of psychology both for the sociologist and practical politician. In fact, the last three chapters on the organization of thought, of will and of happiness are devoted to the task of discovering how far the existing forms of social organization may be improved by the application of the laws of social psychology. This is the task of the constructive statesman rather than the professional psychologist. It is not always the case that the two functions of scientist and statesman are so happily blended as they are in the author of this book.

J. P. LICHTENBERGER.

University of Pennsylvania.

WALLE, PAUL. (Translated by Bernard Miall.) *Bolivia: Its People and Its Resources; Its Railways, Mines, and Rubber-Forests*. Pp. 407. Price, \$3.00. New York: Charles Scribner's Sons, 1914.

This book presents the most complete account and the best interpretation of Bolivia that has been written. The author, sent to Bolivia in 1911-12 by the French Ministry of Commerce to report on the economic and commercial possi-

bilities of the land, visited practically all sections of the country and has given an account of present-day Bolivia that is vivid, original and interpretive as well as informing. Since the chief cause for the tardy development of Bolivia has been the lack of communications, not only with the outside world but between the sections of the country itself, the author appropriately opens the book with chapters on how to reach Bolivia, describing the various present and proposed routes. He also gives later in the book chapters on Bolivian transportation, summarizing the present status of railroad construction and describing the waterway facilities.

Following the opening chapters is a very brief historical and geographical sketch, then five chapters descriptive of political and social conditions, the army, finances and banks, and the characteristics and customs of the people. Four succeeding chapters give detailed descriptions of the provinces and their economic resources. The mining industry occupies four most informing chapters, particularly those concerning gold, silver and tin. Here are not only accounts of the resources, but also of actual mines and mining conditions, mining laws, problems of development, costs of installation, etc. Industry, agriculture and stock raising are disposed of in one chapter and the book ends with an account of immigration and colonization. Industries, agriculture and stock raising "are as yet unborn," but have much promise. In regard to immigration, the author shows that, for the present, the need is small and the opportunities few for any except artisans. Large concessions of land can be obtained cheaply, but they are in remote regions and would require large capital for their development. The first great need is the development of means of transportation, the author repeatedly emphasizes. "The populations of the different centers are as yet without common hopes and aims, and know nothing of that cohesion which spells strength. Each region lives and depends upon itself, in isolation, conserving all its peculiarities and especially its susceptibilities." But, the author optimistically continues, "the nation is most certainly entering upon a period of intellectual and economic transformation. Its industries are being developed, and its wealth, hitherto almost unexploited, is daily attracting the attention and coöperation of external capital."

The book is fully illustrated and contains several sketch maps and diagrams. It is printed in uniform style with the other volumes of the Scribner South American Series.

G. B. ROORBACH.

University of Pennsylvania.

WHITTEN, ROBERT H. *Valuation of Public Service Corporations.* (Supplement.) Pp. xxvii, 644. Price, \$5.50. New York: Banks Publishing Company, 1914.

The appearance within two years of the publication of Whitten's *Valuation of Public Service Corporations*, of a supplementary volume is a concrete illustration of the rapid development of the subject of, and of the literature on, the valuation of public utilities. National and state railroad commissions and numerous public service companies are actively engaged in making valuations; and commissioners, attorneys and publicists are endeavoring to formulate scientific principles and to apply them with "well informed judgment."

Dr. Whitten states that "the present supplement contains the numerous court and commission decisions since the spring of 1912, and also a further devel-

opment of the author's statement of the legal and economic principles of valuation." The method of presenting the subject that was followed in volume one has been continued in volume two. "The court and commission decisions are arranged, discussed, and fully quoted or abstracted according to the method that has proved convenient and practicable in the original volume." As those who have used Dr. Whitten's volumes are aware, the chief purpose of the author is to present briefly the substance of federal and state commission opinions and the decisions of the courts. This makes the volumes primarily a work of reference rather than a text or treatise in the ordinary sense. However, in considering two important subjects in the second volume, "fair value for rate purposes," chapter two, and "cost-new versus cost-less-depreciation," chapter eighteen, the author presents his own views and gives an exposition of the questions at some length before reviewing the commission and court decisions. More of this plan of presentation would add to the readability and educational value of the book; but every man must do his own work in his own way. Dr. Whitten has done a great work and has published two volumes that every serious student of valuation must needs consult.

EMORY R. JOHNSON.

University of Pennsylvania.

WILLIAMS, CHARLES R. *Rutherford Birchard Hayes*. (2 vols.) Pp. xxxiii, 1028. Price, \$7.50. Boston: Houghton Mifflin Company, 1914.

This elaborate bibliography, comprising two substantial volumes of some five hundred pages each, presents a dignified, substantial and reliable record of the life of the man who was the nineteenth president of the United States. The first volume covers Hayes' life to his inauguration as President. Some one hundred pages deal with his youth and student days, and his experience as a lawyer in Cincinnati. The remainder of the volume is about equally divided between an account of his military services during the Civil War, his public career as congressman and governor of Ohio and an account of the presidential campaign of 1876. The second volume is devoted chiefly to the history of his presidential administration with a few concluding chapters dealing with the interests of his later years and a discriminating chapter presenting his personal characteristics.

The biography is distinguished by honesty, straightforwardness and eminent fairness, as was the typical American character which is its subject. The author has given with a wealth of detail an accurate, lucid and sympathetic account of all the matters of moment in both Hayes' private life and public career. Mr. Williams has had access to all of the Hayes' papers. He has drawn extensively from such original material as his diary, his correspondence and that of his contemporaries, his messages and speeches and other state papers while governor and president, as well as from the files of leading newspapers. This biography, therefore, so largely based upon the sources, will unquestionably be recognized as final and authoritative. It is especially through the copious extracts from the diary and correspondence, now first published, that the author has made his chief contribution. From these quotations we gain a very real appreciation of the man, an insight into his traits of character and an intimate knowledge of his thoughts and reflections, for these latter he was wont to commit to the secrecy

of his diary, which he systematically kept from his college days to the end of his life. Like the diary of President Polk, published a few years since, the pages of President Hayes' diary will aid in reconstructing the history of his administration; moreover they reveal the real character and fibre of the man and his opinion of many of his contemporaries.

The following extract from his diary, while a senior at Kenyon College, reveals his early ambition for an honorable career "My lofty aspirations I cannot conceal even from myself; As far back as memory can carry me the desire of fame was uppermost in my thoughts, but I never desired other than honorable distinction, and before I would be damned to eternal fame I would descend to my grave unknown. The reputation which I desire is not that momentary eminence which is gained without merit and lost without regret; give me the popularity which runs after, not that which is sought for. For honest merit to succeed amid the tricks and intrigues which are now so lamentably common, I know is difficult, but the honor of success is increased by the obstacles which are to be surmounted. Let me triumph as a man or not at all" (I, 22). Extracts from the diary during the next few years show his marked tendency to introspection and self examination, as well as the high ideals he set before himself as his goal.

Hayes as a young man was a Whig. Although deeply interested in the fortunes of that party, he took no active part in politics until 1851. In view of the banishment of wine during his administration from the White House entertainments, it is interesting to note that the first public speech which Hayes made was a temperance address in 1850, and that his first political address, made in 1851, was in opposition to the plan to form a separate temperance party. Hayes was aroused by the Kansas-Nebraska movement and in 1855 was a delegate to the state Republican convention. In the presidential campaign of the next year he worked with great ardor for the new Republican party. On the eve of the election he writes "However fares the cause, I am enlisted for the War." These words were indeed prophetic, for in 1861 he enlisted for military service, refusing a colonelcy offered to him, but accepting a major's commission, preferring to earn his promotion. He served throughout the war, participating in more than fifty engagements, being wounded six times, always displaying personal daring, self possession and efficiency. Although he never sought promotion, he was in time advanced to a brigadier-generalship and was mustered out as a Brevet major-general.

Later in his campaigns for Congress and for governor, Hayes was conspicuous for his championship of sound money and civil service reform. His success in thrice being elected governor of Ohio, as well as his honorable record in that office, led to his nomination by the Republican convention of 1876 as a compromise candidate, when it proved impossible to nominate one of the more brilliant leaders of the opposing factions within the party. The story of the campaign and of the disputed election is presented by his biographer chiefly from the point of view of Hayes' personal relation to the same. His attitude was dignified throughout these critical days and contrasted favorably with the course pursued by Mr. Tilden. In view of Mr. Williams' Democratic affiliations, it is of interest to note his conclusion as to the findings of the Electoral Commission. He writes: "As a result of his prolonged study of the conditions and contentions of the

time, he is thoroughly convinced that in the final arbitrament essential justice and right prevailed, and that the best interests of the country in all its parts were served. He ventures the prediction that more and more this will come to be the judgment of impartial historians" (I, 491).

Mr. Williams shows in detail how President Hayes met and dealt with the several critical situations and difficult problems that confronted him in his administration. How, in spite of opposition both within and without his party, he succeeded in the restoration of peace and home rule in the South, in substantially advancing civil service reform and in the resumption of specie payments. He emerged from a prolonged contest with Congress successful, alike in maintaining unimpaired the prerogatives of the Executive and in vindicating the rights of the federal government. The nomination and triumphant election of Garfield may be regarded as a correct index of the success of President Hayes' administration, the former as a decisive victory for the better elements in the Republican party, the latter as a practical approval of the country at large of the policies for which Mr. Hayes had stood.

Judging from the extracts given, it is to be regretted that Mr. Hayes' diary for the years covering his administration has not been published *in extenso*. There is space only to quote one or two of his estimates of leading men in his party. Near the close of his term he wrote: "If there are any two men in the country whose opposition and hatred are a certificate of good character and sound statesmanship, they are Conkling and Butler" (II, 429). In 1884 he says of Mr. Blaine, "He is of the Butler and Douglas type—more like Douglas in character and position than any other of the great leaders of the past. Clay would rather be right than be President, Blaine would gladly be wrong to be President." After Blaine's nomination he wrote he "is not an admirable person, he is a scheming demagogue, selfish and reckless, but he is a man of ability and will, if elected, be a better President than he has been politician" (II, 367).

The reviewer rises from the reading of these volumes with a profound respect for the character of Mr. Hayes and the strong conviction that while he may not be accounted a statesman of the highest rank, the more one studies his career the clearer he stands revealed as an able, honest, unselfish and high-minded citizen, patriot and servant of the nation.

HERMAN V. AMES.

University of Pennsylvania.

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FOREWORD

Deprived of our national markets (see page 1), our industries paralyzed, and with labor and capital both unemployed (page 4), we Americans a few months ago began as never before to examine our own industrial organization to ascertain whether our industries could, through more efficient organization, be so stabilized as to be at once more productive and less amenable to at least the chance fluctuations in the industrial life of the nation or of the world.

The first symptom of our industrial distress was widespread unemployment. Organized labor (page 6) set in motion their own means for alleviating their situation. Leaders of thought addressed themselves seriously for the first time in America to the unemployment problem. This analysis led to a study of the different classes of unemployed (page 11) with a constructive program for each class (page 16) that would tend to stabilize opportunities for gaining a livelihood. Scientific surveys of the extent and nature of unemployment were undertaken (page 24) for the first time in this country in order that facts might shape the policies that might be adopted toward unemployment. The relation of our immigration policies toward our national employment problem—that is the problem of stabilizing American industries—naturally attracted increasing attention, particularly as to the effect of the war on immigration present and future (page 30) and the effect of free immigration upon steadiness of employment (page 40); for our welfare necessitates that our industries be upheld by the skilled and perfected by the permanently employed. In addition to teaching us the need for conserving and the ways to conserve our enormous labor waste, the war has taught us the necessity for better management in our industries (page 45). In fine, the war has given new meaning to the old lesson that obligations to others must be shared by all alike, not on the “enlightened selfishness” basis of the nineteenth century but on the social inter-dependence basis of the twentieth.

Domestic stability and national growth are dependent upon a stable increasing foreign trade. Our existing export trade has been won essentially by the manufacturers of highly specialized lines (page 51). Americans are beginning to do what the Germans

have long done—manufacture the amenities of civilization, for frontier regions are supplied with essentials from the mother country. To international trade “free seas” are imperative (page 60) though whether through the submarine or new standards of internationalism remains to be seen. Prerequisite to foreign trade, particularly our trade with Latin America, are international and commercial relations shot through with mutual confidence (page 66), adequate facilities for credit exchanges (page 71), all assisted by well adapted transportation facilities (page 81).

But the foreign and industrial policies of our government will avail naught unless the selling and management policies of our industrial establishments be the equal or superior to those of competing nations. The American tradition has been to protect our “infant” industries with no query as to whether we might also be protecting careless and inefficient management at the expense of the consumer. Happily of late there has been an increasing and wholesome inquiry as to just what the costs are and should be in American industrial establishments and our business men—many of them—have been keen to learn not only just what their unit costs are but also how their selling, manufacturing and employing policies can be improved. Industrial wholesomeness—the prerequisite to industrial supremacy—must wait upon industrial stability. And industrial stability will wait first of all upon exact knowledge as to the effect of idle plant on costs and profits (page 86). Scientific inquiry as to the effect of unemployment on the wage scale (page 90) and the results to the employer of steadying employment (page 103) are prerequisites to steady and maximum output and to an industrial justice that is just. A functionalized employment bureau (page 112) is a means to extensive savings to the employer, and to the employee it means higher skill and satisfaction through an adequate dependable annual income. For it was in developing the new profession of handling men (page 121) that employers learned what a heavy financial burden their large labor turnover has been to them as well as to their employees (page 127). Each management having assumed responsibility for steadying its own employment, a national system of labor exchanges (page 138) will help to conserve our vast human resources. Efficiency in industries does not mean exploitation for there can be no efficiency where workers are exploited. It augurs well for our industrial well-being to find

the intellectual leader of the scientific management school placing as great emphasis on democracy in industry as on efficiency and economy (page 146).

Of equal importance to the management policies of our industries are their manufacturing and selling policies. The first step toward sound manufacturing and selling policies is accurate knowledge of unit costs through cost accounting (page 165) and knowledge of the working conditions prerequisite to maximum output (page 174). Then must follow some plan that closely relates responsibility to ability and reward to service (page 183), though no one plan will attain these ends in all establishments. Indeed the principles of management can be applied as well to agriculture (page 187) as to manufacturing. And certain it is that in both public and private work both mobility and maximum output wait upon standardization (page 199). Scientific management—that is management based on facts rather than on tradition and supposition—will make the best in human happiness and comfort out of our titanic human and natural resources (page 208).

But industrial development and civilization are bootless indeed if they are to be ruthlessly destroyed by war. Hence the vital concern to all of a more constructive basis for internationalism (page 217) without necessarily neglecting defense problems (page 263) or underestimating the effectiveness of economic pressure as a means of conserving peace (page 270). Certainly prolific causes of international discontent have been land acquisition (page 245) and the desire to extend free land (page 252). Nothing is now dearer to the heart desires of American people than the contributions America can make not only toward the settlement of the present war but toward a permanent peace (pages 230, 235, 239, and 243). Our national well-being, the conservation of our efforts, social, political and industrial, hang in the balance. For the cable, the aeroplane, and the submarine have made nations as dependent upon each other under twentieth century conditions as are individuals. A "social point of view" must now be supplemented with the nationalism of a world citizen.

CLYDE LYNDON KING.

AMERICA'S INDUSTRIES AS AFFECTED BY THE EUROPEAN WAR

BY ALBA B. JOHNSON,¹

President, Baldwin Locomotive Works, Philadelphia.

The usefulness of the American Academy of Political and Social Science consists not only in the discussions of important topics in its annual meetings, but in the wide distribution of the opinions expressed in the papers which are presented at these meetings. In the nature of the case it is impossible for the great body of those throughout America and other countries, interested in the subject dealt with, to be present at these meetings. Nevertheless, the opinions expressed by the learned thinkers, who are specialists in their particular fields of activities, go forth to all interested in these subjects, not only in Pennsylvania and the United States, but to thinkers throughout the world.

During the twenty-five years of the existence of the American Academy of Political and Social Science there has been issued a series of timely publications, each expressing the latest thought upon the particular subject dealt with. In these publications are recorded the contributions of the American Academy of Political and Social Science to the progress of the world's thought.

When the war broke out at the beginning of last August, the first result was the sudden and complete paralysis of the financial fabric of all the nations of the world. In this financial cataclysm their only safety was found in the establishment of moratoria of sufficient length to give time for consideration of the new conditions and for study of the methods to be adopted for safeguarding the interests of each. Not only in our own country, but everywhere, the cessation of financial operations, including the closing of the stock exchanges, occasioned a discontinuance of everything looking to new business, deprived the industries of their markets and left the manufacturers with nothing to do but to carry out so much of

¹Remarks as presiding officer at the first session of the Nineteenth Annual Meeting of the American Academy, held in Philadelphia on April 30 and May 1, 1915.

their existing contracts as were not affected by the outbreak of war. Prior to the war a condition of business prostration had already existed. It does not seem necessary to go into the various causes which created this depression, and if we were to undertake to quote them, each would be regarded as debatable. Amongst them may be counted the change of administration, the various measures which were carried through as part of the program of the new party in power, the fear of unwise legislation and the uncertainty as to what the future policies of the government might be. All of these had already exercised their influence in retarding the business of the country. Then came the declaration of war, which put all large business to an end. We discovered not only that financial operations had stopped, but our merchants, manufacturers and shippers found that, because of our dependence upon the vessels of other nations, the means of continuing our foreign commerce was withdrawn. With superabundant crops, it was impossible for us to send them to market.

Little by little we have been emerging from that condition. The necessities of the various countries of Europe have compelled the resumption of shipments of our grains, cotton and other materials. The belligerents have placed with us contracts for vast sums of war material. This has established an activity which in certain lines of business is almost feverish, but it has not created general prosperity. Many lines of business, not stimulated by the war, have not yet been aroused from their lethargy. Particularly is this true of the enormous industries dependent for their prosperity upon that of the railroads. The railroads have not yet begun to purchase. Next to agriculture they constitute the largest single interest in the United States and their purchases constitute the most potent factor in the creation of business prosperity. The growth of our exports, combined with the practical cessation of imports, due both to the demoralized condition of our own business and the cessation of manufacturing in Europe, has created a balance of trade in our favor which is unprecedented in the history of the country. According to the most conservative estimate this will amount to at least one billion dollars a year, and many place it as high as a billion and a half, which the world will owe us for our shipments over and above the amounts which we have purchased abroad,

The creation of the system of federal reserve banks has given new confidence to business, which is an encouraging sign. It holds out the hope that the severity of business depressions in the future will be modified. It has released a large amount of capital hitherto maintained in reserve and, therefore, in idleness. We are looking forward to a repetition of the abundant crops of last year, and furthermore we are growing accustomed to the fact that the great war in Europe is proceeding and will proceed until a rational peace is arrived at. We have, therefore, come to regard the belligerent conditions in Europe as in a sense normal, and we are adjusting ourselves to create the maximum prosperity consistent therewith. We can now turn our attention to our problems as they will exist after the European war, in the light of what that war has taught us.

EUROPEAN WAR INFLUENCES UPON AMERICAN INDUSTRY AND LABOR

BY SAMUEL GOMPERS,

President, American Federation of Labor.

When men were thinking of international peace, secure in the conviction that there could never be another great war, suddenly all of the countries of western Europe were plunged into the most stupendous conflict the world has ever seen. The spirit of civilization had been brooding over the things of the common life, breathing into them an appreciation of the sacredness of human life. Civilization had been laying wise and skillful hands upon the forces of Nature to make them serve men to promote their well-being and development.

Infinite patience, thought, skill, energy had been busy in the task of finding some new thing to conserve and to glorify humanity. There were minds rich in culture, characters of infinite courage, and hearts tender with love of human beings that counted all gain that brought opportunity into the lives of men—opportunity for physical, mental and moral health and development.

In the midst of all this came the fearful war cry. We of America, far removed from the sound of drums and the march of mobilization, looked at one another and murmured, "It can't be true." Grim realization came as we felt the shock of the revolutionary changes that paralyzed industry.

The stupendous conflict shook to its foundations the structure of organized society. Industry and commerce are organized on a world basis. Markets have international sources of supply and they meet the demands of international buyers. The monetary medium for international exchange is responsive to international influences. The intricate structure of credit extends its gossamer threads about all the markets and ports and bourses of the world. Supply and demand are estimated from a world viewpoint. Communication was organized to meet the needs of world commerce and industry.

When the disrupting forces of war hit the world structure of civilization, then did we in the United States realize the war was a

reality. Though far away from the bloodshed, from the horror of the maimed and the dead and dying, yet something of the brutalizing spirit of war extended even to our isolated continent.

Through no fault or act of theirs the working people of the United States have been made to feel the consequences of a war caused by the spirit of greed and aggrandizement on the part of irresponsible governmental agents. Autocracy, secret diplomacy, militarism, forced a war which brings grievous wrongs, losses and misery upon the wage workers of Europe—aye, which robs them of life itself—and which indirectly carries suffering and misery to the wage-earners of all the world.

The European war ruthlessly reversed the purposes and ideals of civilization. War is always revolutionary and destructive of life and civilization. The outbreak of this war dislocated American markets and trade.

The first stage following the cataclysmic struggle was one of stagnation. Business men, government officials, scientists, commercial and industrial associations considered carefully the conditions confronting them and estimated their needs and resources. The way problems have been solved and new opportunities utilized proves that Americans have qualities of adaptability and resourcefulness assuring continuous progress.

Necessity forces invention. American ingenuity and enterprise have not failed in this time of need. American industries find they can supply many of their needs and have found uses for what was formerly industrial waste. The war has opened up tremendous economic opportunities—some temporary, others permanent. After the first reaction came an industrial impetus. Business reached after new opportunities. American financial genius protected our interests and made this the world's money center.

What has been done to meet industrial and financial emergencies and needs has been due chiefly to private initiative and private enterprise. It is the American characteristic—ability to do things—that has served us in this time of need. That American spirit of self-reliance and initiative is the most precious possession of the nation. It is the spirit that can dream and dare and achieve. It is invincible.

Now turn to the human side of adjustment to war conditions. Have the men and women employed in industry and commerce been

as carefully and wisely provided for as material interests have been?

The first shock of the war which brought stagnation to industry resulted in the closing of shops, mills and docks, and meant unemployment for wage-earners. All along the Atlantic coast industry and commerce were dislocated; shipping was tied up; men found that the war had taken away their work, their source of livelihood. Their number was increased by the sailors from interned foreign vessels. Factories dependent upon European trade or products began to run part time and then stopped. During the period of readjustment many workers were without the means of earning their daily bread and they had but little laid aside. At the same time they were threatened with the menace of war prices. Six cent bread meant tragedy to east side New York and similar localities where wage-earners live. The brutalizing spirit of war laid hands on American industry—workers were deprived of employment and were exploited by war prices which meant unwarrantable and exclusive advantages to the profit mongers.

As the weeks went by the amount and extent of unemployment increased throughout the country. Unemployment means to most of you here an industrial and social problem—to the wage-earner it is a personal experience. It means hunger, misery and despair. Bread lines have been very long during the past winter. Women as well as men have been in these bread lines. A bread line leaves an indelible scar on the hearts of those who have undergone the humiliation. It means that a human soul has been beaten in the struggle for decent self-respect.

Constructive efforts to meet this human need came from the workers. Wage-earners are so close to the raw stuff of the experiences of the common struggle for a livelihood that they appreciate more keenly the meaning of unemployment and they know that their own well-being is very intimately involved. Unemployment in some callings means increasing the supply of available workers for many others. Organized workers are a power which can and does say to heartless greed for profits—Stop your brutality. Those wage-earners who were organized were able to take care of themselves and to maintain American standards of living. Again as in the last financial crisis they raised the slogan, "No wage reductions," and warded off the policy whose cumulative effect would have shaken the whole

economic structure. A policy of wage reductions would have destroyed confidence and hence would have undermined credit.

Through their economic organization organized workers had the means by which they could make adjustments necessary to protect human interests from impending perils. Those who are unable to defend themselves are always made to bear the brunt of hardships. Organization is the method by which the workers can protect themselves from being made the burden bearers in all calamities and can secure an equitable participation in prosperity. In all cases it is power for self-protection that is their safeguard. The constructive efforts made to help the workers during this emergency were made by the labor organizations. As I said before, they stood solidly for maintenance of wages which meant maintenance of American standards of living and checking the diminution of purchasing power.

The constructive power that protects the workers in war time is the same power that protects them in peace. The economic organizations were the agencies that enabled them to cope with unemployment and to relieve in some measure the distress caused by the war. Through trade organizations the workers are coöperating with responsible national, state and municipal authorities to meet emergencies while at the same time safeguarding the workers from exploitation which naturally results from the ruthless, brutal spirit which war engenders.

The labor movement of the world is the one agency whose members have been loyal to fatherlands in the time of peril and yet have with insistent emphasis and appeal upheld the sacredness of human life and opportunity and the brotherhood of man. While bearing burdens of the war they are still maintaining standards that dignify human life and are creating and directing influences that will have an important part in establishing peace and the constructive work which shall make for greater justice in international relations.

The United States as well as the whole world has suffered through the disrupting influence of the war. In the United States the organized labor movement has dealt constructively with the needs and the emergencies created by the war.

Where production was decreased, wherever possible they provided that work should be equally shared, that those of their trade should not be added to the number of the unemployed. Through

their trade benefits they helped fellow workers who were out of work, while the trade organization assisted them in finding employment. The trade union movement acted as a steadying force to all industry by steadily and determinedly opposing irrational, erratic changes.

Organized labor furthermore made demands upon municipalities and all government authorities that public construction work should be continued where contracts had been let and that beneficent new work should at once be undertaken wherever possible.

The organized workers were alert to opportunities, aware of their own interests, able to protect themselves and those dependent upon them. They manifest the American characteristics, resourcefulness and adaptability that enabled us all to weather the difficulties resulting from the war. We have fostered and developed the spirit of self-reliance and initiative necessary to national life.

The workers upon whom war burdens have fallen most heavily have been the unorganized. Their suffering has been inarticulate, helpless misery. They were without the means of expressing their misery or their needs. They have benefited indirectly from the efforts of organized labor but that did not relieve them of the heavy weight of the burdens of the industrial crisis.

The army of the unemployed has been made up largely from the ranks of the unskilled workers. It is a well known policy of large corporations employing unskilled workers to have available a greater number of workers than they regularly employ. This condition is a menace to steady employment. It is intended not only to discourage efforts of workers to secure higher wages or better conditions of work, but is also used as an instrument to enforce lower standards. Where there are two or three waiting for a job it takes more than human courage to make a stand for rights—the workers have to think each day of daily bread for the next day. To stop work means to go without food.

This condition is largely the result of superinduced immigration. Shipping companies and big employers of unskilled workers have stood for a policy of unrestricted immigration. For many years that policy did little harm, but now the frontier opportunity has ceased to exist and the number and the character of the immigrants are such that they can no longer be assimilated by the American nation. Some restrictive policy must be adopted.

In addition to a situation already grave, our nation must face after-war consequences. There is no doubt but that the war will be followed by a tide of emigration of unparalleled proportions. The countries that are now engaged in the bloody struggle will seek some way to escape caring for derelicts of war, the mental and physical wrecks and those who have been ruined financially. The incompetent and those who probably may become a burden upon the community will be encouraged and perhaps assisted to emigrate.

You have only to turn to our southern border line for verification of this assertion. Responsible authority informs me that Mexican military authorities have been furnishing free transportation and otherwise encouraging the emigration of dependent women and children, and the men who are unfit for service in the army or unable to work.

What is taking place on the southern border is a very insignificant reminder of what will happen at the close of the European war. Now is the time to make provisions against that impending disaster.

The end of the war will bring to our country another economic reaction. Those industries that have been stimulated because of a demand created by the war will come upon a period of idleness. New industries that have been developed to supply articles which Europe furnished us before the war will have to meet competition. There will follow in our country a period of readjustment. Again the burdens of that transition will fall most heavily upon the workers, particularly the unorganized workers. Organized workers in the main will be in a position to protect themselves through agreements with employers. The unorganized will be without the means of meeting the difficulties.

The power of the workers to protect themselves is of tremendous importance to the nation—it means to protect the bone and sinews of the nation; to conserve the men and women who do the work necessary to the nation's life; to maintain unimpaired the standards and ideals of American free men.

The lesson of the European war as it affects the American wage-earners demonstrates again the value of the labor movement to a democratic people. It is the way by which the great masses of the nation can think out their industrial problems and order their own lives.

The labor movement has also its social and political influence that will aid in establishing justice at the end of the war. It will be the greatest force opposing reaction that always results from the brutalizing influences of war. It will be the most potent force to compel relations that shall subordinate all else to human welfare.

When the wage-earners refuse to bear the consequences of deeds and policies for which they are in no way responsible then will those in authority consider more carefully, before they start into activity, forces whose evil consequences will bring hardships and suffering. The working people are more clearly conscious of the extent and the nature of their power than ever before, hence they are in a position to secure for themselves increasing recognition in determining the affairs of industry and of international relations. The wage-earners will, I am sure, make their power felt.

In addition to the industrial and commercial issues that the war has raised, the working people of the world are concerned as to what shall be determined with regard to the evil forces that are largely responsible for the war—autocracy and militarism. Through their organized economic power the wage-earners exert a tremendous power in political affairs as well as in industrial and commercial, and they propose to see to it, through their international economic organizations, that democracy shall be assured control in international affairs.

Democracy must be established and endowed with power and authority. That can be done without militarism. Militarism must fall through gradual disarmament.

Democracy will be maintained by able, free citizens alert to discern their own rights and to distinguish the right, able and willing to maintain justice for all.

When democracy shall have established justice in international relations, then shall the wage-earners of every land have greater opportunities to give their ideals reality in everyday life and dream and plan greater things for all mankind. They will no longer be unresisting pawns for war slaughter or the less spectacular slaughter of industry and commerce. In every relation of life organized labor will establish the principle of the sacredness of human life and will not only oppose the brutalities and the waste of war, but also of peace.

AMERICA'S UNEMPLOYMENT PROBLEM

BY HENRY BRUÈRE,
Chamberlain, New York City.

It is fallacious, of course, to assume that unemployment conditions in 1914-1915 were solely due to the European war. There prevailed in cities of the United States in 1913-1914, prior to the war, conditions of unemployment which were adjudged abnormal by such comparative information as was available. In 1915, conditions were aggravated due, in general, to the prolonged and increased stoppage of industry partly occasioned by the war. But it would prevent sincere thinking and vigorous constructive effort in regard to the unemployment problem to start with the premise that all unemployment is one of the consequences of war disturbance. The fact is that involuntary unemployment of large numbers of workers is a normal condition of our industrial life, varying, of course, with fluctuations in general industrial conditions. The further fact is that the chronic prevalence of involuntary unemployment has been one of increasing development for a period of years until now it regularly manifests itself in acute form in industrial centers during the winter months.

Dealing with the continuing problem of unemployment has, up-to-date, been generally ineffective and local, and unproductive of permanent results. This has been due to a variety of causes, the principal among them being the assumption that hard times are the sole occasion for unemployment and that temporary expedients, therefore, were all that the situation demanded. The item of encouragement in recent experience is the widespread attention that has been given to unemployment not as a problem of philanthropy, charity, or relief, but as one of industrial disarrangement. This attention has been given by committees of citizens appointed by mayors or governors or by wholly unofficial bodies in practically all of the industrial cities in the United States reaching from the Pacific coast to New England. Apart from the provision of temporary relief, the chief product of the efforts of these bodies has been, up-to-date, a series of reports framing more or less tentative con-

clusions upon generally inadequate data with regard to the scope, character and treatment of unemployment. These reports are beneficial and represent the thought on the matter which must inevitably precede constructive measures.

The committees on unemployment have necessarily given first thought to emergency relief of those who are distressed as a result of continued unemployment. In seeking to formulate preventive measures they have suggested the following steps, which I list in the order of the frequency of their occurrence in the recommendations of the committees whose reports I have analyzed:

1. Organization of state and municipal employment bureaus on an efficient basis;
2. Study of labor conditions and undertaking of municipal improvements and other public works during periods of industrial depression, to act as an impetus to the labor market and an incentive to business conditions generally;
3. Employment of citizens and residents as against outsiders, particularly on public contracts;
4. Adoption by employers generally of a policy of part time work in slack periods as against horizontal cuts in working forces;
5. Establishment of vocational training and trade schools;
6. Adoption of ordinances regulating private employment agencies, in order to eliminate the grave misrepresentation, extortion, and dishonest practices frequently complained of and found to prevail;
7. Making the peddling business financially easier so that industrial workers during times of unemployment in their regular activities would be enabled to earn a living;
8. Provision of insurance against unemployment;
9. Appointment of emergency advisory committees, consisting of representatives of railway, manufacturing, mercantile, banking, contracting and organized labor interests, to stimulate employment in private trade and industry;
10. Establishment of rural credits along the lines of European experience, to make farming more attractive and profitable; and the creation of rural organization after the type of the German *Landwirtschaftsrat*.

Partly as a by-product of the recent public discussion of unemployment and partly in response to a more general recognition of the inadequacy of private agencies, there has been in the past several years a notable extension of public employment offices. Within two years five states and two cities have established public employment offices along approved lines, the most notable examples being the city and state of New York. These agencies, together with the federal plan of employment registration recently instituted

by the department of labor through the post-office department, are the only concrete evidences of government interest in unemployment to date.

The regrettable fact is that there has been a conspicuous lack of attention to the fundamental questions involved in unemployment by either state or national governments. The Federal Commission on Industrial Relations and minority members of Congress have respectively proposed legislation for a federal system of employment bureaus, though the former failed to present its bill this year. But both state and national governments have as yet evidenced no adequate concern or made effective effort with respect to this great question which cannot be dealt with by cities or private organizations, but must be met by vigorous constructive action either by the state governments or by the federal government itself.

New York City's experience in the field of unemployment parallels the general experience of other industrial communities. In 1914, the city received an index of employment conditions through the rapidly increasing number of applicants in the municipal lodging house.

From attention to this condition there developed a community concern for the homeless man. This led to the discussion of the "jobless man" and this in turn gave rise to the consideration of general unemployment conditions. Conferences of various kinds were conducted in the city, but with the exception of voluminous discussion nothing was achieved but the establishment of a Municipal Employment Bureau by which the city itself, for the first time, gave evidence of community responsibility for dealing affirmatively with problems of unemployment. I need not go into the details of the establishment of this bureau, for the lines followed were those demonstrated as generally expedient and successful in other cities.

In 1914-1915, partly because of a considerable amount of agitation by the so-called radical element of the city, New York was generally prepared to give serious thought to unemployment. The organized charitable agencies were the first to attempt to meet the conditions resulting from unemployment. They were confronted with a rapid increase in demands for relief made by persons forced into destitution by prolonged unemployment. The city government was concerned with the problem from three angles:

1. The care of the homeless man;
2. The increase in applications for admission to public institutions of the dependent members of the community,—children and the aged and infirm;
3. The interest of the police in the prevention of disorderly assemblages and a repetition of acts of violence perpetrated in 1914, occasioned by the prevalence of large numbers of persons desperate or emotionally susceptible because of inability to find work.

Back of all of these factors there existed in the minds of the mayor and other officials of the city government a conviction that no haphazard treatment of the problem would lead to any consequential relief of distress or to the framing of any measurably effective plan either for the resumption of employment or the prevention of future unnecessary unemployment.

It was immediately apparent that adjustment could not be obtained by any of the parties chiefly concerned in the conditions leading to unemployment acting independently: (1) by the unemployed, because of their lack of organization, resources and means of obtaining employment; (2) by the charitable organizations because of the inadequacy of funds available for charitable relief; (3) by the city government because of the limitations of public funds and the impossibility of providing public employment for any appreciable number of the unemployed; (4) by the employers because of the absence of a policy, provision or method among employers, as such, for dealing with the general reserve of employables cast out of work by the stoppage of business or seasonal or other fluctuations in employment demands. In short, there was apparently a need for correlating by some means the resources and interest of all the parties immediately affected by unemployment conditions.

To meet this situation it was determined to establish a clearing house and a common instrument of coöperation through a committee representing not only the generally good and interested citizenship, but the different elements of the community who were affected by or had direct contact with unemployment conditions. Primarily, the large employers of labor and leaders in industry whose institutional policies might be presumed to have some effect upon the general business conditions were brought into the committee, under the chairmanship of ex-Judge Elbert H. Gary of the United States Steel Corporation. This committee was asked to deal with two problems: (1) The immediate emergent problem of providing relief or employment for those in distress; and (2) the formulation

of some plan to deal successfully with the causes of unemployment where they are remediable, with a view to subsequent diminution or prevention of unemployment.

Information regarding the efforts made by this committee during the past winter is available in the reports of the committee. Relief provided consisted principally in publicly supporting the efforts of private philanthropies to obtain funds, and in providing emergency employment through temporary workshops organized through volunteers in various parts of the city. These temporary workshops employed daily a maximum of 5,000 people and were maintained for three months from funds provided by private subscription. To stimulate employment numerous expedients were attempted. Employers were generally appealed to by circular, public meeting and conferences, to make special effort to furnish employment either by dividing work between a larger number of employees on part time as against a horizontal reduction of the working force, by manufacturing goods in anticipation of prospective demands, or by giving preference in employment to married employees. These appeals bore some fruit, but running as they did generally against the business interests or financial ability of the employer, they did not materially affect employment conditions. Similarly, the city, state and national governments were asked to expedite work already planned. In the case of the city department heads advanced contemplated work so that it might be performed during the period of greatest stress.

The first task in dealing constructively with unemployment, of course, is to obtain information of the number of unemployed. This was done in New York through a statistical canvass of representative industries, comparing employment conditions of 1913 with those of 1914, made by officers of the telephone company serving on the mayor's committee, and by means of an inquiry made by one of the large industrial insurance companies among their 800,000 New York City policyholders. The computations thus made based upon the nearly two and one-half million industrial workers in the city led to the conclusion that the unemployed totalled somewhere between 350,000 and 400,000¹ or approximately 16 per cent of the

¹A check census made under the direction of the United States Bureau of Labor Statistics cooperating with the Mayor's Unemployment Committee in February, 1915, showed that this figure was approximately correct. The labor bureau estimated 398,000 as the number of workers other than casual workers unemployed.

total workers. This estimate, however, gives us no indication of the average number of the unemployed in so-called normal years, nor what proportion of this total is seasonably unemployed or intermittently unemployed. Nor was this total divided between male and female workers, or minors and adults. All such information should regularly be obtained by federal agencies with non-partisanship and zealous regard for accuracy.

For the purpose of this discussion the aggregate number of unemployed is irrelevant except as it bears upon the adequacy of relief measures adopted, and serves to stimulate community interest not easily aroused with respect to small questions. There are those who assume a fatalistic attitude towards this problem, and, reasoning from the general adventitious character of all classes of employment, conclude that unemployment can only be dealt with by the operation of the little understood and complex processes of industry, business and trade. These are, however, decidedly in the minority. It is clear, I think, that the prevailing public opinion of America is ready to support a constructive program for such alleviative, protective and preventive effort as may be instituted to minimize the wide fluctuations in opportunities for gaining a livelihood which occur in our industrial communities.

Obviously, clear thinking demands that we separate the problem into its various elements. This the New York committee has done, and is seeking to develop a program with respect to each one of these elements, which are substantially as follows:

1. Juvenile employees, involving industrial and vocational training and vocational guidance;
2. Seasonal occupation;
3. Itinerant workers, vagrants and the considerable group of casual workers classed as hoboes and described as homeless men;
4. Unemployable defectives who are unable to sustain prolonged periods of unemployment and who are unfitted for continuous productivity;
5. Immigrants whose energies and particular abilities the community at any particular moment is unable to absorb.
6. Unskilled workers thrown out of employment by more vigorous and lower paid immigrants;
7. Clerical and office employees whose number is generally in excess of employment opportunities and who are indiscriminately developed by schools;
8. The general class of casual workers including dock laborers, railroad construction employees and assistants in building operations, etc.;
9. The unemployed reserve of workers developed in the process of adjustment, migration, coming to working age, etc.

For each of these groups special methods of preventive or alleviatory action must be devised. In practically every case the relief will come only through constructive measures and persistent education. In this work effective leadership must be supplied either by the state or federal governments. Individual employers and groups of employers may take steps to regularize industry through the reduction of seasonal employment. Illustrations in this field are furnished by several industries in which beginnings at least have been made, such as the Dennison Manufacturing Company, the Plimpton Press, and here and there an employer in the garment trades. But regularization is still prospective rather than achieved.

New York and Boston have made beginnings in the systematic consideration by employers of employment questions, by the organization of employment managers associations looking to the development of a policy of employment, especially with reference to minors. Involved in this policy is the coöperation of employers with the public education authorities looking to cutting down on one side the heedless manufacture of unemployables by the schools, and on the other side to checking the ruthless discharge of employees for varieties of preventable causes.

I have space and time only for the most casual reference to other often discussed and needed measures for intelligent treatment of unemployment. Very adequate programs have been prepared by Dr. John B. Andrews, secretary of the American Association for Labor Legislation, and by Miss Frances A. Kellor in her recent book *Out of Work*. We are not so much in need of programs as we are of authoritative leadership and resulting effective action.

There has been much discussion of the possibility of timing public works so that they may fill the gaps of customary industrial inactivity. This can be done if ever political bodies come, as they should, to feel themselves a part of our general industrial system.

I am not hopeful of great benefit flowing from attempts to divert large numbers of the industrial population to the land. Here and there state departments of agriculture have made effective beginnings in supplying workers from cities to farmers, but this will not prove successful until attention is given to conditions of rural employment and to farm life such as has been from time to time suggested, but has not yet been achieved.

Of all the constructive plans yet suggested susceptible of im-

mediate adoption the one that has met the most general approval relates to the provision of a federal system of public employment offices. It is proposed to coördinate this national plan with state and local officers. This plan is looked on askance by certain groups and leaders of organized labor on the very proper ground of its possible perversion into an immigrant distribution agency. This danger can, however, be avoided if proper supervision is exercised over the administration of the agencies. Clearly they should not be used to break down wage standards through the arbitrary importation of competitive workers. They must be utilized to supplement a national policy for promoting the welfare of the American laborer as expressed in the recent establishment of a separate department of labor in the federal government. America is pretty generally convinced at all events that the time has come to supplant organization for confusion in the methods of bringing workers and work together. This conviction has spread so far that it has been crystallized in a phrase now commonplace, the linking of the "jobless man with the manless job." The next Congress will undoubtedly be called to give very earnest attention to the passage of a bill putting into effect plans for a national system of employment offices formulated by the Industrial Relations Commission or some other branch of the government.

Unquestionably we shall accept as the next step the results of European experience and establish unemployment insurance as a part of the general scheme of social insurance. We cannot assume that any regularization in the periods of employment and in the timing of public works will offset the forces which now operate to produce unemployment at certain periods in the year. Unemployment will continue in the building trades and other operations which are affected by climatic conditions. Unemployment will occur individually in every other line of occupation because of business reverses, the operation of competition now placed on a pedestal of beneficence, and other forces whose interplay make up the complexity of our industrial life. Against these conditions there are available only savings, charity, neighborly or family help, or insurance. My own conviction is that the principle of insurance will be applied to this casual but reasonably to be expected element in our national life as it has been to industrial injuries. There awaits merely sufficient public discussion, agitation and leadership to put

into effect in the American commonwealth a program similar to the Liberal program of the British government.

The other measures to which I have briefly referred must continue to play their part in the general betterment of employment conditions, but their effect will be slowly realized and, though cumulative, they cannot be counted on immediately to diminish employment disorganization.

America in common with every industrial nation must look upon employment, namely the resumption of business activity, as the chief means of preventing unemployment. The problem confronting business and statesmanship is first, the maintenance of industrial activity, second, the protection of workers against fluctuations in employment and, finally, the better organization of the available working forces. America must more consciously plan for the welfare of its workers, for after all, prosperity and national expansion are not genuine benefits unless they include a general betterment of employment conditions. The causes of industrial depression are inevitably involved in political policies and must inevitably be dealt with in political discussion, but underlying the general influence of governmental policies are these various factors of employment policies and conditions which must be dealt with primarily by intelligent employers, organized employees and finally by interested communities through their schools and other public agencies.

It is time for us in America to recognize that we are substantially an industrial nation, that prosperity is not perpetual, and, under our present industrial system there is always, even in times of prosperity, a considerable number of individuals who are cast out of employment or who are unable for one reason or another to find employment. For all workers, industrial education, vocational guidance and just employment policies must be provided and developed; for workers seeking work when work is available, employment exchanges; for workers periodically out of work, unemployment insurance; for workers cast out of work due to exceptional conditions in industry, a further remedy must be provided, namely, some form of relief. The best form of relief is temporary employment. New York's experience in 1915 indicates the desirability of providing emergency work of some productive character organized coöperatively or on the basis of relief from which the unemployed may derive means of support during prolonged periods of idleness.

This work must be of such a character that it will not tend to depress wages, demoralize the workers, or lead to any form of exploitation. This temporary employment may properly be provided by state, national and municipal governments and through private contributions. For certain classes of employees, those who represent the stable working forces of the community, this relief employment should be supported by employers of the community, collectively, on the theory that it is to their interest to maintain an efficient labor community, and that the tiding over of the unemployed during periods of prolonged idleness is a proper charge on industry to the extent that those unemployed are normally and regularly participants in the established industrial activities of the community.

I realize, however, that in all probability as a practical matter funds for this purpose must be provided either by governments or by voluntary subscription of the charitable public.

Insurance against unemployment must be a matter of authoritative governmental arrangement. Details of its administration will have to be carefully worked out to apply to American conditions.

It is of crucial importance that the nation should be prepared to deal with unemployment along some substantial lines before the next crisis appears. There is now wanting a common practice among neighboring cities in regard to such problems as vagrancy and homeless men. States and cities have no definite policy with regard to timing public works to assist in periods of distress and there is no systematic interchange of information between state departments of agriculture respecting farm work opportunities. An industrial nation, we are dealing with this industrial problem within state lines and hence are dealing with it ineffectively and without adequate comprehension.

My suggestion is that the situation is one which would warrant the President of the United States in calling together governors and mayors of the principal industrial states and cities and discussing with them a national program, first, of immediate, and second, of far-reaching action. This can be done without creating uneasiness in the minds of the business community regarding the business outlook. Unless some authoritative consideration is given to this question now, we shall pass through another period of floundering, vain effort and wrangling discussion.

To summarize, the principal points that I have attempted to make in this discussion are:

1. Unemployment is now generally regarded by the press, by economists, and by the leaders of public opinion who are conveniently classed as publicists, as an industrial and social problem and not as a phase of the poverty or charity problem.

2. Unemployment, though exaggerated in times of industrial depression, is known to be continuous with respect to large numbers of workers and recurrent with respect to so-called seasonal occupations.

3. Temporary expedients and makeshift remedies have conclusively shown themselves to be inadequate.

4. Statesmanship has not yet included unemployment among the objects of its concern, and state and national governments have for the most part failed to consider or to equip themselves to consider constructive measures in respect to preventing or remedying unemployment.

5. Industry as such, and labor as such, are now beginning to give thought to developing and putting into effect measures not only to mitigate unemployment but measurably to prevent its regular recurrence. But without aggressive leadership on the part of government, effective measures are not likely to be adopted.

6. Enough is known regarding the causes and nature of unemployment, and enough experience has been gained and experiments tried to furnish the basis for courageous, positive effort on the part of national and state governments.

7. Although effects of unemployment manifest themselves chiefly in cities, cities as such are not equipped with resources, influence, or contact to take leadership in the removal of causes and the provision of remedies. But city governments here and there are recognizing their relation to the industrial life of their communities, and are endeavoring to provide means for promoting industrial welfare, including the relief of unemployment and the better organization of the labor market through the establishment of employment bureaus. It is not to the credit of state and federal governments that the cities have to date furnished leadership which those better equipped and more authoritative governmental agencies have failed to supply.

8. No single plan or suggestion will be adequate to cure unem-

ployment. What can be done is to regularize work, to time public works to fit into industrial gaps, to deal separately with the unemployed and the unemployable, to formulate and put into effect a policy with regard to employment, education, social insurance and other measures that will put the nation on the offensive instead of keeping it continuously on the defensive in regard to this most dangerous of all its enemies, the worklessness of willing and able workers.

9. Unemployment is inextricably involved in the general industrial conditions of the country which are affected by war, radical changes in the economic policy of the country, disorganization of industry and the inevitable conflicts resulting from the development of an economic policy, just to workers as well as to employers and acceptable to the general public. But there is only delusion in the belief that all unemployment will disappear with the return of those conditions which we habitually sum up in the word prosperity, for these reasons:

a. In normal times the labor market is continuously being disorganized through the lack of a national policy with regard to immigration;

b. The workers of America are kept in ignorance of work opportunities at points distant from their places of abode due to the lack of an adequate system of intelligence regarding employment opportunities throughout their immediate localities and in more remote parts of the country;

c. The labor market is still regarded as an inexhaustible reservoir to be treated much as we have traditionally treated other great national resources. Isolated seasonal trades, lack of training in industrial and manual activities, lack of vocational guidance, and incomplete provision of public employment bureaus, are some of the continuing causes of unemployment which it is possible to remedy and which prosperity waves do not obliterate.

New York City, the states of New York, Massachusetts and Wisconsin, and here and there other states, have established a modern system of employment bureaus. In New York some employers are turning their attention to the continuing problems of unemployment with the coöperation of workers and social scientists.

In New York, through the Gary committee on unemployment appointed by the mayor, facts are being obtained to furnish a basis for intelligent thinking about a problem easily shrouded with false impressions and vague generalizations.

What is now needed is the entrance into the field of a vigorous

national agency to provide facts, suggestions and leadership, making available to all America the experience of the world, or any community or industrial enterprise in America, in combating this most iniquitous of all social evils, the economic ostracism we call unemployment.

SOME RECENT SURVEYS OF UNEMPLOYMENT

BY ROYAL MEEKER,

United States Commissioner of Labor Statistics.

The fact is that in this country we have a very complete fund of ignorance on the question of unemployment. We have no, or practically no, authentic information as to what the normal amount of unemployment is in this country, even at the best of times. We know that it is immensely great, much greater than there is any excuse for. In foreign countries, the need of accurate information as to the quantity of unemployment is recognized; in this country this is not the case.

A fairly accurate survey was made to determine the extent of unemployment in New York during the winter of 1914-1915, but we haven't anything in previous years to compare with the figures obtained in that survey. We do not know what the unemployment situation was one year ago; we do not know what it was in 1908; we do not know what it was in 1900; we do not know what it was in 1894; we do not know anything accurately about the seasonal fluctuations in employment. We know that unemployment is great in this country, much greater than it should be. Further than that, we cannot go.

I may say that when I took charge of the Bureau of Labor Statistics, I very speedily discovered that so far as the Federal Bureau was concerned, no information existed as to the amount of unemployment or where unemployment existed. Now I conceive that it is the first job of the Federal Commissioner of Labor Statistics to know that very thing. I have been racking my brain trying to devise ways and means by which I can get some line upon the amount of unemployment from month to month in every important city and locality in the United States. As yet I am still racking. I was not able to give the authorities of New York City any information as to the number of the unemployed or the industries that were hardest hit by the depression of last winter, in the early days of the winter when such information would have been most valuable. The Mayor's committee on unemployment in New York made a very accurate estimate of the amount of unemployment in 1914

as compared with 1913, through the medium of sending out letters of inquiry to employers in the city. I must say that the figures obtained were staggering to me because they seemed to indicate that about 200,000 fewer people were employed in 1914 than in 1913 in the industries in New York City. This is a perfectly staggering amount of unemployment when we consider that 1913 was an abnormal year. That was the year when for the first time unemployment was invented in this country. Up to that time the people of the United States did not recognize that any such thing as unemployment existed. In 1913, for the first time, a meeting, devoted to the subject of unemployment, was held under the auspices of the American Association for Labor Legislation, the first meeting of its kind ever held in this country—the first recognition, even by scientific men, that unemployment does exist, at least at times in this country, and for that reason I say that unemployment was invented in 1913.

Now frankly I did not believe that 200,000 fewer people were employed in New York City in the week ending December 13, 1914, than for the corresponding week one year earlier. The Metropolitan Life Insurance Company took hold of the matter. They conducted an investigation, through their agents, of the holders of industrial life insurance policies in New York City. Their figures seemed, as they came in, to corroborate the figures obtained by the Mayor's committee on unemployment. This seemed to be rather convincing evidence, but it was not convincing enough. No one knows whether the Metropolitan Life Insurance Company, through their industrial policies, give a fair picture of the laboring population of the city of New York; nobody knows whether by taking the industrial policyholders of that city one would get a fair cross section of the city. Only one method of ascertaining unemployment remained untried, namely, the census method. It seemed advisable to employ this means to check up the results obtained by the Mayor's committee and the Metropolitan Life Insurance Company. A complete census of the city was practically impossible. The police were thought of for a while as a medium of making such a census of unemployment, but that scheme was speedily given up.

At first it seemed wholly impracticable for the Bureau of Labor Statistics to make a census of the unemployed in the city of New York, because of the large number of agents necessary to make a canvass sufficiently extensive to represent at all adequately the

working population of the city. A census of the unemployed by the method of sampling was made possible by the courtesy and coöperation of the Bureau of Immigration and the New York City officials who generously loaned some of their employees to the Bureau of Labor Statistics to make the study. I was thus enabled to relieve some of the unemployment. The Immigration Bureau was suffering from the effects of the European war. More than half of the inspectors at Ellis Island were unemployed, and the other half did not have enough to do. I gave them jobs taking the census of the unemployed. The Bureau of Immigration kindly turned over more than fifty of the employees stationed at Ellis Island to me, and I used them in making a census of the city of New York. We did not make a haphazard census; we used brains and the best experience available in mapping out the census. We selected one hundred and four representative city blocks; blocks representing, first of all, the sections inhabited by laboring people. We selected blocks with a view to representing fairly the different industrial elements and the different population elements in the city. In addition to the intensive study carried on by means of the employees of the Immigration Bureau, I used more than one hundred city employees of the tenement department, which the city of New York was kind enough to turn over to me. I set these men at work making a more extensive and intensive investigation. Two dwelling houses—whether tenement houses or private houses, it mattered not—were selected in each of more than 1,700 blocks throughout the whole of Greater New York where laboring people live. In that way we got returns from more than 3,700 houses. The returns from the block census showed a higher percentage of unemployment than was shown in the investigation of selected houses. When we got out into the more suburban and rural districts of New York, we found a smaller percentage of unemployment. We found in some of the crowded downtown blocks of Manhattan Island an appalling percentage of unemployment; in some blocks as high as 40 per cent of the wage-earners were totally unemployed. Farther up the Island we found a smaller percentage of unemployment. I think you will agree with me that it was a perfectly fair census and a perfectly representative cross section of the working classes of New York City.

The investigation proved that about 16.2 per cent of the wage-earning population was unemployed. Now nobody knows what

percentage of the wage-earning population was unemployed in 1913, in 1908, in 1903, in 1900, or in any other year that you may select. We cannot find this out. No one knows how many people were unemployed in 1908, but I suspect about as large a proportion of the working population was idle in that year as during the winter of 1914-15. We do not know—this is simply a supposition.

With our well-nigh inexhaustible resources there should certainly be in this country a lower percentage of unemployment than in any other country in the world. That this is not the case is because we have allowed the industrial development of our country to proceed in a haphazard, unintelligent manner. We have not yet recognized the fact that unemployment exists as a regular condition in carrying on many of our industries. It is absolutely inexcusable that, in this country, with practically untouched resources, where the population is relatively scant, we should have a larger percentage of unemployment, in all probability, than exists in Great Britain, Germany, or France, countries with a relatively redundant population, whose resources are either exhausted or on the way to exhaustion. In this country unemployment should be reduced to the irreducible minimum.

The Bureau of Labor Statistics has published elaborate statistics concerning rates of wages and hours of work, but it has published almost nothing regarding the amount of unemployment in the country. Information as to rates of wages and hours of work is very interesting and important, but the fact that bricklayers in New York City are being paid from five dollars to six dollars a day does not pay the grocery bills of those men who do not have employment as bricklayers. The most useful information for the Bureau of Labor Statistics to furnish is how many jobs there are in the United States, or in any particular locality of the United States; how many people there are available for these jobs. Information as to unemployment is of first importance—the rate of wages, the hours and conditions of employment are of next importance.

The Metropolitan Life Insurance Company found from the census of its industrial policyholders that about 18 per cent of the laboring population of New York City was out of work. The result of the study I made showed that there was 16.2 per cent unemployed, not a great discrepancy. This slight difference may be explained in two ways. First, our study was made about one month after the census of the Metropolitan Life Insurance Company. Things

at that time were on the upward trend, so it was to be expected that our study would show a smaller percentage of unemployment. Second, the population included in the Metropolitan's survey was a somewhat different population from that included in our census. Most of the Metropolitan's policyholders are in the middle class of the laboring population. The Company probably does not insure as large a proportion of highly skilled workers who receive extraordinarily high wages as of workers who receive moderate wages, and it does not include at all those below a certain wage level, those who have no surplus to invest even in industrial insurance. This might account in part for the slight difference of 1.8 points in unemployment. The figures corresponded so closely that I was willing to ask the Metropolitan Life Insurance Company to make investigations in other places. It has undertaken a census of unemployment in fifteen other cities of the country. If we can get reliable data as to unemployment in several cities, we can make comparisons in space, even if we cannot make comparisons in time. This should give us valuable information as to the distribution of unemployment by cities. The figures have been gathered and are being tabulated, and as soon as ready will be given out.¹ The complete figures will probably not be published until after July 1, the beginning of the next fiscal year, as no funds are available for printing more bulletins.

This is merely the beginning of a work that has never been undertaken before. The only way to handle it properly is for factory owners to cooperate with state departments and commissions of labor and municipal authorities in getting at the amount of unemployment. The problem of unemployment has never been seriously studied in this country. We must study it before we can hope to solve it. We Americans are too prone to solve problems before we really know what we are solving. We do not even have the problem stated in terms of unknown quantities before we begin working at the solution. We shall never come near to a solution of unemployment by this procedure. We must know, with some de-

¹ Since the above address was delivered the data below on unemployment in fifteen cities of the United States have been given to the press by the U. S. Bureau of Labor Statistics. A canvass was made during March and the first part of April, 1915, which followed the same lines as the Metropolitan's study of unemployment in New York City and vicinity. The families holding industrial policies in the Metropolitan Life Insurance Company were visited by agents of that Company, and the number of partly and wholly unemployed was ascertained. The information thus collected is to appear shortly as a bulletin of the Bureau of

gree of accuracy, how many people are unemployed in the United States and at what occupations they are unemployed, so to say. Otherwise, how are we to know what the demand is for, let us say, carpenters, and the available supply of unemployed carpenters to meet that demand? This kind of information is known to the labor exchanges of Great Britain and Germany, and that is one reason why, with all their handicaps, these countries have much less marked ups and downs in employment than we do. They handle unemployment with intelligence, while we still shut our eyes to facts and go blithely forward to relieve unemployment in each recurring crisis by handing out bread and soup, old clothes and free lodgings. The people must be brought to realize that work is the only sure cure for unemployment.

Labor Statistics. In the following table are given the leading facts thus far tabulated:

Cities	Number of families canvassed	Number of wage-earners in families	Unemployed		Part-time wage-earners	
			Number	Per cent	Number	Per cent
Boston.....	46,649	77,419	7,863	10.2	13,426	17.3
Bridgeport.....	8,144	12,533	537	4.3	2,493	19.9
Chicago.....	96,579	157,616	20,952	13.3	16,575	10.5
Cleveland.....	16,851	24,934	2,348	9.4	3,060	12.3
Duluth.....	1,383	2,089	425	20.3	371	17.8
Kansas City.....	14,890	22,512	2,815	12.5	1,979	8.8
Milwaukee.....	8,813	13,112	1,030	7.9	3,788	28.9
Minneapolis.....	2,206	3,449	476	13.8	183	5.3
Philadelphia.....	79,058	137,244	14,147	10.3	26,907	19.6
Pittsburgh.....	36,544	53,336	5,942	11.1	15,474	29.0
St. Louis.....	65,979	104,499	14,219	13.6	14,317	13.7
Springfield, Mo.....	1,584	2,284	162	7.1	32	1.4
St. Paul.....	2,515	4,135	582	14.1	142	3.4
Toledo.....	7,233	10,312	1,102	10.7	1,801	17.5
Wilkes-Barre.....	11,453	18,884	1,200	6.4	6,104	32.3
Total.....	399,881	644,358	73,800	11.5	106,652	16.6

This table relates to part-time workers as well as to the wholly unemployed,

The survey covered 15 cities and included a census of 399,881 families in which were found 644,358 wage-earners. Of this number, 73,800, or 11.5 per cent, of all wage-earners in the families visited were wholly unemployed, and in addition thereto 106,652, or 16.6 per cent, were reported as part-time workers. The highest percentage of unemployment was found in Duluth, Minnesota, where 20.3 per cent of the wage-earners were out of work and 17.8 per cent were working part-time only. The lowest percentage of unemployment was found in Bridgeport, Connecticut, where only 4.3 per cent were unemployed, but 19.9 per cent of all wage-workers were reported as working only part-time.

The cities showing the largest percentages of part-time workers were: Wilkes-Barre, 32.3 per cent; Pittsburgh, 29 per cent; Milwaukee, 28.9 per cent; Bridgeport, 19.9 per cent; Philadelphia, 19.6 per cent; Duluth, 17.8 per cent; Toledo, 17.5 per cent; and Boston, 17.3 per cent. The percentage for all 15 cities combined was 16.6 per cent.

THE WAR AND IMMIGRATION

BY FRANK JULIAN WARNE, PH.D.,

Washington, D. C.

Those innumerable streams of population which have been flowing from the vast reservoirs of peoples in Europe and which have been draining to the United States during the past decade more than 1,000,000 immigrants annually, are today temporarily shut off by the great European war. Of the sources of the largest part of our recent immigration, all, including Italy, are now involved in the war.

Immigration from Europe in 1914 slightly exceeded 1,058,000. As much as four-fifths—more than 800,000—came from the three countries, Italy, Austria-Hungary and Russia. Naturally one conclusion is that comparatively little immigration now comes from the United Kingdom, Germany, France, all of which are involved in the war, and the Scandinavian countries. This corresponds with the facts. Since 1880 there has taken place a most remarkable transformation in the racial composition of our immigration stream by which western European nationalities of Teutonic and Celtic stock gave place to those from southeastern Europe of Slavonic, Lettic, Italic, Finnic and Chaldean descent—from the peoples of Germany, Ireland, England, Scotland, Wales, and the Scandinavian countries to those from Russia, Austria-Hungary, and Italy.

Of the total arrivals from among those groups giving to us the greater part of our immigration in 1914, Italians were the most numerous. Their proportion was more than one-third, their number exceeded 296,000. Hebrews came next with a proportion of 16 per cent—138,000. Polish immigrants were nearly fifteen out of every one hundred—a total of nearly 123,000. Russians and Magyars came to 5 per cent each—to about 45,000. These five groups account for more than four-fifths of our last yearly immigration from Europe. Croatians and Slovenians, Ruthenians, Slovaks, Roumanians, Lithuanians, Finns, and Bohemians and Moravians were numerically in the order given.

A characteristic feature of most of this immigration, and espe-

cially that from Austria-Hungary and Russia, is the fact that only a very small proportion is of the race politically dominant in the countries from which it comes. Virtually all our immigration from Russia, for instance,—as much as ninety-seven out of every one hundred—is non-Russian; it is Jewish, Polish, Lithuanian, German, Finnish and Lettish. The last census enumeration of our foreign born from Russia shows that more than one-half—nearly fifty-two out of every one hundred—have Yiddish and Hebrew for their mother tongue. More than one-fourth speak Polish. Lithuanian and German come next in order as the mother tongue of our foreign born from Russia. Those speaking Russian amount to 3 per cent only of all those here reporting Russia as their country of birth.

The correct interpretation of these facts flows naturally from their mere presentation. Economic distress accompanies governmental oppression, with its usual political, religious and social persecution based upon racial antipathies, especially where one race becomes entrenched in power over subject races. This explains and will continue as the explanation of much of our immigration. Racial animosities expressed through governmental acts are often cruel and insufferable and result in emigration wherever such escape is possible. This rule by a dominant and different race nearly always brings about harsh economic conditions to the subject races.

Somewhat the same situation as exists in Russia is found also in Austria-Hungary. In Austria where the German and in Hungary where the Magyar is politically dominant over the Slav and other races, intolerable economic conditions are the lot of the subject races. The Pole is oppressed as much by the Austrian as by the Russian and German; the Slovenian and Servian suffer also from the Austrian; the Slovak from the Magyar; the Jew is persecuted by all. Among our foreign born from Austria, at the taking of the last census, more than one-fourth reported Polish as their mother tongue, while others spoke Bohemian, German, Yiddish, and Slovenian. The Poles occupy a prominent place among those contributing to our foreign born, the number here now exceeding 938,000. The largest number—nearly one-half of the total—came from Russia, and the next largest from Austria.

In the states of the Balkan Peninsula and in both European and Asiatic Turkey somewhat similar conditions are responsible for emigration. In the Balkan States we only recently witnessed the

population rebelling against Turkish misrule. The immigration to the United States from Turkey in Europe includes principally Greeks, Bulgarians, Servians, Montenegrins, Hebrews, Turks and Armenians. The coming of the Armenians dates from the Kurdish atrocities, which were marked by horrible butcheries and massacres. Our immigration from Turkey in Asia is comprised most largely of Greeks, with a sprinkling of Turks and Hebrews.

All this being true it is not difficult to answer the question as to the effect of the present war upon future European immigration to the United States. Changes in sovereignty and in geographical boundaries will be followed by repressive and oppressive measures designed among other things to wipe out national memories, racial traditions, and even to prevent the use of mother tongues. Not to expect these things would be to assume a sudden and remarkable transformation in the fundamentals of race domination. Nor can we expect a discontinuance of those racial factors which have given us so much of our past immigration.

The effect then of the present war will be to continue immigration to our shores. I know there are those who believe that the effect of the war will be to diminish the immigration flood. But such an opinion is contrary to the facts of history, and when we try to raise the curtain separating the present from the future and to peer into that future, I submit that history is a much better guide than personal opinion.

Every European war during the past one hundred years has been followed by increased immigration to the United States. The struggles of the Napoleonic period were the first of these, and following their termination there swept onto our shores the first large volume of immigration. Next came the wars of the European revolutionary period when the oppressed populations, freed by the corporal-emperor from the age-long superstition of the divine right of kings, attempted to throw off the yoke of monarchy. Being mostly unsuccessful these also resulted in increased immigration to the United States. Among these were the Polish revolution against Russia, that of the Bohemians against Germany, the Hungarian revolution, the Belgian insurrection, the wars of Italy, and the revolutionary outbreaks in Germany. The great wars of Prussia in the sixties and seventies against the Danes, then the Austrians, and later the French, also increased our immigration.

When the present great war is at an end—when the populations of Europe are released from fighting and freed from the manacles of militarism—when they are at liberty to take up again their peaceful occupations—Europe will not be what it was before the war began. Economic maladjustment will have set in, burdensome taxes with which to meet the cost of the struggle will be levied by all the governments; capital will have been destroyed, even anticipated income will have been spent, and harsh economic conditions will ensue among the people. Economic distress will be inevitable. All this is no prophecy. It is merely the teaching of past wars.

But it is not so much the situation in Europe following this war as the conditions in the United States that must be regarded as the determining factor in considering the probabilities as to future immigration.

There are many disputed points about immigration but it cannot be disputed that present-day immigration moves and is governed by economic conditions in and the facilities for reaching the country to which the alien migrates more than by adverse conditions in his home country. Both the statistics of emigration of any particular country and those of immigration and emigration of the United States government prove this conclusively. Nearly every report upon emigration from Europe made by United States consuls substantiates this statement.

The extremely close relation which the development of ocean transportation has brought about between European countries and the United States has made the masses of Europe peculiarly sensitive to the economic and especially the industrial conditions in this country. It has in particular affected, and continues to affect even more strikingly than formerly, the volume of our immigration. At the present time immigration reflects, with the accuracy of a tide gauge, the rise and fall in our industrial prosperity. If one knew nothing at all about our panics and periods of business revival, he would be able to tell the years of their occurrence and the length of time their effects continued merely by studying closely the statistics of immigration. This is much more true today than in years past. It is to be expected that at the close of the war the great trans-Atlantic steamships, which have become mere ferry boats plying between the two sides of the Atlantic, in that the immigrant can

now reach the United States within at most ten days or two weeks, will resume their trade.

And when they do they will be confronted by one of the most remarkable industrial revivals this country has ever experienced. It would take too long and try your patience too much to attempt to introduce here the evidence on this point. All we have to do, however, to be convinced, is to remember that this is not the Millennium; that the United States has hardly begun the development of its material resources; that these are in such abundance as to give to us wealth beyond human comprehension; that there is a Tomorrow when the enormous amount of capital now being destroyed will be replaced; that this country even under the stress of European war conditions is accumulating a surplus of capital unprecedented in its history and that this capital, when released from the fetters of fear, will start industry and business on an era of development and expansion which will more than make up for the present period of retardation.

When this time comes—and it is just around the corner—accompanied by adverse economic conditions among the workers in European countries, the possibilities and opportunities the United States will have to offer to the unskilled worker will be much better than those that are to prevail in any of the countries from which we have been drawing the largest part of our immigration.

But, say some, you must take into consideration the fact that the large number of soldiers being killed in the war will result in decreasing the population there is to draw upon and this in itself will result in a diminished immigration. Whether a fact is important depends upon the other fact by which you measure it. When we are told that ten, fifteen, or twenty thousand men in the very prime of life have been killed in a bloody battle we shudder with horror and magnify the importance of the number. But considered only numerically all the thousands that have been and are still to be destroyed by the war are insignificant when compared with the fact that the great reservoirs of peoples from which we have been drawing most of our immigrants—such countries as Russia, Austria-Hungary, Italy, Greece, Roumania, Servia, Bulgaria, and Turkey—that these reservoirs have a combined population in excess of 291,000,000. This is about two and one-fourth times the entire population of England, Ireland, Scotland, Wales,

Germany, Norway, Sweden, Denmark, Holland, Belgium, and Switzerland—the western European sources of our earlier immigration. These vast reservoirs of peoples have so far barely been even tapped by the large immigration streams that in recent years have been flowing from some of them into the United States.

Russia, for instance, has an enormous annual increase in the number of its inhabitants. It is true the government has erected barriers against Slavic emigration. But the experience of that country is very likely to repeat that of other European countries which have attempted by governmental regulation to keep their people at home when stronger economic forces are at work among them drawing them to the United States. At present we receive comparatively few Slavs from Russia. As to our total Russian foreign born of 1,732,000 by far the greater part came during the ten years of the last census period. In view of the possibility that the sluices now retaining the vast multitude of Slavs within the empire are to be raised, we must be prepared to meet the pouring forth of a flood of emigrants the like of which the world has never seen and which will make our recent large immigration appear insignificant.

Again, Austria-Hungary has a population of about 47,000,000, some 5,000,000 more than England, Ireland, Scotland and Wales. Today it already holds third place among the countries of the world contributing to our foreign born population. And immigration from that country had only just begun before the war opened. Of the total of more than 3,000,000 arrivals from Austria-Hungary since 1860 more than 2,000,000 came during the ten years only preceding 1910. All indications point to a continuance of this large immigration from Austria-Hungary at the close of the war. Somewhat similar statements are true of Italian immigration to this country.

Conjecturing in *The American Commonwealth* as to the future of immigration Mr. James Bryce says:

It may, therefore, be expected that the natives of these parts of Europe, such as Russia, Poland, and South Italy, where wages are lowest and conditions least promising, will continue their movement to the United States until there is a nearer approach to an equilibrium between the general attractiveness of life for the poorer classes in the Old World and in the New.

European and Asiatic Turkey have a population of 24,000,000, Persia of nearly 8,000,000, Roumania of 6,000,000, Bulgaria of not quite 4,000,000, and Servia of about 3,000,000. These countries also show recent increases in their immigration to the United States. The foreign born here from Roumania, for instance, increased more than fourfold the last census period—from about 15,000 to nearly 66,000. Bulgaria, Servia, Montenegro, and Turkey not specified, had a combined population in this country in 1910 in excess of 26,000, whereas ten years before it was not of sufficient importance to be enumerated separately by the census. The immigration from Bulgaria, Servia, and Montenegro in a single year rose to more than 27,000. During the ten years preceding 1910 our foreign born from Turkey in Europe increased from less than 10,000 to nearly 29,000. Turkey in Asia gave us a foreign born population in 1910 of almost 60,000, whereas ten years before there was none enumerated by the census.

There is the possibility, yes, even the probability, that within the coming years these races, now comparatively strangers among our foreign born population, may become as numerous in the United States as have those from Russia, Austria-Hungary and Italy in the decade just closed.

Thus in southern and eastern Europe and western Asia great reservoirs of races and peoples were recently beginning to be tapped by the ocean steamship lines. No one can conceive for these racial groups any possible betterment in their economic condition growing out of the present war. If anything it will be worse, not better, and such as to increase their emigration.

In consequence immigration to the United States for the coming years promises to be in even greater volume than that of the past decade and more. The larger part of it—virtually all of it—will come from countries where the standard of living of the masses is very little if any above the mere cost of the coarsest subsistence. Unrestricted, this immigration will continue indefinitely until more of an equilibrium is established between the low economic rewards of toilers in those countries and the higher compensation to the workers in our own democratic society. This result can come about only through a slow and gradual process of economic adjustment. It will mean to our citizen-workers a low wage and a low standard

of living that are not in conformity with the proper development of a democratic society and republican institutions.

It means even more. It means that at this critical period it is imperative for us "as a people whose earlier hopes have been shocked by the hard blows of experience," to pause and take invoice "of the heterogeneous stocks of humanity that we have admitted to the management of our great political enterprise." Not only to pause and take invoice but also to examine carefully what it is that this immigration is doing to our democratic institutions. Do not the pitifully low wages paid in many of our industries and the physically injurious low standard of living of the workers in many of our industrial centers mean anything to you? Does not unemployment, such as was so shockingly in evidence in all our large cities the past winter, indicate to you that there is something wrong somewhere? Do not child-labor, the industrial labor of women, the congestion of population, long hours of work, the rising death-toll from preventable accidents and occupational diseases, the startling increase in poverty among our industrial classes, the discarding by our industries of men in their forties for the labor of the much younger immigrants—do not these raise up in your mind any relation to immigration? The fact is there is a relation, a very close relation, between these social horrors and immigration.

There is one possible event that alone will stop this threatening inundation. This is restrictive legislation by the Congress approved by the President of the United States. These representatives of the American people can control the effects of those economic forces that otherwise are to give to us this increasing immigration of the future. Is not the present a most opportune time for such action? Should not we as a people stop at least a moment in our mad rush after mere wealth and take the time and exercise the forethought necessary to put our house in order so far as it is being disordered by immigration?

With the tremendous interests at stake in the present great European war, with the upheaval in the social and economic life of the European populations, and with the interruption to ocean travel, immigration is now at its lowest ebb tide. During the ten months following the declaration of war—from July to May—373,000 immigrant aliens arrived in this country. Of this total, those coming in July and August alone, and who had started on their

way before the war began, amounted to as much as 33 per cent. These 373,000 immigrants comprise the smallest number arriving in any like period of which we have a record. They are 818,000 fewer than for the same months of the preceding year and 691,000 fewer than in 1913. They are 107,000 fewer than one-half their number would have been but for the war if measured by the average of the period for the past seven years. It is clear from these statistics that the temporary effect of the war has been to diminish the number of incoming aliens.

The war has also had an effect upon emigration, and this effect has been to give us an increase in the number of aliens. It has reduced the number of outgoing aliens to less than they would have been under ordinary circumstances; that is, it has had the effect of keeping in the United States many immigrants who otherwise would have returned to Europe. Every one of the ten months to May, with the single exception of August, shows less emigration than in the same months of the preceding year and, excepting July and August, less than in 1913. Since July the number of departing aliens has been about 345,000, which is 248,000 fewer than during the same period in 1908 and less than that of the same months in any of the last four years. It is about 152,000 less than the average for the same ten months for the past seven years. This explains in part the unusual seriousness of the unemployed problem which was so acute in our large eastern cities the past winter, many of the aliens who but for the war would have returned to their European homes being compelled to remain here.

Immigration has steadily declined since the outbreak of the war until in April it was not one-fourth what it was in April, 1914, the decrease being from more than 142,000 to about 32,000 monthly arrivals. Emigration also has decreased—from about 50,000 in April, 1914, to about 18,000 in April, 1915. For the months of August, November, December and January, emigration exceeded immigration by more than 34,000—that is, this many more departed than arrived.

We should take advantage of today's temporary cessation in immigration to erect proper means of defense against the probable inundation of tomorrow. And as a part of these measures of defense there should be created by federal legislation such governmental machinery as will, in coöperation with state and private

employment bureaus, give us in the future a more or less accurate measurement of the anticipated needs of American industries for this rough, unskilled immigrant labor at the standard or American rate of wages. The demand being thus ascertained the supply can be regulated to this measurement by legislative enactment through already existing administrative machinery. In this way the present haphazard system, which now invariably operates to produce an over-supply of this labor in all our industrial centers, can be coordinated and made to work for our common good instead of to our social injury. Already we have the nucleus around which this machinery can be built. This is the Division of Information of the Bureau of Immigration of the Department of Labor of the United States government. In addition to its reorganization along the lines indicated, it should be given supervision over all private employment agencies and so-called labor exchanges engaged in interstate commerce.

In the face of the facts should we not subordinate sympathy for the immigrant to that humanitarianism which holds that America's highest duty to mankind is to make the great experiment of an educated democracy the most triumphant success that can possibly be attained? Shall we permit sympathy for the immigrant to determine our decision as to the proper course we should take in our policy towards future immigration? By all means this great movement of peoples should be restricted by legislation within the narrow channel of the legitimate demand of our industries for unskilled labor. It should not be permitted any longer to rush in helter-skelter to flood our American industries with its cheap labor and our industrial centers with its low standard of living.

UNEMPLOYMENT AND IMMIGRATION

BY FRANCES A. KELLOR,

Vice-Chairman, Committee for Immigrants in America, New York.

We knew in the winter of 1914 *before the war* that one out of every eight wage-earners in some of our cities had become unemployed; we know in 1915 that one out of every five wage-earners can become unemployed when a great international crisis disturbs our foreign markets. These are not paupers, vagrants and unemployables. They are men and women willing and able to work, idle through no fault of their own.

How much more do we need to know to do something more fundamental than start bread lines, temporary work shops, or asking full time men to work half time or to receive less pay? How much longer will we rely upon charitable societies and relief funds collected by personal appeals, fetes, dinners, balls and other entertainments to feed and clothe the unemployed? Is it not ironical that we depend so largely upon *entertainments* to keep people from freezing and starving to death? The proceeds of a circus are today paying the wages of helpless women in New York City, and this is typical of the country.

A national administration reluctant to face a situation which may turn out to have political significance answers the appeals of American citizens by throttling the bills providing relief, by ordering a census to interpret the suffering in terms of statistical tables, and by indirectly establishing federal employment bureaus, after the crisis was over.

The states have done little better. They, too, are in the grip of a reaction which sees political danger in recognizing the evil, and political success in doing nothing about it.

We should be chiefly concerned not with our meager accomplishments but with what we shall do next year. Even with a sudden increase in prosperity, unemployment is a continuing problem, and I venture to make some suggestions that we can think about putting into a real program of action before the relief demands absorb our energies again.

1. Separate politics and unemployment in action as well as in theory. Deal with unemployment as an industrial problem fearlessly, regardless of its effect upon political fortunes. Nationally we did not do this in either 1913 or 1914.

2. Organize the labor market by establishing government bureaus and regulating private agencies. This is only a small part of the work. Employers will use them only when convinced of their efficiency and impartiality. Their coöperation is vital. How vital, the Detroit Chamber of Commerce illustrated in its employment bureau conducted this winter. In the one month for which the complete record is available, it placed 17 per cent of its applicants when other bureaus were averaging less than 5 per cent, and it showed that the number *retained in jobs on the strength of its appeal* equalled the number of applicants for the month, over 15,000.

3. Apportion the field of effort—do not have the government doing the work of philanthropy, or philanthropy running the business of government, and do not have either of them take up the load belonging to industry. The charities know their task and have resources for dealing with the unemployable. Keep the worker in the job line and out of the bread line as long as it can be done.

4. Get industry to consider unemployment as a risk of business to be prevented or remedied at the earliest possible minute. Let each business man ascertain for himself what is the actual cost of changing employees, maintenance of reserve labor supply, constant employment of green men, irregularity of output, etc. Do you know what one investigator found who had enough curiosity to inquire?

A typical number of industries studied in 1912 showed 38,668 employees at the beginning and 46,796 at the end of the year, an increase of 8,128 people, but during the year 44,365 people were engaged indicating that 36,237 had dropped out of employment. Allowing 21 per cent for death, illness, withdrawals and fluctuations, or 13,022 and the 8,128 increase—the reserve supply numbered 22,225, or 59 per cent of the number employed at the beginning. By interviewing a number of industrial managers the investigator found that the cost of training a new employee averaged about \$35, involving an economic loss of \$774,139 in these changes.

It is time business and the government got together. Why not plan work together—business to lessen seasonal periods of employ-

ment, irregularity of employment, reduction in annual changes of men and in reserve supply; government to carry on its public works, road building, reclamation work, rivers and harbors improvements in dull seasons. Let the unemployed be heard—not in parades, not in I. W. W. speeches, not in riots, not in bread lines, not in hearings wherein the basis of selection of witnesses is unknown and politics play a part; but let them be heard in an honest, fearless statement of conditions, neither better nor worse than they are, and then let us courageously meet the conclusions with remedies.

Unemployment cannot be solved along one main line. There are subsidiary lines which will require consideration. I have time to consider but one of these—immigration.

Can we solve it by restricting immigration or do we need something less negative and more constructive? We know as yet practically nothing of the causes of unemployment in this country when they are not created by war, or seasonal occupations, or casual labor, which, great as they are, do not constitute the most serious elements in the unemployment problem today.

We have the beginnings of a national domestic immigration policy admirably begun by the Department of Labor at Washington. A series of federal employment exchanges has been established, utilizing machinery which, however, may be needed at any time for immigration, and Secretary Wilson has already announced the necessity for the regulation of private employment agencies that conduct an interstate business and has called a national conference to consider unemployment. There is the Bureau of Naturalization and the admirable work begun by Commissioner Claxton for the education of the alien to meet these requirements, thereby eliminating unemployment due to legal bars. There is the new Ellis Island and the development of educational work and information which Commissioner Howe has much at heart, which will better distribute the alien.

But the causes of unemployment go far afield and are difficult to eliminate. There remains to be done, the safeguarding of aliens' savings through private banks and steamship ticket agencies, by interstate regulations; of investment in land and in colonization projects, by the registry of all such lands in the Department of Agriculture and the investigation of colonization projects and a survey of distribution methods and analysis of their failure. There

remains the transference of labor discriminations from petty state laws and obscure ordinances to the immigration law dealing with admission and in accordance with our treaty obligations; there remains the establishment of a minimum standard of living conditions below which no employer should be willing to have his employees live; there is the padrone to be abolished; there remain to be established adequate educational facilities, and equality before the law in such matters as interpreter service and benefits under social insurance laws. These and many other aspects of the alien's life in America have a vital relation to his unemployment.

When we shall have established such a policy it is contended it will increase immigration. No man can produce the evidence which will prove or disprove this contention. It lies in the realm of opinion. Not so long ago the minimum wage was recommended by no less an authority than Paul Kellogg as a means of restriction. It is as reasonable to believe that the conservation of men will steady the supply and lessen the necessity for reserve and decrease the number of public charges as that it will displace American workmen who can find no other foothold. Some employers have found that the teaching of English lessens the percentage of accidents and not only saves damages, but eliminates the cost of breaking in new men. One reason our control of our immigration supply is so unintelligent is that we know so little of what goes on in our own country with reference to it.

This war should carry one lesson home. There are in this country thousands of immigrant colonies and communities where little or no English is spoken, where American ideals of justice, freedom of women, right of children to an education and a childhood, and democratic institutions are unknown. There are in this country thousands of foreign born aliens and some citizens whose first allegiance is not to America. There are other thousands of foreign language newspapers (several hundred of which were swung into public print the other day against exportation of ammunition) about whose preaching and teaching America knows little. It may be for or against America; we as a nation do not know—and the lesson is this:

We do know that we should be one nation and one people, we who dwell together in this land of peace and prosperity, and there is no greater concern of this country today than to develop a wise

policy of Americanization which shall mean both unity and harmony. It is the policy of "let the immigrant alone" which makes him willing to listen to the I. W. W. and makes him a menace in time of war and a blight in time of peace. It is both the privilege and the opportunity of the American and his government with all the odds now in his favor to realize the ideal of one nation and one people, and when we do, we shall solve a little thing like unemployment as easily as we have bridged distance by means of electricity and mastered production by means of machinery. The chief reason we have the problem today is because men whose gift it is to master space and nature's resources have not applied themselves to the task in the "do or die" spirit of American enterprise.

Where shall the responsibility for a program of scientific inquiry into the causes of unemployment and their remedy center? Not in the government with a 1916 campaign imminent; not in charitable organizations, which have work enough of their own to do with unemployables; not in any legislative association, for it is a mistake to approach this problem with the idea that it can be solved by laws; not by any new organization, which it will cost money to establish—may some wise Providence save us from another organization to deal with this subject.

Why not a special committee of the national Chamber of Commerce which commands funds and widespread organization with some labor men and women serving on it, to whose report organized business which holds the key to the situation will listen?

I have before me the record of how some hundreds of industries prevented unemployment in 1914. All industrial America could use this information to advantage and is eager for it. We shall have no solution until business takes up the task, and it is worthy of the best efforts of its leaders.

SOME INDUSTRIAL LESSONS OF THE EUROPEAN WAR

BY JOHN PRICE JACKSON,

Commissioner of Labor and Industry, Harrisburg, Pa.

When the war broke out, this country felt keenly a resultant increase of stagnation in industry. One of the most serious results of this was the loss of employment by great numbers of workers, and the placing of enormous armies of others upon short hours. The commonwealth of Pennsylvania, through the Department of Labor and Industry, made a careful canvass, and found that during the fall and winter the loss to individuals and the commonwealth as a unit, through this lack of employment and short hours, was of such an extent as to demand immediate attention and action on the part of the state and city officials and employers.¹ It was found that the governmental and industrial organization of the state was so constituted that immediate measures of relief, which would be to any great extent effective, were largely impossible. Individual manufacturers, in a very large measure, endeavored to relieve the situation by manufacturing materials for stock, to making repairs to their plants, and distributing the available work to as large a number as possible through the medium of reduced hours to each worker. Persons in every walk of life, to some extent, assumed responsibility for procuring work in homes or places of business for as many persons as could be arranged for. A number of towns and cities took up the project of municipal improvements, etc., with the same object in view.

However, the effect of all these activities was not sufficient to prevent serious suffering to the individual worker and enormous loss to the people of the commonwealth. The people of the state, however, were sufficiently impressed by the unusual conditions to have their legislature pass laws at the present session giving the Department of Labor and Industry authority to work out plans for more effectively dealing with conditions of unemployment in the future. These laws properly refer, not only to unemployment

¹*Report of Pennsylvania Commissioner of Labor and Industry, Part 1, 1915-1914.*

caused by unusual conditions of depression, but also to the very serious losses occurring through seasonal industries and through time lost by employees when changing positions. Even when times are good in this country, the ratio between the days in which an employee who wishes to work is actually employed to the total days of the year—or, in other words, the man-year-power factor—is rather surprisingly low. This represents, therefore, an enormous loss of productiveness, which is as much a waste for present and future generations as the waste of natural resources.

Apparently, there is an inflexibility in business and financial organization in the country similar to that which thwarted the most effective endeavors to improve the labor conditions and cause the wheels of industry to turn. It must be admitted, of course, that the unsatisfactory business and industrial conditions existing before the war began were in some measure responsible for the exceptionally difficult situation later. However, that in no way interferes with the discussion of this problem, but rather makes it more distinctive.

The same tendency existed in Germany to an even larger extent, through the stagnation of industry and business and lack of employment, by reason of the war. (The author was in that country during the early months of the conflict.) Under the military power, however, and the autocratic form of government, Germany handled these conditions as concrete problems, and adapted both her governmental and business machinery to meet the conditions in the most effective manner. In our own country these problems were looked upon, to a very large extent, as being of an immaterial character and impossible to touch. Germany's banks continued to do business without cessation; I cashed travelers' checks payable in London nearly every day during the six weeks I was in the country, and observed no difficulty whatsoever in doing business. Immediately upon the declaration of war, the government, in consultation with the banks, took such steps as would relieve the situation. Germany was equally effective on the project of employment and industry. The industrial leaders were called together into conferences to determine what action each one should continue to pursue, and what workmen he should employ; then with the aid of similar conferences of bankers, the necessary funds were arranged for to enable him to proceed. Of course, the government was directly behind all of these movements, and did not hesitate

to diverge as far as was necessary from ordinary governmental activity to accomplish the desired purposes.

Not only did the German government call the manufacturers and bankers together, but also the labor leaders, the merchants, and all other classes who could join with it in effecting the most efficient solution of the enormous problem facing the nation. Such form of government is not conventional, but it has a flexibility necessary to handle unusual conditions as they arise. It seems that this illustration of what another government has been able to do might well impress upon the American people the need of not permitting the governmental joints to become ossified, but to endeavor at all times to make both business and governmental conditions so flexible that unforeseen conditions can be dealt with to advantage. The new banking system of the country seems to be a move in the proper direction. It seems also possible to arrange municipal, state and national appropriations for material projects and the organizations having to do with them in such a manner that public works can be quickly started when business conditions of the country demand. It seems possible to build up a tradition among our corporations and people that it is not only a duty, but eventually profitable, to make unusual efforts to keep their money working, their wheels turning, and their people employed when hard times appear. In general, the German illustration shows that we as a people should be able to work out many lines of procedure, through the various avenues at our disposal, for controlling unsatisfactory industrial and business conditions, at least to a certain extent, which heretofore have been left largely to take their own course, each individual, as he saw fit, tying his money in the stocking, and in other ways doing his little to promote his own and the general conditions of distress. It is, of course, not intended by this statement to assume for a moment that hard times will not come, or that we can have conditions where we will have a hundred per cent year-man-power factor. When a people is overly extravagant, or when it goes into reckless speculation, or commits other follies, it must, of course, suffer the consequences, as surely as does the man who overeats. But as the good doctor may relieve the pain or even save the life of the latter, so can we as a people, if we properly study our conditions, tend to relieve much of the distress and loss which has been allowed to appear unchecked in the past.

One of the distinct lessons of the war to Americans is with reference to our dependence upon other countries for many prepared materials, which we might make for ourselves to as good, or even better, advantage. One of the most striking and most advertised of these was our lack of dye-stuffs. The handicap to American industry through lack of many materials at this time was not due to the fact that Americans are short in brains. It was rather a lack of systematic study of American needs. Here again Germany offers an excellent illustration of the proper way to proceed. She had with great detail and care arranged so that scientists would not only be developed in her fine technical schools and universities, but that they would find it to their material advantage to investigate the needs of German industry and work out, by scientific experiment, processes necessary to their advancement. She had also taught her youths, through the medium of practical part-time or continuation schools, a quality of skill and intelligence of an exceptionally desirable character. In the United States much valuable experimental work has been carried on, particularly by corporations, for their private benefit, and by individuals. But the development of scientists for the purpose of supplying the needs of our industries has not been dealt with in a broad-minded, logical manner.

When the United States government created agricultural experiment stations, one in each state, it took a step of much importance in improving the efficiency and prosperity of our people through the great advance in agricultural knowledge. One great mistake, however, was made. Had Congress, when establishing these agricultural experiment stations, which have already done so much to enrich our land, added to their duties that of carrying on scientific, practical, and technical investigations for increasing the prosperity of all industries, instead of only one, this country would today stand in a far more desirable industrial position than is now the case. The government should not delay in making such additions to the scope of these magnificent experimental centers. They are at present, as a rule, well equipped, and manned by men who have learned the art of scientific investigation, and have developed organizations and methods of procedure suitable to the purposes intended. It would be very easy to add the necessary functions to these stations, or, if thought more desirable, to erect coördinate divisions therewith. It is not meant, of course, that a locomotive-

builder, for instance, should find out, for his own personal use, through the medium of such stations, the best material to use in a connecting-rod; but rather that the whole industry or country should be given information whereby the products of manufacture could be improved, and whereby economies could be obtained. The government has given this kind of help, not only to agriculture, but to mining, and though the latter work has been begun within a comparatively few years, material improvements have been accomplished thereby. If in both agriculture and mining this kind of systematic, nation-wide search for scientific knowledge has been productive of such valuable results, can there be any doubt of the advisability of its extension to the numerous other fields of industry, which are just as necessary and important to our prosperity and welfare?

It is probable that in the near future the purchase of materials by the countries at war may bring us a temporary prosperity. I say temporary, because prosperity founded upon passing conditions cannot be otherwise. Further, we cannot count upon continued prosperity through the opening up of vast new natural resources, for we have already reached the point where it is necessary to make the most careful calculations in our business and adopt methods of the utmost economy. The old profligate waste occasioned by our early munificence of natural advantages has largely passed away. It is necessary that both materials and labor be used more carefully in order that waste be eliminated, and that by-products be utilized. Particularly, however, we must cut out the greatest waste now existing in our industrial organization, namely, that of human labor. This must be done by the development of machines and processes which will produce economy in that field, and by handling labor in a way which will not uselessly waste itself through lack of opportunity for its application. Such a condition as this must not continue: Here is a man who wants to work, can work, and should work. He does not work today. Why? The manufacturer did not need the man today, so he doesn't lose anything. Such a sentiment may be satisfactory to the manufacturer in question; but nevertheless the people of the United States have lost a one-day-man-power. This man's day, when multiplied by a billion or so, represents a material item of wealth. Not only can more flexible methods of government and business tend to reduce this loss, but also a study of scientific and



natural problems as I have indicated. By the latter means not only can methods be produced whereby the man will be employed more regularly, but the loss of his labor will be required to obtain a given result.

The war has shown the weaknesses of the nation as a business unit of the world to a marked degree. Our lack of ships to carry our produce to other countries has been impressed upon all who take any interest in public affairs. This lack is undoubtedly due to our inability or unwillingness as a government to deal with new problems as they arise, irrespective of past practices and traditions. Here again we have hurt ourselves through the same inflexibility of our ways and practices as in the cases spoken of above. Our lack of organization for doing business economically and suitably with our neighbors is becoming equally apparent. Our consular and similar service in the various countries of the world has not been such as would be established by a successful business man who desired to obtain a maximum of profitable trade throughout the world. As a matter of fact, our industrial interests have also not gone into the project of tying up our business with that of other countries with the same thoroughness and to the same extent as have many of our individual manufacturers organized to deal with their clients at home. Here again Germany has surpassed us and has taken hold of the project of dealing with her neighbors as a good, practical, systematic business man should do. As a result, we who have neglected this field, and have depended upon the initiative of an individual or corporation to build up his foreign connections alone, have relatively suffered.

In fine, the war has taught us, among other lessons: (1) that the nation should have a more systematic and effective means of developing scientific, technical knowledge for our industries; (2) a better direction for the study and proper application of methods of preventing our present enormous labor waste; (3) the necessity for developing new methods of increasing the efficiency and economy of labor and materials; (4) the need for a more business-like national organization for doing business with our neighbor nations; (5) the necessity for creating transportation systems for carrying our own wares; and (6) the need of avoiding governmental ruts and ossification, in order that we may maintain our governmental, business, and industrial fabric sufficiently flexible to meet conditions effectively as they arise.

AMERICAN EXPORT POLICIES

BY FRANKLIN JOHNSTON,

Co-Publisher, *American Exporter*.

American success in exporting, too often depreciated and ignored, has been won largely by manufacturers of highly specialized lines—individual, distinctive merchandise, or machinery sold under brands. I speak advisedly for daily I am in close touch with the export work of over six hundred manufacturers of such lines doing a substantial foreign business, many of whom have been doing so for years.

A recent census of these manufacturers, for whom and with whom we are working, showed that the average rating is \$298,000, as listed in one of the mercantile agency books. Of these 18 per cent are rated up to and over \$1,000,000 each; 50 per cent at less than \$100,000 and 20 per cent at less than \$35,000. This is of interest as showing that the small manufacturer of distinctive articles is under no insurmountable difficulties in export trade.

In South America, the three chief export competitors meet on more nearly equal terms than anywhere else in the world. There has been a greatly exaggerated idea in this country of the extent to which Germany dominated the markets of South America, before the war. That she had a very large and important share of that trade cannot be denied, but it was no larger than our own, and not as large as Great Britain's. The United States exports more merchandise to Latin America than does any other nation. Here in the briefest possible form is the record of Latin American trade in 1913:

Exports to Latin America from the United States, \$325,837,345.

Exports to Latin America from Great Britain and Ireland, \$322,228,073.

Exports to Latin America from Germany, \$217,967,202.

The margin over Great Britain is somewhat slight to be sure, but over Germany, of whose export prowess we hear so much more than of Great Britain's, it is in round figures \$100,000,000. Our exports to the Argentine have grown from less than \$10,000,000 in the year 1902 to over \$50,000,000 in 1913, while those to Brazil grew

from \$10,000,000 to \$42,000,000, and those to Uruguay from \$1,500,000 to \$7,500,000.

Instead of having a negligible share of the trade to those countries as many would have us believe, we supply Argentina with 15 per cent of all she buys, while Great Britain furnishes her with 30 per cent, and Germany supplies 16 per cent. Of Great Britain's exports to Argentina one-fifth is coal alone. In the case of Brazil we sell her 15 per cent of her total imports as against 25 per cent from England and 17 per cent from Germany, Germany's export trade with Brazil being \$4,000,000 larger than our own.

Our trade with these countries has grown hand in hand with that of Germany and Great Britain. If a chart is drawn showing the growth of the export trade of the three great rivals in either Argentina or Brazil for the past ten or fifteen years the general curve upward of the English lines will be paralleled, somewhat below to be sure, by the American and German, and the German and American lines will touch and even cross each other, at times, so close has been the rivalry.

Under normal conditions we have, therefore, as large an export trade with Argentina and Brazil as Germany, and that trade has grown just as fast, indeed at times faster, than that of either Germany or Great Britain. It must be said, however, that Germany's trade is more diverse than either Great Britain's or our own.

What, then, is the reason for the persistent popular impression that our trade with South America is negligible?

That impression is founded on the fallacy that American ships and foreign branches of American banks are a necessary *preliminary* to extending American trade. American manufacturers are under no handicap as regards shipping and banking in developing their trade with Latin America. When American manufacturers find themselves unable to sell abroad the fault usually lies not with the ships and banks but with the goods, the costs of production, or inefficient selling methods.

British export trade is won chiefly by quality; German, by cheapness; American, by inventive and mechanical genius plus large-scale production, which makes for moderate prices. Each of the three competitors has strong points, and each has weak points. British quality usually means high cost, and, when durability is aimed at, often means a solidity that is carried to an absurd degree.

The competing American article is lighter, more graceful and cheaper. The competing German article is too often an imitation of the British or American sold at a much cheaper price, and on terms which an Argentine gentleman spoke of some time ago as "insane credits." Price is the poorest sales argument, and people have almost forgotten that many German lines had far better claims to distinction. German export success has been marvelous but it has not been altogether a healthy growth. "Made in Germany" has come to convey the sense of cheap, shoddy goods, and even of imitations.

This has been recognized nowhere more than in Germany. In 1913, a "German Export Association of High Quality Manufacturers" was formed to combat the cheap price reputation of Germany abroad and its ideal at home. Its president said:

The systems of the English, French, but principally of the American and Swedish trade, have been based from the very start on the prestige and standing of the manufacturer, who must always take the responsibility for quality and reasonable prices of his products. Against the strong organizations of foreign manufacturers, small industries prevail in Germany which do not strive so much for quality as for cheap prices. . . . German manufacturers apparently know of only one argument, and that is low prices. But when prices decrease, quality also becomes inferior.

Another serious fault in German export methods has been an unwise over-extension of credits.

The "long" credits of South America have been greatly exaggerated in American discussions. So has the alleged refusal of American manufacturers and merchants to extend credits. As aptly phrased by the president of the United States Steel Corporation, Mr. James A. Farrell, who for many years was at the head of that corporation's export subsidiary:

Wherever there is a substantial basis for credit, American manufacturers will not be found lacking in devising means to grant reasonable and proper accommodations. It will be invariably found that where extended credits are given, the seller charges an increased price, and the buyer does not benefit to the extent to which prompt payment entitles him.

Not only does he pay an increased price, either visible or invisible (by decreased quality), but the whole structure of commerce in any given market is shaken when credits are given unwisely, for sooner or later such over-extension brings about a smash. This occurred in South America, notably in Argentina and Brazil, and

those countries which were just recovering from the effects of wholesale liquidation and bankruptcies, similar to some of our own financial depressions, when the war broke out. Commercial failures in the Argentine in 1913 were twice as large as in 1912, three times as large as 1911, four times as large as 1910. The opening months of 1914 showed a still greater commercial mortality, and the total liabilities for the year were more than double those of 1913. This financial disturbance came as a result of easy credits at a time when land speculation had become almost a mania, the bubble being pricked by a series of bad crops. American conservatism in granting credits has been justified in part at least by such events, and German eagerness to extend unwise credits has proved disastrous alike to her and her debtors.

To a large extent, the financial crisis before the war and the rapid changes brought about by the war have brought a new commercial generation in the Argentine. Old houses have liquidated, partners retired, old connections been severed, new ones formed, new houses opened. This new generation cannot buy German goods, nor even the allotted amount of British or French, and will necessarily buy American goods. Germany's unwise credits have fallen like a house of cards and in the reconstruction of the commercial structure she will have no part for some time to come. When Germany again competes for South American business it will be on a far healthier basis, with less talk of cheapness and more of quality, and with far more conservatism in extending credits. Meanwhile the virtues of slightly more expensive competing American goods will be established. This change in Germany's export policy was inevitable sooner or later but it has been hastened by the war, and the war has enormously intensified the lesson of over-extension.

Mention has been made of the application of the Sherman law to export trade. As we know, combinations to control output and fix prices in many staple lines sold on a close competitive margin of price, and not capable of being exploited along the lines that highly specialized lines are, are permitted and even encouraged in Europe. Such lines as manufactures for further use in manufacturing, and crude materials—steel, copper, wire nails, cement, cheap paper, cordage, etc.—might be mentioned. It would seem as though our manufacturers in such lines ought not to be forced to act under legal

restrictions to which their foreign competitors are not liable, provided unfair practices were not employed.

The Clayton Act as originally drawn would have made illegal nearly every customary method of developing export trade. These methods are not peculiar to this country, but are world-wide. Their morality is, it seems to me, not to be questioned. They comprise ordinary agreements under which patented articles may be sold, and both maker and dealer, or agent, protected. A vigorous nationwide protest from small manufacturers as well as large ones, resulted in export trade being specifically exempted from the provisions of the Clayton Act.

Recently the federal courts have found for the defendants in a number of actions brought by the government under the Sherman law. Among such decisions was that in the case of a number of steamship lines operating to Brazil. Freight is a commodity, no less than steel rails or copper. To allow steamship owners to combine to fix freight rates on steel products, and to forbid steel products manufacturers to combine to fix prices on their products is, on the face of it, absurd and unjust. Its absurdity is hardly diminished by the fact that most of the steamship lines are owned abroad, so that American manufacturers, "trusts" or "independents," are encouraged to practice cut-throat competition, while the steamship lines maintain profitable freights, and share the benefits with foreign buyers and foreign manufacturers who are allowed to take joint action as they see fit.

Disappointment has been expressed because small manufacturers show such a lack of interest in the arguments urging the benefits of combination for export trade. This may be attributed to the fact that small manufacturers of highly specialized lines, of articles sold under brands or trade marks, such as engines, machinery, typewriters, shoes, sewing machines, haberdashery, automobiles, bicycles and scores of other lines have never felt the need of such combinations for themselves, although they may be in favor of them in principle. In short, the small manufacturer may recognize the force of the arguments, but the subject has an academic interest chiefly. He has succeeded in export business by individual effort. The difficulties of forming a cooperative export organization in certain lines would be almost insurmountable, with no guarantee that the results would be satisfactory. A poorly managed combina-

tion would break down under its own weight, as many "trusts," department stores and chain-store organizations have, while their more efficient, though smaller, rivals have prospered. Hence, it may be doubted whether express governmental permission to combine for export trade would meet with any immediately marked response from small manufacturers of specialized lines. This is not to deny that the instinct of avoiding ruinous competition is not growing in strength.

Inadvertently, much of the discussion on this topic has given an entirely erroneous impression as to the difficulties "small" manufacturers have to contend with in establishing an export business. It will be found that ample facilities for export distribution are available for the manufacturer of specialized lines. For such lines, large initial expense to develop foreign trade is rarely necessary, or even advisable. Elaborate foreign selling organizations for the average manufacturer would not only be unnecessary, generally speaking, but positively detrimental, because the important distributing factors would be antagonized at the start, and would be in a well entrenched position to retaliate.

In England, Germany and the United States there are numerous facilities to help manufacturers in their export distribution, where the manufacturers are not in a position to do—as, of course, they very rarely are in a position to do—all the distributing. Large importers act as local distributors. The average manufacturer receives more or less of his export orders from the importers, not direct but through the export commission houses, although he works up the business direct by some form of solicitation.

Even when a manufacturer employs one or more foreign travelers many of the orders are passed through the hands of the export commission houses, and paid for by them, and in some cases manufacturers insist on all orders being so handled. Where export orders are paid for by the export commission merchant, for the account of foreign importers, it becomes as nearly cash business as the American manufacturer can secure at home or abroad. Although the tendency to do a direct business is constantly increasing—and in some markets, such as certain European ones, is the rule rather than the exception—very many importers, as well as manufacturers, prefer this method of business and probably always will.

The proportion of export business passed through these houses

as brokers, so to speak, depends on the character of goods, character and location of market and various other circumstances. No set rule can be made to apply. In London there are 1,596 export merchants; in Hamburg, 1,189, while in New York there are 605 export commission merchants, 180 buying offices for foreign merchants or industrial concerns and 128 manufacturers' export agents or managers. Export agents perform many of the functions of the commission houses, but are paid by the manufacturer instead of by the foreign merchant. In recent years there has been a marked tendency for the commission houses to take up special agencies. It will be seen, therefore, that in all three countries the export merchant is a distinct factor and that he is no less in evidence in England and Germany than here. Yet the very existence of the export commission houses is all but ignored by the American government officials in discussing foreign trade, and this has caused a good deal of misunderstanding.

The establishment of branch offices or warehouses abroad on the part of manufacturers is the exception, not the rule, in export trade. A theory that manufacturers must open branch houses in all the world's markets, in order to do business, would lead even the more than average sized manufacturer to bankruptcy. American export trade in manufactured goods is shared by thousands of manufacturers, big as well as little, little as well as big, and of those thousands it is doubtful whether more than twenty have their own local branches, carrying stocks, in Buenos Aires, for instance. With rare exceptions, the manufacturer, British, German and American, whatever his size, finds it more economical and more profitable to let others perform some of the functions necessary to get the goods from factory to foreign consumer. No manufacturing corporation, however large, has its own sales organization in all markets, although two or three come very close to it, including one American oil company and one American sewing machine company.

In Buenos Aires, for instance, there are just forty-four American business houses other than industrial plants. These forty-four comprise all the American dealers, the American importers and exporters, as well as the local branch offices of American manufacturers. There are one hundred and sixty-three British business houses in Buenos Aires and two hundred and ninety-nine German, and in view of the large number of merchant importers of those

nationalities domiciled in Buenos Aires, it is evident that few manufacturers of those countries can have branches in Buenos Aires, or the total number of business houses credited to them would be very much larger. This may be better appreciated when it is realized that there are 29,690 business houses in Buenos Aires exclusive of industrial or manufacturing plants, and of this number, which included the retail establishments, 12,383 are Italian, 7,822 Spanish and 4,358 Argentine. These figures are from a recent industrial census taken of Buenos Aires, as reported in *Commerce Reports* published by the Department of Commerce.

The number of American manufacturers having their own salaried exclusive representatives permanently in Buenos Aires carrying no stock, and selling to larger houses, wholesalers chiefly, is only a trifle larger than those having their own branches. It is impossible to fix the exact number, but a liberal estimate would be seventy-five. The number of British or German exclusive representatives may be estimated as proportionately the same. If Argentina has so few branch establishments and exclusive representatives, what must be the case in smaller markets such as Chile, Peru, the Amazon district of Brazil, or even Rio de Janeiro? There are not a dozen American, British or German manufacturers who maintain their own branches with stocks in all Brazil, and less in Chile or Peru. Moreover, while in certain trades one or two manufacturers have their own foreign branches, their competitors also do a large export business. For instance, one American typewriter company has its own retail branch in Buenos Aires. Other American typewriters are equally as well-known in the Argentine market, although their distribution is done by local dealers. A famous sewing machine company has its own retail branches not only in Buenos Aires, but, seemingly, in every town of even slight importance throughout Latin America. Yet, other American sewing machine companies do a large business in the same markets.

Coöperative foreign selling agencies in non-competing lines are by no means a new thing in export, although comparatively rare. Five large hardware manufacturers in Philadelphia have such an organization. Some twenty manufacturers of printers' supplies, paper, etc., have one. That particular line is one which seemingly offers an especially good field for such a plan. There can be, of course, no legal objections to such export combinations as that.

Nor can there be any economic objection, for in theory such organizations are sound. But in practice the difficulties of securing the right personnel, overcoming the opposition of local importers, and satisfying all the constituent manufacturers, some of whom are bound to feel that their share of the sales is less than their share of the expense, are so great as to make its general success not perhaps impossible, but certainly difficult.

On the other hand, there are numerous business houses all over the world which perform practically all the functions which such an organization could, at a minimum of cost and risk to the manufacturers. These houses are firmly established, and their experience, personnel, capital and intimate knowledge of local conditions, make them by far the best channel, in most cases, for local distribution of merchandise. The Clayton Act, as has been pointed out, exempts from its provisions, arrangements between manufacturers and agents or dealers as regards export trade, and that exemption was wisely made.

COMMERCIAL ISOLATION VERSUS INTERNATIONAL TRADE

BY MORITZ J. BONN,

Professor of Political Economy, University of Munich, Germany.

The future trade of the United States and of the world at large will not depend so much on the changes between the different nations brought about by the war, as upon the principle of trade organization which will be adopted at its close.

For more than a century the world has discarded the principle of self-sufficiency which was the trade ideal of days gone by and moved deliberately to a state of international interdependency, though the danger of war was never absent from the minds of European nations. They and their foreign customers had become dependent on each other not only for luxuries but for the necessities of life. Germany, for example, is dependent on foreign supplies for about 8 per cent of her grain foodstuffs; she is dependent for the proper working of her estates on the yearly immigration of foreign laborers; foreign countries are dependent on her for dye-stuffs, sugar, and to a certain degree for credit. The degree and the nature of international dependency vary in different countries. It is probably the smallest in the United States and greatest in England. It has been the basic principle of modern trade development.

Will that principle be affected by the experience of the war? I am not discussing the changes of a temporary nature brought about by re-arrangements between the belligerents and the neutrals and between the neutrals themselves. I am alluding to the permanent change in the principle of international trade. It seems to me that such a change is unavoidable if certain conditions are not fulfilled.

I. International trade evolved an international clearing house of which London was the seat. Though England's share of the world's trade is only about 18 per cent, she is by far the biggest importer of bulky goods and the greatest carrier between nations. A very great share of international obligations was cleared in Lon-

don by means of drafts on London. There always was a demand for those drafts, based on the firm belief that drafts on London, and drafts on London alone, were as good as gold. That belief has been shattered. London drafts were not as good as gold. In fact, England opened the list of countries proclaiming a moratorium; postponing of payment did not come to an end before the beginning of December. This fact has not found due attention in the United States, since at the date of the proclamation of the moratorium they were heavily indebted to England. The rest of the world has realized it well enough. As far as international payments are concerned, English credit has broken down completely. It cannot resume its former place, for the belief that England is safe from war cannot any longer be maintained. It is doubtful whether any other market can take England's place, which depended on neutrality and security in European wars and on the absence of unwise home legislation. If New York could take London's place, well and good, if not, a permanent serious damage to the international trade machinery will have been done.

The amount of capital invested by the leading countries in foreign lands has been considerable. England's foreign investments were valued at about \$14,000,000,000, France's investments at \$6,000,000,000, German investments at \$5,000,000,000. The indebtedness of the United States is calculated at \$6,000,000,000. It has always been assumed that those international credits formed a great asset to the creditor nations in time of war, inasmuch as sales would facilitate borrowing for war purposes. The closing of the neutral stock exchanges has greatly hampered the disposal of those securities. They could, of course, be loaned and thus yield something, but they have not proved the mainstay of war finance they were expected to be. The center for those international securities was London. The probable decline in international security dealing would affect London most severely, even if no other forces were at work.

As London was the great center of international trade and international finance many securities were dealt in London exclusively. Many of them belonged to foreign countries. Many foreigners, among them many citizens of the belligerent countries, invested money by means of the London stock exchange and deposited the securities in London. Falling back on an old law, which

forbids trading with the enemy, the British government took over all property belonging to private citizens of belligerent countries. Though it may be possible to pay an enemy for goods bought from him, it is forbidden to let him have the dividends on his stocks, the share of his business, the control of his securities. British statistics show that property to the value of \$425,000,000 is kept from its rightful owners by the action of that government. German patents in England were confiscated. In fact, all income rightfully due to private citizens was withheld. Russia and France quickly followed suit and after a few months' interval the German and Austrian government had to retaliate. It is but right to assume that those business men who have gone through the experience of seeing their income withheld from them and who are deprived of the control of their capital will avoid future investments of any sort in England or France. It is very doubtful whether another credit market having the same facilities, but giving them real security, can be found. Capital will be far more nationalized than before. International credit relations will have received a severe blow.

II. Up to now international theory assumed that private property was practically free from seizure, provided it was not used directly for the support of armies. It was assumed on all sides that there might be some difficulty in getting raw materials and provisions for the civil population in ships of the belligerents. But it was always maintained that neutrals would be free:

A. To send non-contraband goods to any of the belligerents without serious molestation;

B. To trade with other neutrals even if there was some assumption of the goods ultimately reaching the enemy.

This belief has been shattered. Early in the war many neutral countries bordering on Germany were dependent on importation from abroad for all sorts of supplies. They were not allowed to get them without promising to lay an embargo on exports to Germany. Thus the transit trade was interfered with. Later on the importation of food destined for the civil population of Germany was prohibited, even if carried in neutral ships. This development showed plainly enough that dependency on foreign supplies might endanger a nation in time of war. Not only could the supply of armies be prevented—everybody had always reckoned with that possibility—but a policy of starvation might be directed against the civil

population including women and children. Neutral states depending on importation themselves had no power of protesting as their supply might be injured. The only country which, as the supplier of all sorts of goods, foodstuffs as well as armaments, is indispensable to the Allies whose fleet prevent trade, the United States, has chosen to tolerate that practice, though it disapproves of its principle.

This fact will dominate the future of international trade, for the *effective* protest of neutral powers has always been considered the one security in time of war on which trade could rely. That security has failed.

It is not very likely that the policy of starvation tried against Germany will succeed. It is sufficient that it has been tried. It might succeed at other times and against other countries in other circumstances. No nation has the right to run a risk twice, after having escaped by the skin of its teeth, as it is not likely that wars will never occur in the future.

Two policies and two possibilities only exist with regard to the future of foreign trade:

1. The easiest way of preventing danger of starvation will be a return to the policy of self-sufficiency. Such a policy is only possible to big countries like Germany. Even she would have to pay a big price for it. She might achieve it by confederation with neighboring countries; for example a customs-union with Austria-Hungary, and by relying more and more on international trade by land via the Balkans and Asia Minor than by over-sea trade, subject to the control of foreign powers. It would not make her entirely independent of foreign supplies, but by combining a policy of self-sufficiency with one of government storehouses for cotton, coffee, etc., she might be fairly secure. Her chemical industries might discover new supplies; for example, at present the import of nitrate from Chile is entirely supplanted by artificial nitrate made in Germany. It would be a costly process to her, but it could be achieved, though the trade interests of other countries, amongst them the United States, would suffer greatly. There is no doubt that countries like Chile or Argentine could not look to the American market for the diminished exports in raw material. Their purchasing power would suffer, and like most suffering countries they would be obliged to take up a policy of seclusion and artificial indus-

trialization. The smaller European countries could not follow such a policy. They might be compelled by their economic interests to enter into commercial unions with bigger neighbors as they scarcely could afford to stand alone.

2. A policy of self-sufficiency cannot be adopted by England. Even if we include Ireland (and England's connection with Ireland depends on the control of the sea) she could not hope to find food and work for her people within her confines; she will have to rely on over-sea supplies. She will have to take them more and more from her possessions. She will have to change her system of free trade, as her fiscal system will be unable to bear the strain of war finance, and she will have to try to compensate her dependencies for continued support. But her connection with the dominions depends on the same control of the sea, as does the over-sea trade of other nations.

Her policy has always been to insure her over-sea supply by the overwhelming strength of her navy. Her navy has been the means of cutting off the supplies of other nations and of guaranteeing her own supply. As long as she is able to maintain that attitude, international trade cannot be free and nations depending on international trade are depending on England. If England ever went to war with Russia, a contingency by no means impossible, she might stop non-contraband trade at San Francisco and Seattle. She might try to stop Germany's supply of copper from the United States, for fear of its transportation to Russia. And there is only one remedy against that, it seems: the possession of a navy big enough to protect one's trading rights, those of the neutrals as well as those of belligerents. The big countries will have to face the question of which will be the better policy for them: an expensive navy and increasing international dependency; or a system of store-houses, a smaller navy and self-sufficiency. If they choose the latter, the small countries will be at England's mercy. If they choose the first, the small countries may profit by the fleets of their big neighbors. It seems to me that the future prospects of international trade are very dark, whatever be chosen, if the world goes on tolerating the claims of a single state to regulate international commerce according to her own insular wants. There can be no free international trade without the free sea. And if there is no such commerce, the permanent growth of the trade of the United

States will be quite as unsafe as that of other countries. Protests, experience has shown that plainly enough, are of no avail, even when issued by a neutral who could easily retaliate. The future of international trade mostly depends on the question of whether there is a hope of inducing England to change her attitude. Such a hope exists as soon as England will realize that she cannot maintain the supremacy of the sea, which alone safeguards her against starvation at the present time. As long as that supremacy depended on expensive battleships, her freedom from military burdens gave her a great financial advantage. If it could be shown that the submarine, which is comparatively cheap, can stop trade as effectively as battleships, that advantage has gone. Moreover, experience has shown that England's superiority at sea is much smaller than was ever believed, even when she is allied to three powerful nations. That alliance will not be permanent.

Lastly, England is bound morally as well as by her interests to drive Germany from Belgium. It might be a cheap price for her to accept the principle of the free sea in theory and practice, which she alone of all nations objects to. It might be the only method of getting her way.

The support of the neutrals, whose interests she has greatly violated, might make such policy more acceptable to her. If the principle of the free sea is acknowledged and safe-guarded with efficient safe-guards, there will be a great and beneficent development of international trade. If not, the world—and America with the rest of the nations—will have to choose between commercial isolation or interdependence defended by costly armaments.

THE RELATIONS OF CENTRAL AND SOUTH AMERICA
WITH THE UNITED STATES AS AFFECTED BY
THE EUROPEAN WAR

By LUIS F. COREA,

Former Minister of Nicaragua to the United States.

The relations of Central and South America with the United States may be reduced, for the purpose of our discussion, into: political relations, commercial relations and intellectual relations.

Political Relations

The political relations of the United States with the countries of Central and South America have undoubtedly been modified by reason of the European war. This appears from the expression of opinions formed by the people of Latin America, with relation to the civilized countries of Europe, now at war, which only yesterday were criticising the political turmoils of some of the countries of this hemisphere and clamoring in the name of civilization and humanity for the intervention of some of the stronger republics in the affairs of their weaker sisters. It suffices to say that the spirit of solidarity and good will among the Latin American nations is markedly stronger and a growing intimacy between these countries and the United States is now apparent.

Meanwhile, everything seems to tend to the formation of a more complete union for the defense of the common interest of the nations of this continent. We may say confidently that if tomorrow the United States were to be involved in a foreign conflict, the United States would not be alone for its Latin American sisters would, in my opinion, demonstrate that the territory of this continent cannot be attacked with impunity, and would manifest in no uncertain fashion *their* interpretation of the Monroe Doctrine,—"America, the continent, for the Americans of the continent." Nevertheless, it must ever be borne in mind that in order to foster the growing confidence of the Latin American republics, it is necessary that this great nation should take no backward step, but

should increasingly put in practice the theories and principles so ably advocated by its leading statesmen.

Commercial Relations

The commercial relations between the United States and the countries of Latin America have been affected both favorably and unfavorably by the European war. The German trade, which was one of the main sources of supply for Latin America and one of the best markets for the products of those countries, has been practically paralyzed. The manufacturing and financial powers of England and France have been considerably decreased. In view of these circumstances, the opportunity has been presented to the United States to supply to Central and South America, at least, part of the products which these markets imported from Europe before the war. The result will be that the Latin American consumers will accustom themselves to the products of the United States, and will finally adopt them for their needs in the future. So also, the products of Latin America will be imported in greater quantities than heretofore by the United States and reciprocal trade relations established, that cannot help but result to mutual advantage. To this extent, therefore, it may be said that the commercial relations have been favorably affected. But they have also been unfavorably influenced,—first, due to the fact that this country does not possess a merchant marine, and, since the foreign vessels which at present ply between this country and other parts of the American continent are so scarce, the freight rates have materially increased. Moreover, the American manufacturer, accustomed to sell his goods on a cash basis, or at short terms, finds it difficult or impossible under the unfavorable conditions now existing to grant the liberal terms of credit which the Latin American merchants have formerly received from European countries. And finally, the absence of adequate banking connections between the United States and the Latin American republics has resulted in difficulties which the recent efforts of an important United States banking institution have thus far been able only slightly to ameliorate.

For the purpose of overcoming the unfavorable conditions existing today, numerous remedies have been and are yet being offered by authorities on the subject. Therefore, I shall only refer

to a question which, although very important, I have not heard discussed so far, and that is the influence exerted in the commercial relations by the acts of the government in its intercourse with the countries of Latin America.

In this regard it may be said that the commercial and manufacturing organizations of this country, which attend with such scrupulous care to all things that might affect their interests, have not endeavored to discover to what extent the policy of the government of this nation with relation to the Latin American countries influences the development of the commercial intercourse between the United States and those countries. In fact, they have not thought, apparently, that a lofty and far-seeing policy such as that of Secretary Blaine, that a policy of cordiality and coöperation such as that of Secretary Hay, and that a policy of mutual understanding and political harmony such as that of Secretary Root, are the solid foundations on which the commercial relations with those countries must be based to be successful. Contrariwise, it would appear that they have not considered that the policy of "Dollar Diplomacy" or an attitude so vague and shifting as not to be recognized, as a policy of any kind, can only result in distrust and resentment among the people of the southern countries, and create conditions which can only be prejudicial to the formation and development of trade relations.

Therefore, I venture to propose that the chambers of commerce and the manufacturing associations, wishing to develop their trade with the markets of Central and South America, appoint committees composed of men well versed in the laws, and thoroughly familiar with the customs, tastes, tendencies and ideals of those countries, so that they may study the problems which frequently arise in connection with the foreign policies of successive administrations in this country and direct attention towards anything which might in any way affect unfavorably the trade intercourse and development between this nation and its sisters to the South. All the endeavors of these committees will tend to aid the government, and when their activities are published in due course, the people of Latin America will realize that this nation, that the people of the United States as a whole, and specifically the group of manufacturers or merchants with whom they deal, are not responsible for any reprehensible policy of a particular administration, but that the

responsibility lies with some unfaithful public servant incapable of understanding his duties, or with a political group which misrepresents the sentiments of the people of this great nation.

Intellectual Relations

In regard to the intellectual relations we may say that these are seemingly the ones which have been affected the least. There is noticeable, notwithstanding, a strong tendency toward the development of such relations. The merchants and manufacturers of this country are studying with genuine enthusiasm everything concerning Central and South America, and, on the other hand, the men of these countries are showing greater interest and a more thorough appreciation of all things relating to the United States. This condition of affairs will certainly result in a more rapid and positive development of intellectual intercourse, which is an indispensable factor if we would have more profitable and lasting commercial and political relationship.

It has been thus understood by some learned Americans, real leaders of thought, who have been laboring for many years with tenacity, conveying to Latin America the manifestations of the wonderful progress of this country in literature, art, etc., and bringing in turn from there to be spread in due course in this land all their observations concerning the intellectual and material advancement of the Latin American republics and the richness of their natural resources. Among the most distinguished leaders who have undertaken this worthy task is our own Dr. Rowe, whose name we are proud to mention as well as those of Professors Shepherd, Bingham and Moses, who, like Dr. Rowe, have largely been instrumental in the initiation of intellectual intercourse between this country and the Latin American states. Results not less important have been accomplished in this direction by the continuous efforts and the propaganda carried on at all times by the most popular of the directors of the Pan American Union, Mr. Barrett. All these gentlemen may well feel satisfied with their labors which have been suitably recognized by universities and governments in Latin America. They may be truly called American citizens in the sense of being citizens of the whole American continent.

Here I cannot refrain from calling attention to Harvard University for taking the first step in the right direction with a view to

closer intellectual intercourse with Latin America, by inviting the well known diplomat and writer, Senor Oliveira Lima, to give lectures concerning the history and literature of those countries. Let us hope that other universities here will follow the example set by Harvard and that there may be other public spirited men willing and able to continue the work so admirably commenced by Messrs. Rowe, Shepherd, Bingham and Moses.

Summarizing them, we may say that up to the present moment, the European war has resulted in a very considerable advantage to the United States in its relations with Central and South America and that undoubtedly such advantage will continue on an ever increasing scale providing this country shall properly direct its energies:

1. In actually practicing the broad minded theories and noble principles which have from time to time been expounded by the representatives of this government in their discussion of Latin American affairs;
2. In the creation of a merchant marine;
3. In procuring an adequate increase of banking facilities and arranging for more liberal credits in commercial transactions;
4. In sending competent representatives for the detailed study of the people of those countries and their resources; and
5. In arranging, wherever it may be practical, for the interchange of professors in the universities and the study of at least the Spanish language in these universities and schools.

If the course indicated should be followed during the next ten or fifteen years, in no part of the world will there be witnessed a greater commercial development and a more intimate political, and intellectual relationship than will exist between the United States and the republics of Central and South America.

WHAT CAN THE UNITED STATES AND LATIN AMERICA DO FOR EACH OTHER?

BY CHARLES M. MUCHNIC,

Vice President, American Locomotive Sales Corporation.

Trade between two or more countries can be successfully established and maintained only when such trade is based upon a more or less equal exchange of their products. Political consideration or sentiment alone never has and never will create to any appreciable extent trade between foreign countries.

The people of the United States have always shown a great deal of interest in the political development of the South and Central American Republics. The pronouncement of the Monroe Doctrine nearly a century ago is without doubt the most convincing proof of the bond of political solidarity that has existed and still exists between the republics in the North and South American continents.

It is true that the ABC powers and some of their neighbors have long since reached the stage of maturity when they can hold their own against European aggression, and many South American statesmen have resented in recent years any reference to the present recognition of the Monroe Doctrine, demanding its official withdrawal, and yet the events of the last year or two have demonstrated its potentiality for the prevention of foreign aggression upon Latin America with the same effectiveness that it has exercised from the date of its declaration.

If we had displayed the same interest and helpfulness towards the economic development of the countries south of us as in their political independence, the subject under discussion today would have been of a different character. Latin American trade has been a very popular subject of late; much has been written about it and it has been widely discussed, and I believe no other section of our foreign trade arouses to any greater extent the imagination and interest of our manufacturers and merchants than that with our southern republics. Sporadic efforts, in times of extreme industrial depression, such as we are enjoying at present, are made that usually

meet with disappointment and when good times come along the South American markets are forgotten. If we are to secure a permanent foothold in South America we must first thoroughly understand all the phases surrounding foreign and international commerce and then organize all the component forces essential for the successful inauguration and development of our trade with the countries south of us. The manufacturer alone, without the assistance of our bankers and investing institutions, cannot, in spite of Herculean efforts, make much headway in Latin America.

It is generally assumed that the South American markets are open markets. As a matter of fact they are not, and it is the first disillusion with which the pioneer meets on his South American trip. There are, to be sure, no tariffs discriminating against the American manufacturer as compared with his European rival, but he finds that the markets are entirely closed to him by arrangements and orders issued from London, Berlin and Paris over which the South American governments have no control. If the pioneer is a merchant and not a manufacturer, he finds that the large wholesale commission houses and distributors are in the hands of Europeans, with their banks always ready to discount their bills and to offer them every facility possible through the local branches of the home banking institutions.

In the matter of exchange and shipping facilities our pioneer finds that he is equally at a disadvantage as compared with the European rivals on account of the more equitable interchange of traffic of commodities, existing under normal conditions, between South American countries and Europe. We must grasp and understand the full significance of these facts if we are to occupy an equal position with the European countries in our trade with South America.

Credits and Investments

South American business has been built up and developed on the basis of long credits. These are extended to purchasers by local commission houses, usually of European origin, and for the accommodation of which the South American purchasers pay 10 per cent, 20 per cent and, in many instances, a much greater interest. The American manufacturer who would welcome an opportunity to do business direct with the South American purchaser can-

not grant unlimited credits, both as to time and amount; nor does he find it desirable, for obvious reasons, to deal through European commission houses; and he can turn to no bank of his own country that would be willing to discount his bills or advise him as to the credit of the purchaser. This handicap will, however, be partially remedied when the branches of the National City Bank, recently established in Rio and Buenos Aires, are fully organized and have acquired a thorough knowledge of the local business conditions. Some manufacturers, not a few, who have for years past extended large credits on open account to South American purchasers, have found it extremely vexatious and difficult to collect what was due them.

Last September the secretary of state called together for an informal conference South American diplomats for the discussion of the very same subject we have today under consideration. In his address he asked the diplomatic representatives from South America to state freely what in their opinion could be done to alleviate the commercial and financial disorganization between this country and South America brought about by the European war. Practically all of our South American friends who participated in the discussion referred to the fact that the greatest drawback for the extension of our trade with Latin America was, in their opinion, the unwillingness on the part of American manufacturers to extend credits customarily obtained from Europe and that we always insisted upon cash payments against shipping documents in New York or other ports of shipment. I was privileged to participate in this discussion and took occasion to state to those present that large credits have in recent years been granted by American manufacturers to South American purchasers but on account of the laxity of the latter in meeting their obligations at maturity greater caution was now being exercised in granting such accommodation. I desire to repeat what I said then, that the official representatives of the South American republics in the United States could render great assistance towards the future promotion of our trade with their countries by impressing forcibly upon their own governments and their peoples the desirability of meeting their debts on the dates promised. I am not referring to delays in meeting obligations due to the moratoria declared in many countries since the beginning of the war. I am referring to cases of my own experience and those

of my friends long before the war which were with individual merchants as well as with government purchasers. If the South American purchaser, whether government or private, would establish the reputation in the United States for promptly meeting his obligations, reasonably long credits would be granted to him freely.

The railways, mines, municipal and public utilities in South America are financed almost entirely by European capital and the bankers in furnishing the funds have invariably stipulated as a condition to the loans, and where it was not implicitly stated it was clearly understood, that the materials to be purchased by the proceeds of the loans as well as the nationality of the management, engineers, etc., should come from or be of the country which furnished the capital. As a result of this, fully 90 per cent of the railways in the Argentine comprising some 20,000 miles of railways are managed entirely by European engineers and all the railway materials and general supplies are purchased from Great Britain, Belgium, France and Germany, depending on the nationality of the management, and in which American manufacturers are not allowed to compete except in emergencies. In cases where the law stipulates that materials are to be purchased in open competition the specifications are drawn up in such a way by the European consulting engineers that American manufacturers are not in a position to compete on an equal basis with their European rivals.

In the few instances of state ownership of railways or public utilities which are not under the direct domination of European financial or industrial groups, American manufacturers are permitted to bid on apparently equal terms with European competitors but the specifications and standards adopted are necessarily similar to those adopted by the European engineers or similar private enterprises, thereby placing us in this instance also at a disadvantage with our European rivals.

There is closer coöperation between European bankers and the leading industries of Europe than there is in the United States and on account of this financial influence and coöperation, South American companies frequently pay more for materials purchased in the country which furnishes the capital than could be obtained in this country. We have no such coöperation in the United States and of the very few American companies interested in South American industrial development some have purchased materials

in Europe if they could obtain however slight an advantage either in price or terms of payment. For instance, an American copper company operating in Chile last year placed in Germany a contract for electrical equipment amounting to some \$3,000,000 because the German manufacturers underbid American manufacturers. You cannot find a single example of a German operating company in any foreign country or in a colony placing a contract in the United States for materials irrespective of the fact whether the American manufacturer bid lower than the German or not.

If we are to remedy this condition we must insist upon our bankers taking a more active part in the development of South American railways and similar enterprises and to have such railways operated by Americans who would be able to do for the American manufacturer what the British and German railway managers have done for British and German industry. The embargo placed by Great Britain on its capital going into South America will offer an opportunity to American bankers to supply the necessary funds for the development of the rich territory south of us. The opportunity is an excellent one and the question is, will the American banker take full advantage of it?

Representation in South America

We must have better representation in South America than we have had in the past. We cannot rely upon commission houses whether of European or American origin to introduce effectively our manufactured products in the countries south of us. Our representatives must be specialists in their business, thoroughly conversant with the product they have to offer and familiar with the language and conditions of the country to which they are accredited. They must be salaried and not commission men. Such representation can only be developed at great cost and considerable time. Very few manufacturers are large enough to be capable of maintaining independently such representation and for this reason the National Foreign Trade Council, at its meeting in Washington last May, urged upon Congress to exempt combinations of American manufacturers for foreign trade from the jurisdiction of the Sherman Law and passed the following resolution, copies of which were sent to the President and Members of both Houses of Congress:

Coöperation for the Development of Foreign Trade

WHEREAS, Throughout the markets of the world combinations of our competitors are encouraged by their governments; and

WHEREAS, In consequence, American exporters are confronted by combinations of foreign rivals equipped to resist American competition and are often obliged to sell to combinations of foreign buyers; and

WHEREAS, Our anti-trust laws, though powerless to forbid foreign combinations against us, nevertheless, purport to regulate foreign commerce and apparently forbid American exporters to coöperate in the development of our foreign trade; now, therefore, be it

Resolved, by the National Foreign Trade Convention, a non-political, non-partisan gathering, representing in the aggregate millions of Americans, both employers and workmen, throughout the United States, whose welfare depends upon the successful competition of American exporters abroad,

That we urge Congress to take such action as will facilitate the development of American export trade by removing such disadvantages as may be now imposed by our anti-trust laws, to the end that American exporters, while selling the products of American workmen and American enterprise abroad, and in competition with other nations, in the markets of the world, may be free to utilize all the advantages of coöperative action in coping with combinations of foreign rivals, united to resist American competition, and combinations of foreign buyers equipped to depress the prices of American goods.

Since the European war has begun, examples have come to my personal attention of a ruthless competition between American manufacturers for European war contracts that were far more criminal in their character and manifestly unfair both to the stockholders of such companies and the laboring men engaged in the execution of such contracts than the most iniquitous combination of American manufacturers for export trade that could possibly be devised.

The government has recently sent commercial attachés to various parts of South America, who I am sure will be very helpful in acquainting both the government and manufacturers with the business conditions and needs of the countries south of us. But manufacturers desiring to extend their export trade should not count too much upon the government representatives blazing the way for new channels of trade.

Shipping Facilities between North and South America

The after-dinner speakers and political spellbinders of all parties have told us time and again that the non-existence of an American merchant marine for foreign trade is due to the fact that we have no subsidy for steamers engaged in foreign trade in one

form or another. They fortify themselves with the argument that just so much as our industries required protection for their development so an American merchant marine can only be built up and developed through a heavy subsidy. Almost in the same breath they tell us that up to the time of the Civil War 98 per cent of the entire foreign commerce of the United States was carried to every part of the world in American bottoms and in addition a great deal of the commerce of European and South American nations. It is not, therefore, a question of developing an infant industry through protection because the American merchant marine during the first half of the nineteenth century flourished, prospered and maintained its preëminent position without governmental assistance. There must, therefore, be other causes for the disappearance of the American flag from the high seas. Let us examine some of these causes.

It is my belief that the gradual replacement of American ships engaged in foreign commerce by British ships since the Civil War is due very largely to the introduction of the iron steamboat. The manufacture of iron in those days reached a comparatively high state of development in England while it was in its infancy in this country. It was, therefore, possible for British steamship owners to purchase ships in Great Britain made of iron of much larger capacity than the wooden ships built in the United States and which could, therefore, be operated much more economically and which gradually replaced the old American wooden clipper.

If the various administrations since that time had looked at the subject from a common sense business point of view they would have permitted the free importation of iron ships into the United States and to American registry irrespective as to where the steamer was built. Had this been done we would today have had a much larger American merchant marine engaged in foreign commerce.

Our navigation laws were devised, wisely or not, to suit our coastwise and internal traffic and were applied with equal force to the steamers engaged in foreign trade. The conditions imposed upon the American ship-owner are much more exacting and costly than those imposed on British or other European maritime countries. Under these laws the cost of American ships under the American flag engaged in foreign commerce, is variously estimated between 10 per cent and 50 per cent more than operating the same steamer

in the same service under any other flag than our own, and has resulted in driving the American flag from international trade routes.

Allusion is frequently made to the fact that we do not have as frequent sailings and as many steamship lines plying between the United States and South America as compared with South American and European countries, and we are told that this is due to the fact that European companies and their governments control the steamship lines and dictate to them as to the amount and character of cargo to be taken to and from the United States and South America and the routes to follow. I defy anyone to substantiate this argument by fact in normal times.

The reason why our sailings are not as frequent between the ports of South and North America is because of a lack, up to recently, of an equal interchange of cargo. No steamer can operate successfully between two given ports if the flow of traffic is only one way. The reason for the numerous routes and large number of steamers plying between South American and European ports is the fact that Europe takes the raw and semi-manufactured products of the South American countries and ships in return the manufactured products. There is in existence, therefore, an equitable interchange or balance of traffic.

We have until recently been in competition with the Argentine and Brazil in the exportation of the products of the soil and mines to Europe and, therefore, when an American manufacturer had to send his manufactured products to South America he had to pay not only the freight from here to its destination but also the cost of the return passage of the steamer practically in ballast. The enactment of the recent tariff law will to a large extent help us when normal conditions are again reinstated, in overcoming this serious drawback and result in the reduction of freight rates to South American countries. The removal of the duty on hides, wool, lumber, iron, meat and grain, will stimulate in the course of time their importation from South America into this country to such an extent that the American manufacturer will experience no difficulty in finding steamship accommodations at reasonable rates. There will be tonnage waiting in the principal ports of the United States to take his manufactured products to South America; it would be much more desirable that this increased traffic which is bound to

come be carried in ships flying the Stars and Stripes, but failing such, the merchandise will be carried by steamers of foreign flags.

The Republican party has always (if I am not mistaken) advocated a subsidy for an American merchant marine but never succeeded in carrying out this preëlection promise made by every successive administration. The Democratic party has always opposed a subsidy of whatever character and now out of a clear sky it comes forth with a proposition of government ownership of vessels which it admits would operate at a loss and which represents a ship subsidy in its most offensive form.

I need not tell you after what I have just stated that I do not believe in subsidies and certainly not in government owned steamship lines. What I would like to see would be an administration which would have the courage of its convictions, the daring and audacity to emancipate American shippers from the antiquated navigation laws which, more than any other factor, are responsible for the reduction of the American merchant marine engaged in foreign commerce to the present absurd proportion. The navigation laws, which have been in force for more than a century with amendment upon amendment tacked on to them to a point where they represent so intricate a document that it is impossible for the average person to comprehend it, should be replaced by a new set of navigation laws that would place the American ship-owner engaged in foreign trade on an equal basis with that of his European competitor. Our laws should permit bonafide purchases by American citizens or American controlled steamship companies of steamers wherever built and admit them to American registry. Not until such reforms have been enacted into law can a subsidy or government ownership help develop an American merchant marine so essential to the development of our commerce with South America.

Our general commerce with South America at the present time is languishing, not because of any lack of steamship facilities, but because of the economic setback all South American countries have received just prior to and since the beginning of the European war. I believe our prospects for the increase of trade with the countries south of us are very bright. At the close of the war the European countries will for some years to come be busily engaged in the rehabilitation of their own industries and the repairing of the

damage that has been done and unfortunately will still be done so long as this conflict lasts. It will devolve, therefore, upon the United States to supply the large demand for manufactured products which will come from all South American countries as soon as their economic conditions have been reëstablished to a normal basis and their purchasing power has increased above what it is at the present time. Our opportunity, therefore, is at hand for the laying of firm foundations for the acquisition of a just share of the trade that will be within our reach at an early date.

TRANSPORTATION FACILITIES NEEDED FOR LATIN AMERICAN TRADE

BY WELDING RING,
New York.

Our trade with South America has been carried largely by England, Germany, France and Italy. This trade has been controlled so largely by the fact that Europe has done the financing, that it has been extremely difficult to divert any large portion of it to this country. Our merchants, accustomed to do business on a cash basis, have not felt inclined to meet the financial facilities offered particularly by England and Germany.

The war, however, must of necessity change these conditions very materially, for the expenditures of capital in carrying it on will involve large debts for all European countries and there will not be the same overflow of capital to invest in foreign ventures and business. They will have their own conditions to overcome after the war ceases and it will, at least for a considerable period, require all their resources to finance home enterprises.

When war was declared last August, statements were spread broadcast that this was the "golden opportunity" for the United States to acquire the bulk of trade with our southern friends. Coupled with this was the statement that all we were required to do would be to have the goods to furnish at fairly reasonable prices, and then give ample terms of credit, such as they had been accustomed to when purchasing from Europe. The goods we have in abundance, and of the best, and the facilities for shipping them; but to extend large credit for long periods has not yet appealed to our bankers and merchants. It will require a fairly long period of education, before such methods of financing will be acceptable to those doing business in this country with the southern people. It is a vital question that will have to be determined very largely by our bankers, who will decide whether they are inclined to supply large capital for various industries, and also extend credits to merchants, farmers and dealers who, having always had financial facil-

ities from Europe, cannot change their methods hastily and provide cash or short term credits.

Placing the matter of finance as the first fundamental necessary for southern trade, we would follow it with this second fundamental: our manufacturers and suppliers must furnish what is required and has been used heretofore for any trade with those countries. This condition, no doubt, the people of the United States are prepared to meet.

The third fundamental naturally would be transportation, which enters so largely into all foreign trade, and either assists or retards its development. A wrong impression has been spread throughout the United States, that we do not have sufficient communication with all the various countries throughout South America and Central America. To those in the shipping trade, it is hardly necessary to state that since the war commenced there has scarcely been a period when there was not ample tonnage loading for all the requirements of shippers. A complaint recently was received from Montevideo, that but few opportunities were offered for transport of our merchandise to that city, and the state of Uruguay. This complaint came from a reliable source, but on investigation carefully made it was learned that during the period complained of sixteen steamers were dispatched for South American ports, of which eight called at Montevideo. This would seem to be an ample tonnage to supply the regular requirements for that market. It was also learned that quite a number of these steamers went out with only part cargo even after unusual delays on the loading berth. There were a number of causes contributing to this falling off in shipments, the principal of which was the impossibility of securing further money or credits from Europe, and consequently southern merchants were unable to place their orders on such a basis with manufacturers and commission merchants in the United States that they would be willing to accept them. Other causes were a severe drought in the Argentine, causing a large falling off in their usual exports of grain and meat, and the very low prices ruling for coffee and rubber in Brazil. It was a combination of circumstances, probably never before felt and, it is to be hoped, never to be repeated. As a result, cessation of business to a very large degree took place, and trade has not yet resumed its full normal volume.

To the west coast of South America, there has been a corres-

ponding excess of tonnage, and some of the steamers regularly in the trade have had to be withdrawn and diverted to other business. This is owing largely to the decrease in orders coming forward for shipments from here, and the very greatly reduced volume of nitrates, which constitute the largest portion of exports from the west coast states.

In Central America, business has not been so seriously interrupted, and there has been constant communication with the various ports, and the usual volume of trade has remained almost normal. It is pleasing to know that, during the past two months, there has been a decided change for the better, very largely as a matter of sentiment and opinion, but also in the actual volume of business, so that orders and fairly large orders are coming forward with more frequency. To keep up with this trade, the different lines operating from the United States to southern ports are ready and willing to supply all the tonnage required. So far they have kept loading rather an excess beyond requirements. As to freight rates, while these have been advanced somewhat, yet in view of the very general advance throughout the world, there can be no cause for a fair complaint against the lines operating to the South. Contracts have been carried out with a good degree of regularity and, as a rule, lived up to even at large cost to those engaged in the trade. The outlook at present is encouraging, for a large increase in trade, particularly in staples and also in miscellaneous articles heretofore furnished by European countries and hereafter to be supplied by the United States.

In connection with freighting matters, it is very greatly to be regretted that while ample facilities are opening to shippers and on a fairly reasonable basis, yet nearly all of the tonnage engaged in this trade is under foreign flags, and the United States only carries a small percentage of it. The old idea that "Trade follows the flag" is obsolete and does not cover modern conditions. It is the goods and the price and the ability of the salesman that secure the orders. It is, however, humiliating to think that the United States, probably the most advanced country in the world in the manufacture and value of its articles, must depend upon foreign tonnage to carry its products throughout the world. When the change will come is extremely difficult to predict, but it is certain that but little progress will be made in building up a merchant marine under

the "Stars and Stripes" until we get more intelligent and broader legislation at Washington than has been served to us during recent years. Very many plans have been suggested, numerous bills have been introduced in Congress, and debates have been long and arduous, but without any, or at least very little, result and benefit. The nearest approach to anything beneficial was the act passed last August by Congress, which for a brief period permits the purchase of foreign built vessels and their transfer to the United States flag, and their operations also for a limited period, without many of the existing drawbacks of our navigation laws. Under this act, up to the present time, 137 steamers have been transferred from foreign to the United States flag. Unfortunately, just as Congress closed, it passed a bill generally known as the "Seamen's Bill," which contained numerous conditions that add to the already too heavily burdened American shipping. The effect of this bill was almost immediately felt. Since it was passed only three steamers have been purchased as against 134 steamers previously. It is not necessary to enter upon the various clauses of this bill that make it so unsatisfactory and burdensome to ship-owners, for they are generally known, particularly to those in the shipping trade. It has caused a hesitation, in fact almost a cessation of the desire to invest capital in tonnage for the foreign trade. For if capital is to be subjected to all the conditions of this bill, as well as to others of our navigation laws, the handicap of very greatly increased expenses, as compared with English and German shipping, will deter investments in American steamers. How this difficulty is to be overcome is a problem very difficult to solve, but it is certain to be one that must come to the front very largely in the immediate future.

If the building and owning of American steamships can be placed on a basis at all comparable with that of England, which is next highest in its cost of construction, then there can be no doubt about ample capital being supplied by American investors, and we shall again become a ship owning nation. The one great difficulty to overcome will be the question of labor, which enters so very largely, first into the constructions of a steamer, and said to be fully 80 per cent of its cost, and then in the operation of a steamer in competition with those of other nations. How this handicap of higher cost in construction and operation is to be overcome, is what will have to be determined by our business men and legislators.

In the development of a larger trade with South and Central America, we cannot in the near future count upon American tonnage being of very great service as there will be so little of it. But it is hoped that gradually the "Stars and Stripes" will be seen in all our southern ports, and that both freight and passenger steamers, or a combination of both, will do a fair share of the transportation that will be required in the future. The genius of the people of the United States has never yet failed when the necessity or exigency arises and there is every reason to believe that it will meet the question of buying or building steamers and operating them under the United States flag. Let us hope that these days are not in the distant future, and that we may advance as rapidly on the sea as we do upon the land.

THE EFFECT OF IDLE PLANT ON COSTS AND PROFITS

BY H. L. GANTT,

New York City.

The theory which has been so long and tenaciously held by cost accountants, that all the expenses of operating a factory must be included in the cost of the output produced, has the effect of showing low costs when the factory is running at its full or normal capacity, and of showing high costs when the output is small. The small output is due usually to diminution in demand, which can, as a rule, be stimulated only by reduction in selling price, which the selling department invariably recognizes.

Under this theory of cost-keeping, the selling department and the cost department are, during times of depression, continually at odds, with the result that the selling department is often prohibited from selling goods because the cost department states that there is no profit in such goods; and more than one manufacturing industry has suffered severely from this policy. The fallacy involved in this method of cost-keeping is so subtle that for a long time it was not recognized that there was a fallacy, although the hard common sense of many manufacturers realized that there was something wrong about their cost accounting methods and oftentimes ignored the results obtained by them.

During the last few years many leading manufacturers and accountants have recognized the existence of the fallacy, and some have actually pointed out what the fallacy is. The financier justly claims that if the plant is to be prosperous the output must be sold at a sufficient price to pay for the operation of the plant and to leave a reasonable profit. In order to do this the selling price when the product is small must naturally be greater per unit of product than if the product were larger, but in such times it is usually impossible to get a larger unit selling price.

A few years ago many financiers and industrial leaders thought they had solved the problem when they had adopted a fixed selling price, which they maintained during times of prosperity and times of depression. An illustration of this is the price of steel rails

fixed by the United States Steel Corporation, but the slow business recovery from the depression of 1907 and 1908 does not indicate that this policy has been entirely successful. When a plant is operating at less than its full capacity, it is quite evident that the expense of maintaining a certain portion of that plant in idleness must be borne somehow. The old theory that it must be borne as a part of the cost of the articles produced is rapidly giving way to the theory that it is a business expense and not chargeable to the articles produced.

Under this theory of expense distribution a plant which was running at only a small fraction of its capacity might make a good profit on the articles it produced and yet lose money, because of the necessity of deducting from the profits the expense of maintaining a large unused plant and the permanent organization needed to operate it. Another way of expressing the newer idea is that the output of a plant should be charged with only that expense needed to produce it, and that all other expense must be carried as a business expense and put in the profit and loss column. Under this theory it is readily seen that costs will remain constant whether the plant is operating as a whole or only in part unless there is a change in price of material, rate of wages, or method of manufacture; and the salesman will have a definite cost on which to base his selling price.

Idle plant is just as much a source of expense under the new theory as under the old, but under the new it is charged to the business, whereas under the old it is charged into the cost of the product. It is easily seen that a manufacturing concern which bases its policy on the newer theory will very soon get the better of those rivals, which adhere to the old method of cost accounting.

The above discussion leads directly to the consideration of another very important subject, namely, is it ever profitable to manufacture at a loss? This sounds like a flat contradiction, but it is really a subject of great importance. For instance, let us assume that it would cost us \$100,000 per year to maintain our plant in idleness but in condition to run, and to maintain the skeleton organization of officers needed to put the plant in operation again. Would it not be better for us to operate that plant during the year and maintain our whole organization, if the loss incurred thereby would not exceed \$100,000? If at the end of the year,

business should be offered two plants, one of which had followed the first policy, and the other had followed the second policy, the one which had followed the second policy would certainly be in far better position to take advantage of new business than the other, for it would not only be spared the expense of hiring and training a new set of operatives, which is always very great, but it would be in a position to execute the orders promptly. It is clear that, although each plant had actually lost the same amount of money during the year, the one that had its organization intact and ready to fill orders would be ahead of the other from a financial standpoint by the cost of hiring and training operatives, and from a business standpoint of being ready to fill orders promptly.

It would therefore seem that to shut a plant down, from whatever cause, is a very risky proceeding unless it is not intended to open up again. Mr. Carnegie recognized this fact and his action in accordance with it was one of the most potent factors in enabling him to get the better of his competitors.

At the meeting of the American Society of Mechanical Engineers at Buffalo on June 25, 1915, one of those who discussed my paper on "The Relation between Production and Cost" made the statement that it was the duty of an industry to take care, during times of depression, of those who had served that industry in times of prosperity. It is not my intention to emphasize the morality of this subject, but I believe it is possible to demonstrate that a proper industrial policy will show that it is to the advantage of a manufacturer to do as far as possible just what has been contended.

It is an economic principle that the consumption of articles increases rapidly with the reduction in cost to the consumer. If, therefore, during times of depression manufacturing companies will recognize that they cannot expect to make profits when nobody else is making profits, and are willing to accept their portion of the loss which is incident to the depression, by selling at a lower price, they can many times give their employees constant employment, and at the end of the period of depression find themselves in good condition to take advantage of returning prosperity and make up the losses incurred, while their more conservative competitors, who shut down their plants, are preparing to manufacture. Moreover, such a policy as this would, during times of depression, continue the production of wealth on a much larger scale than has heretofore been

customary, and even though the wealth thus produced would not accumulate in the hands of those who are accustomed to receive it, it would nevertheless be an asset to the country and make possible the more rapid return of prosperity.

The policy of holding up selling prices to a point at which few can afford to buy is, the writer believes, not only detrimental to the country at large but in the long run to the individual concerns doing it. It is a form of protection designed to offset or counteract the natural law of the survival of the fittest, and whether applied to individuals, industries or nations this law is inexorable, and any economic or financial policy founded on the theory that it can be done away with must ultimately fail.

The conclusion, therefore, from the above is that continued employment and hence the continued production of wealth is more important to the country at large, and hence to individuals in that country, than large profits which necessarily go to a comparatively small number.

THE EFFECT OF UNEMPLOYMENT ON THE WAGE SCALE

BY MARY VAN KLEECK,

The Committee on Women's Work of the Russell Sage Foundation,
New York City.

The subject suggests a combination of the obvious and the unknown. In modern industry, the man out of work is also out of wages. The effect of unemployment on individual income is clear. But the mass effect of recurrent irregularities in the size of the force, the frequent hiring and firing of individual workers, lock-outs and strikes, seasonal fluctuations in demand for labor, weeks or even months when men and machines ready for work are given no work, is unknown and, at present, indeterminate. Unemployment is so characteristic of the present industrial order that a discussion of its effect on wage standards, involving, as it should, a consideration of what wages would be if work were regular, seems a task rather of prophecy than investigation or interpretation of known facts. Nevertheless, discussion may serve a useful end if no other purpose be accomplished than to suggest a fruitful field for exploration and discovery.

At the outset it is well to recognize that unemployment is not in itself a cause, but the resultant of many causes, an infinitely complex condition about which we cannot think clearly or act wisely without analysis and discrimination. Differences must be recognized in different localities, and in different industries. A discussion of the effect of unemployment is really a discussion of the diverse effects of each of the manifold causes of unemployment. The man on strike, and the man in the hospital, the Wall Street stenographers laid off when the war caused the closing of the Stock Exchange, the Fifth Avenue milliner who makes no hats in June because the spring season is over and no one knows what the autumn styles will be, the makers of skirt braids who have no work because skirts are short and the once universal bindings no longer worn, the employees of John Smith, manufacturer of jewelry boxes, who met with reverses and went into bankruptcy, the bookbinders formerly em-

ployed by the firm which has just moved into the country, the long-shoreman who hangs around the docks idly waiting for the ship to come in, and then is not hired because too many others are ahead of him, the Italian subway digger out of work because the trade unionists have demanded the enforcement of the provisions of the law regarding the employment of alien labor, the man on line at the door of the municipal lodging house, who lost his job because of drink, his fellow-guest who lost his because he was getting old, the man next to him who had steady work as a waiter until hard times came and the restaurant cut its force in half, the carpenters, the stone-masons, the tailors, the plumbers, the straw hat makers, the department store clerks, the cloak and suit makers and the coal miners, out of work at different times in the year when the slack season comes in their industries, these are all unemployed, but no one formula can describe them all, no one remedy can meet their needs, no single measure remove at once all the causes of their industrial misfortune. This much, at least, has been accomplished by recent experiences in dealing with unemployment in many cities. Familiarity is banishing, forever, the vague generalizations which make a problem seem so simple when in reality it is infinitely complex.

What light do recent experiences and investigations throw on the effects of the recurrent condition of unemployment on the wage scale? Is it true, as it is sometimes asserted, that wage rates tend to be higher in industries in which seasons are shorter? Do we have already a kind of unemployment insurance in the form of a larger income in short season industries, so that all that is required is the teaching of thrift to enable the worker to save a surplus for use when he is out of work? Is loss of income through unemployment a common experience or is it rather an incident in the individual career and not necessarily characteristic of industry? For the sake of clearness, let us consider first certain data about industries rather than the facts about the workers and their income.

In the United States Census of Manufactures in 1905, data regarding weekly earnings were gathered from a large number of representative establishments and presented for different industries by states.¹ At the same time information was secured showing the greatest and the least number of wage-earners employed at

¹ U. S. Census, Manufactures, 1905. Bulletin 93. *Earnings of Wage-Earners*.

any one time during the year. It is obvious, of course, that since so many factors enter into the determination of wages, caution is needed in attempting to detect the presence or absence of any one of them or to measure its influence. Local differences, varying proportions of men and women employed, the methods of production, the use of immigrant labor, and many other conditions must be studied before conclusions can be put forward with any definiteness. Nevertheless, if wages tend² to be higher in trades which have the greatest seasonal fluctuations, it would be fair to expect that the census figures just mentioned would reveal higher median wages in those industries in which the fluctuations from maximum to minimum in the number of wage-earners are greatest. The following table shows the facts for the eight industries employing an average of 20,000 or more wage-earners in which the seasonal fluctuations are the most marked and the eight in which the variations between minimum and maximum are least.

In all manufacturing industries combined, the maximum number were at work in October and the minimum in January, and the minimum force was 65.4 per cent of the maximum. The median wage was between \$10 and \$12 for men and between \$6 and \$7 for women. Of the eight industries having the least marked fluctuation from maximum to minimum force, four paid to men workers wages above the average for all industries, and four below it. Two paid women wages above the average and six below it. Of the eight industries having the greatest variations in the numbers employed, five paid men wages above the average and three below it, while in only three of these markedly seasonal industries were women's wages above the average, and in five below.

If wages are on the whole highest in the industries in which the fluctuations of employment are greatest, the fact is not reflected in the best statistical information available on the subject. On the

² "The natural tendency is for the fact of seasonal fluctuation to be recognized as a normal incident of the industry and to be allowed for in the standard both of expenditure and of wages." Beveridge, W. H., *Unemployment, a Problem of Industry*, 1912, p. 36.

"A trade that has a natural tendency toward irregularity of employment is generally found with higher rates of wages given to compensate for this irregularity and thus enable the worker to keep his standard of living up to that of workers of corresponding position and ability in trades not so affected." Dearle, N. B., *Problems of Unemployment in the London Building Trades*, 1908, pp. 133-4.

MAXIMUM AND MINIMUM NUMBER OF WAGE-EARNERS EMPLOYED AT ANY ONE TIME DURING CALENDAR YEAR 1904,¹ AND MEDIAN AND AVERAGE WEEKLY EARNINGS,² IN EIGHT INDUSTRIES SHOWING LEAST, AND EIGHT INDUSTRIES SHOWING GREATEST FLUCTUATION OF ALL MANUFACTURING INDUSTRIES EMPLOYING 20,000 OR MORE WAGE-EARNERS IN THE UNITED STATES, 1905.

Industry	Greatest No. of wage-earners	Least No. of wage-earners	Per cent minimum is of maximum	Median wage group		Average weekly earnings	
				Men	Women	Men	Women
Bread and bakery products.....	90,937	76,657	84.3	\$12-\$15	\$5-\$6	\$11.77	\$5.46
Cotton goods.....	351,415	285,302	81.2	7- 8	6- 7	7.71	6.03
Felt hats.....	24,345	19,692	80.9	12- 15	7- 8	13.27	7.31
Printing and publishing, newspapers and periodicals.....	111,480	89,785	80.5	12- 15	5- 6	13.13	5.95
Liquors, malt.....	54,787	43,481	79.4	15- 20	5- 6	14.37	5.50
Carpets and rugs other than rag....	36,472	28,875	79.2	9- 10	7- 8	9.93	7.31
Hosiery and knit goods.....	116,869	92,537	79.2	8- 9	6- 7	8.90	6.01
Hardware.....	35,612	27,743	77.9	9- 10	5- 6	10.37	5.35
All Industries.....	7,017,138	4,599,091	65.4	\$10-\$12	\$6-\$7	\$11.16	\$6.17
Cars, steam railroad, not including operations of railroad companies.....	55,167	15,843	28.7	\$10-\$12	\$7-\$8	\$11.21	\$7.24
Coppersmithing and sheet iron working..	30,808	15,609	41.2	9- 10	5- 6	12.96	5.78
Canning and preserving, fruits and vegetables.....	172,026	71,388	41.5	9- 10	4- 5	9.14	5.40
Marble and stone work.....	54,157	25,015	46.2	12- 15	4- 5	13.21	4.94
Agricultural implements.....	62,979	29,513	46.9	10- 12	5- 6	10.97	5.75
Millinery and lace goods.....	37,280	17,573	47.1	10- 12	6- 7	12.45	7.25
Brick and tile.....	115,090	56,940	49.5	9- 10	5- 6	9.82	5.55
Women's clothing...	148,503	78,302	52.8	12- 15	6- 7	13.52	6.85

¹ United States Census, Manufactures, 1905, Part I, pp. 27-54.

² United States Census, Manufactures, 1905. Bulletin 93. *Earnings of Wage-Earners*. pp. 98 et ff.

contrary the census statistics seem to indicate that there is no consistent or significant difference in wages between the industries in which unemployment is least and those in which it is most prevalent.

Certain industries afford interesting contrasts. The census points out that watch-making is one of the industries paying the highest average weekly wages to both men and women. It shows decidedly less than the average fluctuation in force. The making of tobacco for chewing and smoking was rated as one of those reporting the lowest earnings. It shows greater fluctuations than the better paid branch of the tobacco industry. Canning and preserving is quoted in the census as an example of violent seasonal changes in demand for labor. Its showing in the wage columns is not enviable. The makers of women's clothing are more liable to unemployment than the makers of men's clothing and are also compensated at a slightly higher rate, apparently in conformity with the orthodox opinion, but it is not by any means clear that the comparative degree of unemployment has been a factor in determining the difference in wage rates. Millinery pays women more but men less than the slightly less seasonal trade of women's clothing. Paper box making pays men less and women more than the less fluctuating industry of confectionery.

If the risk of seasonal fluctuations is a factor in the wage bargain, it is certainly not sufficiently potent to counteract other tendencies which produce variations in standards in different industries. From the point of view of the workers, therefore, the degree of the influence exerted by the risk of unemployment on the comparative standards of wages becomes a matter of academic interest, since comparisons between industries reveal no invariable economic law of comparative compensation. Of course, this does not mean that no seasonal industry has a high enough wage standard to mitigate or even to eliminate distress in slack season. The straw hat worker in New York may have but six months' work in the year, but her earnings not infrequently amount to \$25 a week, and the problem for her is one of distribution of an irregular income over regularly recurring expenses, rather than one of making income equal outgo when the receipts in busy season are no more than sufficient for each week's expenditures. Distress is produced by the combination of unemployment and low wage rates, and this does not seem to be a combination to which economic laws are opposing effective obstacles. Indeed, the reverse seems to be true since the causes which are commonly accepted as most important in producing unemployment, industrial crises, irregular demand for

goods and oversupply of workers are the very causes which place the worker at a disadvantage in the wage bargain. More searching inquiry may bring evidence of a compensating tendency in industry, which may well be utilized and organized to produce unemployment insurance, but that at present it is not powerful enough to prevent distress is self-evident.

In discussing the effect of unemployment on the wage scale within an industry, we are on more certain ground because of the results of some recent investigations, all of which reveal the fact that the industries studied fall short of utilizing continuously the labor force which they buy at the height of the season. Their total wage scale is depressed far below its own capacity by the drag of irregular employment.

In the dress and waist industry in New York City, for example, after an exceptionally careful inquiry,³ based on a payroll study, this conclusion was reached: "Taking the wages paid out in the industry during the busiest week of the year, and expressing this as 100, the investigation has shown that the average weekly wage earned by all the workers during 1912 was equal to 73 per cent of that of the busiest week of the year." This statement applies to total wages, which represent, of course, the most accurate measure of the total labor force. Considering the cloak, suit and skirt industry, the Bureau of Labor Statistics reports⁴ that the seventy-five association shops investigated had a combined average weekly payroll of \$94,375 with a maximum of \$155,148 and a minimum of \$40,741. That is to say, the average weekly payroll was equal to only 61 per cent of the total paid out for wages in the busiest week of the year. The Factory Investigating Commission of New York State⁵ found that the average payroll in the millinery trade in New York City was but 63 per cent of the maximum in wholesale shops, 71 per cent in the smaller retail shops, and 79 per cent in the larger retail shops having also a wholesale trade. In an unpublished manuscript of the Committee on Women's Work of the Russell

³ U. S. Bureau of Labor Statistics, *Wages and Regularity of Employment and Standardization of Piece Rates in the Dress and Waist Industry*, 1914, Bulletin No. 146, pp. 18-19.

⁴ U. S. Bureau of Labor Statistics, *Wages and Regularity of Employment in the Cloak, Suit and Skirt Industry*, 1915, p. 17.

⁵ New York State Factory Investigating Commission. Proof of forthcoming fourth report. Appendix: *Wages in the Millinery Trade*, p. 60.

Sage Foundation outlining the results of a study of the millinery industry of which the inquiry into wages made for the Factory Investigating Commission is a part, the waste in labor force through irregular employment in millinery is estimated in another way. The total wages paid by the shops investigated in their maximum week was ascertained to be \$24,000, so that the total wages which would have been paid in a year of fifty-two maximum weeks would amount to more than a million and a quarter. The wages actually paid amounted to a little less than three-quarters of a million, or 57 per cent of the total estimated on the assumption that the maximum demand was continuous. In other words, the trade lost 43 per cent of the labor force which it would have utilized had it been able to hold throughout the year the level attained in its busiest week. Similar statistics are available regarding other industries described in the report of the Factory Investigating Commission just mentioned. Nor is it only private enterprises which are characterized by fluctuations in labor force. In Portland, Oregon, the number of laborers employed on street construction work by contractors for the city varied in twelve months from 885 on the last day of August, 1913, to 122 in March, 1914, with an average of 569, of which the minimum force was only 21 per cent.⁶ On sewer work for the city the men employed by contractors in seven months numbered 125 in January and 190 in June, with an average of 159, of which the minimum was 79 per cent. Data on wages paid were not reported.

Even these data, however, do not give the full measure of stability or instability in employment since they take no account of changes in personnel. On this point, also, recent investigations are eloquent, especially those made in New York State by the Factory Investigating Commission.⁷ In the millinery shops investigated, the maximum force employed was 2,550 but the number recorded on the payrolls during the year was 3,983. Concerning department stores, the Commission reported: "In eleven large New York City stores with an average total force of 27,264, there were added during the course of a year 44,308 persons and 41,859 left or were dropped. In other words, more than once and a half as many

⁶ O'Hara, Frank. *Unemployment in Oregon, a Report to the Oregon Committee on Seasonal Unemployment*, 1914, p. 19.

⁷ New York State Factory Investigating Commission. Proof of forthcoming fourth report.

people flowed through the stores as are usually employed in them at one time."⁸ In nine paper box factories ordinarily employing about 792 hands, 2,295 persons were on the payrolls in a year.⁹ Although these figures do not relate directly to wages, it is obvious that such instability has its effect upon earnings. As the Factory Investigating Commission pointed out,¹⁰ "This shifting about naturally causes loss of time and wages between jobs." It seems probable that it causes also some loss of productivity through the waste involved in the adjustment of a new worker to the conditions of the shop.

Violent fluctuations in the labor force and the still more marked changes in personnel, implying as they do, short terms of employment and frequent hunts for new jobs, must obviously result in decreased income for the workers. It is these inroads upon income which give a profound social significance to the facts which we have hitherto discussed as phases of industry rather than as individual misfortunes. Enough has been said, perhaps, to show that to avoid individual misfortune when the risk of unemployment is so characteristic a phase of industry requires something more than individual efficiency, thrift or character. We have been accustomed, perhaps, to observe first the unemployed when their distress forces them upon public attention, and then to think about the industrial causes. If we reverse the process and observe first the tendencies in industry, we may, perhaps, think more clearly about the unemployed. That loss of time, and consequent loss of income, is a common experience, has already been demonstrated in many careful investigations.

Consider, for example, the iron and steel industry in 1910, as it was described in the report of the United States government.¹¹ Of 90,757 employees in all the steel plants covered in the investigation, only 37.6 per cent were employed forty-eight weeks and over in the course of the year, while 12.5 per cent were on the payrolls less than thirty-six weeks.¹² In the same report figures¹³ are given to show the possible full time annual earnings for steel workers, if

⁸ *Ibid.*, p. 140.

⁹ *Ibid.*, p. 251.

¹⁰ *Ibid.*, p. 143.

¹¹ *Report on Conditions of Employment in the Iron and Steel Industry in the United States*. Senate Document No. 110, Washington, 1913.

¹² *Ibid.*, Vol. III, p. 213.

¹³ *Ibid.*, Vol. III, p. 220.

they had been employed during the entire time their plants were in operation in 1910. These figures show an average of approximately \$700 for full time work throughout the year. The maximum annual earnings of 63.4 per cent of the 86,590 workers reporting, however, were less than this amount.

In another report by the United States Government, containing the results of the investigation of the condition of woman and child wage-earners,¹⁴ detailed information is given about the number of days worked in the year by women and girls in the four industries of cotton, silk, glass and men's ready-made clothing. Moreover, in the discussion of living conditions, similar data are given for other wage-earners in these households. The average number of days worked in the year by women in the clothing trade was 241,¹⁵ in cotton manufacture in New England mills, 254, and in the South, 244,¹⁶ in glass-making, 231,¹⁷ in silk mills in New Jersey, 262, and in Pennsylvania, 238.¹⁸ The proportion of working days in the year among women in these four large industries varied then from 76 per cent to 83 per cent of the working year of 305 days, not counting Sundays or holidays. As to the unemployment of the fathers in the families of these women workers, the figures for the silk industry may be taken as illustrative. The average days idle for the silk weavers among them amounted to 65 in the year, for other skilled workers, 81, and for the unskilled 91.¹⁹ The average loss for all of the fathers at work totalled 74 days in the year, or 24 per cent of the normal working period. The investigators summed up the situation in this way: "If all the fathers had worked the time they were idle they would have earned enough to largely make up the deficit that would have been caused if the children under 16 had not worked."²⁰

After a careful analysis of existing data on the relation of irregular employment²¹ to the living wage for women, the conclusion is

¹⁴ *Report on Condition of Woman and Child Wage-Earners in the United States*, Senate Document No. 645, Washington, 1910.

¹⁵ *Ibid.*, Vol. II, p. 388.

¹⁶ *Ibid.*, Vol. I, p. 469.

¹⁷ *Ibid.*, Vol. III, p. 546.

¹⁸ *Ibid.*, Vol. IV, p. 280.

¹⁹ *Ibid.*, Vol. IV, p. 269.

²⁰ *Ibid.*, Vol. IV, p. 295.

²¹ Andrews, Irene Osgood. "Irregular Employment and the Living Wage," *American Labor Legislation Review*, June 1915, p. 311.

put forward that "all facts agree that actual earnings fall far short of possible earnings based upon rate of pay. At least for the workers here considered, the average girl or woman loses in wages an amount equal to no less than 15 per cent of her possible earnings. The younger, more irregular worker, loses an even greater amount."

No such careful estimate of losses by men wage-earners can be made without more data than are available at present, but certain illustrative material is significant. Facts regarding steel workers have already been cited. In Chicago, the Mayor's Commission on Unemployment reported in March, 1914, concerning its investigation of trade unions, that "None of the members of these unions would receive less than \$700 a year at their trades if they worked full time; but, actually, the average member in 40.9 per cent of those reporting received less than \$700 from his trade" (p. 15). In a forthcoming report, to be published by the Russell Sage Foundation, on Industrial Conditions in Springfield, part of the series resulting from the survey of Springfield, Illinois, in 1914, facts bearing on irregularity of employment among miners in that district are given which show an average number of days in operation ranging from 10 to 20 each month in the year and an average for the entire year of 174 days or only 57 per cent of the possible 305 days of a full working year. Thus the miner whose rate of pay is \$2.84 per day "could scarcely make \$500 a year provided he had full time work every single day of the year that his mine was in operation." His annual earnings on the basis of a full time 305-day year would be at least \$850. In a study of 100 families of wage-earners in various occupations included in this same report, it was found that two out of every five bread-winners had an irregular income.

Unemployment and irregular employment is a social problem obviously, because in affecting income, it affects at once the standards of living of the community. Its effect upon income is twofold: it reduces earnings below the real capacity of the worker as measured by the rate of his wages, and it makes his receipts uncertain, varying from week to week in such a way as to render thrifty management almost impossible. Recently the Committee on Women's Work of the Russell Sage Foundation made a study of Italian girls in industry, one section of which was an inquiry into actual earnings in 48 families, based on monthly visits extending over the period of a year, to secure the facts about the weekly wages of every worker.

The results are as yet unpublished, but the manuscript report contains some conclusions which are pertinent in a discussion of unemployment. The conclusions have added value for the reason that the investigator²² had been resident in the neighborhood for several years and knew the majority of these families as neighbors before she began the investigation. Moreover, the facts were secured not in one interview, but in several at frequent enough intervals so that as little as possible reliance need be placed on the memory of those who gave the information. Quotations from the report may serve to summarize the facts.

The only conclusion which we feel justified in putting forward is that the standard of living is not to be measured by the total income received in a year, but by its regularity. That management is an important factor in producing a wholesome standard is obvious. To be able to count in advance on a fixed amount of money is almost an essential prerequisite of efficient management.

When the investigator was asked to select the families which she would place in a group having the highest standard of living, she did not choose those having the largest income, or even the largest per capita receipts. She selected first, the one in which the income had been most regular throughout the year, although the total was only \$1,175 for six persons. How fluctuating was the income in some of the households is shown in a series of charts, one for each family. The first pictures weekly receipts which varied from \$6.50 to \$52.50 with a total for the year of \$1200.24 and an average of \$23.08 a week.

Unfortunately, very little information showing weekly income is to be found even in the comparatively few budget studies which have been made in this country. If more were available, we should probably find that the curves showing fluctuations in the labor force in industry are matched by curves revealing variations in family income, and that these relate themselves to the standard of living as causes of waste and friction precisely as irregularity in industry produces waste and friction tending to lower the capacity of plant and workman alike.

If it be true that variations in income are undesirable in their effect upon family standards, the fact deserves consideration when proposals are put forward to establish variations in wage rates as one remedy for unemployment. Wage rates do tend to vary now in some industries,²³ especially the unorganized, going down in slack

²² Miss Elisabeth Roemer of Richmond Hill House, a settlement in an Italian neighborhood in New York.

²³ Cf. Pigou, A. C., *Unemployment*, pp. 75-93.

season, and not always returning to their normal level in busy times. The proposal, involving as it does, a measure of bargaining between groups of workers and employers, would doubtless be an advantage in substituting a controlled effect of unemployment on the wage scale for the present uncontrolled effect. It should be clear, however, that this would demand not only equality of bargaining power between worker and employer, but a much more scientific knowledge than we now possess as to the relation of fluctuations in demand to wage rates, and more publicity about the proportion which wages form of the total cost. Otherwise the proposal to reduce wages for the same hours of labor in slack season involves the possibility of exploitation. No measure which endangers wage standards can cure the distress due to unemployment, for unemployment itself is but a phase of the wage problem.

Meagre then as is the available information about the total effect of unemployment on wage standards, the illustrative facts which have been cited are convincing on three points:

1. They indicate a general industrial tendency toward fluctuations in the labor force as it is measured in the total payroll.

2. They give evidence of a waste of productive power, both of industries and of men.

3. They show that wage rates, whether established by unions, by minimum wage boards, or by individual agreement, are no guarantee of an adequate income unless assurance be given also of some degree of continuity of employment.

Many measures are now being advocated to prevent unemployment by reducing the number of those who are most likely to become unemployed, by preventing child labor, by providing for the aged, by increasing individual efficiency, by developing and strengthening character, by inculcating thrift. All of these are important, and their accomplishment would undoubtedly lessen the distress which now prevails because wage-earners are out of work. Nevertheless a consideration of the relation of unemployment to the wage scale emphasizes primarily unemployment as a wage problem, and, therefore, a problem of industrial organization. As such we cannot hope to achieve results by any more rapid method than attacking it in each industry, in each locality and in each establishment. In some way the faith must be made general that unemployment and seasonal variations are not inevitable. Somehow men must be set

to thinking about it in the coal mines, in the steel mills, in the cotton mills, in the clothing factories and on the docks. The research work which is needed now is investigation through experiment. Perhaps the best result of unemployment insurance would be to make men think, and to place a premium upon regularity. The next step in industrial organization should be to demonstrate through actual experience what may be accomplished in getting rid of the present variations and irregularities in the payroll week by week.

SCIENTIFIC MANAGEMENT APPLIED TO THE STEADY- ING OF EMPLOYMENT, AND ITS EFFECT IN AN INDUSTRIAL ESTABLISHMENT

BY RICHARD A. FEISS,

General Manager, The Clothcraft Shops of The Joseph & Feiss Company,
Cleveland, Ohio.

The effect of steadying employment in an industrial establishment is of such great and growing importance that it is well to say a few words in regard to the term "employment." The term employment is used so generally as to have various and more or less vague meanings, varying according to its use and its user. It is more commonly used to refer to the actual act of employing and means simply the hiring or putting of people on the payroll.

Practically every large industrial establishment today has an employment department whose business it is to hire the employees who are asked for by some foreman or other department head. While there can be no employment which does not begin with hiring, the kind of employment that this paper deals with contemplates hiring as only a part, and not the largest part, of the real employment problem. The real employment problem begins after the act of hiring has taken place and is a continuous function which does not cease until employment is ended. From this point of view employment is one of the most important functions of management in an industrial establishment.

As real or scientific management deals with the development and coördination of the welfare of each and every individual in the organization, the importance of scientific employment can readily be seen. This is being realized more and more by both managers and the public.

The object of an industrial organization is to coördinate effort for the continuous and permanent accomplishment of a definite purpose. Therefore, the steadying of employment is the most important problem of employment. For general purposes there are two kinds of problems which have to be considered in connection with the employment function as well as with other functions:

first, the problems of the function itself, and, second, the problems of all other functions in their relationship to the function under consideration.

It is the real problem of the employment function to keep every position necessary to carry on the business of the organization steadily and permanently filled with men and women best fitted for the purpose. For this purpose every industrial organization should have some one person or department whose sole business is the studying and handling of this problem. This is a function that cannot be administered by some head or underling in an operating department. The immediate interests of anyone responsible to any degree for operating are bound to be in constant conflict with the ultimate objects and policies of the employment department. From time to time questions arise between employees and heads of operating departments and no one who is a party to these questions is in a position fairly to decide and solve them. The solution of such questions is a function of the employment department and they would be impossible of fair and satisfactory solution if the function of employment were administered by one who might be an interested party. Where, moreover, enough people are employed to make employment a real problem, it is a problem as important and requiring as much, if not more, ability than operating itself and there is no reason why it should not be administered by one who is just as capable and has as much ability in his line as a head of an operating department.

Scientifically speaking, the employment problem really starts after the act of hiring has taken place, and, while the hiring of new people should be a constantly decreasing problem, after they are employed, the employment problem in connection with a new employee is of importance second to none. A new employee, at the best, is undeveloped for the position which he is called upon to fill in any organization, and, as he has been employed in order steadily and permanently to fill a position necessary for the objects of the organization, he needs and is entitled to especial attention in order that he can be developed to fill that position fittingly. For this purpose the greatest possible care must be exercised when new men and women are employed in selecting such as seem not only best fitted for the particular position in question, but, above all, fitted for the organization.

The question of fitness for the organization is the more important and, generally speaking, is the one that can be better determined at the time of employment. It is more important because no matter how skilled or well-fitted a man or woman may be for the given position, if he is not fitted for and in harmony with the organization and its objects, he will not only be inefficient in his surroundings, but will be continuously a detriment to himself and others in the organization. As this is a matter of spirit and inherent attitude of mind, it is a matter that is the more readily detected in the course of a personal interview by anyone with any reasonable amount of training and experience, who makes a specialty of the function of employment.

The determination of the fitness of a new employee for the given position is generally more difficult except, of course, under conditions where the position is one that has been scientifically standardized and the employee has proven his fitness in the same kind of a position under similar conditions of the same degree of standardization elsewhere. As yet, at least, this is of very exceptional occurrence and only the normal case can be considered.

The employee's general physical and mental fitness is an important factor. His physical fitness is of prime consideration and is, as a rule, readily determined. The important thing in this connection is not only to have adequate service to determine physical fitness at the time of employment, but to have a systematic follow-up. The determination of physical fitness in a scientific employment department must not be made with a purpose of eliminating those who are at the time of employment physically unfit, but for the purpose of eliminating only those who are permanently unfit. Many cases, seemingly unfit, are capable of attaining physical fitness and normal health under scientific employment. Such cases should not be eliminated, but should be saved to the industry.

We hear a great deal of late about psychological tests for fitness and there is no doubt that this is a field subject to a great deal of useful and practical development. It will, however, never aid materially in the solution of this problem, except in special instances where definite and special aptitudes are required and can be made subject to practical tests, *e.g.*, it will be conceded that it would be a mistake to employ a railway engineer who could not distinguish red from green readily. Tests of this nature are undoubtedly use-

ful and will figure in a more important way in the future. Practical tests of this kind are being developed by progressive companies. For general purposes, however, these tests will only be useful for a few specific purposes and will, perhaps, be of less importance in an ordinary industrial establishment than in other fields.

In an industrial establishment the character of an employee and his fitness for the organization are the most important things. His fitness for a given position is secondary and depends less upon his mental qualifications at the time of employment than it does upon his development by and in the organization. No matter what the manual skill of an employee might be, if he is out of harmony with the surroundings, he is more of a detriment than a help to the organization and himself. Every organization has definitely perceivable characteristics. We often hear of the "tone" of an organization. When the personality of the employee is out of harmony with this tone, the resultant harm to the organization will be much greater than if he were unfit for the position but in harmony with the organization. This is chiefly a question of character. Unfortunately, as a rule, the importance of character is only recognized in extreme instances. If a man's character were such that he would resort to personal violence or dishonesty, his unfitness would be recognized no matter how fit he might be for the position. If, however, his character were such that he was inherently uncoöperative and resorted to underhandedness, the importance of his character and fitness for the organization would be overlooked in many instances if he showed particular fitness for his position.

Fitness for a given position in the operating departments consists chiefly in the acquirement of skill in the performance of certain manual tasks. Given character and fitness for the organization, the acquirement of skill in the performance of a given duty is generally a matter of proper training being provided by the administrative side of the organization. It must always be remembered that skilled and fit men are not born, but made, and it is an essential function of any industrial organization to train men and make them fit for specific positions necessary to the objects of the organization. There is no broader admission on the part of a manager of his own inefficiency and his own lack of comprehension of his duties and problems than the oft heard complaint on his part of the lack of skilled men.

Under scientific management the management assumes as a definite part of its function the development and training of employees, and the employment function is carried on scientifically in recognition of the above conditions. At the Clothcraft Shops of the Joseph & Feiss Company, all applicants are interviewed by one of the heads of the service and employment department. Information concerning applicants is put down in detail, together with other notes as to various qualifications, upon a form provided for the purpose. During the course of the interview careful note is made of apparent qualification or lack of it. Applications are carefully filed and when a position is to be filled the most promising applicants are sent for. When the applicant is hired, one of the heads of the employment and service department takes him in hand and goes over again in detail such other ground as relates to the condition of employment, which is covered in a more general way at the time of application. This interview is of great importance and covers concisely conditions of his employment both as to the responsibility towards himself and the organization and the responsibility of the organization to him.

As an industrial organization is based on coöperation for continuous mutual benefit, it is very important not only to explain this, but also to explain in detail where the mutuality of interests lies and how necessary coöperation is to obtain continuous mutual benefits. One of the most important responsibilities of the employee is to fill his position steadily and continuously in order that the interests of all concerned will not be jeopardized. In this connection matters very personal and conditions outside the establishment often become very important and must be studied and dealt with as part of the employment problem wherever employment is to be scientifically considered. Volumes could be written on this subject. This phase of the problem alone occupies the larger part of the time and attention of the service and employment department at the Clothcraft Shops of the Joseph & Feiss Company.

This company has given particular attention to this side of the problem and in this connection has made a special study of sanitary conditions and other conditions that affect the health, comfort and contentment of its workers. Medical examinations are compulsory and have been developed to a high state of usefulness. Medical service not only includes a regular practicing physician, but also a

dentist, oculist and a trained nurse. The trained nurse and others of the employment and service department make home visits daily to all absentees, new employees and others. In connection with this side of the employment problem the use of the English language is considered most important and attendance at the English classes at the factory is made compulsory to those who cannot make themselves readily understood in English. Among other things this company has established, for the purpose of dealing with mental and physical fitness of its employees, shower baths, locker rooms, lunch rooms, recreation rooms and recreation grounds, a branch library and a penny bank. The limits of this article do not permit the author to go into detail as to the application of these things to the problem of employment. They all are for the purpose of keeping men and women of the organization in all respects fit to steadily fill their positions as efficiently as possible.

For all purposes of employment there must be a continuous and systematic following up of the individual and there must be established both in spirit and fact an absolutely free contact unhampered and uncontrolled in any respect by any function excepting only the employment function itself.

So far we have considered only the employment problems of the employment function alone. We shall now consider some of the problems of the employment function in its relation to other functions and to extraneous conditions. As to the relation of other functions of the organization to the employment function, there must exist in the first place heartiest coöperation in their administration. The success of other functions greatly depends upon employment and upon this coöperation. Many employment questions arise in the performance of duties connected with these other functions. Although these and many other facts are brought to the attention of the employment department by the development of free contact and the general relationship that must be developed between the employees and the employment heads, it is necessary that all functions are so administered that all such matters are systematically and immediately brought to the attention of the employment department.

While employment is a condition precedent to the performance of many other functions, all such other functions must be administered with a constant view toward the solution of the problems of

employment. All employees, especially new employees, must be given constant and systematic instruction. They must be fairly dealt with in the distribution of work and other matters of functional administration pertaining to them. No functional foreman should be permitted to allow anyone to work who is in the slightest degree dissatisfied, or has the simplest kind of injury, or who is not feeling perfectly well, or who is or is likely to be in any degree physically or mentally unfit, without calling it to the immediate attention of the employment department.

It is the duty of the management under scientific management to standardize all work and working conditions in order that as nearly as possible an even flow of work is maintained throughout the establishment and that all workers have a steady and equal opportunity for continuous employment and earnings. At times of industrial depression the working force should not be cut down except only under such extraordinary conditions as may be forced upon the industry, which are absolutely beyond its control. When there is not enough work to keep the entire working force steadily employed, the number of hours of employment should be reduced equally throughout the whole organization. If all managers realized their duty in this respect, both to their organization and to the community, there would be very little, if any, aggravation of the problem of unemployment during periods of industrial depression.

As far as employment is concerned, there are two problems that daily occupy the attention of the operating departments which materially affect its steadiness. One of these is the balance of materials; the other the balance of personnel. The balance of materials for the purpose of steadiness of operation is recognized to be one of the main responsibilities that the management must assume. Scientific management provides for this by proper planning and routing. Balance of personnel is just as important. Where an employee is missing because of tardiness, absence or other reason, it interferes and seriously affects the steadiness of employment of the whole organization. To meet emergencies of this kind employees should be instructed to perform more than one operation. The most important thing in this connection, however, is that tardiness and absences are cut down and employees are kept as steadily as possible on the job. At the Clothcraft Shops of the Joseph & Feiss Company employees are constantly being instructed to perform new operations and by means mentioned above the service

and employment department has cut down absentees and tardies to such an extent that there are many days when there are no tardies and when the absentees amount to less than one per cent of the working force.

Without going into unnecessary detail, it must be remembered that all interruptions of work and all other delays in the steady flow of work are matters which affect the problem of steadying employment. Before leaving the operative functions and their connection with this problem, it is essential that we remind ourselves that steadiness of employment depends upon personal relationship as much as upon anything else. For this purpose it is not only important to consider personality in the selection of the ordinary employee for a position, but it is still more important to consider the proper personality or the possibility of its development in the selection of functional heads who have constant contact with any part of the organization. Such heads are very often chosen merely for their mechanical ability and are generally responsible for a great many unnecessary quitters and a consequent unsteadiness of employment. The general question of personal relationship is a question of managerial policy of the greatest importance and the social problem must not only be met by such means as touched upon above, but a social spirit based upon real democracy must be developed as a matter of policy throughout all ranks of the organization.

The seasonableness of certain industries is generally recognized as one of the extraneous problems affecting steadiness of employment. A great deal of education of the buying public is necessary to assist in overcoming this condition. A great deal, however, can be done by competent management to mitigate this difficulty. For this purpose buying should be standardized to aid in the anticipation of orders. The most important problem in this connection is the selling problem. The development of the sales problem and the sales organization is generally far behind the development of the manufacturing problem and the manufacturing organization. Steps must be taken in order to insure sales not only of product that is easy to sell, but chiefly such product that can be continuously, and, therefore, profitably manufactured with the least interference with the steadiness of employment.

Mr. Morris L. Cooke, director of Public Works, Philadelphia, in an able address on "Scientific Management as a Solution of the

Unemployment Problem"¹ tells of a case in the hosiery industry in the Philadelphia district where it was found that those mills which sold their output through a single selling agent found their business very seasonable and subject to varying demands of output. All those mills which sold their own goods and developed the sales policy co-related to the problem of manufacture were able to regularize their demand as far as output was concerned to a very great extent.

The Joseph & Feiss Company, in order to meet this problem of seasonableness with a direct purpose of steadying employment, have for some time past conducted an advertising campaign which concentrated on certain of its products that could be produced from season to season without being much affected by the style question. As a rule, there is nothing more annoying to the industrial manager than this problem, as the sales policy is generally not within his control and there is no extraneous function which more affects his problem of steadying employment and whose proper relationship to this function is more misunderstood.

Volumes could be written on steadying of employment and the employment problem in general, but proper consideration and reasonable effort expended along the lines suggested above will prove more profitable in result than can readily be comprehended. It has already been shown that the Clothcraft Shops have reduced tardies and absentees to a minimum. No greater proof of the effect of steadying employment in an industrial establishment can be had than the record of the "labor turn-over" in this shop in the past four years. During the period covered from June, 1910, to July, 1914, the labor turn-over of the Clothcraft Shops has been reduced by 80 per cent.

The importance of this problem is only beginning to be recognized. Most managers make a study of their mechanical problem and consider it a necessity, not only to be equipped with the most efficient and up-to-date machinery, but to make a study of its use and the keeping of it in constant repair for steady work. But few recognize that this attitude in connection with personnel is of far greater importance. Steadiness of materials and machinery is only the adjunct to the real problem of steadiness of employment. In order to meet with real success, it must be recognized that it is a function of management not only to build up a "manufactory," but to build up a "man factory."

¹ Delivered before the Cleveland Advertising Club, May 19, 1915.

A FUNCTIONALIZED EMPLOYMENT DEPARTMENT AS A FACTOR IN INDUSTRIAL EFFICIENCY

BY ERNEST MARTIN HOPKINS,

Manager, Employment Department, The Curtis Publishing Company,
Philadelphia.

The most significant fact pertaining to industrial management today is the attention which is being given to the problems of personnel. Recognition is being given to the truth that new sources of power and evolution of mechanical processes have but changed the points, in methods of production, at which the human factor is essential, without changing to any degree the ultimate dependence upon it.

The impressive thing is not that some men recognize the importance of the individual worker, for this has always been true of some; it is that such recognition is so rapidly becoming general, since it has been so long delayed. Yet the causes are obvious. Power can be produced for A and Z with little variation in cost to either. Plant design has been standardized until one can gain small advantage over another herein. The same mechanical equipment can be secured by one as by the other. There is no longer marked advantage possible to the thoroughly progressive house over another, equally progressive and intelligent, in the securing of raw materials, in the mechanical processes of manufacture, or in the methods of promotion and distribution. Wherein lies possible advantage of A over Z in the competition between them? Or the question may read for Z, how may he retain his prosperity in competition with A? This is one phase of the compelling logic which is leading to the study of problems of employment.

It becomes increasingly evident that the statement frequently made is universally true, if interpreted broadly, that the interests of employer and employee are inextricably bound together.

The social significance of questions relating to the mutual interests of employers and employees is so great that these could not have been much longer kept subordinate under any circumstances; but the utilitarian advantage to employers, individually

and collectively, of scientific study of these problems has become so plain that the present general interest in them among industrial leaders can most positively be ascribed to the fact that, whatever else they are, they are a vital concern of good business.

It was logical, when industrial management reached the stage that its practices could be defined, and the preliminary studies made to separate the good and the bad, in course of reducing such management to a science, that attention should have been focussed first on processes, machines and buildings. These things needed to be right before the worker could realize his possibilities. It is to be recognized, however, that though the word "efficiency" came into wide use during this stage of dealing with inanimate factors, the word is entitled to the far broader significance which carries an import of all-around effectiveness. Industrial efficiency, under proper definition, does mean and must be understood to mean right workers and right conditions for them as distinctly as right machines and conditions designed for their best operation.

This is the broad principle on which the functionalized employment department has been established. It is simply the application of the same reasoning to finding and maintaining the labor supply that has already been applied in industry to problems of building, equipment, mechanical supervision, and the methods by which business is despatched.

There is this greater difficulty in establishing a functionalized department for employment and correlated responsibilities than in establishing a department for almost anything else, that however frankly men will acknowledge limitations on some sides, few will admit or believe that they are not particularly perspicacious in their judgments of men. This is particularly true of those of circumscribed vision, whose advantages have been few and whose opportunities for developing breadth in their mental processes have been limited, as is the case with many minor executives or subforemen. Such an one feels, perhaps not unnaturally, that his prestige with the new employee is impaired if employment is secured through some department outside his own. Moreover, he is likely to ascribe to the employment department no other basis of appraisal than he himself has used, and with this as a premise, he argues that his own intuition is better than that of one who lacks his own intimate knowledge of the work for which he is responsible.

Almost invariably, too, he fails to value to reasonable extent the loss to his own work which comes from the waste of time involved in interviewing and employing, even if he undertakes to do this with such care as that of which he may be capable.

Too much emphasis may not be placed, however, on the difficulties incident to establishing the employment department, for the foremost concerns have so definitely accepted the principle that it is bound to be accepted generally. It should simply be recognized that such a department cannot fulfill its function to become a large contributor to the success of the business unless it be given recognition and endorsement sufficient to gain for it coöperation from the departments with whose problems of personnel it must be in contact. A large responsibility rests upon the employment department to work carefully and considerately, with open mind and appreciation of the problems of others; but even so, occasional support in the way of instructions from above will be needed to give the department access to some parts of the field wherein its work should be done.

This raises the question as to the place of the department in the organization. There can be only one answer, if the installation of the work is made in good faith—it must be in direct contact with the topmost management, where its problems can be passed upon promptly and decisively by ultimate authority, if issues arise. More important than this, the creation and establishment of such a department in a business should mean that the avenues of communication between those in the ranks and those at the top, which too often have become closed as a business has grown large, are to be re-opened. If this does not become true, the potentiality for good in such work can never be more than partially realized.

It is a duty that distinctly belongs to the employment office, to cultivate sympathetic knowledge of the opinions of workers and to bespeak these to the management. All industry is so set up that the word of the management can be quickly and easily transmitted down. It is no less of consequence to those above than to those below that some agency exists for facilitating the reverse process.

Industrial efficiency could not have been so definitely advanced as it has been without gigantic accomplishment in gathering data, codifying it, and the establishment of systems to realize benefits from the lessons learned. It is useless to expect that great businesses

can be conducted without a great mass of prescribed routines designed for the greatest good in the majority of cases. But it is true that the necessary struggle for uniformity and system has involved the limitation of individualism to standardized types to an extent that raises some serious questions.

It is impossible to set limits to the advantages which may accrue to a business from such attributes of personality among its men as loyalty and enthusiasm, and yet personality cannot well be standardized. Herein the employment department needs particularly to be on guard in its own work. It must steer between the danger of following the foreman's method of picking men because he likes their looks or their manners, and a method so systematized and impersonal as to have eliminated all individualism.

It is for this reason that great caution is needed to avoid blind acceptance of methods from among the various systems evolved by the less careful industrial psychologists or advocates of character analysis. Much along these lines has been established which ought to be known and utilized to reasonable extent in the employment office. It is surely true that certain physical types are particularly adapted to certain forms of manual labor; it is as true that certain mental types have especial aptitudes which ought to be recognized in assigning them to work. Experimental psychology has taught us how to determine the mental defective and the moron, and is capable of doing far more for us. But there is a refinement of system proposed by some that is neither commercially profitable nor ethically sound, in that on the one hand, at large expense, it attempts the standardization of personality, and on the other, it accepts unduly a theory of predestination which would largely limit the opportunities for proving individual worth.

There are, however, no differences of opinion concerning the desirability of standardization of jobs. This is not properly a responsibility of the employment office, but knowledge of what the respective standards are is one of its vital needs. If the data have not been gathered and made available, one of the most essential moves for the employment office in the establishment of its own work is to undertake such a survey of requirements of the work and opportunities for the workers in the respective departments and sub-departments as brought together will give a composite of the whole plant. Such a survey need not be made obtrusively nor need it

become a nuisance to department executives. It will necessarily involve the expenditure of considerable time. But it is worth while doing, even if it has to be done very quietly and very slowly, for while it offers the most fundamental data for employment work, it likewise often shows such inconsistencies in practice that a company can markedly raise its average of efficiency, if only it brings the departments of lax or faulty standards somewhat up towards the grades of those which are being well administered.

Such a survey in its elementary form should show at least such facts concerning the respective departments as preferred sources of supply for new employees, education or special training required, any special attributes desired, initial wages paid, opportunities for advancement in position and possible wage increases, working conditions and working hours, and labor turn-over.

The term "labor turn-over," which has recently come into general use, even now is not fully understood by some, and is perhaps best described by the more brutal phrase in general use, "hiring and firing." The annual "hiring and firing" figures represent the percentage of labor turn-over. For instance, if a company maintains a normal labor force of a thousand people, and is obliged to employ annually a thousand to compensate for those who leave or are dismissed, the labor turn-over is 100 per cent.

Probably no greater argument for the establishment of a functionalized employment department in many companies could be made than to induce a study of the labor turn-over figures. It is not an unusual experience to find employers who estimate the figures of their own concerns at less than 50 per cent, when it actually runs to several times that figure.

It is to be noted that such figures, though illuminating in themselves, need further analysis to be of major use. For instance, seasonal demands may be such in the specified shop normally enrolling a thousand hands that two hundred must be employed periodically for a few weeks and then dismissed, their places again to be filled in a few more weeks. If this happens five times a year, the turn-over figures will be 500 per cent. The other extreme would be a concern with such lack of knowledge of the money loss involved in change that practically every job was vacated and filled at least annually, when likewise the labor turn-over would be 100 per cent. Such figures are much too high, but they are not infre-

quent. They likewise are expensive, but while in the latter case the concern in question would bear much of the expense, in the former it is more largely imposed upon the community. Working men or working women who, through no fault of their own, are deprived successively, time on time, of the opportunities to realize their earning capacities, inevitably suffer impairment of courage, self-respect, and even moral fibre, the loss of which falls first upon the community, but eventually upon industry, in the depreciation in quality and spirit of the labor supply.

It is extremely difficult to know what can be done to remove the seasonal element in employment needs in the majority of cases. On the other hand, much would be gained if, by analysis and comparison, foremen and sub-managers could be shown the futility and financial loss of the lack of comprehension which allows them to discharge carelessly on caprice, or for the maintenance of that perverted sense of discipline which they phrase as "keeping the fear of God in the hearts of their people."

There is so much advantage in having employees who know the ways and routines of a concern that it would seem that, except where dismissals are for sufficient cause, those suffering them would be preferred applicants for positions elsewhere in the company calling for like grade of ability. It is not often so, nevertheless, except where a well-established employment office or its equivalent exists. All too frequently, a reduction of work in one department of a large manufacturing plant will send workers out under dismissal, while some other department of the same plant is seeking additional help.

A rule which has been established in some large plants, and which has worked advantageously, is that no department can discharge an individual from the company's employ; it can only dismiss from its own work. In effect, this subjects the case to review of some higher official who holds the power of final discharge, gives the employment office a chance to utilize the experienced employee elsewhere, if of proved capacity, and acts as a healthy check on the impulsive high-handedness of certain types of foremen and sub-managers. Another rule which works to somewhat the same effect is to require advance notices to be filed with the employment office concerning projected dismissals, together with the reasons therefor.

Other statistics which will interest the progressive employer may be compiled, showing the degree of permanency of the labor

force—thus, the percentages showing what proportion of the total enrollment has been employed less than a year, what proportion for between one and two years, and so on. Not infrequently it will be found that these figures reveal employment conditions quite apart from the theories of the head of the house and contrary to his belief as to how his business is being run. A manufacturer employing about four thousand men told me recently that he had genuinely believed that a large proportion of his men had been with him from ten to twenty years, only to find from such a statistical table that 50 per cent had been there less than two and a half years.

Incidentally, it may be suggested that some of the easy generalizations which have been made from time to time in regard to the lack of stability of workingmen as groups, because of the presence therein of so-called "floaters," would be materially altered if it could be known to what extent it had been beyond the volition of workmen of unquestioned skill to remain permanently placed. In general, the handling of dismissals has been dictated by the intelligence of sub-executives rather than by the intelligence of the management, and there has been no supervision from above.

The functionalized employment department is dependent, for successful accomplishment, in particularly specific ways upon the smoothness with which its work can be made to articulate with other functionalized departments, such, for instance, as the accounting department, the schedule or routing department, and other like ones. It must rely on these for the data to prove much of its own work, and in turn it may find within its perspective facts highly important to them. Through the large number of its interviews, it should come to have an unusually comprehensive knowledge of current rates of wages for established grades of work. It ought, furthermore, to come into position to know to what extent the law of increasing returns will apply to additional rates of pay established to secure superior ability.

It is probably due to the fact that the attention of industrial leaders has been fixed in the past so intently on problems of power, plants, and machines that so little practical recognition has been given to the fact that the most efficient worker, even at considerably increased cost, is far and away the most profitable. The most obvious demonstration of this exists perhaps in the case of a shop filled with expensive machinery working to full capacity, yet with

its production falling behind its orders. Would there be any hesitancy if its management could have an option offered between added efficiency and enthusiasm among its employees that would increase its potentiality a half through the enrollment of its labor force on the basis of capability to earn a largely increased wage, and the alternative of the necessity of adding 50 per cent to its plant and mechanical equipment? The truth is that seemingly there is not yet any general understanding among employers that a high gross payroll does not necessarily result from a high individual wage, or expressed in slightly different terms, that the cost per unit of production may be larger the lower the rate of pay to the individual worker.

A somewhat analagous principle is involved in the matter of working hours per day. The old-time practice indicated a theory that if so much work could be accomplished by a working-week of sixty hours, 20 per cent more could be accomplished in a working week of seventy-two hours. Reduce these figures to fifty hours a week as compared to sixty, and the theory does not seem to have been so completely discarded even now. Yet the facts are available from modern investigations of the physical and nervous reactions from fatigue, lack of variety incident to refinements of methods in specialization, and want of time for recuperative processes, to show that up to some definite limit actual gross production may increase under reduction of hours; or that up to some other limit a much larger proportionate production per hour of work may be secured. Moreover, these arguments have been proved again and again in the actual operations of progressive companies.

It is not to be understood that the employment department does have or should have final authority to govern these policies. But the department is in a position to study and compile data regarding these problems as very few other departments can; and either in initiating or contributing to investigations of all such matters affecting the human relations, it has opportunity for rendering the most valuable kind of staff service to the general administration and to departments associated with itself.

Industrial efficiency, with all its vital importance, is yet a means to an end, and not the end itself. It is the quality or manner by which a highly desirable result is to be accomplished, but it is not the result. It has too often happened that an earnest advocate

of efficient methods has become so engrossed in the technique of his profession as to ignore its purpose, to the consequent detriment of the general cause.

So it may be too easily with functionalized employment work. An office may be set up under the direction of a master of system, which in its operation shall be a model of method. Interviewing of applicants filling out of skillfully devised application blanks and filing them, and creation of numberless card records may be so conducted as to show these things to have been reduced to an exact science, and yet the value of the department remain problematical.

Of course, no effort must be spared to have the ways devised by which the best possible candidates shall be offered and chosen for the respective kinds of work. But the work is incomplete if it stops here. The good of the business is the criterion by which all accomplishment must be judged. If a high grade of labor has been secured, the company's interests demand that the environment, the conditions and the opportunities shall be made such as to hold it. The employment department cannot omit any legitimate effort to influence policies to this end. It must work helpfully and understandingly with other departments, without pride or arrogance. But it must work unceasingly with clear vision toward the goal of making its distinct contribution to the company's prosperity through the improved human relationships which it may help to develop.

THE NEW PROFESSION OF HANDLING MEN

BY MEYER BLOOMFIELD,

Director, The Vocational Bureau, Boston, Massachusetts.

For more than three years a new type of association dealing with the problems of hiring and developing employees has been at work in Boston. During 1911, the Vocational Bureau of Boston invited fifty men, who had in charge the hiring of employees in large shops and stores of the city and vicinity, to come together and consider the advisability of meeting regularly. As a result, the Employment Managers' Association was started.

The aims of this association are described as follows in the constitution:

To discuss problems of employees; their training and their efficiency.

To compare experiences which shall throw light on the failures and successes in conducting the employment department.

To invite experts or other persons who have knowledge of the best methods or experiments for ascertaining the qualifications of employees, and providing for their advancement.

It will be seen that the aim of this new association was to provide a professional medium for the exchange of experiences in a field where little interchange of ideas had taken place; to study the human problem in industry on the basis of fair dealing with the employee. In short, there was a conscious effort to make industrial practice square with the dictates of twentieth century enlightenment.

Since the starting of the Boston organization, the cities of New York and Philadelphia have formed similar societies. The present indications are that a country-wide extension of such organizations will take place, because the idea underlying them appears to be fundamental, and in accord with the aims of both industry and social service.

If such extension, then, of employment executives' associations should take place, the time is opportune to consider their purposes, and their possible contribution to right industrial relations. Bearing in mind the fact that the original effort for such type of associa-

tion came from an institution whose chief aim is the promotion of opportunity, the trend of development in such associations should be along the line of enlightened thinking in modern industrial organization. If their growth remain true to the initial aims, such associations are in a position to help unravel the tangled problems of misemployment, underemployment and unemployment, and the waste of human capacity in general.

When everything that present-day science can suggest in the way of improving technical efficiency in systems of cost-keeping, equipment, machinery and material has been adopted, the biggest of all industrial problems still remains to be faced.

This is the problem of handling men. Every thoughtful employer knows that managing employees, selecting, assigning, directing, supervising and developing them, is the one phase of management which is most difficult and complicated; and it is the one problem in industry which has in the past had least consecutive thought bestowed upon it. Not that employers have been unaware of the size of this task. Experiment after experiment has been tried with varying results, all of them aiming at the goal of welding the working force into a stable, dependable, and well-assimilated organization. And yet such organization is rare in modern industry.

Figures as to the change in the working force of various establishments are not easy to obtain, but enough are at hand to indicate an enormous leakage of employees each year in the average store, factory, and other places of employment. Many a concern employs each year as many persons as its total payroll. That is, there is a "turn-over" of employees amounting to one hundred per cent. The figures range from one-third to many times the total number of employees. How many employers have figured out just what it costs in dollars and cents to change an employee? How many have estimated the cost in terms of organization, loyalty, steadiness and esprit?

Obviously, an organization cannot be held together with ropes of sand. The coming and going of employees on such a scale as the data available would indicate cannot but prove a disintegrating force, a foe to sound organization, a source of unceasing mischief.

Employers, of course, appreciate more or less clearly what all this means. But few, however, have set themselves to study this problem as it should be studied. Some have with unhappy results

expected miracle-workers to solve this problem, and have toyed with strange employment schemes. Some employers have trusted to sleight-of-hand performances in hiring men instead of dealing with their big problem in the way they deal with other knotty problems. If to psychology they must turn, a psychologist and educator like Prof. E. L. Thorndike of Columbia, for example, could have shown them that the application of science to the problem of handling men involved long and painstaking, not to say exceedingly laborious, investigation. There is no royal road to solving the man-problem in industry. But there are ways, intelligent, common-sense and practically understandable ways, of setting to work. There are certain principles to be observed, methods to be adopted and standards to be maintained in dealing with the question of personnel, and adhering to these can alone insure a reasonable degree of success. In any event the waste and friction now involved in the average treatment of the hiring problem can be materially reduced.

In the first place, the proposition must be firmly grasped that handling employees is a serious business. Not everybody can or should hire; not everybody can supervise men. But it is to the employment department of the establishment that we must look for a solution; to its powers, duties, functions and place in the scheme of organization. And above everything else we must look to the character, training, equipment and place of the man who does the hiring.

It is at this point that thought can be most profitably bestowed. A new conception is needed of the functions of the employment department, and the qualifications of the employment superintendent. Not every concern has a special employment department, although the large establishments are giving up the system of hiring by department heads, and concentrating the selection of employees into a separate division. More and more the need is recognized of functionalizing the hiring and handling of men. Without such specialized treatment of this problem it is impossible to give the matter the attention which it requires. Moreover, the power to hire and discharge extended to a number of individuals has given rise to abuses and frictions which have cost the employer dearly. Nothing is more fatal to sound organization than such power without adequate supervision. Petty executives should never be en-

trusted with this vital function. Right relations cannot be secured by such a method. Hiring men and discharging men are serious affairs. Only big men can handle matters like these. Costly experience has settled this proposition. The human problem calls for its solution the best men and the most expert consideration.

This indeed is a moderate statement. To pump the life-blood through an establishment—this is what hiring men really means—is no trifling matter. The quality of the working force determines in the final analysis the quality of the organization, of its product, of its success. Nowhere is this fact more evident than in the organizations which sell service; for example, department stores and public service corporations. The point of contact between the business and the customers is always through the individual employee. The medium of communication is that very individual. The business is summed up as to its standards by this outpost in the person of saleswoman, telephone operator, or car conductor. Good will is made or unmade according to the type of representative. The larger the organization the more the units of contact. Business may be essentially impersonal, but it is highly personal in its service features. The teamster, driver, stenographer, floor manager, claim adjuster and scores of others act in a personal sense and with individual customers.

Who selects these people? On what basis are they selected? Is it all guess-work? Is it possible to standardize the work of selection? The business man who has not already asked himself questions such as these will do so before long. The whole drift of the time is in the direction of greater attention to the proper selection and supervision of the individual worker. It is no longer a by-product of other responsibilities, this matter of choosing help. It is no longer an inferior man's job.

The employment function is so important to good organization as well as right relations that the hiring office must be looked upon hereafter as one of the big departments of a business. Somewhere in the scheme of organization provision must be made for a well-equipped office to deal with the many problems concerning personnel. Only through such specialization can the solution be approached. In the first place, such office or department alone can deal with the task of scientifically organizing the source of supply of help. To depend on applicants at the gate, to hang out a want

shingle or to advertise through want columns or the medium of other employees is too haphazard a method. Raw material is not procured in this way. Scientific purchasing requires a study of markets, testing out of material and figuring of conditions. There is here no higgling and blind bargaining. The laboratory is frequently used to render the final verdict in favor or against a certain purchase.

Why has the hiring of men been permitted to go on with less systematic scrutiny? One reason has been the surplus, the labor reserve. This will not long avail, first, because industrial conditions and legislation are working to diminish, if not to wipe out, the excess of applicants for work on the fringe of every industry; and second, because wise business management recognizes the good sense of organizing the source of labor supply.

Source-organization assumes various forms. In the case of prospective executives, some large establishments employ "scouts," (not unlike those of major baseball leagues, who range the minor circuits for promising players), who visit periodically the colleges and other institutions and discover the men of promise. One of the leading manufacturing companies of the country is noted for its post-graduate business opportunities. Indeed, it has built its entire executive force practically out of the findings of its scouts. Another establishment recruits its rank and file from a careful canvass, a block-by-block, and house to house visitation of neighborhoods. One of the leading department stores in the East has made special arrangement with the high schools of its city and suburbs to send during Saturdays and vacation periods boys and girls for try-out work. They are fairly well-paid during the probationary period. When they have finished their school work, positions are awaiting them, based on the observations and the records of the employment department which is charged with this duty.

The source of supply, then, is the first job of a properly organized employment office. Ample powers are given such offices to reach out and tap the best reservoirs. There is no reliance placed on securing a competitor's help. The aim of such offices is to develop its own material from the raw. Permanence of work is secured by the fact that fitness for the work required is carefully ascertained in advance. Discharge is not in the hands of a variety of sub-bosses. Whim and prejudice are eliminated. The employment office aims to secure help that will find it worth while to stay.

To help in the proper appraisal of the employee's qualifications, the office keeps complete records, reports, observations and other data. Each employee may consult the file belonging to him. His story is on file, impersonal as a barometer. But the most important record of all at the start, in the right sort of hiring office, is that which begins with the application blank.

As one studies the application cards of various concerns the reason for misfits becomes clear. So little analysis of the work required has been undertaken that we have practically no specifications, no blueprints of job-requirements in order to enable an applicant to measure himself against the actual demands. Hit-or-miss is the prevailing method. Here we have one explanation for the labor turnover. The hiring office properly managed knows that a well-devised application blank is one of its first tasks.

Some time ago the application blanks of fifty leading corporations were collected. If one cut off the firm names, there would be difficulty in locating from the material the nature of the business it pertained to. The blanks showed little understanding of the specific requirements of the various occupations. There was little differentiation in the questions asked. Employees cannot be properly selected on such a basis. Each establishment must work out its own needs and demands and record them in the hiring blank. No conventional forms will do, unless selection be wholly given up.

In brief, to one who observes the current practice of hiring and discharging employees, the conclusion comes home with peculiar force that in no other phase of management is there so much unintelligence, recklessness of cost and lack of imagination. On the other hand, in the right organization of the employment scheme there would seem to be endless possibilities of genuine service, a service not possible even in the most benevolent of welfare projects.

The situation on the whole suggests the need of recognizing a new profession in the organization of industry—the profession of hiring and developing men. Executives will have to be trained for this work as they are trained for other important responsibilities. The employment manager, the executive within whose duties falls the direction of the personnel, must be prepared for this work as for a genuine profession. The handling of men in this century will call for unusual preparation in the way of understanding and a spirit of justice.

THE LABOR TURN-OVER AND THE HUMANIZING OF INDUSTRY

BY JOSEPH H. WILLITS,

Instructor in Industry, Wharton School, University of Pennsylvania.

While the social and economic doctors are holding clinics over the ills that have flowed in the wake of the industrial revolution, some attention may profitably be given to the question "Wherein will industry humanize itself?" While we are pondering over the whereabouts of the dividing line that separates those industrial evils which can only be eliminated by a greater degree of paternalistic government regulation, from those other evils whose eradication is so profitable that it can safely be left to individual initiative, it may be worth while to point out some spheres in the industrial field where more efficient management is just beginning to realize that there has been an unsuspected under-appreciation of the human resources. In other words, this article will attempt to point out at least one chief field where management is cutting down its own net profits by its failure to show sufficient consideration and regard for its employees.

To some extent management has been led into a general under-appreciation of the human factors by the development of machinery and the resultant simplification of tasks. Not long ago, I heard a nation-wide authority on the subject of the human side of industrial management, draw an analogy between war and industry. In war, before the invention of gunpowder, cannon, etc., the individual in battle was of supreme importance. Victory depended upon the strength and number of individual fighters. With the gradual "improvement" of our implements of destruction, from the days of the bow and arrow to the present seventy-five millimeter guns, the individual, as the winner of battles, has seemed to lose importance. The power of war machines came to accomplish a destruction apparently beyond the efforts of either man-quantity or man-quality. However, the experience of the present war has shown that, while the big guns can knock to pieces any fortification, there are relatively few places where the immense guns can be satisfactorily mounted.

Without control of these positions, the big guns are of little value. For the possession of such places the infantry must fight—man-power must win. The unit fighter has again become the important factor in the ultimate victory. The importance of the individual, apparently hopelessly dimmed by the big machines of destruction, again stands out as in the days of the bow and arrow.

A similar swing of the pendulum is to be noticed in industry. Big business after the first rush of growing big and using big machinery is beginning to wonder whether industry itself may not have lost something by its blind attention to the machine at the expense of the individual. The men with vision, who lead to the industrial world, see more and more clearly that it is the strength, skill, and willingness to coöperate on the part of the individual worker behind the machine that determines whether we shall get 40 per cent or 50 per cent or 90 per cent efficiency out of our imposing equipment of plant and machinery. Industry has failed to make use of its human assets.

One of greatest losses of human resources is in the excessive labor turn-over. By labor turn-over is meant the number of hirings and firings in a plant and the relation which that bears in a year to the total number employed. It is to this form of wastage of the human resources that this article refers.

The waste that is involved in the excessive amount of hirings and firings has been described as the "biggest waste that is occurring today" in the human side of management. One Philadelphia manufacturer to whom I wrote sums up the situation by saying, "You have absolutely put your finger on the sore spot in manufacturing today." One authority estimates that the average firm takes on each year as many new hands as are included in its normal working force—*i. e.*, it has a hundred per cent labor turn-over. The best large-scale study that has been made of the size of the labor turn-over and the loss that is thereby involved, has been made among a large number of employing concerns in the United States and Europe, by Magnus Alexander, head of the training schools of the Great Electric Company. Mr. Alexander's study,¹ which covered firms employing all grades of labor, shows that the number of employees in the firms considered, increased during the course of the year 1912

¹ See address delivered before National Machine Tool Builder's Association, New York City, October 22, 1914.

only 8,128 (from 38,668 to 46,796). Yet the records show that during the same period 44,365 people were engaged, indicating that 36,237 people had dropped out of employment during the year. In other words about five and one half times as many people had to be engaged during the year as constituted the permanent increase of force at the end of that period. Of all these people engaged, 73 per cent were entirely new employees.

Allowing for vacancies due to death, sickness and other unavoidable causes, as well as increases in the force, Mr. Alexander estimates the number of necessary hirings to be at least 22,140. But, "What should be said, however, of the fact that 22,225 were engaged above the necessary requirements?" Basing his statement on approximate figures furnished by the firms under investigation, and dividing the workers up into different groups, Mr. Alexander estimates the loss incurred by these firms, through the unnecessary hiring of employees, as approximately \$775,000.

A study of a representative carpet firm in the Philadelphia textile district shows similar results. In that firm, one-half of all the persons hired in the period from 1907 to 1915 remained less than ten weeks. Seventy-four per cent of all hired remained less than one year. (See Fig. 1.) The foreman testified that "hands didn't begin to do good work for eight weeks."

More significant than the actual cost of high labor turn-over, is the fact that the average firm has no definite knowledge of this cost and even very little appreciation of its existence. Firms have frequently assured me, with some show of pride, that, "while what you say may be true of some firms, our turn-over does not amount to over 10 or 15 per cent." Yet, time and again, investigation showed that the actual turn-over in these firms ranged from 50 to 100 or even 200 per cent. The lack of appreciation of this human-resource leak by the Philadelphia carpet firm noted above is illustrated by the fact that the records of employment-duration had never been compiled, although the foreman kept a record of the dates on which individuals entered and left the employ of the firm. During the process of compiling these records, the foreman manifested considerable interest; and, on seeing the results, remarked "Who'd a'thought it?" Even more significant of the under-appreciation of the size and cost of the labor turn-over, are the results of a canvass made of firms on twenty squares of one of the leading

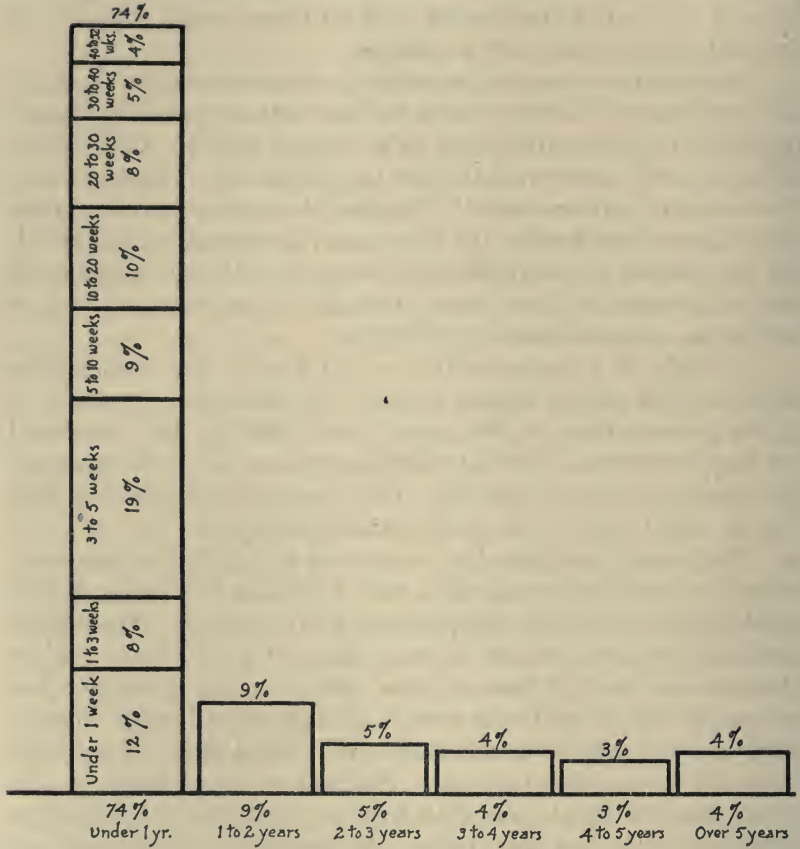


Fig. 1—Chart showing length of time male employees hired from 1907 to 1915 remained in the employ of one representative Axminster carpet firm in Philadelphia. The chart for female employees shows almost identical results.

streets in the textile district of Philadelphia. This canvass showed that of the twelve firms interviewed, eleven had no idea or record of the number of persons hired and fired during the year. The twelfth was so small that the number of new hirings during the year was easy to remember.

It is inevitable that, with time and especially as a result of the awakening that is taking place in industrial management, ignorance and disregard of this waste will gradually give way before a general enlightened attack. There is no question but that it can be reduced if the serious attention of employers is directed towards this problem. The experience of one Philadelphia firm in this connection is significant. In 1912 the firm was running with a force of about 800, and during the year, hired 799. About this time the firm began to realize the seriousness of the turn-over problem and to make a definite attack on it. A steady reduction of the labor turn-over resulted until, in 1914, although the working force now numbered 1,000 employees, only 186 persons were hired during the year. In other words the turn-over in three years was reduced from 100 to 19 per cent.

The mere reduction of labor turn-over is fraught with the most far-reaching human results. A 50 per cent reduction of labor turn-over would, if general, diminish by half the flow of employees from shop to shop; would diminish by half the frequency of the heartrending, degenerating hunt for a job. How degenerating this frequent shift from job to job is, may be illustrated by the case that was told me of a man who was forced, through unfortunate circumstances, to change his job eight times in the course of one year. At the end of that time he drifted back to his first employer. This employer ascertained that his efficiency had diminished by one-half from that cause alone. A 50 per cent reduction of this torrent of labor through factories, would mean a longer chance to acquire skill in one job; a better chance for the development of a personal relationship between employer and employee; and would mean, finally, that the labor reserve of each particular industry would be reduced, since the chance for the casual worker would be less.

Of even more significance than the mere reduction of labor turn-over, so far as human results are concerned, are the methods by which firms are attacking the labor turn-over leakage. Broadly speaking, if employees are to be held by a firm, more consideration must be

shown them. It will pay the employer to show more regard for his employees' interests—a fundamental force toward the humanizing of business. This regard includes a wide category of things, all the way from better wages to insurance policies and Maxfield Parrish pictures.

From among this wide variety of devices, the four following devices are selected as being the most effective in reducing labor turn-over and the most potent for obtaining human results:

1. Improvement in the methods of hiring and firing.
2. Improvement in the methods of training employees.
3. Reduction of fluctuations in employment.
4. Better wages.

1. The Methods of Hiring and Firing

The improved method of hiring and firing most widely recommended is the transfer of the authority in part or in whole from the foreman to a functionalized employment department² in charge of a high grade man, directly responsible to the heads of the concern. Anyone who has had the opportunity to inspect at close range the duties and mental calibre of the average foreman, must at once recognize that any step that will guarantee more intelligent supervision of the relations between the foreman and his employees, especially in such fundamentals as the hiring and firing of help, will work toward the humanizing of industry. A man of narrow experience and narrower mental concepts, this man usually has one thousand and one other duties to perform so that the hiring of help is purely an incidental thing. The result is that the job and the man may or may not fit each other—to the mutual injury of employer and employee. An extreme illustration of the result of leaving the ultimate power of hiring with the foreman may be found in the case of the Philadelphia textile factory, which advertised that on a certain day it expected to take on a number of weavers. On the morning indicated, a large crowd of applicants had assembled. When the doors opened, each of those in front rushed in and grabbed a machine. That was all the "choosing" there was.

The withdrawal from the foremen of the power of choosing the new help means that the firm is taking more responsibility for seeing that the square peg is put in the square hole so that it is better

² See Mr. Hopkin's article on page 112 of this volume.

satisfied to remain there. In short, the better run firms are appreciating that a man in a misfit job means not merely a discouraged worker and perhaps a mis-spent life but also a definite money loss to them. Hence many firms are assuming the responsibility for intelligent vocational guidance.

The average foreman is just as incapable of human and efficient firing as of judicious hiring. The foreman usually has risen from the ranks and his view is correspondingly narrow, which means that his sense of justice is apt to be low and his sense of prejudice high. To preserve his own power, he is apt to retain favorites, and fire good men because he sees in them possible rivals. He often feels that he has to fire some one about every so often to keep the "Fear of God in their hearts." The effort to establish supervision of the foreman's acts, that will be close and intelligent enough to reduce effectively the excessive firing, will necessarily involve a supervision from the same intelligent source of all the personal relations of the foreman and the worker. To realize the humanizing gain that will result from bringing the greater sympathy and brains of the actual heads closer to the workers, one must realize that a surprisingly large percentage of labor difficulties are occasioned solely by misunderstandings which arise from the arbitrary acts of some autocrat foreman, and not by any fundamental conflict with the real heads of the concern. How great this gain is, is illustrated by a few cases, the like of which may be duplicated in thousands from our industrial experience. An Illinois manufacturer "became aware of the real facts too late when he discovered that a serious strike had grown out of the arbitrary enforcement by a foreman of a useless foreman-made rule that certain three doors must be kept closed." A high official of one of the largest business concerns in Philadelphia once said, "I have seen my foremen do things over and over again that were absolutely cruel." A large lace manufacturer told the secretary of the National Lace Weavers' Association that he had more strikes as a result of the arbitrary and senseless acts of foremen than from any other cause. The more progressive firms are realizing that allowing the foreman, way down the line, to formulate the hiring and firing policy of the firm is poor business.

Progress in this direction is only just beginning. Even the existing functionalized employment bureaus are recognized as being, "underpaid, under-manned, under-intelligenced, and under-

equipped." Among the great majority of firms, the choosing of help is still in the entire charge of the foremen of departments. In the canvass of the twelve firms lying along twenty squares of one street in the textile district of Philadelphia, eight left the hiring and firing absolutely to the foremen, and three followed the same policy with slight supervision by the superintendent, whenever the foremen's methods should *appear* inefficient. In the twelfth concern, the head of the firm did the hiring.

2. *The Methods of Training Employees*

The second general cause for an unnecessarily high labor turn-over is the general lack of effective training systems. With the simplification of work due to the introduction of machinery, we have been carried away by the apparent lack of need for training. In many, if not a majority of cases, the only training the employee secures is the chance to watch some one else. I know of one textile mill, which is representative of many, where the older weavers are given \$1.00 a month extra to "train" new weavers. Not only do accurate costs accounting methods point out that such a system means low-grade work, spoiled goods, insufficient wages, and reduced output; but accurate employment statistics show that the man on whom no effort has been expended to make him fit for his job, is apt to be dissatisfied and, therefore, a "rover." Here also high labor turn-over is causing industry to adopt devices that have a broader human application than the simple reduction of labor turn-over.

3. *Reduction of Fluctuations in Employment*

In the third place, a sincere effort to reduce the labor turn-over involves an effort to make the productive situation of a plant uniform or as nearly uniform as possible throughout the year, because "part-time" or "time-off" is one of the chief forces contributing to a high labor turn-over.

To the worker, unemployment is the most inhuman characteristic of industry. What famine and black plague were to the middle ages, so is unemployment to the modern industrial world.³ In view of the almost total lack of any definite knowledge on this subject, the figures of the New Jersey State Bureau of Statistics of

³ See Miss Van Kleeck's article on page 90 of this volume.

Labor and Industry, which show that New Jersey plants ran at 74 per cent of normal operating capacity in the prosperous year of 1912, may be taken as typical. Superficially, unemployment is a problem of irregularity in production. That irregularity in production is partly a question of distribution and partly a question of production. To the extent that the small purchasing power of those who spend, *i.e.*, the working classes, makes it take four days to use what we can make in three days, unemployment may be a question of distribution, of underconsumption. To the extent that this irregularity in production is due to seasons, to changes in style, and the decadence of certain industries, unemployment is a question of production, of management. Obviously the increase of enlightenment in management will call employers' attention more definitely to the many losses from unemployment, one of the greatest of which is the disorganization of the labor force. As the sense of this and parallel losses spreads, the narrow and fatalistic concept of the power of the individual manager over fluctuations in employment will pass away.

The future attitude of employers toward the question of the steadying of employment⁴ and production is very well summed up in the following statement by a well-known firm which made efforts in that direction:

What we have accomplished in the direction of leveling the curve of seasonal work has been done chiefly through the selling end.

Our business in jewelers' boxes used to be extremely difficult because practically all of the output was made to order and work could seldom be started until May or June, and had to be completed well before Christmas. Our factory, therefore, used to be out of work from the middle of December up to the middle of May, and so seriously over-crowded from that time on that poor service was frequently given customers and our business considerably damaged. A few years ago we began to make earnest efforts to get box orders in earlier. After the first year or so of re-adjusting, we found our customers more than willing to help in this work so that today the majority of our orders reach us between the 1st of January and the 1st of June. This requires facilities for holding the goods until the date desired by the customer for shipping and of course ties up capital, but we are able to keep experienced workers busy the year through, are able to give almost perfect satisfaction in service to our customers, and through the consequent savings and increased business the cost of carrying the goods has been covered several times over.

⁴See Mr. Cooke's article on "Scientific Management as a Solution of the Unemployment Problem," on page 146 of this volume.

One striking effect which went way beyond our expectations was the improvement in quality of our output, which under the old system suffered more than we realized through the work of untrained hands and the crowding and strain of the fall season.

Our line of Christmas specialties has been handled in the same manner, though an easier problem, because none of these goods are made to order. Designs for Christmas 1915 were chosen in July, 1914, then approved and laid out as to the way they should be put up, etc., so that the sample run could be ready by March, 1915. The goods are then sold for fall delivery and the stock manufactured during the first six months of the year.

We have found it possible once or twice to add to our line an item or two that could be made to fill in a gap in regular employment; for example, we introduced Christmas cards printed with steel die in order to keep our die-printing crew at work during a slack three months.

Again, we have made good progress by substituting stock items for specials. For example, certain goods of a standard type, ordered periodically by our sales end, were manufactured special as the calls came in—sometimes in dull times, but more often during a rush period. By selecting certain lines and manufacturing a sufficient stock during the dull months the situation has been greatly relieved.

The containers which are used for our merchandise were formerly made by us at different intervals, but under the new plan the entire quantity is manufactured during the first three months of the year. Many other moves of this sort tend toward further relief.

Our problems are undoubtedly easier than those of some other industries; however, we feel from our experience that if the advantages of regularizing employment became appreciated by the employer, some possible steps will suggest themselves and these will in turn further steps so that considerable improvement, if not a big cure, can be effected.

4. *Better Wages*

It does not seem possible to avoid the conclusion that one of the advantages necessarily resulting from the reduction of labor turn-over, will be that of better annual remuneration. If this does not come about through better rates of pay, it will come through the greater efficiency of workers who result from the better training systems; and through the steadier employment that will result from the attack on the regular fluctuations of employment. It is worth while to point out that one of the devices used by the Philadelphia firm, who reduced its turn-over in three years from 100 to 19 per cent, was a slightly higher scale of wages.

These are the chief internal organization methods used by individual firms to reduce excessive labor turn-over. Outside of their internal organization there is plenty of evidence that a new

attitude towards labor problems is coming about as the labor turn-over education spreads. One of the most pregnant of these bits of evidence is the formation in Boston, New York and Philadelphia of associations of employers for the discussion and interchange of experiences regarding employment problems.⁵ One of the primary problems confronting these associations, in fact, the one which in some cases furnished the potent argument for the formation of such an association, was the problem of labor turn-over.

Another evidence of this significant tendency in modern industry is to be found in the work of Robert G. Valentine, of Boston.⁶ Mr. Valentine makes for industrial and commercial plants a "human audit" that is comparable in every way to the physical and financial "audits" made by the majority of firms. These audits show countless ways by which firms are incompletely realizing on their human assets through sheer obtuseness in management, largely the result of an incomplete knowledge and analysis of the actual facts within their own plant.

How far these tendencies will carry us in the humanizing of industry, we cannot say. They may, however, be sufficient for justifying more optimism than is at times felt.

⁵ See Mr. Bloomfield's article on "The New Profession of Handling Men," on page 121 of this volume.

⁶ See article "The Human Audit" in *Harper's Weekly*, July 17, 1915.

A NATIONAL SYSTEM OF LABOR EXCHANGES IN ITS RELATION TO INDUSTRIAL EFFICIENCY

BY JOHN B. ANDREWS,

Secretary, American Association for Labor Legislation.

"No one can today predict what the condition of the labor market will be at the conclusion of peace, how and within what period the flooding back of the soldiers to the workshops will be effected, what branches of industry will adapt themselves to the transition from war orders to peace orders most quickly and in the most extensive manner, and what rôle the influence of the seasons and the condition of foreign commerce will play therein." This was the calm statement made when in February, 1915, six months after the outbreak of the world war, a national conference of technical and employment experts met in Berlin, Germany. "The development by law of free employment offices is a problem for the solution of which measures must be taken even before the end of the war," was the declaration of all discerning men in technical circles in Germany as well as among those engaged in the administration of employment offices. "These measures, too," it was agreed, "should be taken as soon as possible in order that Germany may be better prepared for the violent fluctuations in the labor market which will occur at the termination of the war."

It was admitted that employment offices will properly fulfill their task only when they connect the demand with the supply in the entire labor market. In addition to this most important task it was agreed that they must create a basis for a reliable permanent census of the unemployed and must serve as a means of control of and as an auxiliary organization to a system of unemployment insurance. Moreover, the local organizations must be combined into district federations, and these, again, must be connected with a national central organization. And such an organization, it was declared, will make it possible to know the changing demand in the labor market and "to direct the shifting of the working forces which in our present economic system has become a necessity."

The hasty reader might infer from this that Germany has just

been awakened to the need of public employment offices. But, on the contrary, no other country has had wider experience with these institutions. No less than 323 local labor exchanges were in operation under public auspices in Germany at the outbreak of the war. The importance of the work was clearly recognized. To this conference in Berlin came representatives from the Imperial Department of the Interior, the Imperial Statistical Office, the Central Organization for Public Welfare Work, the Bureau for Social Politics, as well as the presidents of about forty central federations affiliated with the General Committee of the Trade Unions, and many employment office officials. All differences of opinion were set aside in order to achieve the great goal common to all, "the legal regulation and development on a large scale of the procuring of employment on the basis of self administration, under legal supervision, of all employment offices without exception." In other words, Germany recognized the necessity of welding together into a *national system* her scattered local labor exchanges, and the above principles for legal regulation proposed by the German Section of the International Association for Labor Legislation were unanimously adopted. "For the first time in many years," says the editor of *Soziale Praxis*, "the entire German organized labor world is here seen united and harmonious in favor of a great fundamental social reform, the successful fulfillment of which is in the highest interest of the public weal and is even a necessity in the interest of the welfare of the Empire and of the federal states."¹

Great Britain, after a careful investigation of employment bureaus in other countries, established her national system of labor exchanges five years ago. Before the outbreak of the war there were in operation 430 local bureaus of the British system staffed by full time officers, with which were connected 1,066 local agencies for the administration of unemployment insurance.

As the following table indicates, the number of applications for employment, the number of vacancies notified by employers, and the number of vacancies filled, have gone almost steadily upward since the system was put in operation.

¹ *Soziale Praxis*, Vol. XXIV, Nos. 21 and 22.

OPERATIONS OF BRITISH LABOR EXCHANGES, BY SPECIFIED MONTHS

Month	Applications for employment	Vacancies notified by employers	Vacancies filled
March, 1910.....	126,119	.....	20,395
March, 1911 ¹	142,382	47,811	37,711
March, 1912.....	178,317	72,650	55,650
March, 1913.....	209,901	95,862	68,783
March, 1914.....	222,204	99,089	74,578
March, 1915.....	213,464	137,908	99,188

¹ Five weeks.

The following table shows the usefulness of the exchanges for the first five years of their existence:

OPERATIONS OF BRITISH LABOR EXCHANGES, BY YEARS

Year	Applications for employment	Vacancies notified by employers	Vacancies filled
1910 ¹	1,590,017	458,943	374,313
1911.....	2,010,113	886,242	719,043
1912.....	2,423,213	1,286,205	1,051,861
1913.....	2,739,480	1,158,391	874,575
1914.....	3,251,646	1,425,174	1,076,575

¹ Eleven months.

The percentage in 1914 of vacancies filled to vacancies notified was 76 per cent.

Both Germany and Great Britain, then, have made definite progress toward the organization of their labor markets on a national basis. What is the situation in America?

It is apparent to any one who knows anything about the subject that our labor market in the United States is unorganized, even in ordinary times, and that there is a tremendous waste of time and energy in the irregular and haphazard employment of workers. It is this very great social waste which we are just beginning to appreciate, but every method for overcoming it so far tried in America has been painfully inadequate.

The first and simplest method of bringing workmen and work together is by unsystematic individual search. A man not recommended for a position by a relative or friend often follows the easiest course, that which involves the least immediate expenditure of money and thought. He starts from home and drops in at every sign of "Help Wanted."

"Help Wanted," scrawled on a piece of cardboard, is the symbol of inefficiency in the organization of the labor market. The haphazard practice of tramping the streets in search of it is no method at all. It assures success neither to the idle worker in his search for work, nor to the employer in his search for labor. On the contrary, by its very lack of system, it needlessly swells the tide of unemployment, and through the footweary, discouraging tramping which it necessitates often leads to vagrancy and to crime.

It is impossible to reckon the cost to the community of this methodless method. Beyond the tremendous waste of time, there is the waste incurred by putting men into the wrong jobs. The law of chance decrees that, under such lack of care, misfits must be the rule; and society now permits the daily process of attempting to fit a round peg into a square hole.

A second common method of connecting employer and employee is through the medium of advertising. About 2,000 newspapers published in New York State carry every year some 800,000 columns of "Help Wanted" and "Situation Wanted" advertising, at a cost to employers and employees estimated at \$20,000,000—an expenditure of about \$5 for every worker in the state. If the money spent brought commensurate results, there would be less ground for complaint. But at present an employer advertises for help in several papers, because all the workers do not read the same paper. The employee lists the positions advertised, and then starts on the day's tramp. At one gate fifty or a hundred men may be waiting for a single job, while in other places a hundred employers may be waiting, each for a single employee. Unnecessary duplication of work and expense by both parties is apparent. In addition to the expense, newspaper advertising also possesses inherent possibilities of fraud—210 formal complaints of this particular sort have been investigated by the New York City Commissioner of Licenses in one year. It is difficult for the newspaper, even if it always tries, to detect misrepresentations, and misrepresentation breeds distrust. The victimized

employee very rarely seeks legal redress. Either he is ignorant of his rights, or the game is not worth the candle to a man who owns but one property, labor, upon the continuous sale of which he is dependent for existence.

Philanthropic employment bureaus fail mainly because of the taint of charity which justly or unjustly clings to them, and have become for the most part merely bureaus for placing the handicapped. Self-reliant workmen are inclined to shun such agencies, and employers do not generally apply there for efficient labor. Charging small fees or none at all, these offices are unable to compete with the more active private agencies which spend large sums of money developing clienteles among employers and employees. Trade union "day rooms" and offices maintained by employers' associations have to contend with mutual distrust, while their benefits are at best limited to one trade or industry.

Private employment agents, doing business for profit, have sprung up in large centers, no fewer than 800 of them being licensed in New York City alone. While many of these operate with a reasonable degree of efficiency, their general character is picturesquely if not elegantly indicated by their soubriquet, "employment shark." In the year ending May 1, 1913, the Commissioner of Licenses of the City of New York reported the investigation of 1,932 complaints against registered employment agents, resulting in nine convictions, the refunding of more than \$3,000 to victimized applicants and the revocation of thirteen licenses. Among the worst evils laid at the door of the private agencies are charging extortionate fees, "splitting fees" with employers who after a few days discharge a workman to make way for a new applicant with a new fee, collusion with immoral resorts, sending applicants to places where there is no work, and general misrepresentation of conditions.

Public employment bureaus, designed partly as an offset to the abuses of the private agencies, date in America from 1890, when Ohio authorized the first state system. Today there are between seventy and eighty such bureaus, maintained by twenty-three states and by a dozen or more municipalities. These offices (with one backward exception) charge no fee, maintain a neutral attitude in time of labor disturbances, and fill positions, according to the official reports, at a cost ranging from four cents to two dollars apiece. In Wisconsin, where there are four state exchanges well

organized on the most approved lines, the cost in 1911 was about thirty-five cents per position filled. In Illinois, during the twelve years 1900-1911, there were 589,084 applications for employment, 599,510 applications for workers and 512,424 positions filled. Illinois now appropriates over \$50,000 a year for direct support of its state labor exchanges, of which eight have already been established. Illinois, in 1915, in reorganizing its public employment exchanges, specifically provided for coöperation with employers with a view to encouraging regularization of industry.

Notwithstanding the work of a few, these public bureaus are still far from furnishing an adequate medium for the exchange of information on opportunities for employment. Fewer than half the states are represented. Many of the managers are political place-holders of worse than mediocre attainments. Some of the offices exist only on paper. A uniform method of record-keeping has yet to be adopted. Statistics are non-comparable, and frequently unreliable if not wholly valueless.² There is practically no interchange of information between various offices in a state or between states. In short, workmen are still undergoing want, hardship and discouragement even though often within easy reach of the work which would support them, if they knew where to find it.

Nor does the evil end there. Every one who has studied the problem realizes that method and system in putting men and opportunities for work in touch with each other will not of themselves prevent over-supply of labor or of jobs. They will do so no more than the cotton exchange guards against an over- or an under-supply of cotton. They will serve merely as levelers in the scales of labor supply and labor demand. Besides the unemployment which is due to the failure of men and jobs to find each other, there is much due to other causes which even the best system of employment exchanges would not directly eliminate.

But every one realizes that these other causes of unemployment cannot be successfully attacked without a basis in comprehensive, conscientiously collected information such as cannot be furnished by our present machinery for dealing with the problem. Under present methods there exists no automatic, cumulative means for collecting the facts. That results, of course, in exaggerated

²Mr. Solon De Leon furnishes an admirable and crushing analysis of existing statistics, in the *American Labor Legislation Review* for May, 1914.

statements in both directions. Our paucity of information on this complex and vital question has continued, even though labor problems in one form or another have taken the lead as subjects for legislation. Without a nation-wide system of labor exchanges, no basis can exist for anticipating in an accurate manner the ebbs and flows of the demand for labor. Without concentration of the information now collected and now held separately in thousands of separate organizations throughout the land, the possibility of looking into the future, or of profiting by the past, is out of the question.

It was a growing realization of the foregoing facts which inevitably led to the demand for a federal system of public employment bureaus. Such a system would cover the whole country. Without superseding either the state or the municipal exchanges already in existence, it would supplement and assist the work of both, dovetailing them with its own organization into an efficient whole. Country-wide coöperation and exchange of information would then be an accomplished fact instead of merely a hope. Statistics for the study of unemployment and for the progressive development of new tactics in the campaign against it would be co-extensive with the national boundaries and comparable between different parts of the nation. The regulation of private agencies would be a natural function of the federal bureaus, and the troublesome "interstate" problem would be solved by an interstate remedy. Finally, the greater resources at the disposal of the federal government would provide better facilities for carrying on the work than the states could provide, and would command the services of more able social engineers than are found in most of the state exchanges at present.

The lack of coöperation, the failure to interchange information of vital importance to workmen and employees, is one of the sad features of the public employment bureau situation at the present time. Here is a great field for the standardizing activities of a federal bureau. The scattered public agencies must be brought into full coöperation with the federal system and with one another. Information of industrial opportunities must no longer be locked within the four walls of each office, but must flow freely to other offices and to other states. In the hands of the proposed federal bureau more than in any other agency lies the opportunity of bringing order out of the present chaos. It could devise, in coöperation

with public employment officials, a standard record system, encourage its adoption by the various agencies, and assist them in installing it. It could encourage the adoption of a uniform method of doing business and of appraising results.

The suggestion of a national system of public employment offices for this, perhaps the most highly developed industrial nation of the world, comes not as an untried notion, but as a workable, proved possibility.

Several bills, looking to the establishment for the United States of a federal system of labor exchanges, were introduced in Congress in 1914. Action was deferred to permit the federal Industrial Relations Commission, which publicly announced that it had begun work upon the problem, to bring in a bill of its own. But the federal commission failed to do so at that or at the succeeding session of Congress. Meanwhile, under limited powers and in response to the growing public demand, the Department of Labor, in coöperation with the Department of Agriculture and the postal authorities, has extended its work and established the beginnings of a federal labor exchange system with branches in various cities through the country. But this development is admittedly inadequate. If the United States is to compare favorably with Germany and Great Britain in efforts to increase industrial efficiency through the establishment of a national system of labor exchanges, the importance of the work must be appropriately recognized by Congress.

SCIENTIFIC MANAGEMENT AS A SOLUTION OF THE UNEMPLOYMENT PROBLEM

BY MORRIS LLEWELLYN COOKE,

Director, Department of Public Works, Philadelphia.

Thomas Carlyle in his *Latter Day Problems* has said that "the 'Organization of Labor' is the universal vital Problem of the world." This seems to summarize my interest in scientific management. I believe that through a genuine science of management we are going to get more of what Mr. Carlyle had in mind by "organization" than by any other grouping of industrial mechanisms or by any other system of industrial philosophy.

Management, of course, must be both efficient and scientific. But it must be democratic as well—ultimately every party at interest must have a fair share in its conduct. Just as surely it must be built essentially out of coöperation and not out of strife and loss. And more important than all, the principles upon which it rests must be grounded so deep in eternal justice and the fear of God as to afford a basis for an ever-expanding idealism.

It is not necessary for me to argue that unemployment as a social evil is not only always with us but is always widespread. It has been responsibly estimated that the average annual periods of unemployment are for instance: 25 per cent in the textile industries, as high as 40 per cent in the building trades, 6 to 12 weeks in the shoe industry and 20 to 30 per cent among those engaged in printing and binding.

A telling picture of the concrete results of unemployment in the lives of men and women is given in a letter from Miss Mary Van Kleeck of the Sage Foundation. The story of Rose, the little Italian, who earns her living making artificial flowers, and who had worked so many places she could not even remember the names, makes one eager to help to bring science to the ordering of this haphazard industrial régime. For weeks at a time Rose had no work when she needed it most. This happened again and again—each time apparently for a different reason. Her ups and downs

were without regard to the normal labor demand and in no way occasioned by her own efficiency or inefficiency.

We did not need Rose's testimony that "I am awfully scared they will lay me off. The worry makes my head ache so I cannot sleep nights" to know that the "fear of unemployment" is one of the worst—if not the worst—burdens carried by the working classes, and doubtless a very potent influence towards national inefficiency.

This industrial disturbance which we broadly characterize as unemployment is brought about by almost numberless different causes, important and trivial, known and unknown, operating both at home and abroad, both inside and outside the factory, and both regularly and spasmodically. Any effort to reduce the total amount of unemployment whether in the nation as a whole or in an industry or in the individual factory presupposes an analysis in which the effects of the several operating causes are clearly isolated for individual attack.

"Steady employment" can be made very largely a problem of the individual employer. It is true, of course, that the ebb and flow of immigration, fluctuations in the tariff, general trade booms and depressions, and such world cataclysms as the present war bring about unemployment. But my theory is that the problem of unemployment is a problem of *good* times rather than of *bad* times and that say 90 per cent of all the unemployment which makes men and women suffer and which demoralizes and degrades them can be eliminated by proper organization *within* our factory walls.

A good many manufacturers work on the theory that periods of employment or unemployment are "wished on" us or come largely as "Acts of God." So the stroke of lightning may be taken as an evidence of a Divine dispensation. But this does not prevent us from erecting lightning rods to guide this power back to Mother Earth in such a way that no harm is done. In the same spirit scientific management takes the hopeful view as to these interruptions in employment. We say that unemployment is something that must be reduced to a minimum—yes, removed from our industrial system.

William Ostwald, the great German scientist and philosopher, has pointed out that the change from a pseudo-science to a real science only comes when we begin to use the knowledge we have as to the present and the past to build a future which we then proceed

to make come true. The astronomer bases his predictions as to the future on the race-long accumulation of data. But in doing so he marks out the progress of events in which he has no part except that of the observer. In the science of industry, however, we humans have the power—if we can get that point of view—to write the formula for the future according as we see what will be for the benefit of our kind. God give us the light then to see this future in colors as glorious to the many as the past has been glorious for the few!

The principal bar to any large accomplishment in this field is our inherited fondness for things as they are. Walter Bagehot has said, "There are many persons to whom a new idea gives positive pain." In another place he has pointed out how honestly we have come by our dislike for change. Usage he describes as something which antedates law. In some parts of China even today land tenure without either ownership or leases is the rule. The ruler—call him emperor or president—theoretically at least, owns the land as well as the people. Of what use is a lease to a people that cannot read and that is without law? Usage alone gives the individual Chinaman his opportunity to till a certain piece of soil and thus to eke out his subsistence. In a community like that even the tendency to change becomes anti-social—a crime. If I were a Chinaman so situated and I saw one of my neighbors begin to tie his queue in a novel way, he would become my enemy and the enemy of my people. Could I be assured that if he made a minor change in this matter he might not change his ideas as to more important matters? Once recognize the possibility of change in one individual and it might become contagious. Then the fateful day eventually *might* come when I would be told to get off my land—yes, and in the absence of a lease and of law there would be nothing to do but to get off. And this is only a picture of how society at one time or another everywhere viewed change in the abstract. Bagehot has pointed out how necessary it was in the development of the ideas of nationality and community action for the race to pass through countless ages in which change was *taboo* in order that we might acquire the cohesiveness necessary for progress. So we all come honestly by our antipathy to change. Therefore we can afford to be very charitable to those who have difficulty in adjusting themselves to any new order. Perhaps we may today justly anticipate that progress among us will involve an ever-increasing rate of change.

The crux of that phase of the unemployment problem which I am discussing here is the acceptance on the part of the employer of the responsibility within certain definable limits to keep a *given number of men and women steadily occupied and at regular wages*. The outcome will be the same whether the employer strives for this result on account of a more or less altruistic interest in his employees or on account of those money-making considerations which appear to afford ample argument for it or because both of these motives actuate him.

The goal for a given establishment is a definite number of employees each working full time—without overtime—and at maximum wages and with no changes in the personnel. This 100 per cent result is not possible of achievement but is a good standard with which to compare such results as are attained.

Every industrial establishment should theoretically at least give itself a rating as to the number of men and women it employs. This figure will change from time to time and in a successful plant will constantly tend to go up. But neither additions nor subtractions from this number should be made without more thought than is usually given to it. After an industrial establishment has decided to make conscious effort to keep a full staff fully employed, to add to the regular number of employees without adequate reason may just as surely operate against accomplishing this desired result as it will to cut down the staff.

Again, employees must be allowed to earn full time, otherwise there is no special gain through keeping the full complement "employed"—except possibly in the periods of greatest general depression where our efforts are usually reduced to keeping the industrial ship afloat. (It has always been the custom in Philadelphia to lay off for the three winter months most of the day laborers employed by the Bureau of Highways. This year we kept them on even though they could make only three days a week. If we had not done this most of these men would have been compelled to go to the Emergency Relief for aid.)

Frequent changes in personnel—even when the total number of employees remains fairly stationary—is one cause of unemployment and constitutes perhaps the worst malady of American industry. The average employer in this country hires and discharges as many men in a year as he employs. When I first heard this state-

ment made by a national authority on the subject, Mr. E. M. Hopkins in charge of the Employment Bureau of the Curtis Publishing Company, it seemed to be an exaggeration. But taken the country over, the average man has to seek a new job once a year. In some trades the rate of change is even higher. I am informed that in the clothing industry the "hirings and firings" run from 150 to 250 per cent of the total number employed. A wonderful record of improvement in the matter of the labor turmoil is afforded by the experience of the firm of Joseph & Feiss, Cleveland, Ohio, during the last four years:

	<i>Standard Pay roll</i>	<i>New Hands</i>	<i>Per cent</i>
1910.....	1,044	1,570	150
1911.....	951	807	85
1912.....	887	663	75
1913.....	854	569	66
1914.....	825	290	35

Of this I am convinced that any employer will be surprised if he takes the trouble to get definite figures so as to see how many men he actually put on in any one year in comparison with the number he steadily employed.

This very frequency with which the average American changes his employer seems to have suggested the undue importance as mitigating agencies which has been accorded to labor exchanges—municipal, state and federal. We need such exchanges undoubtedly and we want them to be the most effective in the world. But at best they represent only the beginning of the attack on the problem.

Again the statement is frequently made that it is up to the government—federal, state and municipal—to provide work for the unemployed, especially in times of great industrial depression. Only a little figuring as to the amounts of money available for public improvements will convince you that at best government work can only be used to ease off the worst of the distress at the peak of unemployment. And as long as we depend upon the statistics furnished by labor unions and the charity organization societies, we will never know when the peak occurs.

Where the work of an establishment is at all complex, it hardly ever happens that we have for each employee just the right amount of work of the kind he or she is best qualified to perform—there is apt to be either a feast or a famine. Too frequently this condition

is allowed to cause a break in employment. In fact this is probably the principal cause of lost time for those having so-called regular employment. Under scientific management this great cause of economic waste can be cut out—largely through teaching employees how to do more than one thing and at least reasonably well.

Our industrial establishments are constantly hiring people in one department and laying them off in another. In the lower grades this can be much reduced simply by having one employing agency for the entire establishment. In the more skilled operations a planning room and a well-developed system of functional foremanship¹ (the foremen—or some of them acting as coaches or teachers) are required before it is possible to teach people to do new things quickly.

In front of a large clothing house in Philadelphia there is a bulletin board on which the concern is constantly making known its wants as to workmen and workwomen. It recently read:

Ticket girls	Feller Hands
Sewers	Canvas Basters
Girls	Pressers
Edge Basters	

A large hosiery plant in Kensington has the following signs hanging in the doorway ready to insert in the "Help Wanted" sign:

Examiners	Pairers	Girls
Welters	Loopers	Winders
Boarders	Folders	Knitters
Menders	Toppers	Boys

The head of this mill was recently asked whether they ever used an excess of one kind of workers to do temporarily another simpler grade of work and the answer was "No." I am not familiar with either the clothing or hosiery industries but I do not have to know much about them to know that establishments advertising in this way for "help" are not scientifically managed—indeed they are pretty helpless. Obviously all the operations called for on this schedule are so simple as not to require any segregation by trades. Under even a relatively crude type of factory management it should be possible to teach workpeople of average ability in a very few days—if not in a very few hours—to perform any of these operations.

¹ Fully described by Mr. Taylor in *Shop Management* published by Harper Brothers.

To advertise for such detailed industrial ability is really ludicrous judged by the every day assumptions of scientific management.

M. Fremenville, a distinguished French metallurgist and manufacturer, has stated that the most remarkable thing he had seen on a recent prolonged visit to this country was the way in which at the Plimpton Press, Norwood, Mass., the management had taught the women workers especially to do two and three different operations in addition to what they considered their several specialities. Mr. A. E. Barter, superintendent of this plant, wrote to me some time ago in regard to this:

Many of our girls know how to operate three different machines and are expert at one or more of the manual operations, such as pasting, gathering, hand-folding, gold laying, etc. That they have this knowledge is due to the fact that scientific management has

First:

Demonstrated the advantage both to the firm and employees of training workers to do more than one kind of work.

Second:

Made it possible to select employees who can learn to do the different kinds of work efficiently.

Third:

Furnished facilities for training the people in the shortest time and with the least effort.

Fourth:

Furnished an incentive for the worker. This incentive may be either financial or the opportunity for advancement or both.

With these selected and trained workers, with a normal amount of work, our regular employees will have practically no lost time even during the slack season and their pay should average from 20 per cent to 30 per cent more than under the old system. Workers properly taught soon become bonus earners. Having earned bonus on one kind of work they "get the habit" and when put at other work are not satisfied until they can earn bonus on the new job.

The training of workers to do several kinds of work efficiently, the central control of the work and good routing make it possible.

A To do a certain amount of work with fewer employees.

B Reduce cost.

C Give workers a higher wage.

D Give workers more steady employment.

E What is, perhaps, most important of all, it stimulates and develops the worker.

There can be no question but that without scientific management we could

not have trained the workers to do the different kinds of work and they would not have had as regular employment.

A convenient mechanism which assists in this work is an expense charge symbol which we call "retainers." In case we have a high-priced employee and give him work of a somewhat lower grade than that which he is accustomed to perform, our cost-keeping system permits us to charge the excess up to "retainers," which latter is then spread as a general business expense over the whole product. We use the same accounting device for taking care of the superannuated employees who are no longer able to compete in the matter of output but the question of whose discharge cannot be considered.

In Miss Van Kleeck's book *Women in the Bookbinding Trade* is given a schedule of advertisements which were printed in the *New York World* from July 1, 1908 to June 30, 1909, a period of one year, in which those in charge of these trades in New York City advertised for 1,064 people. Especially interesting is the fact that they advertised for 26 forewomen. During this same year I doubt very much if there was a single advertisement for help placed by any concern operating under anything approximating scientific management and I am quite sure that during the entire history of the movement no one has ever advertised for a foreman or a forewoman. Our methods are so different that those trained in the school of thumb-rule and personal opinion make very poor leaders in an establishment where scientifically determined facts are the guiding stars. Advertising for workpeople is usually—almost invariably—an indication of poor management.

Among the other causes of unemployment which are more or less directly caused by the individual employer (or the effect of which may be almost fully counteracted by the efforts of the individual employer) some of course operate entirely outside the factory such as:

1. *Seasonal demand*

a. Calendars for instance are usually wanted for delivery in December. It is customary largely to increase the finishing room staff beginning late in the summer. Four girls put on for one month in December require four times as much room as one girl put on September first and four times the teaching. A minimum of planning and routing on this class of work has proven that so much of it can be done during the late spring, summer, and early fall, that very little increase in the force is absolutely necessary.

b. Again the demand for shoes is very largely a question of

seasons. Printed as an appendix to this paper is a very remarkable memorandum prepared for me by a splendidly managed shoe manufacturing concern doing an annual business of somewhere around \$15,000,000 in which are summarized the results of ten years of study of the unemployment problem. As a result of this work they have more than one plant where the daily output has not varied by more than one per cent over a period of several years.

c. School books are usually required in late August and September. Under scientific management one factory has worked out arrangements with its customers and planned its manufacturing so that nearly all overtime in the so-called "rush season" has been cut out. Formerly a large part of the employees worked until 10 p. m. during the six hottest weeks of the year.

2. *Intermittent character of work*

a. The work of stevedores incident to arrival and departure of vessels. In work of this kind a central agency acting for several different companies would tend to lessen the necessary periods of unemployment—perhaps to almost remove them.

b. The mailing of monthly publications is another example of this class of work. Our largest periodical publishing house in Philadelphia has only recently put a stop to laying off its mailers once a month by finding other things for them to do when not actually engaged in mailing.

3. *Rise and fall in demand due to changes in style*

a. The narrow skirts of a season or two past threw thousands of women out of work. From the standpoint of scientific management this great change and its effect upon the labor situation should have been foreseen, and something planned by those leading this industrial army whereby the great distress caused by the change could have been avoided.

b. One shoe concern maintains four men on the road all the time,—salesmen who do not sell,—in order to get the earliest possible advice as to changes in style and demand.

4. *Inventions of new machines*

a. One of the most enlightened labor leaders and most expert machine type-setters in the country told me that he walked the streets for nearly a year after the invention of the type-setting

machine, peddling groceries and not always making \$10 a week. This was before someone waked up to the fact that having been a good hand type-setter, he could probably be taught to be a good linotype operator.

The following causes operate largely within the industrial establishment itself:

1. *Carrying a larger number of employees on the payroll than are actually needed*

a. In the Kensington textile district of Philadelphia this appears to be the rule. An employer having a mill which running entirely full might require 500 hands will carry say 450 on the payroll but give work actually to 400. This means that on the average 50 are kept reporting for work and are told to come back tomorrow or next week. Since the most valuable hands would quit if they were treated this way, it usually happens that it is the least efficient and lowest paid men who get the unsteady work, thus adding to their demoralization. I am informed that this intermittence of employment is so usual that in this district it has had the effect of making hundreds of men living there really incapable of continuous work. After they have worked "steady" for a week or a month they lay off of their own accord because they can't stand the strain. In other textile mills while they start the same number of men to work in the morning the closing hour is advanced to four o'clock, to three o'clock or even earlier, according to the amount of work on hand. Of course these two arrangements are essentially the same and in the end cause the same amount of unemployment. These practices are followed in good times and bad. The Secretary of our local Lace Weavers' Union (one of the most reliable labor men we have met) reports that part time employment is so permanently the rule among the lace mills, that in his opinion the average lace worker has not made ten weeks on full time in the last five years. This is, of course, in large measure due to the attempt of the employers to hold as large a labor reserve as possible. The conditions which led up to the Lawrence strike were very largely the same except that in that instance it was a whole town where more men and women were housed and held than could possibly be given work under any set of conditions which might reasonably be expected to occur. Our wide-open immigration policy frequently gives rise to the same condition on a national scale.

2. *Frequent changes in standard production, according to volume of orders in sight*

a. A remarkable instance of this is an eastern locomotive building concern which on two occasions within the last ten years has laid off more than 75 per cent of its force almost over night. On January 1, 1908, this concern employed over 19,000 men and six weeks later had less than 8,000 working half-time. No industrial community can absorb such peaks of labor supply, no matter how efficiently it may be organized. I never understood how this could occur until I was recently told that for years this concern has regulated the number of its employees by the total volume of business booked so many weeks ahead. Running a manufacturing plant of the size of this one is too big a job for such simple arithmetical rules. Such methods smack too much of acquiescence in what is handed to you—too little of that type of optimism which as President Wilson says “makes an opportunity out of every lemon.” An army of 19,000 men has a right to demand more resourcefulness on the part of those in command. The time will come when public opinion will force resignations from the inefficient leaders of an industrial army just as it does from those who fail the nation in military enterprises.

3. *Lack of balance between different manufacturing departments*

a. This is altogether a problem in scientific control both of selling and manufacturing.

4. *Lack of stock*

a. Mr. Taylor developed fully twenty years ago what has since become the standardized and fairly uniform practice of dozens of establishments in the matter of purchasing, receipt and storage of materials. Delays due to no stock or the wrong stock have been practically eliminated.

5. *Stock taking*

a. I am constantly hearing of concerns in all parts of the country which stop all operation to take an inventory. Most of our Philadelphia textile mills lose from one to two weeks a year taking stock. One lace mill is now shut down for twelve days taking stock. One cannot help being reminded of Lincoln's story of the steamboat

which had to stop every time it blew its whistle. Stock taking in this sense should be, of course, a thing of the past.

6. *Lay off because employee has earned more through piece rate than regular weekly wage*

a. This is a good example of those insidious and below the surface causes of unemployment, of which there are many. If Molly Brown happens to be rated as a nine dollar a week girl and also happens by Thursday night to have earned \$9.30 through having what are called "fat" jobs, she is frequently laid off by the fore-lady. Or if the necessities of the work allow a so-called "\$8 a week girl" to earn \$16 in one week, she is very apt to be told to stay home the next week so that for the two weeks she will average her regular wage. This is the means frequently taken by those in charge to maintain respect for inequitable piece rates. I have never known a factory using piece rates where this device in some form is not practiced. The only relief is a scientifically determined wage scale.

Then of course there are many causes of unemployment for which the employee is principally or altogether responsible, such as:

1. *Coming in late*

a. By issuing late slips and making everyone coming in late give a full, even if inadequate reason, this can be gradually cut out. Raising the general efficiency of the individual employee has a beneficial effect.

2. *Illness*

a. High wages and the type of discipline that goes with scientific management invariably improve the health standard. A regularly employed shop nurse can help a great deal in this matter. One shoe concern some years ago figured the total expenses of its shop nurse at 67 cents per employee. Concerns too small to have individual shop nurses can share one, each paying a prorated share of the expense. Thus, in Walpole, Mass., I know of four smaller concerns which hire a nurse in common.

b. A "booze fighter" coming in on Monday and about 9 a. m. determining that the factory is no place for him can usually be put back to work by the nurse after a good dose of aromatic spirits of ammonia. The man gets his wages, his family is spared the dis-

grace of his return and the employer keeps his machines going. Again an employee who coughs too regularly will soon hear from the nurse.

3. *Home conditions*

a. A good social worker can keep many men at work by straightening out all sorts of home tangles, which through her experience she is able to handle with precision and efficiency.

4. *Incompatibility as between two employees. Sometimes a foreman is concerned*

a. The establishment of an employment bureau in charge of all "hiring and firing" is the only logical solution of these complexities. One disciplinarian for the entire establishment as advocated by Mr. Taylor soon does away with the necessity for much disciplining. Captain Benson, just made the operating head of the U. S. Navy, when he was Commandant of the Philadelphia Navy Yard, insisted that the case of every man who voluntarily left the service of the yard should be investigated. He held that it was almost an insult to have a man willing to voluntarily retire from the service of Uncle Sam. Such leavings were usually the result of friction or misunderstandings.

A good deal of money may be required, if you are going to be able to really make an impression on this problem. You must be ready every once in a while to pay for spoiled goods (I hear some one saying "We have spoiled goods anyhow!") because obviously if you are going to teach people to do new things they are not going to be as adept when they start as they will be a little later on. And if you are going to fine people for spoiled work while you are teaching them you will not be a very popular teacher. Again, you must be ready to put some capital into storing work ahead. This is true for instance in the printing of school books where the principal demand even for standard works covers only a few weeks in the late summer. It is usually cheaper to pay a little interest on outlays for materials and labor and spread out the work and thus steady employment than it is to have everybody working feverishly—and at overtime wages—at the peak of the demand. It takes money as well as effort to hold people worth holding. But if you are going to make a "good thing" of educating people in your plant,

you must hold them after they are educated. It is a pretty expensive game to teach the same thing over and over to different people.

This fact has been so thoroughly accepted by the largest employers in and around Boston, Mass., that for several years past they have been supporting in larger and larger numbers a society which has for its object the study of the problem of unemployment. Recently similar organizations have been started in New York and Philadelphia.

Perhaps our crude methods of determining costs should be referred to as a factor in this unemployment situation. My friend, Mr. Henry L. Gantt, one of the very ablest of the exponents of scientific management, has recently said on this point: "In the past it has been pretty common practice to make the product of a factory at a portion of its capacity bear the whole expense of the factory." Mr. Gantt offers the theory that the amount of expense to be borne by the product should bear the same ratio to the total normal operating expense, as the product in question bears to the normal product, and that the expense of maintaining the idle portion of the plant ready to run is a business expense not chargeable to the product made. As he says: "This latter expense is really a deduction from profits, and shows that we may have a serious loss on account of having too much plant, *as well as* on account of not operating our plant economically." If it was possible to estimate, it would be interesting to know the amount of idleness which might result from a false concept such as that which Mr. Gantt is combating. Again, general trade price schedules in some industries and especially in some localities operate so as to produce rather than diminish unemployment.

We are told that labor unions are opposed to work-people being taught to do more than one thing—or perhaps only that they discourage it. I have gone into this with a number of labor leaders and I am sure that there is nothing in the labor union attitude which is essentially antagonistic to the practice. The ground for this feeling is that the unions—perfectly properly it seems to me—have sought to guard against the use of this scheme by the unscrupulous to lower wages permanently, either for individuals or for groups.

How many industrial plants with which you are acquainted keep any record of the annual earnings of employees? Yet this

is the *one vital question* that is supposed to animate you and me almost more than all others put together. It seems to me that any proper attitude toward the individual employee will almost inevitably lead to the voluntary and at least tentative establishment of a minimum annual compensation for each worker. If this is done a quarterly report as to wages actually earned—a quarterly payroll in which actual earnings for the period are contrasted with a quarter of the projected annual pay—will be a convenient device. The use of such an employees' record card is another illustration of how scientific management does everything in its power to avoid herding employees, or putting them all on the same level; on the contrary we try to individualize them. We *attempt* at least to establish in the factory the relations with which we are happy as a nation so familiar in the home.

One of the most efficient safeguards of proper conditions in a factory is publicity. And there is no place where publicity is needed more than in this matter of the payroll. We can afford in America to pay men and women what they are worth. It is good business to do this. If some one else wants to pay any one of them more than he or she is worth, it does you no harm to facilitate it. Being an economically unsound practice, it does not happen often. So I think it is altogether in the line of progress that some concerns are opening their payrolls freely to those who may have a proper interest in them. The fullest possible understanding in these matters tends toward industrial stability.

A very primitive philosophy of salesmanship seems to be at the bottom of a good deal of unemployment. Of genuine vision as to finding markets and distributing product we have had almost none. Mr. Farrell of the Steel Corporation, Mr. Ford of automobile fame, and the shoe manufacturing concern to which I have before referred suggest the future. The *selling end* for some reason has had too much authority in most concerns as compared to that given to the manufacturing end. If orders so accumulate that normal production in a given period must be increased by half, the selling force expects the manufacturing end to be resourceful enough to cope with the situation. Almost a minimum of effort, however, is made by the salesmen of most establishments to bring in orders so that the peaks of demand for deliveries are evened off and manufacturing thereby assisted. Salesmanship has too fre-

quently meant only selling to unwilling buyers or securing undue margins of profit. No great business of course can be built on such policies.

Attention should also be called to the fact that the separation of the selling and manufacturing ends of a business makes for unemployment. Time after time, Mr. J. H. Willits of the University of Pennsylvania, who is studying this unemployment problem for the City of Philadelphia, has been told by textile men in Philadelphia, "We are not sellers, we are the manufacturers. That's enough for one concern." So long as the manufacturer is content to sit and take whatever orders are handed him and whenever they choose to come, he is disregarding the power he has to regularize production by regularizing demand, or at least planning ahead against known irregularities in demand, so that production at least shall be regular. Moreover, where the manufacturer has placed the selling all in the hands of one agent, that agent selling the goods under his own brand, not the manufacturer's, comes to represent his entire market. The agent, therefore, dominates the manufacturer. Agents in this position "lay down" when hard times appear. As a result the production curves of firms who have deeded away the control of their selling, drop much more quickly when hard times occur, go down farther and come up more slowly.

This lost control of the selling contributes to irregular employment in yet another way. Since the agent sells under his own brand, not the manufacturer's brand, he can, without inconvenience to himself divert the orders that he is giving to Manufacturer A to Manufacturer B. Manufacturer A's whole trade is gone and serious unemployment results before he can readjust himself.

The manufacturer who "farms out" his selling does not have his ear to the ground. He is slow to readjust himself to changes in demand. For example, the hosiery market in the last five years has come to demand less and less heavy cotton goods and more and more thin, imitation silk, or silk goods. The manufacturers who are in touch with the market recognize this as a permanent change in demand and have adapted themselves to it. Many who deal through selling agents are still making thick goods. Unemployment must result from any such miscalculation of the market.

Especially in such periods of business depression as those through which we have just been passing the average salesman

becomes almost a fatalist and really assists to make the situation worse. Perhaps if we had a keener sense of responsibility to keep our people employed in good times as well as bad, we might have keener wits to bring to bear on the problem of finding things for them to do. Surely the growing size of our industrial units and the widening sphere of industrial coöperation suggest a great field for this kind of industrial adventure.

Such experience as I have had suggests definitely that a decided business advantage accrues to those who pay high wages and give continuous employment. To make such policies pay dividends, however, requires men not only leaders with brains and vision but men to whom effort and struggle are inseparable factors of any successful industrial régime.

I cannot leave you however with the impression that scientific management would lose interest in these measures for the doing away with unemployment even if they did not promise larger and more steady profits. In the long run these measures will neither be adopted nor rejected on considerations affecting dividends or wages, but on the one eternal question—are they founded in fair dealing? All the moves on the industrial chess board are not dictated by money considerations. Even the so-called “economic man” is in these days laying on some human qualities. Indeed we are beginning to realize that there are possibilities for romance even in our factories. And both the employers and the employed are more and more going to become interested in this quest as science and mutuality of interest point the way.

APPENDIX A

NOTES REGARDING UNEMPLOYMENT IN THE BOOT AND SHOE MANUFACTURING INDUSTRY

I. UNEMPLOYMENT

Resulting from:

- A. Seasonal demand for product where employees are laid off and work on short time for a considerable period.

Notes: In the majority of shoe factories, particularly in the large shoe centers, this causes shoe workers to be unemployed for periods ranging from eight to sixteen weeks per annum; in some cases more than this. Many of the employees are laid off entirely but more often are obliged to work on very short time and at greatly reduced wages.

How Improved:

1. By education of distributors to a realization that in the long run this lost time has to be paid for in the product and by getting their coöperation with this Company by working on monthly estimates, put in at the beginning of the season. In busy periods customers who order above their previous estimates are cut down on deliveries in favor of customers whose estimates are not overrun. Customers are not held strictly to monthly estimates, but failure to follow them is regarded as a sales problem and is freely discussed.
 2. By the manufacture of special goods, made up without orders and sold through a special department created for that purpose. This department sells goods only when allotted to it and sells them through special distributing channels, giving special values and special terms.
 3. By distributing through both wholesale and large retail trade whose deliveries come at different periods.
- B. Frequent changes in standard daily production policy of factories, according to volume of orders in sight.

Notes: Many factories have no standard daily production basis, but change frequently, taking on or laying off help as needed. Roughly estimated, this causes unemployment of from two to four weeks per annum; in many cases much more.

How Improved:

1. By adopting and holding absolutely to a uniform standard daily production basis for each factory. Many of our factories have run for periods of several years, putting into the factory each day a production varying not over one per cent.
2. When orders do not in a monthly period or block equal the factory capacity, by filling in with special stock goods in small quantities, to be distributed through the special department previously mentioned. (See 1-A-Item 3.)
3. When goods needed to fill monthly delivery blocks are necessary, by asking distributors to send in orders on staples to fill shortages.

II. LOST TIME OF EMPLOYEES THROUGH DAILY AND HOURLY INTERRUPTIONS

Resulting from:

- A. Employees coming late; lost time inconsiderable.

How Improved:

1. By "In Late Pass System," a proper investigation by foreman, and discipline where needed.
- B. Employee going out or being laid off early, due to lack of work or stock. (Estimates lost time two to five weeks.)

How Improved:

1. By organizing material purchasing and supply system, based on pre-determined sheet system, which gives purchasing Departments ample time to purchase all material to exactly meet daily requirements, and to know absolutely when goods must be delivered in the various departments to meet the product in which this material will be needed.
 2. By adopting a pre-determined standard daily production and by holding rigidly to it, foremen are enabled to compute accurately the number of employees needed on each job.
 3. Pre-determination of employees needed on each operation is facilitated by fact that all work is piece work, based on standard average production of operation.
- C. Lost time due to fluctuation on special operations or in special departments, due to variation in the class of product. Estimated lost time one-half week. Estimate ten per cent of employees lost five hours a week, fifty weeks a year, equal one-half week.

How Improved:

1. By system of routing work into factories, not only uniformly in pairs per day, but also uniformly in pairs per day in certain types of product, such as Patent Leather Shoes, Bluchers, Tan Calf, Button Boots, etc. Where production on these items varies, whole operations or departments may work under badly fluctuating loads. By routing such types of work into the factory at a uniform rate per day for pre-determined periods these operations are given a steady production, as well as the operations through which the total production passes.

There are many other ways similar to the above by which unemployment problems on special operations or departments can be wholly or partially solved. By keeping constantly in mind the necessity for steady employment it is usually possible to bring about good, or reasonably good conditions.

To secure vacations for employees the entire business is shut down for the Fourth of July week, giving employees an opportunity to get rested just before the hot weather.

June and November are our most difficult months. We formerly closed four days in June and four days in November for stock taking. This was discontinued several years ago. Except for this inventory period there have been only one or two seasons in ten years when factories have been closed, and then only for one- to four-day periods.

SIMPLIFIED COST ACCOUNTING FOR MANUFACTURERS

BY WALTER B. PALMER,

Special Agent, United States Bureau of Foreign and Domestic Commerce.

The object of conducting business is to secure profits. Nothing that relates to manufacturing is of more importance than "costing." Efficiency rules may be applied in an excellently equipped factory, but, unless the proprietor has an adequate cost-finding system, he is liable to suffer financial loss. If he does not know, with a close degree of accuracy, what the different articles he manufactures have cost, and at what prices he can afford to sell them, he is not in a position to meet competition intelligently, and he invites business disaster. Under conditions as they existed formerly, he may have been satisfied with the profit earned on his whole line of products, as shown by his annual balance sheet, but in these days there is the keenest competition in almost every line of manufacturing, and the survival of the fittest is the inexorable law of the business world. Even if a manufacturer is satisfied with his yearly profit, which his balance sheet shows, he should know on which particular products he is making the most profit, and on which he is making only a narrow margin of profit or losing money. Intelligent costing would enable him to distinguish between the profits on different products, to discontinue the manufacture of products sold at a loss, to limit the sales of products on a small margin of profit, and to give more attention to the manufacture and marketing of products on which the largest profits are realized.

Cost accounting is especially important for manufacturers with small or comparatively small capital, in order that they may meet the severe competition of those who manufacture on an extensive scale. As a rule, the large manufacturers have, not only the most improved machinery and most efficient methods of production, but also very accurate cost-finding systems.

The comparatively small manufacturers have not been so slow in equipping their factories with up-to-date machinery and in adopting efficiency rules as they have been in planning a system by which they could know the actual costs of their different units of produc-

tion. Any investigation of this matter which may be made will show that an amazing number of American manufacturers have practically no costing system or only the crudest sorts of systems.

Most manufacturers know the cost of materials and the direct labor cost for each unit of production, but do not intelligently distribute the general expense, or "burden," or as it is commonly termed the "overhead." Many of them add to the material and labor cost for each unit what they think, judging from past experience, the charge for overhead should be, and fix prices accordingly, but if they manufacture any variety of products, such guess work will surely lead to a diminution of profit or to financial loss.

In recent years the profession of cost accounting has developed, but the small manufacturers, constituting much the larger number, have been much more backward than the large producers in adopting the methods of this branch of efficiency. They complain of the fierceness of competition, yet do not avail themselves of a costing system which would protect them against selling at a loss and insure larger profits. Perhaps the principal reason for this backwardness on the part of the small manufacturers is that they think they cannot afford to pay the fees which are charged by efficiency experts for installing cost accounting systems. A simple, inexpensive and yet accurate costing system is one of the crying needs of the small manufacturers today. Regardless of the expense of the installation of a scientific system by professional cost accountants, some of the systems are so complicated as to preclude their general use, because they are beyond the grasp of the ordinary small manufacturer.

Many small manufacturers employ as bookkeepers men, and often girls, whose accounting experience is so limited that they can scarcely prepare a profit and loss statement or an annual balance sheet, and who would be utterly unable to figure out an elaborate system of costing. And yet, simple, practicable systems can be adopted which come within the comprehension of inexperienced bookkeepers, and by means of which a satisfactory knowledge of the costs of different products can be obtained.

There are two elements of cost, raw materials and direct labor, which can be ascertained for different units with close accuracy, and these are usually the largest elements. Almost any manufacturer knows just how much raw material is used in any unit, and knows the cost of the direct labor. If he pays his employees on the piece

price basis, he knows the cost of the direct labor per unit exactly. If the direct labor, or part of it, is paid on the time rate basis he generally knows, from records of production, the average time required by his employees to produce a certain unit. Knowing the cost for materials and for direct labor, the problem is to find the proper burden for general expenses to apportion to each different unit. This is the great stumbling block in the way of an incredible number of manufacturers.

There are three systems of costing, all of them simple, which are more or less used. They may be designated the quantity method, the direct labor method and the prime cost method.

The Quantity Method

By this method the total general expense during the preceding business period, that is all expense except for raw materials and direct labor, is divided by the number of units produced, and the quotient is added to the cost of materials and direct labor for each unit. This may be expressed as follows:

$$\frac{\text{Burden, last period}}{\text{Number of units produced}} = \text{Amount of burden per unit.}$$

If, for instance, during the last period the entire cost of manufacturing and selling were \$100,000, and the raw materials cost \$50,000, and the direct labor \$30,000, the burden amounted to \$20,000. If, therefore, 10,000 units were produced during that period, the burden for each would be \$2. Of course the amount for raw materials used in the computation must be the amount actually used during the last business period, and not the amount purchased, which may be more or less, and this requires that there should be inventories of raw materials at the beginning and end of the period. The amount for raw materials, that is materials used in the unit, should be kept distinct from factory supplies.

This method of costing is the simplest of all methods, and where only one kind of goods is manufactured it is the most accurate of all systems. A concern that manufactures only one kind of typewriter, for instance, would not need a more perfect system, but obviously this method is very defective if applied in a factory where goods of varying values are produced.

The Direct Labor Method

By this method the burden charge is made on the basis of the cost of the direct labor for the unit, in the proportion of the total cost of direct labor to the total amount of burden during the preceding period. This may be expressed as follows:

$$\frac{\text{Burden, last period}}{\text{Direct labor payroll}} = \text{Per cent of burden per unit.}$$

If during the last period the total direct labor cost amounted to \$30,000, and the burden to \$20,000, a charge of 66.67 per cent of the direct labor cost of the unit should be made for burden, that is should be added to the cost of materials and direct labor for the unit.

Where units are produced which differ in labor cost, this method is much more accurate than the quantity method, but it is defective where raw materials of different values are used in different units, for the reason that under it the more expensive grades of goods would not carry their proper proportion of burden.

The Prime Cost Method

By prime cost is meant the sum of the cost of raw materials and of direct labor. By this method the burden charge is made on the basis of the sum of the cost of raw materials and direct labor for the unit, in the proportion of the total cost of raw materials and direct labor to the total amount of burden during the preceding period. This may be expressed as follows:

$$\frac{\text{Burden, last period}}{\text{Raw materials plus direct labor payroll}} = \text{Per cent of burden per unit.}$$

If during the last period the cost of raw materials amounted to \$50,000, the cost of direct labor to \$30,000, a total of \$80,000, and the burden amounted to \$20,000, a charge of 25 per cent ($\$20,000 \div 80,000$) of the prime cost of the unit would be made for the burden, that is should be added to the prime cost.

This method provides for the distribution of the burden on the unit much more accurately than the quantity method, where materials of different values are used in different units, or where more labor is employed on some units than on others; and this method is more accurate than the direct labor method, where more labor is employed on some units than on others. In costing by any method a charge should be made against the cost of the unit to cover the average loss from waste and seconds.

Any of the three methods which have been described are easy of application, even by clerks who have little accounting experience. Another method is, however, recommended as more accurate and nearly as simple. For want of a better designation, it may be termed

The Dual Method

The prime cost method is accurate for computing the burden on units which vary in the cost of materials and the cost of labor only when during the last business period the value of the products equalled the amount of the net sales. There would be an inaccuracy if the net sales amounted to more or less than the production, because the burden for the cost to sell should be computed on the amount of the net sales and not on the production.

By the dual method the ratio of burden for the unit is computed on the prime cost, during the preceding period, for indirect labor and for factory expense, because these portions of the burden are related to the amount of the production, but the selling expense is computed not on the amount of production but on the amount of the net sales. The ratio of burden for administrative expense is also computed on the amount of net sales as the base, because administrative expense is perhaps more nearly related to the amount of net sales than to the value of the production, though this may differ in different industries.

If, for example, the expenses during the last period were \$50,000 for raw materials, \$30,000 for direct labor, \$4,000 for indirect labor, \$3,000 for factory expense, \$6,000 for administrative expense, and \$7,000 for selling expense, making a total of \$100,000, but if the net sales amounted to \$110,000, the percentage of burden for the unit would be computed as shown in the following illustration:

Expenses, last period		Per cent of burden for unit
Raw materials	\$50,000	
Direct labor	30,000	
	<hr/>	
Prime cost	80,000	
Indirect labor	4,000	5.00 (\$4,000 ÷ \$80,000)
Factory expense	3,000	3.75 (\$3,000 ÷ \$80,000)
Administrative expense	6,000	5.45 (\$6,000 ÷ 110,000)
Selling expense	7,000	6.36 (\$7,000 ÷ 110,000)
	<hr/>	
Total	100,000	
	<hr/>	
Net sales	110,000	

These percentages are used to find the burden for a unit which is intended to be sold at \$10, for instance, and the cost of which for raw materials was \$4.25 and for direct labor \$2.55, as illustrated below:

Raw material	\$4.25	
Direct labor	2.55	
	<hr/>	
Prime cost	6.80	
Indirect labor	.34	(5% of \$6.80)
Factory expense	.255	(3.75% of \$6.80)
Administrative expense	.545	(5.45% of \$10.00)
Selling expense	.636	(6.36% of \$10.00)
Waste	.043	(e.g., 1% of \$4.25)
Seconds	.068	(e.g., 1% of \$6.80)
	<hr/>	
Total cost	8.69	
Profit	1.31	(13.1% of \$10.00)
	<hr/>	
Selling price	10.00	

As a matter of fact most goods are manufactured to sell at certain prices, which are determined in advance, and if the specifications, for raw material and for labor are found to be too high to allow a fair profit at the determined price, cheaper material or less labor is used.

The dual method may be varied by basing the percentage of burden for indirect labor and factory expense on the direct labor cost, instead of the prime cost, and it is claimed that for some industries, where the materials used differ but little in cost per unit, this modified method is more satisfactory.

In order to compute the burden by the dual method, accounts should be kept for the foregoing mentioned items, and they may be subdivided as appears below:

Raw Materials

Direct Labor

Wages of all employees in manufacturing occupations
 Paid to contractors
 Paid to home workers
 Total direct labor

Indirect Labor

Salaries of officials, chargeable to manufacturing
 Wages of factory superintendent and foremen

Wages of designers
 Wages of employees in sample department
 Wages of other general help-machinist, clerks in factory,
 (not general office), floor boys and girls, etc.
 (not including engineer and fireman)
 Total indirect labor

Factory Expense

Rent of space used for manufacturing and shipping departments
 Power, heat (or fuel and wages of engineer and fireman), light, and water
 Repairs on equipment
 Depreciation of equipment
 Fire insurance
 Workmen's compensation or employers' liability
 Welfare work
 State, county, township, and municipal taxes
 Other factory expense
 Total factory expense

Cost of Administration

Salaries of officials, not chargeable to indirect labor or cost to sell
 Salaries of general office force and auditor
 Rent of general office
 Office supplies, stationery, postage, telegrams, telephones
 Insurance—other kinds than fire
 Expense of collection and legal service
 Bad debts
 Corporation tax
 Other administrative expense
 Total cost of administration

Cost to Sell

Salaries of officials, chargeable to sales department
 Salaries, commissions, traveling and general expense of salesmen
 Wages of other employees in sales department
 Rent of showroom
 Packing materials
 Cartage and freight outward
 Advertising
 Other selling expense
 Total selling expense

Waste and Seconds

Loss from waste
 Loss from seconds
 Total

Such accounts can be kept very easily if a specially ruled ledger is used. Some of the items under factory expense might not im-

properly be entered under cost of administration, their placement being a matter of opinion, but as these items are usually small, the result in computing the burden on a unit would be little if any affected by a transfer of them from one account to another.

In computing the proportion of burden for the unit on the basis of production and net sales during the preceding business period, the results would be more accurate if the profit and loss statement were made semi-annually, instead of annually, and still more accurate if such a statement were made quarterly. In making computations by any method it should be borne in mind that the cost of materials and direct labor, while usually the largest elements of cost, are those which are most liable to fluctuation, and in calculating the burden on the basis of the last period the differences in the cost of materials and direct labor at that time and at the time the computation is made should be taken into consideration.

When a manufacturer gets out new styles he must be particularly careful in costing if all or any part of the direct labor is paid on the time-rate basis. In making up samples for salesmen to take out on the road he should make time studies of the several direct labor operations, to ascertain as nearly as possible the direct labor cost per unit. When the goods to fill the first orders received are manufactured, he should check up his first computation by the cost to manufacture in quantities, and if there is a difference, he should adjust the selling price per unit accordingly. If it should happen that his price for goods of a certain style, as given to the salesmen, is too low to afford a profit, the earlier he checks up his first calculation of the cost for that style, the less money he will lose.

While all of the methods of costing which have been described are comparatively simple and inexpensive, and while for most factories one of these methods would be found entirely practicable and satisfactory, it is not claimed that for a highly organized factory, with many departments, any of these methods would be as accurate as one which would be adapted to the particular needs of the plant, and which might be devised by cost accounting experts after a complete, careful study of the factory conditions.

In a highly organized establishment the departmental method of apportioning burden should be adopted. Certain burden charges should be made against the whole production of the factory, certain charges against the production of particular departments only, and

other charges in part against the production of the whole factory and in part against the production of particular departments. If a cotton mill, for instance, sells yarn and cloth, the factory expense for the weave room or for the cost of indirect labor in that room should not be made a part of the burden on the product of the spinning room. In a printing plant the product that is printed only should not be charged with the expense for the bindery department.

The great need of adequate cost finding among American manufacturers has been emphasized. The subject has been discussed in national associations of manufacturers from year to year, but, so far as known, no association has approved any particular system. In many lines of manufacturing, whole industries have suffered from the general lack of intelligent costing. The unintelligent or unprogressive manufacturer often makes prices to undersell his competitors, not really knowing whether he is making or losing money on the goods he sells, but in some cases thinking he is making money when he is actually losing. So much business is done in this cut-throat manner that even establishments which have installed elaborate cost-finding systems have been forced to abandon them and revert to the ruinous policy of meeting the competition of reckless business rivals regardless of consequence. They do this to hold their trade, hoping that profits on some lines will compensate for losses on other lines. The result is that many lines of the manufacturing business are cut to pieces. The national manufacturers associations could do no greater service for their members than to urge them to adopt adequate cost-finding systems.

WORKING CONDITIONS NECESSARY FOR MAXIMUM OUTPUT

BY NORRIS A. BRISCO,

Author of *Economics of Efficiency*.

The nineteenth century has been justly called the century of the machine. Inventions followed one another in rapid succession, and machines became more and more highly specialized. Managers of industrial plants sought to obtain greater efficiency through two sources, first, the acquiring of more improved and more highly specialized machines for the different processes of production, and second, through better designed buildings and more carefully arranged machinery, so as to allow production to be carried on in all of its stages with a minimum expenditure of time and energy. During the last quarter of the century, production increased with rapid strides. Manufacturers realized that if industrial expansion were to continue at its rapid pace, more extensive markets must be obtained. By the last decade of the century, markets in many cases had become national, and at its close, many manufacturers to continue their business expansion were compelled to seek world markets for their goods. The resulting keen competition drove manufacturers to tax their ingenuity to devise methods for lowering costs. Attention had been centered upon improved machines, better designed buildings, more carefully arranged equipment, and economies arising from large-scale production. The closer study given to these factors of production made clear the limitations upon them. Attention was now turned to the human factor, and manufacturers soon recognized its importance in business activities. This factor so long neglected is at present recognized as the most important to lower costs, make possible successful competition, and pave the way for greater industrial growth and expansion.

Machines depend largely for their output upon the labor attending them. The worker should thoroughly know his machine to obtain the best results from its working. This has been recognized since the introduction of machinery, but the manufacturer has

failed until recently to realize the necessity of knowing his workmen in order to obtain the best results from their labor.

The effect of environment upon workers is great, and there is an intimate relation between the conditions which surround workers and their output. Machinery is carefully protected from dust, kept well lubricated, and in good repair, but in the average plant, until recently, little thought was given to the human heads and hands which operate the machines. Just as machinery is affected by environment, so is the worker, but more so, because he is sensitive to slight changes in the conditions which surround him. Maximum output in the average plant depends in a large measure upon the worker's physical and mental well-being. Light, ventilation, temperature, humidity, dust, air, odors, and gases are some of the factors which should receive careful attention in every plant.

Light in a plant has a direct bearing upon output. According to experts, the normal capacity of workers may vary 20 per cent under proper and improper lighting. Proper light affects workers in different ways, as, it causes greater accuracy in work, saves eyestrain, permits greater rapidity of work, reduces the number of accidents, improves the quality of work, decreases costs through less spoiled work and fewer mistakes in work, and lastly discourages slovenly work and soldiering. There is no fixed standard for light, as plants vary in the character of work performed, and in the amount of light required. The best light is natural light. Experts have proved that after three hours of work in ordinary daylight, there is little change in the working efficiency of the eyes, but after the same period of work in artificial light, the keenness of the eye is decreased and there is a distinct loss in muscular adjustment for accurate vision. Artificial light does not furnish the pure white ray of the natural light, as its rays are red, yellow or violet. The vision is perfect and there is less strain to the eye with natural light than with artificial.

The average manufacturer has only recently learned the value of an abundant supply of natural light, and in factory building has taken special pains to obtain as large an area of glass as possible. Roofs as well as walls should be used for window space. The saw-tooth roof with the glass portion towards the north gives a good diffusion of light. The window glass in order to give the greatest diffusion of light should be pure white, ribbed or prismatic. The

walls and ceiling of a factory have an important bearing upon light diffusion. White is a bad color, as it frequently gives a glare which is injurious to the eye. Creamish white or greenish gray are the best colors, as they cause good diffusion of light and do not glare. Walls, ceilings, and windows should be kept clean, because if dirty and dingy, they prevent proper light diffusion.

During many months of a year, it is impossible to get a sufficient supply of natural light during the entire working day, consequently an artificial lighting system is necessary in every plant. Due to the absence of danger from fire, to no gases being given off, and to causing no material increase in temperature, the electric light has decided advantages over gas. Electric light gives the best satisfaction in artificial lighting, and should be used wherever possible. The artificial lighting of every plant should be carefully inspected to see that the following injurious conditions do not exist; excessive light, insufficient light, glare, strong contrasts, flickering, heat or odors from light, and shadows. A too brilliant light is as injurious as a poor one. This is frequently caused by a poorly arranged system of lighting fixtures. The source of light should never be on a level with the eye of the worker. Glare is very fatiguing and straining to the eye. It may come from lights, walls, or ceilings. Frequently a slight change in the arrangement of fixtures, and the addition of frosted globes prevents much eyestrain. Care should be exercised to see that the walls and ceilings do not glare. A cream kalsomine gives good diffusion of light, and at the same time does not glare.

A steady uniform light is what is needed in every plant, and care should be exercised to see that it is obtained. Flickering and strong contrasts are very injurious to the eye. Strong contrasts are caused by some defect in the electric circuit, and this should be remedied as soon as possible. Serious ill health often arises from poisonous odors given off by gas lamps. In one factory, sickness was reduced 50 per cent by changing from gas to electric lighting. If a plant is lighted by gas, a frequent inspection should be made to ascertain if the workers in any way suffer from the products given off by the combustion of the gas. If gas jets are too near workers, discomfort, headaches, and sickness are frequently caused from the effects of products given off, or from the heat of the burning gas. Poor lighting and gloomy surroundings have depressing bodily

and mental effects upon workers. The efficiency of workers, and consequently the output of a plant, are increased through the provision of proper light. Too great emphasis cannot be placed upon the importance of proper light, and it is only recently that its bearing upon output is being realized by the average manufacturer.

The discomfort of a stuffy room is apparent when it is entered. No worker can do efficient work in a stuffy, ill-smelling, or overheated room. Such conditions foster drowsiness, lack of ambition, inaccuracy, carelessness and poor work. Workers are forced into these faults through the environments in which they work, and yet they are blamed and criticized for them. Pure fresh air of proper humidity and temperature is a pre-requisite for maximum output in any plant, and no effort or expense should be spared to supply it. It is rather remarkable that many shrewd business men who are always on the alert for improvements to increase profits have overlooked pure fresh air, a most important factor in securing maximum output. The obtaining of air so that workers may work under the most favorable conditions demands the closest attention of every manufacturer. The chief factors to be considered in securing air best suited for efficient work are temperature, humidity, air movement, dust, and fumes.

Manufacturers forget that workmen do more in the cool morning, not only because they are physically fresh, but because the air they breathe is fresh and exhilarating. There is no reason why the air in the afternoon should not be as fresh as it is in the morning, and the manufacturer who has fresh air for his workmen during the entire working day has an important factor working for increased efficiency of his working force, and a larger output from his factory. An enterprising English manufacturer could not get the same output from his working force in the summer as in the cooler months. He installed a ventilation system and electric fans, and the output of the summer months was greatly increased. The additional output paid for the expense of the improvement the first two months of service. A hot, sultry factory causes a listless, half-hearted working force which results in a decreased output. Overheated factories are a menace to the health of workers during the winter months. Workers pass from the overheated rooms to the cold air on the outside. Their vitality is lowered and they become easy prey to colds and different maladies. This results in impaired health and

frequent absences, and either hinders increased efficiency or curtails output.

An important problem for every manufacturer is the prevention of overheating, and the practical method for reaching this end is the changing of air. Ventilation or air change is obtained either by natural or by artificial means. In a large room where only a few people are working, proper ventilation may be secured through windows, doors, cracks, ceilings, and floors, without special provision for the purpose. In the average factory, proper ventilation by natural means is impossible, and some artificial system must be used. The average worker produces about as much heat per hour as is given off by the burning of two candles. In many factories, this is increased by the running of machinery, lighting, and other sources of heat. The problem is to force out the heated air, and to have cool, pure air take its place. If the air comes from the outside, it should be made in temperature a little below that which is normally felt to be comfortable. This is invigorating to workers. In summer time, it may be necessary to cool the air, while in winter, the air should be warmed. The latest device is to take the air from a room, cleanse and cool it, and then force it back again. Methods of ventilation are many and should be suited to meet each factory.

The air in every factory should be in motion. In this respect, it should be like the air in the open which is constantly in motion. A basic principle of ventilation is not merely that pure air should be forced into a factory and foul air expelled, but that the air should be changed in a way, so as to produce a steady movement of air in every part of the factory where workers are at work. Proper circulation or movement is an absolute essential in securing suitable air conditions for efficient work. Experts declare that the air in a factory should be made to move at the rate of from two to five feet per minute.

Space is also an important problem in ventilation. Experts vary in their opinions as to the minimum space per person from two hundred and fifty to four hundred cubic feet. The proper space does not guarantee good air conditions, but simply prevents overcrowding to the point where it is impossible to secure proper air conditions. When the space is less than two hundred and fifty cubic feet per person, it is impossible to get proper air conditions, but above that, they may be secured in some cases by natural, and

in others only by artificial means. Proper air circulation is an absolute essential in ventilation. English experts discovered that without proper provision for air change, the condition of the air was no better in factories with over five thousand cubic feet of air space per person, than in those with an air space of under three hundred.

Air contains water in the form of vapor from 30 per cent to complete saturation. A certain amount of water is daily given off by the skin. When the air possesses a high percentage of moisture, it lessens evaporation, as it has little drying power, and the water from the skin is with difficulty evaporated. A chief method for cooling the body is the evaporation of perspiration. When the air is hot with a high percentage of moisture, it increases the effects of heat, and discomfort, headaches, and even fever follow. This condition may become so intensified, that the temperature of the body greatly exceeds the normal, and heat exhaustion follows. Excessive dryness of the air is also harmful. It increases evaporation, the skin becomes dry and the mucous membranes of the mouth, eyes, and respiratory passages are irritated. It also causes discomfort, irritability and nervousness. Haldane has shown that as far as the psychological effect is concerned, a very high temperature with low humidity is about the same as a very low temperature with high humidity. When the temperature rises to eighty degrees Fahrenheit with moderate humidity, and about seventy degrees with high humidity, depression, headache and dizziness manifest themselves. Haldane found that at seventy degrees Fahrenheit with saturated air, the temperature of the body began to rise, that is, fever set in. The best air condition for efficient work is a temperature between sixty-five and seventy degrees Fahrenheit, with an average humidity of from 60 to 70 per cent. In every plant, special care should be taken to avoid extremes of heat, cold and moisture.

A comfortable temperature, a moderate humidity, and a proper circulation of air are necessary factors for maximum output. A slight variation of incoming air from that of the air in a factory invigorates and stimulates workers. Working in a high temperature, workers soon become listless and careless in their work, which has an important bearing upon output. Lack of proper air conditions causes drowsiness, discomfort and headaches, and leads to devitalized bodies which become easy victims to all kinds of diseases.

Proper air condition not only assures better health in a working force, but increases efficiency. It is an absolute prerequisite for maximum output in every plant.

The air in a plant is never as pure as that on the outside. It is always polluted more or less by the decomposition of substances, by the products of combustion, and by the wear and tear of tools, machinery, buildings and materials. Workers always tend to add impurities in germs and organic matter from skin, mouths, lungs and soiled clothing. The air impurities which may be found in a factory may be classified under three heads, dust, fumes, and gases.

Maximum output cannot be obtained in any plant unless the workers enjoy good health. Dust, through its effect in impairing the health of workers and decreasing their efficiency, has an important bearing upon output. Dust may be divided into three classes, insoluble inorganic, soluble inorganic, and organic. The first class includes small particles of metals, minerals, stone, etc. Soluble inorganic dusts comprise substances which are soluble, and if taken into the body, will in the course of time be absorbed, as small particles of arsenic, mercury, etc. The third class comprises fine particles from flour, grain, cotton, wool, rags, hides, etc.

Many dangers arise from dusts of any of the three classes. First, dust causes irritation of the respiratory passages, eyes, nose, and skin of workers; second, if inhaled, and lodged in the lungs, it may reduce the resistance of these organs to harmful bacteria, and cause workers to become easy victims to tuberculosis and other diseases; third, dust may be germ-laden and carry germs not only to the lungs, but to other parts of the body; fourth, many kinds are highly inflammable, and in the proper proportions and under suitable conditions may cause spontaneous combustion.

Many conditions have more or less influence upon workers and their output, but one which is most certain of injurious results is dust. Experts have discovered that sickness and mortality of workers are high or low in almost exact proportion as the air is filled with or free from dust. The proportion of deaths from tuberculosis and respiratory diseases is very high in trades with continuous or frequent exposure to metallic or mineral dusts. Manufacturers who strive for increased efficiency of their workers and maximum output should realize that an absolute prerequisite is to have their premises as free as possible from dust.

Dust prevention is in many plants a difficult problem. Hoods

for dust-making machines are inexpensive. A good ventilation system greatly assists dust removal. Where it is impossible by hoods or other devices to remove dust, and it is in sufficient quantities to be injurious to workers, respirators and goggles should be worn, and they should be furnished by the employers.

The average manufacturer does not take the proper precautions in removing dust from floors and walls. The old-fashioned broom and the dry duster are dust movers and not dust removers. Dry sweeping and dusting should never be allowed in any room where people are working. Dustless brooms, dustless brushes, wet sawdust, sweeping compounds, hygienic floor brushes, vacuum cleaners and numerous preparations for dust removal are available and cheap, and should replace in every factory the corn broom, cloth, feather duster, and mop and pail.

Offensive fumes and gases are given off in the making of many products. Discharge of gas may be prevented by proper covers for vats and vessels. There are on the market many condensing and burning devices for gas removal. When it is impossible to prevent the presence of gas or fumes, respirators, goggles, and sometimes gloves and skin protectors should be used. Dust, fumes, and gases are arch-enemies of efficiency, and maximum output cannot be reached in any factory where their presence in any quantity exists.

Accident prevention has a direct bearing upon output. It is not only in the interests of humanity, but a business proposition for the manufacturer to use every means in his power to protect his employees against the manifold dangers to life and limb which accompany production in all its phases. Workers appreciate measures taken to protect them and respond by taking a better interest in their work. The fact that they no longer have fear of getting hurt and getting no compensation is a factor working towards increased output. Actual tests have shown a marked increase in output on safeguarded machines due to natural speeding of workers who are relieved of the fear of accident. It stands to reason that if a worker is compelled to divide his attention between the fear of coming in contact with dangerous moving machinery and his work, that if he is relieved of the first, he will prove more efficient by giving his entire attention to the latter.

The important measures necessary to minimize accident risks may be summarized as follows: First, the providing of machinery and equipment with safeguards, and making it almost impossible

for a worker to be caught or injured by a piece of machinery or apparatus; second, the careful instruction of workers to inculcate habits of caution and to know how to avoid dangerous places around a plant; third, the providing of effective rules, signs, bulletins, and illustrated lectures which constantly remind workers of dangerous places, and the enforcing of strict discipline in carrying out all rules and instructions; fourth, the provision of means for promptly caring for any who may be injured through establishing emergency rooms and first aid to the injured service; fifth, the passing of legal statutes compelling every manufacturer under severe penalty to equip machinery and working places with every practical safety device it is possible to secure, and sixth, the provision of adequate accident compensation to the injured in case of accident. You cannot find a manufacturer who has installed accident prevention devices who does not say that money so expended is well expended, and that it pays.

Every manufacturer should realize that it is necessary to study carefully his own plant, and to ascertain and provide working conditions which are most conducive to output. It is a matter of common experience that an intimate relation exists between the conditions which surround a worker and his efficiency. All physical inconveniences which waste human strength and effort, as, foul air, poor light, dust, gases, and insanitary conditions, are marks of inefficiency and affect output. The lack of proper hygienic conditions in a large majority of plants is due to ignorance rather than to neglect. There is need of dissemination of scientific knowledge of the requirements of the human body. The factors which protect health and their influence upon output are just beginning to be understood in this country. Manufacturers cannot be blamed for not wanting to install expensive safety devices, ventilating and dust-removing systems, and other devices for protecting the workers, unless they can be shown that such expenditure is a profitable investment on account of the resulting increased output. With realization of the fact that the increased output obtained repays several times the expenditure, and an understanding of the demands of the human body, the next few years will see a rapid improvement in working conditions. There is no reason why most factories cannot be kept at comfortable temperature, with air containing the proper percentage of moisture, and at the same time free from dust and impurities, and have workers protected in every possible way from accident.

THE PRINCIPLES OF INDUSTRIAL EFFICIENCY APPLIED TO THE FORM OF CORPORATE ORGANIZATION

BY HENRY S. DENNISON.

Treasurer, Dennison Manufacturing Company.

Among the most widely acknowledged principles of efficiency engineering and common sense are the two,—that responsibility must be closely related to ability, and that reward must be closely related to service. It has also been many times insisted upon that the efficiency of the methods in the ranks of a company cannot be expected to rise above the standards of efficiency laid down and lived up to by those who are at the head.

The last ten years have seen the development of many systems of management and wage payment which find their origin in the effort to make practical applications of these principles. Some of these systems include profit sharing for the wage-earner and some do not, but it cannot yet be maintained that profit sharing is necessary to them.

Not so much thought has been given to the application of these principles to the actual make-up of the company itself. The two principles, that responsibility must be related to ability, and that reward must be related to service rendered, find their parallels in the two old problems which have faced most concerns established for more than a generation—to wit, how to keep the voting control in the hands of those acquainted with and interested in the business, and how to give a fair share of the profits to those of the leaders in the concern who do not hold a significant amount of stock. It is with this special part of the big question of industrial efficiency that this paper deals.

To simplify the problem let us first consider the established company in which the extreme risks of a new venture have been met and passed, so that the capital invested in it is subjected to no more than a normal business risk; we can later take up the question of extra hazard with some of the field cleared away. When the voting control of such a business is in the hands of a few men inti-

mately connected with the business, success depends upon the character of these men. If they are the founders of the business, there is little doubt of their ability to carry it on, though difficulties may arise with advancing age. But if they are sons of founders, it will not always happen that their abilities for that particular business fit them for the powers and responsibilities which go with the voting control. When, through the inheritance laws and customs of our country, the vote has been scattered among the daughters and sons-in-law of the second and third generations, the problem frequently becomes acute. Here are often found glaring instances of considerable shares in the ultimate responsibility for the success of a corporation resting in the hands of those who have not the least knowledge of its needs. The corporation may be successful—not because the form of organization is calculated to help it toward success, but rather in spite of a form which at its best is no help and at its worst may be a distinct handicap. The only alternatives in such a case are for some one man to regain control, or for the control to be placed in the hands of all of the active leaders in the business. If the first alternative is chosen, the next generation is likely to present a repetition of the same problem. If the latter alternative, then some provision must be made whereby the vote should not thereafter pass out of the ranks of the active men.

Such provisions are not difficult to make. The capital interests, as such, can be represented by bonds or non-voting preferred stocks, while common stock, industrial partnership stock, or partnership certificates, can be put into the hands of leaders of the business in some proper proportion and made non-transferrable. If such partnership certificates are required to be sold to the corporation when active employment ceases, and are issued to those who newly enter the ranks of the leaders, a voting body can be maintained which shall always have the ability to correspond to its duties.

Under such circumstances the problem of reward for service rendered is made comparatively easy of solution. If on account of able management the business pays a dividend greater than is necessary to compensate for the normal business risk, the outside stockholder is being rewarded in part for services which have not been rendered; and the sales manager, the senior salesman and the department head, who have helped to earn this surplus, have not been paid in full unless by chance they happen to own stock in

due proportion to their respective values to the business. To square the books, then, the bonds or preferred stocks above mentioned should have a fixed return, calculated to make full payment for the service which capital itself renders, and any surplus which may be earned should be distributed in some form and in proper proportion among those upon whose individual efficiency the earning of such surplus depended. Since this surplus earning is frequently just that part of the total earnings which ought in every corporation to be reinvested for its growth and development, it is appropriate that the surplus should have the form of a certificate rather than cash; or, if the surplus should exceed the proper amount for reinvestment, part can be paid in cash and part in the form of certificates.

The determination of the particular employees upon the success of whose efforts the earning of a surplus depends, is a problem which must be studied with particular reference to the kind of business in question. It may be wisely approached in many cases by listing employees by name or by classes, and separating them into those whose efforts have direct influence, and those whose influence is remote. Few generalizations can help, though to characterize the profit earners as those whose work requires imagination, and the non-profit earners as those whose work does not, comes frequently near to the truth. When the distinction has been made between these two classes, some rule must be looked for to provide for future divisions. In some cases titles can be the basis of such a rule, and in other cases resort must be had to a salary minimum. The device of having some committee choose the profit sharers each year is attractive on its face, but introduces the dangerous elements of inconsistency and politics.

Profit sharing as a spur to greater efficiency is more particularly adapted to the jobs in which the coöperative spirit is an important essential. Wherever the chief need in individual effort and full efficiency can be obtained through a carefully regulated system of commission, task and bonus, or piece-work payment, profit sharing probably has little or no place. In any case, profit sharing cannot be a success where the sharers cannot see clearly the influence of their individual efforts upon the profits account, and where they have not the vision to realize the full meaning of coöperative effort.

The foregoing general principles as applied specifically to an

established concern are illustrated in the By-Laws of the Dennison Manufacturing Company, which are too long to follow this article, but which will be willingly sent to anyone interested in them.

Wherever the problem of profit sharing concerns a company just forming, or in the early stages, the element of abnormal risk to capital must be taken into account. The degree of risk will vary greatly, sometimes warranting a chance for capital to increase its value ten times in case of success to compensate perhaps for a ten-to-one chance for loss, and sometimes demanding nothing more than a liberal interest rate. But the important point is to make such a trade with capital that there will somewhere be a stopping point to the increase in its value. The peculiarities of each venture will usually dictate just what this trade with capital is. It may be that there shall be no return to the enterprisers in the business until capital has received a certain percentage, or a sliding scale may be arranged; but at some point the necessary and fair return to capital ceases and from then on the surplus will more wisely go to those who earn it. In these stages and, in fact, during the transition stage in an established business, it is wise and just that capital should have an important or perhaps the sole voice in electing the management. The sliding scale can provide for the gradual transfer of control from capital to the enterprisers, or a fixed point can be set at which the enterprisers gain full control. If reduction in earnings again places capital in jeopardy, it should again receive its vote.

The dependence of complete industrial efficiency upon the principles of industrial partnership is very real. Where absentee owners are reaping increasing harvests, beyond any justification through their efforts or the risks they assume, and where the true ultimate authority rests in the hands of stockholders entirely unfamiliar with and unskilled in the business, the most logical systems of task and bonus, or differential piece-rate, rest upon an illogical basis and will sooner or later face questions impossible to answer.

GREATER AGRICULTURAL EFFICIENCY FOR THE BLACK BELT OF ALABAMA

A STUDY OF THE POSSIBILITIES OF DEVELOPING GREATER AGRICULTURAL EFFICIENCY IN THE BLACK BELT THROUGH BETTER MANAGEMENT

By C. E. ALLEN,

Austin College, Sherman, Texas.

Alabama is conducting an energetic campaign for greater agricultural efficiency. The establishment of demonstration farm agents and experiment farms in the counties for the study of soils and plants, district agricultural schools for the instruction of the youth, extension work by the State Agricultural College, personal visitations by experts wherever needed, and the coördination and correlation of these forces under a central board whose activities reach out to all parts of the state, have given to this campaign the nature of an intensive and expert handling of the entire agricultural situation.

It is the purpose of this paper to present the agricultural situation in the Black Belt, and then to discuss the possibilities of developing greater agricultural efficiency in this region. This will be done by comparing the Black Belt with the regions immediately adjacent to it, north and south, where white majorities of population are found and successful farming obtains.

The Black Belt of Alabama stretches across the south central portion of the state, from east to west, and comprises twenty-one counties.¹ It embraces a variety of physiographic divisions and soils. The northern part of the Belt embraces a country somewhat rolling, of metamorphic soils, and the southern extends into the upper part of the coastal uplands, but the greater part of the Belt embraces the central prairie region that runs diagonally across the state, with a width of thirty-five or forty miles. By fact of the physiographic features the soils of the Black Belt are the most

¹ Russell, Chambers, Lee, Barbour, Macon, Bullock, Montgomery Butler, Lowndes, Autauga, Perry, Dallas, Wilcox, Monroe, Clarke, Marengo, Choctaw, Hale, Sumter, Greene, and Pickens.

fertile of the state and better adapted to the cultivation of the staples than the other regions.

Immediately adjacent to the Black Belt, north and south, respectively, are regions of gravelly hills, grey gneissic lands, and long leaf pine uplands, which contain white majorities of population. Out of these regions, twenty-one counties have been selected² for the purpose of comparisons with the twenty-one counties of the Black Belt.

In presenting comparisons of the Black Belt with the White Counties it is possible to cite in each group of counties striking particular instances of individuals who have adopted new and scientific methods of agriculture with remarkable results. But agricultural records will tell more accurately the story of the mass of farmers.

Agricultural Records

In the counties of the Black Belts in 1910 there were 26,138 white farmers and 76,648 negro farmers cultivating 1,798,056 acres in cotton and 812,982 acres in corn.³ The average production of cotton per acre was 0.27 of a bale, and of corn 10.4 bushels per acre. The cotton acreage in 1910 was 51,840 acres greater and the corn acreage 140,614 acres less than in 1900. In the twenty-one White Counties there were 51,131 white farmers and 20,797 negro farmers cultivating 917,143 acres in cotton and 771,378 acres in corn. The average production of cotton per acre was 0.34 of a bale and of corn 11.4 bushels per acre. The cotton acreage was 203,880 acres greater and the corn acreage 102,594 less than in 1900.

Two significant facts stand out in these records: the per acre yield and the increase or decrease of acreage. As to the per acre

² Fayette, Lamar, Tuscaloosa, Bibb, Chilton, Coosa, Elmore, Talladega, Shelby, Tallapoosa, Clay, Randolph, Henry, Dale, Pike, Coffin, Crenshaw, Covington, Escambia, Conecuh, and Washington. To be referred to hereafter as White Counties.

³ A farmer or farm operator according to the census definition is a person who directs the operation of a farm. A farm is all the land directly farmed by one person managing and conducting agricultural operations, either by his own labor, alone, or by the assistance of the members of his household or hired employees. Therefore, owners, tenants, and managers are classed as farmers. The census classification of share laborers as independent farmers is not correct, for the share system involves supervision. The classification serves the purpose here, however.

yield, it is conceded by all who are familiar with the soils of the Black Belt and the White Counties that by nature the soils of the Black Belt are much more fertile and more adapted to the cultivation of the staples than the soils of the other regions, yet there is a smaller average yield per acre in the Black Belt. The reduced acreage of the Black Belt is due to the decline of rural population as will be shown herein later, and not to turning the lands into other forms of agriculture. They are idle and vacant, turned in many instances into grass fields. In the White Counties, the increase is due to increase in rural population and to opening up new lands.

An analysis of the two groups of counties locates more definitely the causes of the smaller average yield per acre of the Black Belt. In the counties of the Black Belt in which the negro constitutes $62\frac{1}{2}$ per cent of the population,⁴ the average yield of cotton per acre is 0.26 of a bale and 10.5 bushels of corn per acre; in those counties in which the negro constitutes from 50 to $62\frac{1}{2}$ per cent of the population,⁵ the average yield of cotton per acre is 0.30 of a bale and 10 bushels of corn per acre. In the group of White Counties where the negro constitutes $37\frac{1}{2}$ to 50 per cent of the population,⁶ the yield of cotton per acre is 0.34 of a bale and 11.4 bushels of corn; in the counties where the negro constitutes 10 to $37\frac{1}{2}$ per cent of the population,⁷ the yield of cotton per acre is 0.35 of a bale and 11.5 bushels of corn per acre. These results are significant, for the negro in increasing majorities is found on the best soils of the state.

Farm Improvement

Scientific farming includes within its program not only actual agricultural results, but the whole life of the farm: improvement of soils, adequate farm buildings, new and modern implements and machinery. In the Black Belt the value of lands and buildings increased 88 per cent between 1900 and 1910 and the value of implements and machinery increased 69 per cent. In the White Counties the per cent of difference in the same items for the same period

⁴ Russell, Macon, Bullock, Barbour, Montgomery, Lowndes, Wilcox, Dallas, Morengo, Perry, Hale, Greene, and Sumter.

⁵ Pickens, Autauga, Chambers, Lee, Butler, Monroe, Clarke, and Choctaw.

⁶ Tuscaloosa, Talladega, Coosa, Elmore, Pike, Henry, Conecuh, and Washington.

⁷ Lamar, Fayette, Bibb, Chilton, Shelby, Clay, Randolph, Tallapoosa, Crenshaw, Dale, Coffin, Covington, and Escambia.

of time was: land and buildings, 150, buildings alone, 133, implements and machinery, 113, a per cent of difference in each item twice as great as in the Black Belt.

An analysis of the two groups of counties as to the above items also reveals striking results. In the counties of the Black Belt where the negro constitutes $62\frac{1}{2}$ per cent of the population,⁸ the improvements between 1900 and 1910 were: land and buildings, 75, buildings alone, 68, implements and machinery, 54; in the counties where the negro constitutes from 50 to $62\frac{1}{2}$ per cent of the population⁹: land and buildings, 108, buildings alone, 107, implements and machinery, 93. In the White Counties where the negro constitutes $37\frac{1}{2}$ to 50 per cent of the population,¹⁰ the improvements were: land and buildings, 121, buildings alone, 102, implements and machinery, 96; in the counties where the negro constitutes 10 to $37\frac{1}{2}$ per cent of the population,¹¹ land and buildings, 171, buildings alone, 153, implements and machinery, 130. It is thus evident that agricultural production and farm improvements increase in a ratio inverse to that of the presence of the negro population. This is set forth in the map—Race, Farm Improvements and Production.¹²

Movements of Population

The real condition and spirit of agriculture are probably more accurately revealed in the movements of population. Between 1900 and 1910 the rural population of the Black Belt, if we exclude four border counties, decreased 37.1 per cent. Ten counties suffered an average loss of 8.3 per cent.¹³ In rural and urban population nine counties¹⁴ suffered a loss of white individuals; eleven counties¹⁵ suffered a loss of negroes. On the other hand, every county in the group of White Counties increased in rural population. The aver-

⁸ See footnote 4.

⁹ See footnote 5.

¹⁰ See footnote 6.

¹¹ See footnote 7.

¹² See map.

¹³ Wilcox, Dallas, Russell, Greene, Lowndes, Perry, Sumter, Barbour, Hale, Bullock.

¹⁴ Wilcox 771, Russell 197, Greene 295, Lowndes 993, Perry 94, Sumter 295, Barbour 595, Macon 245, and Bullock 1,013.

¹⁵ Wilcox 1,050, Dallas 1,861, Russell 954, Greene 1,169, Lorvides 2,764, Perry 468, Pickens 970, Sumter 3,716, Barbour 1,915, Hale 3,360, and Bullock 735.

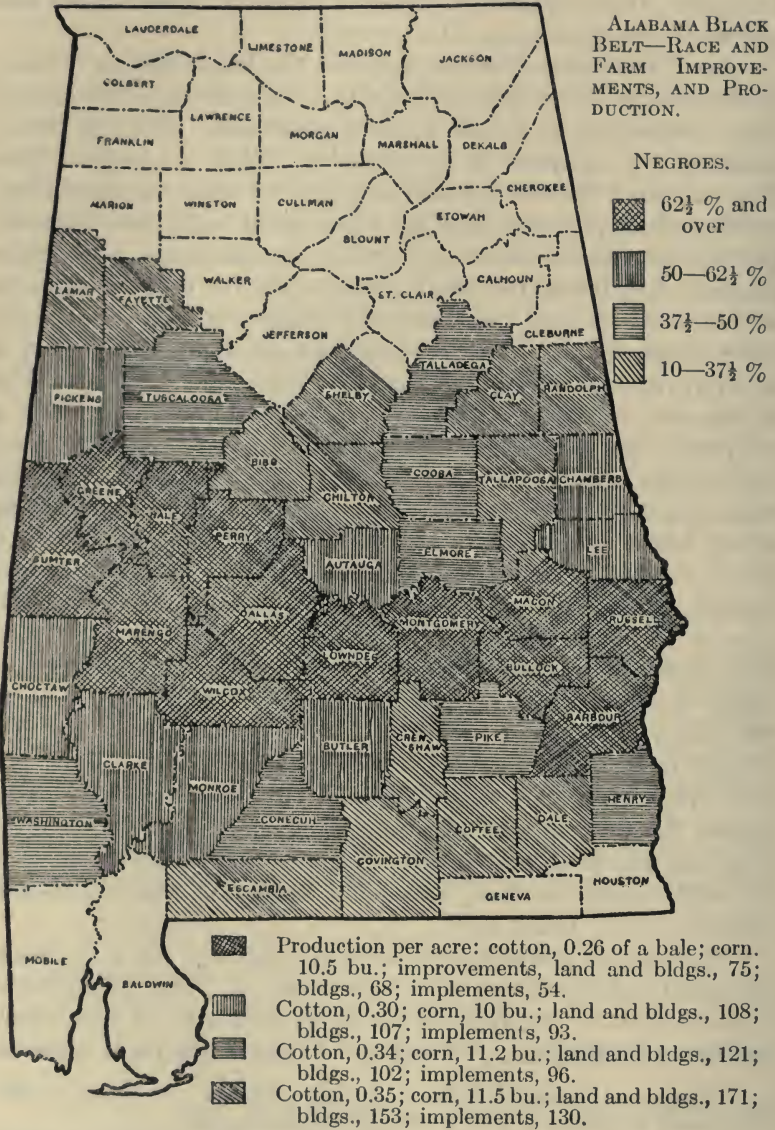
age increase for the group was 21.3 per cent in rural population. The entire white population, rural and urban, increased 19 per cent and the negro population 20.8 per cent.

Such is the agricultural situation in the Black Belt as revealed by the records; a low rate of production, low rate of farm improvements and an actual decline in rural population. But the presentation of the situation is not complete unless we include those phases of rural life which touch and interact upon the agricultural problem, those phases of rural life, educational, social, and economic, that are determining factors in agricultural efficiency. Upon these phases of rural life up-to-date statistics for the two groups of counties are not available, and therefore comparisons impossible, but a survey¹⁶ of two typical White Counties and one Black Belt county as to improved highways found the Black Belt county to rank third in the scale with only twenty-five miles of improved highway as compared with eighty and forty miles for the two White Counties. The average highways of the Black Belt counties are the neglected, crude and inadequate roads of ante-bellum days.¹⁷ An educational survey found conditions more satisfactory in Covington than in Macon County. The question sent out by the state agent for rural schools, "If you were a leader in rural districts and desired to make country life more attractive to young people, along what three lines would you suggest improvement?" brought the following replies: better roads, 137, better schools, 187, more amusements, 180, better churches and more frequent services, 123, better agricultural methods, 59, better houses with labor-saving devices, 101, etc. These replies are more descriptive than words of mine. They present the views of the boys and girls who live in the rural districts and who have already come to know the inadequacies of rural life, inadequacies that have inter-acted upon each other to prevent efficiency in the Black Belt.

This general problem is not without its history. It is the resultant of determinant forces in an earlier period. The distinguishing characteristics of the ante-bellum Black Belt was its agricultural supremacy in Alabama. Its industrial system was made up of the

¹⁶ *Educational Survey of Three Counties in Alabama*. Published by State Department of Education, July 1, 1914, Montgomery, Ala.

¹⁷ Some Black Belt counties have made modern improved highways, notably Montgomery and Dallas counties.



big plantations as the industrial units, and the dominant feature of these units was organization and management, which made this the region of supremacy in Alabama. But the upheaval of the sixties shattered this industrial organization and destroyed this supremacy. In the confusion and disorders of society that followed the Civil War, the Black Belt lost many of the men who had given dignity and strength to its former civilization. Many planters in the unsettled conditions of labor did not care to attempt farming and moved out of the state; others unable to realize on their holdings gave up farming and went to the towns and cities; still others, seeking better educational and social advantages, went to the places where these were to be found. The result was that the lands of the Black Belt were left largely in the hands of the listless, ignorant and unskilled negro. William F. Sanford writing in 1870 described this condition:

We are today poorer than we were on the day of the surrender of the Southern armies. Our carpet baggers and negro scalawags have imposed intolerable taxation upon a people already crushed to earth. A deep and sullen gloom is settling upon the Southern heart. Twelve cents for cotton and one hundred and fifty dollars and rations for a negro idler,—for laborer he will not be,—winds up the plantation business. All this great staple producing area is essentially upon the sheriff's block.¹⁸

In the adjustment of labor to the new conditions of freedom the negro was employed largely under two forms of tenantry: the renting system and the share system.¹⁹ Since the beginning of the system the renting negro has been without supervision and control. By the lien law he was able to obtain supplies from merchants of nearby towns, and being obligated for only so much rent, he farmed according to his own pleasure and judgment, with the result that the farm on which he worked consistently deteriorated. The ditches grew up with grass, the soil washed away, fences and houses decayed, roads went unkept, and there arose in the land the saying, "The negro renter's foot is poison to the soil." On the other hand the share system has involved a degree of control by white men, close in some instances, indifferent in others. The white planters who remained on the plantation after the war, employed largely the share system, sometimes a combination of share and renting. Un-

¹⁸ Letter of William F. Sanford. *Transactions of Alabama, History Society Vol. IV.*

¹⁹ The wage system was at first tried but that has been steadily on the decline.

der this system close supervision was necessary, else failure and ruin were certain. Consequently these men, even though their abilities were great, had their time and energies consumed in this atrophying routine of drudgery. To the woes of supervising listless negro labor were added the distresses of the iniquitous credit system. The life of the post-bellum Black Belt planter therefore was a struggle for dire economic existence. It is little wonder that he lost his independence and his vision. Little wonder that the arts of rural life went undeveloped and that a condition of inefficiency settled upon the Black Belt which has not been removed today.

The history of the White Counties is different. When in the ante-bellum period the competition between industrial units took place—a competition that inevitably took place between the large planters and the small farmer—the small farmer was pushed to the uplands and the region thought by the planters infertile and unsuited for cultivation of the staples. This process in Alabama resulted in majorities of white population in the uplands and Piedmont region, and an industrial system made up of the small democratic farm. The effect of emancipation on these regions was to free their industrial system from competition with the wholesale system of the Black Belt. From the devastation and demolition of the war the White Counties suffered greater losses than the Black Belt, and they had less capital and equipment to begin with after the war,²⁰ but from the nature of their industrial organization readjustment was easier, quicker and more complete. Since 1870 these regions have marched steadily ahead of the Black Belt in production and in agricultural importance in the state. Their lands are less fertile than the lands of the Black Belt, but by the use of commercial fertilizers, rotation of crops and modern methods of farming, they are giving illustration of the possibilities of greater agricultural efficiency through scientific management.

It is clear, I think, that conditions in the Black Belt are out of harmony with other parts of the state, and out of harmony with the times.²¹ If we translate these conditions in terms of dollars it means that the state is losing millions of dollars annually. Suppose the average production per acre of the Black Belt were raised to the

²⁰ *Reconstruction in Alabama*. Fleming, page 713.

²¹ There are certain nuclei of modern methods, for instance at Uniontown, Ala.

average production of the White Counties, upon a conservative estimate it would add fifteen million dollars to the state's wealth. Raise the average production of the Black Belt to half a bale of cotton per acre and thirty million dollars or more will be added to the State's wealth. To put it more emphatically, the state is losing each year approximately thirty million dollars by the continuation of the conditions in the Black Belt.

It is evident that the crux of the problem in the Black Belt is the color and form of tenantry, for greater agricultural efficiency through scientific management is impossible so long as the crude, ignorant negro, unsupervised and undirected, tills the soil. But it merits little and accomplishes less to discover an ill condition and stop with censure. The state faces a condition, not a theory. These facts serve to reveal the stupendous task of the state in the development of efficient agriculture in the Black Belt.

The problem resolves itself, in the first place, into one of improving rural conditions of living so that rural life will become attractive. Improve rural conditions by the establishment of improved highways, coöperative agencies, and better educational facilities, that those who have left the farm may hear the call back to the soil, and that the young men and the young women already on the farm may find the gratification of life's ambitions there! Such an effort as this will raise the price of land to the point where it will remain no longer idle or tilled altogether by unsupervised and unscientific tenantry. But their values will be such that they will be manned by competent white farmers and independent negro tenantry will decrease.²²

In the second place, a greater vision must be given to the farmers. Where there is no vision the farmers err. A farmer in the Black Belt who has been farming for thirty years, and considered one of the best in his community, remarked to me, "I am just beginning to know how to farm; I am just beginning to catch the vision; I have been without it all these years." This man is catching the spirit of scientific agriculture. Give this vision to the farmers and the movement will proceed from within outward. The possibilities of greater agricultural efficiency in the Black Belt can

²² With the rise in the price of lands, renting decreases and the shares system increases. This is true in the white counties of Alabama, also in the white counties of Georgia.

be unfolded in such a manner that the farmers may catch the vision.

In the third place, the negro in the Black Belt must be taught agriculture. We do not believe that the great mass of these people are capable or willing to follow the rules of scientific agriculture, but that some will and can, has already been demonstrated in Alabama.²³ Agricultural instruction for the negro in the Black Belt appears to be a well nigh hopeless task because of the overwhelming ratio of blacks to whites. Here, by fact of the great numerical majority, the negro loses the influence of the white man's example. Removed from proximity to his landlord, he cultivates according to his own methods, which by the very nature of the case are crude, unscientific, and unprofitable. Tenant for the year, he cares only for the year's crop, and that none too seriously, so long as supplies are furnished him. The same crops are planted on the same lands year after year, unsustained by fertilizers and unstirred save by the merest attempt at ploughing. So thriftless are his manners of living, so improvident his methods of agriculture, that they give illustration in our midst of that tribe of South American Indians, who, while being taught agriculture by missionaries, killed their plough oxen when they had felt hunger after the first day's labor. However hopeless the task may appear, the great economic waste of the negro's methods of agriculture urge the undertaking.

The very hindrances the negro presents to the white farmers by his crude methods are reasons in themselves for some kind of agricultural instructions for the negro. That the negroes' method of farming is a direct economic waste is a palpable truth; that the crude and wasteful methods of the negro farmer tend to make the methods of the white farmer less excellent and less scientific is equally true if not so self-evident. The white farmer who deals with ten or twelve negro tenants finds his own standard lowered through the conditions of his contact with their less developed habits of efficiency. He may be ever so exacting and determined in the standard of his methods when he undertakes the enterprise, but he will awake to find himself compromising his standards with those of the crude farmer under him. This truth operates over the entire Black Belt to reduce its agricultural efficiency. The tenant supervised, and the tenant unsupervised, affect the white

²³ The negro schools as community centers in Macon County—*Educational Survey of Three Counties of Alabama*.

farmers of the region with the dragging pull of their low and crude methods. There is something organic even in the nature of the unity of the society of farmers. As within our physical being the improper functioning of one organ hinders the body as a whole, so within the general order of society, the low or unprogressive group is a deterring force. So it is that the crude methods of the negro farmer in the Black Belt pull downward the standards of the white farmer. This is nothing more than a fact of life; it is nothing less than the tragedy of habitual self-adjustment to lower conditions of life and to feebler notions of excellence.

Not only is it true that a group which is declining in efficiency has a tendency to pull the stronger in the descending processes of its ruin, or if it be at stagnation point to impart something of its dead spirit to the living body of the other, but a group which is low has a tendency, if it be growing in efficiency, to exert an upward pressure on the stronger. This is to say that one of the ways to enable the white farmers of the Black Belt to become better and more scientific farmers is to teach the negro better methods of agriculture. Such a process would aid the white farmers by the direct contribution of an advancing efficiency both as to the execution of details and to the larger policy of production. How often does the complaint go up from the farmer of the Black Belt that scientific agriculture is impossible so long as the negro is the laborer! Modern machinery cannot be used because he knows not how to operate it. Valuable accessories to the plantation he knows not the value of. Harness he leaves in the field to mould in the coming rain, cultivators where the last furrow was ploughed, binders or reapers where the last grain was thrashed. Lacking in that sense of value, of thrift, and of economy, he forces the white farmer to that inadequate and inefficient policy that has bound the South since emancipation. But the employer of an improving and saving negro labor may modernize his methods. As his labor becomes more intelligent in agriculture it becomes less wasteful, and thereby relieved somewhat of the minute and nerveracking supervision of ignorant and careless labor, he may give more attention to a sounder economy and a broader outlook for the plantation. So, too, improved knowledge of agriculture among tenants supervised and tenants unsupervised will not only reduce the pull downward of the white farmers' standards, but will exert an upward pressure. If the negro farmer

be growing in efficiency the white farmer will likewise grow in order to maintain his relatively higher standard. This, too, is nothing more than a fact of life; it is nothing less than the hopeful policy by which the Black Belt will be raised from its present backward and inefficient economic position.

DEVELOPMENT OF STANDARDS IN MUNICIPAL GOVERNMENT

BY HENRY BRUÈRE,
Chamberlain, New York City.

To discuss broadly the development of standards in American city government would require complete consideration of the new temper and quality of civic administration throughout the country. In common use, the word "standard" connotes quality of conduct and character of service. "Standards of efficiency," "business standards," "standards of economy," are phrases now in frequent use in city government talk. They express vaguely, perhaps, but nevertheless suggestively, the new juxtaposition of ideas in reference to city government, and imply that there are positive tests available, if as yet unformulated, for measuring the quality of city government.

These phrases are to a large degree the product of the recent regeneration of American city government. Before commission government, bureaus of municipal research, and the city manager plan, there were no concepts of standards for city government except with regard to the virtue or morality of public officials. Tests applied to city activities were, therefore, negative rather than positive. Manifestations of effectiveness were not measured against an ideal of maximum effectiveness, but against the shades and shadows of conventional civic incompetence and corruption.

Standardization is a part of the process of creating objective tests for various municipal activities. The present development of standards in city government represents the efforts of the analysts of civic management as well as of civic administrators to develop efficient practices and to establish tests for measuring the effectiveness of city work.

Standardization may mean any one or all of the following:

1. *The application of accumulated and analyzed experience in respect of the past performances of specific services or functions to the future or current performances of such services or functions.*

2. *The establishment of a scale of merit for measuring values in work, services, supplies, materials, etc.*
3. *Devising structures or parts of structures so that they may be best adapted to their prospective uses and susceptible of ready reproduction, replacement or interchange.*
4. *The development of exemplary processes for the performance of work of a specific character or for classes of work, or for general application where like work is performed under like or closely similar conditions, or for gauging the efficiency of methods already in use.*

In each of the foregoing relations standards may be objectively represented in the form of specifications, procedures, physical product or work methods. They are of no value unless they can be so objectively expressed and thus made to serve as a denominator for measuring cognate services or products by the public (consumers or citizens), by administrators, and by those who perform or control the work of administrators.

In government, standards are of practical value in promoting efficiency: (1) as a basis for measuring needs with respect to which services are to be performed; (2) for determining appropriations of funds by means of which services are to be performed; (3) for guiding administrators in performing such services; (4) for establishing a scale of compensation equated to the value of work performed; (5) for equating values with prices paid for supplies; (6) for guiding the selection of personnel, materials, supplies and equipment in accordance with the requirements of prospective service or use; (7) for regulating the routine performance of duties by the various integral parts of the organization; (8) for providing in various relations the means of common understanding between public, officials, administrators, appropriating bodies, etc.

Standardization means the formulation of definite concepts with respect to the elements of administration as opposed to vague generalized impressions.

Standardization provides a common language for the discussion of the problems of a specific business, both as between the public (citizens, consumers or stockholders) and administrator, and as between administrators.

The method of standardization varies with the nature of the problem under consideration. As between the application of the

principle of standardization to public and private business, there is this fundamental difference: In private business there has been developed a body of recorded information respecting processes, organization, etc., acquiring somewhat the character of a science, as in banking. This recorded information is generally lacking in government, and if it were present would be of little value because of the low order of effectiveness of past governmental services. Standardization in government is, therefore, empirical, except in so far as experience and consequent method devised in private enterprise are applicable to governmental functions.

In many fields of private administration, standards have evolved gradually during a long period of effort to conduct the particular enterprise with maximum efficiency. In government, the desire for effectiveness on the part of officials, and the ability of the public to enforce its demands for efficiency, are of such recent origin, that in order to bring government practices up to best attainable levels, it has been necessary to undertake the conscious formulation of standards.

It will be clear, of course, that the methods employed in developing standards in city government are in large degree applicable to private business as well, because the methods of private business are susceptible to improvement through study, analysis, precise formulation, etc. Thus, compensation in private business is generally as unstandardized as in public business, so far as salaries are concerned. In many fields of private enterprise prices for labor are wholly devoid of standardization, even in the same industry, because subjective tests, generally in the form of haggling, are employed in fixing the compensation rather than objective tests in a form calculated to ascertain value of services performed, living requirements, etc. In many respects, obvious to students of administration, standardization is as necessary in private business as in public business.

Because of the extensive character of New York City's program in standardization, as well as because of the similarity of problems of administration in government to those existing in private enterprise, New York's exceptional present efforts to develop standards will be of value not only to other municipalities, but in many respects to private enterprise.

A prefatory word may be said regarding the origin of standard-

ization in cities. The first attempt to standardization, so far as I know, was in reference to specifications for paving. Paving construction in New York and in other American cities was troublesome for many years, because of the lack of technical information on the part of city representatives respecting the nature of paving. Contractors' guarantees were relied on to ensure satisfactory pavements, with the result that throughout the city there developed the greatest inequality in paving conditions resulting in public concern regarding the use of vast appropriations for paving purposes.

Standard specifications were evolved, first to control the use of funds appropriated to different divisions of the government for paving, and subsequently to formulate the technical experience of the city, supplementing or opposed to the technical experience of engineers employed by contractors and ensuring for the city a pavement of suitable character. Through the provision of uniform specifications for paving, the appropriating authorities of the city set up the first objective use test for measuring appropriations. Similarly, the board of education through its architectural department had developed a standard type of school building, not so much to control the use of funds, as to facilitate the construction of school buildings by utilizing the accumulated experience of the department in planning a type of building best adapted for New York City's school purposes.

It was, however, rather as an incident to the control of appropriations made by the fiscal authorities, than as a means of planning and directing administrative activities by the executive branch of the city government, that the process of standardization developed in New York. As now worked out it includes the following major lines of activity:

- Standardization of supplies, materials and equipment.
- Standardization of salaries.
- Standardization of accounting, payroll preparation, voucher processes, office practice, reporting, etc.
- Standardization of purchasing practice.
- Standardization of work methods.
- Standardization of principles of management.

Standardization of Supplies Specifications

Standardization of supplies specifications promotes efficiency from three standpoints:

1. From the standpoint of the user of supplies.
2. From the standpoint of the vendor.
3. From the standpoint of those responsible for the appropriation and administration of funds.

The work of supplies standardization has been in progress in New York since 1910. It has proceeded slowly for several reasons, the most conspicuous being the absence of precedent and the inadequacy of the machinery provided for the development of standards. The task, however, has been one of prodigious proportions involving the analysis and description of some 22,000 articles in current use in various city departments, and annual expenditures of some \$15,000,000.

To prepare standard specifications for supplies, the following steps are necessary: First, the use to which the supply is put must be determined, then, whether the particular character of supply currently requisitioned is best adapted for the purposes served. These being determined, the essential qualities and characteristic of the supply must be ascertained either by the advice of practical experts or by technical analysis. The results of this advice or analysis must then be formulated into terms which are understandable in the trade, susceptible of easy enforcement and permissive of competition among vendors. These steps having been taken there are available for the use of purchasing agents, specifications calling for carefully selected articles designed to satisfy the use requirements of requisitioning departments.

In New York standardization of supplies has gradually developed the basis for an efficient central purchasing plan, making possible the consolidation of the requirements of a large number of different departments into joint contracts for purchase. Now, when forage, food supplies, such as meats, coffee, canned goods, etc., coal chemicals, soap, etc., are requisitioned by any one of ten or fifteen consuming departments of the city government, the requisition expresses a quickly understood requirement and leads to a purchase which provides for every branch of the city government having like needs a supply of like character. Before standardization, a requisition for coal had a different meaning in

every one of the thirty-two departments consuming coal in the city. A requisition for soap meant only what the dealer found it profitable to have it mean. It is inconceivable that supplies may be purchased efficiently without standardization. Neither can they be efficiently used or intelligently desired unless supply requirements of the using institution have been subjected to the processes now implied by the term "standardization."

Standardization of Salaries

In government, wages and salaries represent the principal part of the annual outlay. Unscientific determination of personal service compensation rates has been a principal cause of municipal inefficiency. New York, Chicago, Milwaukee, Pittsburgh and one or two other cities have recently undertaken to re-order salary schedules on the basis of a standard classification of positions and the adjustment of rates to the character of work and its relative value in the field of city employment. The procedure involves, first, an analysis of work actually performed by units or groups in an organization, consideration of the feasibility of readjusting work so as to make existing compensation or desirable compensation more appropriate to the position, or adjustment of compensation up or down to conform with rates paid for similar service elsewhere in the government or in private employment.

In practice, the application of a standard plan of compensation to an existing schedule is likely to involve either the ungrateful task of reducing salaries, or the alternative of waiting for vacancies to readjust compensation for the appointment of fresh incumbents. Standards may be applied with ease, of course, to new positions as they are created, and wherever an increase of compensation will result by reason of existing underpayment or underassignment of duties.

New York City, through its bureau of standards, has prepared a plan of promotion, a standard classification and uniform rates for the several grades in the fifteen primary divisions of city service.¹

¹ These divisions are as follows:

Executive	Social and Educational	Police
Legislative	Sub-Professional	Institutional
Judicial	Inspectional	Street Cleaning
Professional	Clerical	Skilled Trades
Investigational	Custodial	Labor

This work is perhaps the first comprehensive attempt made to determine a scheme of compensation based upon the value of work performed, its relation to other grades and classes of work required by the institution, and the considerations of standards and cost of living, special qualification required, opportunities for advancement, provision of superannuation pensions, etc. The New York work furnishes a basis for considering compensation in all fields of activity, public and private, and is the first attempt to supplant the haphazard, bargaining, accidental determination of salary rates with a definitely formulated plan of compensation based on such principles as experience evolved from employing and paying upwards of 80,000 employees has suggested.

The field of compensation standardization is so broad that one is not safe in generalizing on a brief statement of the elements of the problem. It may be said at this time, however, that a rational plan of compensation is the first requirement of efficient organization, and indispensable to just and successful management of a large body of employees. The field of salaries and wages furnishes one of the most inviting opportunities for constructive effort, not only in government but also in industries and mercantile activity.

One is inclined to picture an institution ordered by some arbitrary process of regimentation when considering the complete application of standards to administration. The fact is, however, that an essential element of standardization is the recognition of the necessity of divergencies from the standard. This is true in regard to compensation, forms of organization and even details of procedure, for no two organizations can be made identical unless the elements involved in the organizations are identical. In city government this rarely happens. But there are certain elements of routine administrative procedure which may be patterned on a common model under varying forms of organization. Thus, there have been installed in New York City standard accounting practices in the several departments, uniform methods of payroll preparation, standard filing systems, methods for handling correspondence, etc. These routines, with modifications in detail, may be applied as an aid to efficient administration throughout a city government. So much has been said of this aspect of the problem of ordering practice to conform to the formulation of comparative experience, that I need only refer to it in passing.

Least has been done in the most important field of activity to which standards may be applied, namely, the actual processes of operation themselves. In 1913 the board of estimate and apportionment in New York established a division of efficiency to make detailed examinations of methods employed in the conduct of public business, and by tests to establish a standard routine for the performance of work. Studies were made in the borough of Richmond of various public works activities, and as a result of long experiments in planning work, organizing gangs, arranging for delivery of material, devising records to govern the performance of work, the formulation of specific instructions, etc., standard routines were evolved. These have as yet failed of application to other sections of the city where similar work is done, because of decentralized responsibility and the persistence of a spirit of individual freedom in the management of public departments, which is one of the principal embarrassments to efficient municipal administration.

Similar analyses of work problems and methods are now in progress in the department of street cleaning. An average, typical section of the city has been selected for the development of model methods for general application. Here, as in other similar problems, observation, analysis, recording, comparison, testing and measurement of results by a standard or ideal established as a goal, are the methods pursued in evolving a standard, efficient practice.

It is proposed to apply the same method to every branch of city activity. This has already been done in numerous fields. Indeed, the process of analysis has somewhat outrun the actual application of the results of analysis by administrators. But not until New York obtains a greater degree of centralized authority in administration so much needed, will it be able to apply standards to its multifarious fields of activity. Theoretically, the opportunity for standardization runs from end to end of city government. There is first the study of the field of municipal activity, to learn what are the problems to be solved and what service standards are to be observed in solving them. Thus, it is not enough to standardize methods of street cleaning, a standard of cleanliness must be determined as a prerequisite. In determining a standard of cleanliness, it is necessary to consider health and comfort requirements, cost

limitations, efficiency in equipment, limitations imposed by traffic, habits of street users, or residents, etc.

Efficient administration involves as a continuing process the formulation of standards and their revision with changing conditions. Gradually, in this way, a body of experience and method will be developed under which a city government may be conducted up to the level of efficiency which the knowledge and capacity obtained from years of analytical conduct of the activities of government will have produced. New York is fairly well launched on a program of standardization. It is formulating principles of administration by which to test its standards. More and more it is recognizing that no limitations may be placed upon the effectiveness of city service except the changing limitations of human knowledge and ability. The apologist has played his part and exhausted the array of excuses which have heretofore been accepted in lieu of efficient municipal service. Standardization is both a challenge to city administrators and the means by which they are able to answer to demands for greater effectiveness in city management.

WHAT SCIENTIFIC MANAGEMENT MEANS TO AMERICA'S INDUSTRIAL POSITION

BY FRANK B. GILBRETH
and
LILLIAN MOLLER GILBRETH, PH.D.,
Providence, R. I.

There is some confusion today as to the meaning of scientific management. This concerns itself with the nature of such management itself, with the scope or field to which such management applies, and with the aims that it desires to attain. Scientific management is simply management that is based upon actual measurement. Its skilful application is an art that must be acquired, but its fundamental principles have the exactness of scientific laws which are open to study by everyone. We have here nothing hidden or occult or secret, like the working practices of an old-time craft; we have here a science that is the result of accurately recorded, exact investigation. Its results are formulated, or are being formulated, into such shape that they may be utilized by all who have the desire to study them and the concentration to master them. The leaders in the field are, as rapidly as possible, publishing these results, that progress may take place from the stage of highest present achievement, and that no time or effort may be wasted in re-making investigations whose results are already known and accurately recorded. The scope of this management, which may truly be called scientific, is unlimited. It applies to all fields of activity, mental and physical. Its laws are universal, and, to be of use in any particular field, require only to be translated into the vocabulary of the trained and progressive workers in that field.

The greatest misunderstandings occur as to the aims of scientific management. Its fundamental aim is the elimination of waste, the attainment of worth-while desired results with the least necessary amount of time and effort. Scientific management may, and often does, result in expansion, but its primary aim is conservation and savings, making an adequate use of every ounce of energy of any type that is expended.

Scientific management, then, in attacking any problem has in mind the question—How may what is here available be best used? It considers the problem, in every case, according to the scientific method; that is, by dividing it into its elements and submitting each one of these to detailed study. Every problem presents two elements: the human element, and the materials element. By the materials element we mean the type of material used, the quality of material used, the quantity of material used, the manner in which the material is used, with conclusions as to why the material is chosen and handled as it is. In other words, we would apply to the material the familiar questions, what, how much, how, when, where, and why. These same questions are applied to the human element; that is to say, to all members of the organization.

Having in mind now the principles and practice of scientific management, we can consider its relation to the industrial position of any country. Industrial growth, like all other growth, consists of progress and maintenance; that is, of advances over and beyond present achievement and of making adequate provision for holding any advantage that one may gain. It is generally realized that maintenance contains always the thought of conservation, that it is impossible to hold any advantage without making careful provision for using one's resources in the best possible manner. It is not so generally realized that progress also implies constantly this same conservation. The reason for this is the result of a confusion between saving, or conserving, and hoarding. True conservation contains no thought of miserliness or niggardliness. It is based upon a broad outlook on life and upon the needs of the situation, upon a willingness to pay the full, just price for what is wanted, but an unwillingness to pay any more than is necessary. Progress differs from lack of progress, fundamentally, not because the progressive man is willing to pay more than the unprogressive man will, but because the progressive man has a broader outlook and a keener insight, hence, a more adequate knowledge of where and when it is necessary to pay. The unprogressive man or nation suffers from a limited outlook that makes it practically impossible to make a just estimate as to what is worth while.

When we compare the various countries of the world, and try to estimate their relative industrial positions, we find a strong relationship between conservation in its highest sense and industrial

supremacy. Again, as we turn to history, we find this same relationship constantly manifesting itself; that is, progress depending upon an ability to see what is worth-while, and a willingness to pay for that and that only, and stability or maintenance depending upon an efficient handling of available resources.

As we review history, and observe present conditions, we see that the differences between various countries are becoming less and less, as time goes on. Transportation, with its numerous by-products that affect both the material and the human element, is increasing the likenesses between different countries at an astounding rate. This means that industrial supremacy will depend more and more upon the handling of available resources and less and less upon distinctive features in these resources themselves. The calamitous war, which is now apparently offering such a serious check to industrial progress, is contributing toward ultimately making working conditions more similar, in that many countries are being thrown upon their own resources for both materials and men, and are being forced to make discoveries that will more nearly equalize these resources.

Another outcome of this war, that should prove of advantage to the world, is the emphasis that is being laid upon the causes of industrial position and industrial supremacy and the resulting study that is being made as to the reasons for such supremacy. Such a study should be particularly profitable here in America. This country has always conceded her important industrial position. She has realized thoroughly her enormous natural resources and also her wonderful human resources in that she is "the melting pot of the nations." It is only within the lifetime of those still young among us that we have come to realize the necessity of conserving our natural resources. It has not yet reached the attention of many among us that our human resources are as worthy, in fact, infinitely more worthy, of being conserved.

It is self-evident, then, that to attain and maintain an industrial position of which she may be proud, America must conserve both her natural and her human resources. If she hopes for industrial supremacy, she must set about this conservation with energy, and must pursue it unremittently.

The writers have a thorough knowledge of European industrial conditions, through having done business simultaneously in

this country and abroad for many years, through frequent trips abroad before the war, through having crossed the boundaries of many of the warring countries many times since the outbreak of the war, and through having observed carefully industrial conditions and methods. Their opinion, which is that of all who have made intensive studies of these conditions, is that America is far behind European countries in conservation of the materials element, both natural and manufactured resources. This statement needs no proof in this place. The fact it contains is universally accepted by serious thinkers and investigators. It is equally true that up to recent times European countries have done comparatively little toward conserving the human element.

The hope of this country lies, then, in equaling or surpassing foreign conservation of material and in maintaining or progressing beyond our present conservation of the human element. The material problem is being attacked along different lines in a more or less systematic manner. We all appreciate the benefits of scientific or intensive farming, until now our native farmers, working under the direction of and with the coöperation of the Department of Agriculture, get results that equal those of European farmers, in their native lands, or here in ours. The importance of laboratory analysis of materials and the help that applied science can render and is more and more rendering to the industries are also being recognized. Agricultural experience has taught the valuable lesson that it is possible to get great output, yet, at the same time, leave the producing force unimpaired, by a proper expenditure of money and brains. Experience with applied science has taught that by-products, as well as products, must be considered, and that the exact methods of science often bring results that are beyond those looked for or hoped for. It has been common practice to consider a transaction satisfactory, or better, if it fulfilled one's expectations, to lay emphasis upon the result rather than to standardize the means or method. Laboratory practice has taught that while the immediate results are important, the standardization of the method is more important, since the unexpected ultimate results, sometimes called by-products, are often by far the most valuable outcome of the work. Certain industries in this country have gone far toward applying scientific methods to the material element, but no one of us need go outside his own experience to be able to mention

other industries that as yet have no conception of what such work means.

Much has been done not only in the analysis of materials, but also with the handling of materials. America has cause to be proud of her machines and her tools. The chief criticism that we may make of present practice in this field is that of lack of standardization. The reasons for this are many. One is business competition, though the feeling is gradually dying out that making one's product markedly different from that of all others is a strong selling advantage. Another is the strong feeling of independence and individuality that leads one to prefer a thing because it is different rather than because it is adequate to the purpose for which it is needed. A third is a lack of channels for direct and easy communication of ideas. This is being supplied both through organizations and publications. A fourth is the former lack of standardizing bodies or bureaus, a lack which is also being supplied as the demand for such bodies increases.

Because of the highly specialized nature of much present-day work, few of us realize how widespread, almost universal, the lack of standardization is. It is only necessary to turn, however, to such a field of activity as surgery, which engages the attention of some of the finest brains in the country, and which is apt to come, sooner or later, in some way, into the field of experience of everyone, to see a striking object lesson of lack of standardization both of tools and of method.

It is the work of scientific management to insist on standardization in all fields, and to base such standardization upon accurate measurement. Scientific management is not remote, or different from other fields of activity. For example, in the handling of the materials element, it does not attempt to discard the methods of attack of intensive agriculture or of the laboratory of the applied scientists; on the contrary, it uses the results of workers in such fields as these to as great an extent as possible.

There is a widespread feeling that scientific management claims to be something new, with methods that are different from those used by other conserving activities. This is not at all the case. It is the boast of scientific management that it gathers together the results and methods of all conserving activities, formulates these into a working practice, and broadens their field of

application. In handling the materials element, then, scientific management analyzes all successful existing practices in every line, and synthesizes such elements as accurate measurement proves to be valuable into standards. These standards are maintained until suggested improvements have passed the same rigid examination, and are in such form that they may be incorporated into new standards.

Turning now to the field of the human element—by far the the more important field—we find that, while there is much talk of work in that field today, comparatively little has actually been accomplished. There have, in all places and times, been more or less spasmodic and unsystematic attempts to conserve human energy, or to use it for the greatest benefit of all concerned; but there has not been steady and conspicuous progress in this work for several reasons; 1. Because the methods used were not accurately measured and were not standardized. This made it impossible for the individual conserver to accomplish much of lasting benefit. 2. Because of lack of coöperation between such conservers.

It is the task of scientific management to supply both these wants. Success in handling the human element, like success in handling the materials element, depends upon knowledge of the element itself and knowledge as to how it can best be handled. One great work of scientific management has been to show the world how little actual knowledge it has possessed of the human element as engaged in the work in the industries. Through motion study and fatigue study and the accompanying time study, we have come to know the capabilities of the worker, the demands of the work, the fatigue that the worker acquires at the work, and the amount and nature of the rest required to overcome the fatigue.

Those not actively interested in the industries can scarcely realize that the process of keeping the soil at its full producing capacity and of providing depleted energy is infinitely more standardized and more widely used than the process of providing that the human organism overcome fatigue and return to its normal working capacity in the shortest amount of time possible. Scientific provision for such recovery in the industries, before the days of scientific management, was unknown.

It is even more surprising that only the pioneers in the work realize the application of any necessity for the laboratory method

in the study of the human element as it appears in the industries. When making accurate measurements, the number of variables involved must be reduced to as great a degree as possible. Only in the laboratory can this be successfully done. It is fortunate for scientific management that its initial introduction in the industries has been made by engineers rather than by men who are primarily laboratory scientists, for this reason: the engineer has been forced by his training to consider constantly immediate as well as ultimate results, and present as well as future savings. Investigations of scientific management have, therefore, been made to pay from the start in money savings, as well as in savings of energy of all kinds. We note this in the results of motion study, fatigue study, and the accompanying time study.

As an example, take the laboratory investigations in motion study. These, where possible, are made by us in the laboratory, which is a room specially set apart in the plant for research purposes. Here the worker to be studied, with the necessary apparatus for doing the work and for measuring the motions, and the observer, investigate the operation under typical laboratory conditions. The product of this is data that are more nearly accurate than could be secured with the distractions and many variables of shop conditions. The by-product of this work, which is a typical by-product of engineer-scientists' work, is that the conditions of performing the operation in the laboratory become a practical working model of what the shop conditions must ultimately be. When the best method of doing the work with the existing apparatus has been determined in the laboratory, the working conditions, as well as the motions that make this result possible, are standardized, and the working conditions in the shop are changed, until they resemble the working conditions in the laboratory. In the same way, the length and periodicity of intervals to be allowed for overcoming fatigue, and the best devices for eliminating unnecessary fatigue and for overcoming necessary fatigue, are determined during the investigation, and are incorporated into shop practice.

The various measurements taken by scientific management and the guiding laws under which these are grouped determine not only the nature of the human element, but the methods by which it is to be handled. Motion study, fatigue study, the measures supplied by psychology,—these result in the working practice that

fits the work to the worker, and produces more output with less effort, with its consequent greater pay for every ounce of effort expended.

Through scientific management, then, the individual conserver is enabled to progress constantly and to maintain each successful stage in the development. Scientific management can, also, and does, wherever permitted, provide for coöperation among conservers. It does this by:

1. Demonstrating the enormous waste resulting from needless repetition of the same investigation.
2. Providing standards which must be recognized as worthy of adoption, since they are the results of measurement.
3. Emphasizing the importance of teaching and of the transference of skill, which depend upon coöperation.
4. Showing that maintenance depends, in the final analysis, upon coöperation.

We have formulated our program for such coöperation into the following stages:

1. Each individual to apply scientific management to his own activities, individual and social.
2. Groups, such as industrial organizations, to apply scientific management to the group activity.
3. Trades to apply scientific management to the trade activity. This includes, ultimately, a reclassification and standardization of the trades, such as we have advocated in *Motion Study*.¹ The trades must be classified according to the amount of skill involved in the motions used, and must then be standardized in order that the necessary training for succeeding in them can be given.
4. Industries to apply scientific management to the entire industry, with coöperation between the various trades involved.
5. A national bureau of standardization to collect and formulate the data from all the industries into national standards.
6. An international bureau of standardization to collect national standards and to work for international coöperation.

America's immediate industrial position depends upon America's realization of the need for conservation, as demonstrated by scientific management, and upon America's use of such means of conservation as scientific management offers.

America's ultimate industrial position depends upon America's realization that the highest type of conversation includes coöperation.

Individuals, groups, trades, and industries have realized and are realizing more and more, daily, that it is for the good of all that

¹ D. Van Nostrand Company, pages 94-103.

common practice be standardized and that improvements take place from the highest common standard. Nations have not yet come to any great realization that this same principle applies to international relationships.

If America desires to gain and maintain leadership in industrial progress, she must be the advocate of industrial conservation and coöperation, and must be the example of that readiness to derive and to share standards for which scientific management stands.

THE BASIS OF CONSTRUCTIVE INTERNATIONALISM

BY W. G. S. ADAMS,

All Souls College, Oxford, England.

One of the most striking features of the great crisis in its history through which the civilized world is now passing is the complexity and variety of important issues which are at stake. But among the great issues the greatest is that of safeguarding the development of international rights. The war opened with the denial of a right which lies at the foundation of a stable international system,—the right of a nation to be heard before it is condemned to the punishment of war; the progress of the struggle has witnessed the deliberate violation of solemn international treaties and conventions.

Such a situation is a challenge to civilization. International law no longer offers any trustworthy security, and our immediate duty is to face the problem not of its superstructure but of its foundations. It is only too clear that until these foundations are better laid than they are at present, the particular rights even of neutrals are not safe.

With this end in view it will be well first of all to define what is the object of the international polity. For the conception of this polity, though it is yet very imperfect even in theory, is involved in the idea of international relationships, and is necessary to their proper development. The object of the international polity may be defined as, first, to secure the existence of the individual nation states, and to this end to determine their relations one to another. So long as society continues to consist of a number of sovereign states of very unequal strength without any collective or international control, so long will some of its members be in a position of insecurity from the strength of others. To examine the field of national rights, to adjust them one to another, and to prevent the outbreak of a condition of affairs, *viz.*, war, which restricts and may put an end to international relationships, is the first object of the international polity.

The second object of the international polity is to secure that, when war has broken out, international agreements regulating the conduct of war, in the interests alike of the peoples of belligerent and of neutral states, shall be maintained.

Thus far it may be said that the character of the international polity is simply protective or preventive. But that cannot remain its sole character. Just as in Aristotle's famous definition, the state comes into existence to make the life of the individual possible but continues to exist to make it good, so the international polity comes into existence to secure the life of the nation, but continues to exist to make nationality good—that is to realize its potential qualities for good. In other words, internationalism ultimately will realize progressive functions by doing for national states what they cannot as well do for themselves. It will seek to assist the mutual development and coöperation of states, and to realize that harmony of interests which should be the aim of their political life.

Over against this present disruption or interruption of internationalism, it should be remembered that the past fifteen years have seen a very remarkable advance in the development of international organization. This is not the place to trace the various ways in which such expression has been given to the spirit of internationalism. But it is an important evidence of the growing recognition of the need of the international polity. And the present world-shaking war, while it has brought into ruins the fabric built up by international law and understanding, may yet be found to have advanced the real cause of internationalism even more than the preceding years of peace. For it has demonstrated more plainly than a hundred conferences of peace could have done the weaknesses in the present position of international development and the need of rebuilding on firmer foundations.

I

Now what are the foundations which have to be examined? First of all, at the base of the whole structure is the question of sanction. It is not necessary here to draw attention to the difference in this respect between national and international law. That is well known to all students. But it will be useful to analyze briefly the nature and necessity of the sanction in international agreements.

It would show a lack of sense to fail to recognize the value of the moral influence as a sanction of international agreements. The moral influence, despite the events of the war, has been by no means a negligible factor, and the dishonoring of international agreements has brought on the transgressing parties a loss of sympathy and support which, though it cannot be measured in terms of men, munitions and money, has meant a very real cost. It has alienated the sympathy of neutrals, and it has awakened a burning sense of wrong in those who have directly suffered which has strengthened their resistance and given confidence of ultimate victory. No faith can rest on transgression, and faith is one of the elements of victory. There should be no room for doubt that the moral sanction is a real support to international agreements.

But more than the moral sanction is required. The moral sanction *should* find its expression in men, munitions and money. The punishment of wrong-doing, by economic restrictions and by armed resistance, is required to support the moral sanction. The economic boycott is a powerful weapon in the modern commercial and industrial world, and it should be a duty of those who are parties to international agreements to use this weapon against the transgressor and to inflict economic ostracism until expiation has been made. But the economic weapon, powerful as it is, and sufficient as it may be in many cases, is not always an adequate sanction. More direct methods are then necessary and recourse must be had to armed intervention by force. On the question of the relations of moral sanction and force there has been too often a confusion of thought. Force, it cannot be too plainly said, is in itself neither moral nor immoral. It is the use of force which is right or wrong. And there are occasions when, with the nation as with the individual, to fail to use force is to do wrong. There are sins of omission, and nations can be guilty as well as individuals. There is not one morality for individuals and another for nations. Where wrong is done it is a duty to stay the wrong-doer, by suasion if that can be, by force if suasion fails.

Therefore, behind international law there must be put the complete sanction of moral, economic and military pressure. Until such provision is made by international agreement to secure that transgression of the law shall be punished there can be no stable foundation of the international polity.

Let it be said, however, at once, so that this matter may be clear, that such a sanction does not necessarily involve an international military organization if by that is meant an international police or armed force. For reasons which need not be discussed here, it seems probable that it will be to the action of individual nations, controlling and determining their own military and naval forces, that the international polity must look for the support of its authority.

The first and for the present by far the most important question which has to be faced is, therefore, that of sanction, for the policy of "constructive internationalism" must be provided with an effective foundation of "sanction."

The second question is: what are the fundamental international rights for which the sanction exists? There has grown up a complex body of international rights and in examining the problem before us it is important to distinguish what are the fundamental rights which it is necessary to secure. The present war has enabled men to see this question more clearly, in that it has witnessed the denial and transgression of what we must postulate as the two fundamental international rights. First of all, there is the right of a nation to be heard before it is punished. Second, there is the right to the protection of established international law. If the right of a nation to be heard before it is condemned is denied, or if the international agreements upon which states have entered are set aside by the act of an individual state, then the basis of international political society is destroyed. Let us consider somewhat more fully this very important question, for as matters now stand we see that these foundations have been shaken.

The first and fundamental right which must be secured to each nation is that it shall not have war declared against it until the case for the defence has been heard by an international tribunal. Just as it may be said that, where the individual has not secured the right to have his case heard, there is no system of constitutional government, so, without this fundamental right of nations, there can be no secure development of the international polity. When one individual can take upon himself the execution of justice against another individual, or where the state condemns a man unheard, there is no liberty; so, as long as one nation can refuse to submit its dispute to public inquiry and can proceed without hindrance

to declare war against a weaker state, there can be no real international liberty. Fundamental as this right is, and wide as is the moral acceptance of it by states, nevertheless the fact remains that internationally the right of a nation to have its case heard before war is levied upon it has not yet been secured. The principle of "obligatory arbitration" has been accepted by the assembled nations at the Hague, but the actual treaties of arbitration, save in the case of a few states, reserve matters of "national honor, vital interests, and independence." There is no statutory obligation, if we may use this term, which binds nations to submit a dispute in a matter of "vital interest" to inquiry, much less to arbitration. Arbitration involves the acceptance of the judgment of the court, and on matters of the greatest concern sovereign states are not willing to surrender their independence of judgment and action. Arbitration makes too heavy a demand on the mutual confidence of nations. But the right to an inquiry before judgment is executed is something very different from arbitration. If an individual or a nation is condemned unheard, that is the very negation of liberty.

The second fundamental right of a nation is to receive the protection provided by the observance of international agreements. If in a society agreements are not kept, and if the breach of agreement is not punished, the basis of that society is destroyed. So also in the international sphere it is fundamental that agreements should be kept and that their breach should be punished. To admit the doctrine of national "necessity" as being above all and conditioning all international agreements is to destroy international security. This is a matter of principle on which there can be no compromise.

Such are the foundations of the system of international rights and of the international polity. What steps can be taken to secure these rights?

II

A great advance has been made within the past year by the action of the present government of the United States in ratifying with this country,¹ with France, and with several other states, treaties which provide for the establishment with each of these countries of a permanent international commission to which all disputes, where diplomacy has failed, shall be submitted. That

¹ November 10, 1914.

step marks a practical contribution to the building up of the international right of inquiry which cannot be too gratefully recognized. It is a limited step, but it is the first step, and it opens the way towards developments which may complete and secure by effective sanction the recognition of the first and fundamental right of a nation to have its case heard. Those who have studied the history of international arbitration will recognize the wisdom of not attempting too much at one time. These treaties have prepared the way, and if, as we hope, the method of procedure which they have initiated is adopted by other states, there will grow up a network of treaties which will greatly facilitate progress.

But it is no disparagement to the value of such treaties to say that they mark only a first step. They go far to strengthen the chances of peaceful settlement of disputes between particular nations, yet the right of a nation to have its case heard is not thereby adequately secured. There are nations which may not agree to such a procedure, and the agreement itself lacks the support of an adequate sanction. No doubt in many cases the sense of honor is such as will secure the strict observance of the treaty. But it is very desirable that there should be behind such treaties, if they are to be extended into an effective security of the right of inquiry, the sense of a definite and visible sanction. What then is the next step?

Three years ago in a speech of March 13, 1911, in the House of Commons, Sir Edward Grey said, in speaking of the possibility of an unreserved treaty of arbitration between the United States and England:

It is true that the two nations who did that (*i.e.* enter upon an unreserved agreement) might still be exposed to attack from a third nation who had not entered into such an agreement. I think it would probably lead to their following it up by an agreement that they would join with each other in any case in which one only had a quarrel with a third power by which arbitration was refused.²

This is a noteworthy statement. It was made with regard to the right of arbitration, and not to the much lesser right of inquiry. It is well to observe, however, that such a step, postulating the system of separate treaties between single states, would involve a considerable extension of responsibility. To join with one other state against any third party is a *general* obligation, and the history

² Hansard, Vol. XXII.

of international development shows us that individual nations are averse to undertaking such wide risks as this provision against third parties may involve. A state if it were bound up by such an obligation might find itself involved in a dispute with some third state with which it had perfectly good relations. Furthermore, it will be seen that in such a step there is implied the idea of sanction expressed in the term of both states "joining" against a third party. It should, however, be kept in mind that all which is here being considered is the right of a state to an international hearing before force is used against it; and this is a right which civilized nations should be prepared to support.

But something more is desirable and should be attempted than can be satisfactorily provided by treaties between two individual states. Has not the time come when all states which recognize the fact that the right of inquiry is fundamental should unite together to assert this right and to declare that they will resist any power which refuses to submit its dispute to international inquiry before proceeding to war? By international inquiry, is not necessarily meant a court mainly representative of "other" nations. Where two states which have a matter in dispute agree upon a court of inquiry, that is sufficient. But just as in industrial matters where any two parties at dispute cannot agree upon an arbitrator the state should have the right to appoint, so, where two states cannot agree as to the court of inquiry, an international authority must have the right of instituting the court. What therefore seems to be clear is, that while it would mark a further advance if any two states, such as the United States and England, agree to support each other against any third party which refuses to submit its dispute to inquiry, it would be a still better and sounder method of advance if a general agreement were made between all states which are prepared, (a) to submit any dispute among themselves to inquiry, and (b) to support any member of this group against a third party who refuses inquiry before hostilities.

Such a general agreement should be open to all states which are prepared to enter upon it. But if it is to be effective it must have behind it a definite obligation on the part of the signatory states to support by the full weight of their resources, moral and material, the disregard or denial of this fundamental right. A union of states so constituted forms the best foundation for the develop-

ment of the international polity. It provides a system of mutual insurance. While one or two important nations must take the lead in such a policy, we venture to assert that it would win at once the loyal support of some at least of the great powers and of many of the smaller states. Indeed it may well be that all states would sooner or later agree to accept this position. It would be a union of a defensive character. It would not be formed against any state. If, however, any state or group of states refused to acknowledge such a right, the ground for the existence of such a union becomes all the more imperative. For it would reveal how futile and how dangerous the attempt would be to build up again an international system without securing the foundations.

If such an agreement then can be realized, time may bring mutual confidence between the nations and a respect for the judgments of the courts of inquiry, which will lead to the adoption of the principle of arbitration. But it may even be found that the system of inquiry and conciliation achieves the result which arbitration proposes to attain, and that it does so by methods which are much more acceptable to the nation states and may even avoid miscarriage of justice against which arbitration itself cannot offer any absolute security. For inquiry and conciliation is a much more elastic method than that of arbitration. In certain international disputes, on matters of a strictly juridical character, arbitration has shown itself to be the right and proper method. But in the wider and more difficult field of political relations, the method of inquiry and conciliation offers the soundest and safest line of progress.

There is then this broad foundation for constructive internationalism, namely, an agreement between states: (1) that they will recognize the obligation to submit all disputes between themselves and any other state to inquiry before declaring hostilities, and that they will support any state which recognizes this obligation against a state which threatens aggression and refuses to submit its claim to inquiry; (2) that they will respect and observe international agreements and conventions; and (3) that they will unite to protest against, and if protest is without effect, to punish by economic action or by armed intervention, the disregard of such conventions.

III

If we have seen aright what are the foundations of the international polity, it may be profitable to consider briefly some of the developments which it may be possible to build on such foundations. For it is only as a fuller vision of the international polity reveals itself to us that we can seize the importance of the whole question of international development. The right not to be condemned unheard is a very real gain especially to the weaker states. But arising out of it is a larger question which, even if the times are not yet ripe, it is none the less useful to state as a problem. The end or purpose of the international polity is to protect the rights of states and to develop friendly relationships and the spirit of mutual help. As then the object of international control and organization is to assist the proper development of nationality so it may come within the scope of international action to guarantee the right of independence which is the foundation of national existence. Already in the case of Belgium, and of certain other states, independence has been guaranteed by European treaties, and while at the present it may seem to many that such international guarantees have proved unavailing, it would be surely a grave mistake to think that the policy of neutralization has failed. Rightly seen, the doctrine of neutrality is a step in the direction of securing peace for small states holding what would otherwise be a very exposed position. This subject has been well expounded by Professor Charles de Visscher,³ who has pointed out how that these neutralized states have marked an advance in the international organization with a view to peace. Because such a step has not yet realized the desired results, it is no proof that the policy is wrong. On the contrary, a considerable extension of the policy of neutralization, provided it is supported by a sufficient sanction, is a definite step towards peace. But, as Professor de Visscher has pointed out, the guarantee of neutrality does not remove from the guaranteed state the obligation of preparing for its own self-defence, and one of the conditions which should accompany an extension of the policy of guaranteed independence is that the neutralized states should assist in the work of protecting, not only their own, but also the independence of all other states so guaranteed.

³ "The Neutrality of Belgium," *Political Quarterly*, Oxford, February, 1915.

This question at least deserves to be asked: should not the international organization undertake to guarantee the right of independence of small or weak states in a more definite way than has been hitherto done? No doubt it has been a principle in the foreign policy of the United Kingdom to support small states, and no less it can be said that the United States would look with intense distrust and indignation on the action of any powerful state which threatened the national existence of a small neighbor. But the time has come when it is important to see whether the right of nationality cannot be further strengthened and secured. Such a measure would certainly bring to any powerful and trusted group of states the friendship and support of the smaller states whose independence may be threatened. We have only to look at the history of the smaller states of Europe to see how important such a question is.

A second illustration will serve to indicate further the wide sphere of right on which sooner or later the international polity must enter. The study of the complex problems of European international relations has revealed more clearly than before the importance of what may be called the right of "economic access." It is evident that when the settlement of Europe after the war comes up for consideration one set of cases which will present no little difficulty is that of the possession of certain seaports which are of vital consequence to different and it may be rival nations. The ports, for example, of Danzig, Trieste, Salonica, and similarly, the control of Constantinople and the Dardanelles, illustrate the difficulties which arise. If there is to be an exclusive national possession of such strategic positions, unless rights of equal economic access are guaranteed to the nations which are excluded from these gateways of commerce, they will remain a permanent source of friction. So long as political interests impede natural developments, so long there will be unrest. Nations should have the right of free access to the world. No state should be allowed to penalize or differentiate against the produce of another nation which has to pass through its territory on the way to other markets. It is and should be within the rights of a sovereign state to determine the conditions on which the goods of any state may or may not enter its territory for consumption, but to prevent or even to penalize the goods of a state passing through its territory on the way to the

markets of the world is a matter which should be beyond the competence of any state. The simple expedient of transit in bond should be guaranteed by international agreement.

The security of the right of economic access will remove many particular causes of friction between nations, and it opens the way for far-reaching considerations. The function of the international polity is to secure that just rights are conceded and, while guaranteeing to nations their independence, to see that independence is not used to thwart the natural development of other states. If commercial rights of access are granted, the ground for political hostility is at least greatly minimized. But where a nation refuses coöperation and controls a potential access which it does not use, there is a natural grievance which sooner or later will prove to be a danger. It is in this respect that international control can come in to arbitrate between powers, to secure that there is the proper give and take, to distinguish between what can and cannot be fairly granted, and to seek to develop the mutual interests of states.

And there is a still wider problem connected with these economic rights. So long as there were fresh lands to occupy, the world was in a stage of development in which national rights of occupation were admitted. But we have reached the stage when all the available lands have been mapped out. Wherever then there are lands occupied, but not developed, there will be a growing pressure against such mere rights of occupation. More and more it will be seen that only effective use will justify the claim of occupation. Moreover, it is evident that just as in the sphere of the rights of individual property important modifications are being made conditioning and controlling these rights, so in the sphere of the colonies and protectorates which nations have acquired there must enter an element of international right which has not been hitherto pressed. No nation can in these days seek to monopolize for itself large and important tracts of the world to the exclusion of other nations. We are coming to a parting of the ways in which, if there is not to be a development of equal rights for all, we shall be faced with the situation of the "haves" and the "have-nots" among the nations. These are great problems on which it is not possible to enter here, but they are mentioned for the purpose of indicating the sphere of the international polity, and of showing

how vital it is that the first steps in the foundation of that polity should be wisely and firmly laid.

We are indeed as yet only in the first stage of the developments of this greater polity. But every development in international relationships, in international law, and in public international opinion is a mark of the presence of the international state. And on its progress depends the real guarantee for peace. For it is only by the progress of constructive ideas of international right that the permanent security of national rights is to be found and that the way of peace among nations can be broadened and strengthened. As society advances in its conception and realization of international relationships, as the international polity becomes clearer to men's view, so is the hope of peace increased. With each wider and higher stage of political organization peace is secured within the new polity; and if within the polity itself war may break out, that internal survival of recourse to armed strife becomes more and more rare in the history of men. The realization of a bond of union—be it the full sovereignty of the national state, be it the single link of a customs union binding a group of national states—is a great earnest of mutual peace for the members of that state or union. There is no secure guarantee of peace short of the international polity. We need, therefore, to postulate as the foundation of international relations the idea of the international polity or international state, however imperfect even in theory this conception may be. If this is not done we fall into views based on what is a narrow, selfish, and dangerous nationalism. Every nation should be the guardian of international rights, and one of its most sacred duties should be to adjust its nationalism to these international rights. Today, the public, political mind has been awakened as never before to the gravity of these problems. The witness of the breakdown of international agreements and of the inadequacy of international sanctions has led to the asking of questions which are a necessary preliminary to the growth of a more stable and effective internationalism. For this reason in the very failure, as it may seem, of international control up to the present, there is a hope for the future of seeing more clearly what are those steps which must be taken if international control is to become real and effective. The very existence of this widespread emergence of inquiry is a political psychological factor of great importance. For

it is well to recognize from the outset that in the field of international development the part which public opinion has to play is one of the greatest significance. The problems of international right and of international control are, in their most important aspects, questions of a simple but fundamental character. They are matters not of the intricacy which diplomacy presents, but issues which, because they are so deep and fundamental, appeal straightway to the ordinary citizen. International law which has been a study of the Chancellery and the Academy, has become a question of the market-place. Not that the workman or the man of business expects or desires to master the intricacies of the questions which international lawyers and diplomatists have elaborated, but simple fundamental issues of right have been raised which awaken in all who have developed the civic sense an interest and a demand for judgment such as has not existed before. Questions of international right, because of their gravity and urgency, have become to us real and present.

There is now, therefore, an opportunity as there has never been before of making progress towards a constructive internationalism which will be the best guarantee of peace. But it will require strong and wise leadership. If the United States and England are prepared to step out boldly in the cause of international peace there is a good hope that many other states, great and small, will follow their lead. The opportunity should not be lost. The first step is to secure that as many states as possible do agree to submit their disputes one with another to inquiry and to forswear hostilities until a report on the causes of dispute has been received. Secondly, this union of states should undertake mutually to guarantee each member of the union against any third state which has recourse to hostilities before submitting its dispute to inquiry by an international court. All treaties made by states which enter such a union which are inconsistent with these conditions should be denounced or modified so as to make them compatible with the principles on which this union of states is based. Third, this union of states should uphold with all its resources, material and moral, the security of international agreements.

HOW AMERICA MAY CONTRIBUTE TO THE PERMANENT PEACE OF THE WORLD

BY GEORGE W. KIRCHWEY, PH.D.,
Professor of Law, Columbia University.

How can America—how can the United States—contribute to the settlement of this war in such a way that we may hope for an extended reign of peace, if not for permanent peace?

I will confess to you that I would not have come before you if I hadn't believed that there was something that we could do, something that we could propose, some concrete aim that might be promoted by our assembling here tonight and talking this matter over. What is it that we can do?

In the first place, let me say that I believe it to be as true today as it was yesterday, as true in international concerns as it is in all our other affairs, that the kingdom of heaven cannot be taken by storm. We shall not, by any trick or device of statesmanship, achieve a permanent and enduring peace at the end of this war. If we shall have advanced the cause of permanent peace by a single stage on the long journey that lies between us and Utopia, we shall have done well. I have spent much time during the last few months with some ardent spirits—lovers of peace, men and women of goodwill—in the hope of determining how best we can bring the public opinion of the United States to bear, with a view to the termination of the war when the proper time for that shall seem to have arrived and with a view to aiding in the creation of a public sentiment in Europe which will result in a decent, magnanimous and not a predatory and defective peace, a peace which will not sow dragon's teeth of future wars, and which shall also picture to the bankrupt statesmanship of Europe the desirability of nations living together in concord; perhaps even of modeling their institutions more upon those that we have established on this side of the Atlantic, looking forward toward that federation of the world to which the poet has pointed the way. But the more I work with these groups of incurable optimists, the more convinced I become that salvation does not lie in any attempt to realize such large aims as that in such a direct

and immediate way. I feel more and more that the problem is one of civilization. The process that will lead us to peace and civilization is a long process, one in the education of experience. But in the meantime what can we do to forward it?

Let me mention one thing that I think we should not do. I do not believe that we, the people of the United States, should join with any power or group of powers in Europe with a view to maintaining the peace of the world by the sword. In the first place, I believe profoundly in the truth of the saying that he who takes the sword shall perish by the sword. I do not believe that any good thing is ever accomplished by violence. In the second place, if it is a good thing for Europe to maintain peace by military force, it is a good thing for us to keep out of.

It has been well said that the governments of the world are in a way superfluous, if not artificial, survivals from—was it the Stone Age? Some prehistoric period, anyway. That the real government of the world is an invisible government made up of the great industrial and intellectual and moral forces which actually control the actions of men. Superimposed upon this invisible government we have these relics of mediaevalism, our political and military governments, which have very little function left excepting to plunge into chaos this modern world which they do not understand. The world—the modern world—has become a great industrial commonwealth, one single web woven of a thousand million strands of mutual interests and mutual sympathies, and the question for us is: What can we, the people of the United States, do to preserve the integrity of that web?

I believe, in the first place, that we can best do it by keeping our own part of the web from disintegration. I believe that we can best do it by maintaining our tradition of peace and our habit of peaceful living; by setting our faces resolutely against every incitement to militarism, from whatever source it may come; by refusing to be stirred by panic cries of danger when there is no danger; by remembering that from our geographical position, from our relations of amity with the whole world, we are as safe from attack as any nation ever has been in human history. The point that I wish to insist upon is this: that we must not be driven by panic into adopting an attitude of militarism towards the rest of the world, as the nations of Europe were driven by panic into the militarism which finally

resulted in this war. In that way destruction lies, and nothing but destruction. We are, then, to maintain our position as a pacific, peace-loving people.

And in the second place, we are, by virtue of our position in the world, the great neutral, as well as the great pacific, power. As such we owe to all other neutral peoples a duty—the duty of leading them in the ways of peace—of coöperating with them in the great work of making the world a world in which a nation shall be free to lead a peaceful life without undue interference from nations that are still dominated by the war spirit. And it seems to me that this duty cannot be properly discharged by us if we continue to work alone and for the protection solely of our own national interests; it requires us to get into close working relations with all other neutral peoples, to enter into conference with them with a view to common, concerted action for the protection of neutral rights and interests.

In the third place, we are, in a peculiar sense, trustees of one of the chief goods of civilization, the international law of the world, that body of rules and principles which represents what Gladstone called “the public right” of Europe and the civilized world—perhaps the greatest achievement of the international mind, during the last hundred years. This public right has no sanction, in the strict legal sense. No military force, no international police stands behind it, to give it power. It rests solely upon the public opinion of the civilized world—and the public opinion of half the world is paralyzed by war, and that of the other half is benumbed by fear or by indifference. It is for us, I believe, to come out into the daylight, to take our place in the sun, and to stand for these violated principles of international law, to the end that public right shall not perish from the earth.

Then, lastly, there is another function which the United States may well perform. We are on terms of growing intimacy, arising out of a growing understanding, with the other republics of this western world. It seems to me that we shall do more for the cause of durable peace if we begin by creating an international community in the Americas, which shall be held together by the binding ties of peace, amity, mutual interest and good-will. In other words, I do believe in a league of peace, provided it is a league of peace in which it is proposed to live by peace and not by war; and it seems

to me that we are in a position to create such a league, perhaps first among the republics of this western hemisphere, the Latin American states with ourselves, and then, next, with all other neutral powers or rather, shall I say, all other pacific powers, those that have laid aside, if they ever cherished, the fatal ambitions of national greatness, to be promoted by violence and force, which have brought the greater part of Europe to its present pass.

Therefore, I propose as the methods by which we may hope to contribute to the permanent peace of the world: First, that we shall at all hazards and in the face of all dominions and powers, steadfastly maintain our honorable position as a pacific nation, a nation that seeks her ends by the righteous ways of persuasion and good-will and not by force of arms; second, that we shall, as soon as possible, enter into close relations of amity and, if possible, into a durable league of peace with the other states of the western world; third, that we shall, without delay, enter into conference with a view to some such permanent relation with every other neutral and pacific power; and, lastly, that we shall do everything that lies in our power to build a new international law, remembering that the world—the real world in which we live and move and have our being—has become industrial and, therefore, peaceful, and that war—once the normal condition of man—has become abnormal, an anachronism to be outlawed; and, therefore, that this new international law shall not be written, as international law has heretofore been written, by belligerents for belligerents, but that it shall be written from the point of view of the neutral powers and in the interests of neutrality and peace. What that may mean in the way of enlarging the isles of safety in the world, the areas of land and water permanently dedicated to peace, what in the way of freeing neutral commerce, no one can yet say. Nor can we have any assurance that we shall be permitted to play an important rôle in the conference which will settle the terms of peace at the close of this war. But this, at least, is certain, that we cannot be excluded from any conference which shall settle the international law of the civilized world, and it will be there that we shall make our impress and exert a real influence in the direction of an enduring peace.

You will observe that this is a modest program; that it does not bring us very close to the millennium. It will take us only a step or two in that direction. I conceive that there will still be wars and

rumors of war in the years to come. But I hope and believe that the Europe that will emerge from this catastrophe will be a chastened Europe, and that the belligerent nations will make a serious effort to live together, and little by little form the habit of living together, in peace and amity. But whether that comes about or not, and whether we can by our example and precept contribute to that end or not, the fact remains that it rests wholly with us to determine whether we shall be a pacific nation in the future, as we have been mainly in the past, and whether we shall or shall not extend the area of peace by drawing within the circle of our amity and concord the South and Central American states and the other nations of the world that choose to walk hand in hand with us in the ways of peace.

HOW CAN AMERICA BEST CONTRIBUTE TO THE MAINTENANCE OF THE WORLD'S PEACE?

BY G. LOWES DICKINSON,

Fellow, Kings College, Cambridge, England.

In putting down my views on this subject I am not unaware that it is a delicate matter for a foreigner to make suggestions to citizens of another country as to the principles on which they should conduct their affairs. My excuse is the importance of the subject to the world at large. I will not, therefore, waste time in apologies, but will state briefly such views as I have been able to form, at a distance from the scene and without the advantage of conversation with leading Americans.

The conclusion of this war will be, in my opinion, the great turning-point of civilization. Either we shall move henceforth seriously and deliberately in the direction of peace, or we shall move to a continual increase of armaments among the nations already armed, the arming of those that are not armed, and, in particular, of the United States and China, and a series of wars in which civilization itself may be engulfed. Which of these alternatives will be adopted will depend, to a great extent, upon the influence the United States may be able and willing to exert at the peace settlement. I have always thought that the most hopeful issue of the war would be a peace made by the intervention of President Wilson, and followed by a congress at which he should preside. The United States is the one great nation not directly interested in the outcome of the war, not seeking increase of territory, or prestige, or power, not inspired by the desire for revenge. Of all the governments that may be concerned with the future of Europe, and therefore, of the world, yours is the only one likely sincerely to take the view of the peoples instead of that of the militarists and diplomats. And the imperative condition of peace is that the view of the peoples should be heard and acted upon for the first time in history.

The congress at which I hope to see the United States occupy a leading position, should be one where all the European states, not only the belligerents, should be represented. The belligerent

governments are not to be trusted to aim at a permanent peace. Their representatives are not likely to have the imagination to conceive such a purpose, nor even the desire to pursue it. They will be, indeed, in all probability the same who made the war. But the neutral powers may be trusted, I think, to be favorable to a radical change in the spirit and organization of European diplomacy. And a strong lead given in that direction, as it might be given by the United States, would be likely to be backed by the British government and by the better elements of public opinion everywhere. Everything, in fact, will depend on the impulse given. And that impulse could be given with the greatest force and the greatest disinterestedness by the United States.

The business of the congress would be twofold. First, the settlement of the questions arising immediately out of the war. Secondly, the creation of a new international organization. The first point will deal mainly with territory and indemnities. What territory will actually come up for settlement, only the military result of the war can determine. And it is probable, though not desirable, that the matter will be arranged between the belligerents, in the preliminaries of peace. The detailed settlement, however, should be left to be carried out by an international commission, under the guidance of principles laid down by the congress. And the United States would, no doubt, throw all its weight on the side of the principle that in any transfer of territory the interests and wishes of the populations concerned should be the only point kept in view. With regard to indemnities, they should not be penal, but belligerents whose territories have been invaded and ravaged should be awarded compensation.

It is, however, with regard to the future that I should hope the most from the influence of the United States. The congress ought not to dissolve without substituting for the system of alliances under which Europe has been suffering an international guarantee of peace. I have already put forward, elsewhere, at some length, the form I think such a guarantee might take. It should be, I think, a treaty agreement between the powers to submit their disputes to arbitration, or conciliation, before taking any military measures; and the treaty shall be backed by the sanction of force, in case of a breach by any of the signatory powers. I do not myself propose an international force nor an international executive, though there

are many who put forward such proposals. But I think the powers should be bound to apply joint pressure, if necessary, by their national armaments, to guarantee the fulfillment of the treaty.

If such a scheme, or any more drastic one, is to be adopted and to be successful, I believe it to be, if not essential, yet very important, that the United States should be one of the signatory powers. And it is here that I see the great problem and the great choice for the American people. Will you be willing, in the interest of peace, to depart from your traditional policy of non-intervention in European disputes, with the chance of being involved in hostilities over a question which, in the first instance, is purely European? Your intervention, it may be suggested, might take the form not of armed force, but of a refusal to trade with a power that should break the treaty. But such refusal would of course mean economic loss to your country. As far as that is concerned, it would be a question of balancing such loss against that which must fall on neutrals, no less than on belligerents, if war breaks out. But such questions are not and should not be decided merely on grounds of economic interest. The American people would have to decide whether they care enough for peace to take risks for it. And on their decision may depend the possibility of peace. The alternative seems to be an America unentangled by agreements with European states, yet progressively arming herself to meet possible menace from them. If that course is adopted by the United States, most probably the European states will continue the system of armed isolation or alliances. And the question will be, not whether there shall be another war, but simply when it will break out.

If a council of conciliation such as I have elsewhere suggested should be set up, to that council should be referred not only actual disputes but burning questions such as are certain to lead to disputes. These all turn, I think, on race and trade. Both these kinds of question lie behind the present war: race troubles in the Balkans, and trade rivalry in Morocco and elsewhere. There is, I believe, no ultimate solution of such questions other than complete toleration, political, social and religious, wherever different races are included in a single political system, and complete freedom of trade and of immigration. The enormous difficulty of such a solution, and the mass of prejudice and interest against which it would have to contend, are at least as patent to you in America as to us in Europe.

It must be a long and difficult campaign to change public sentiment. But the campaign would be sensibly assisted if an impartial international council should consider the whole situation in time of peace, and suggest possible lines of settlement. The adoption, for example, of the policy of the "open door" in all undeveloped territories would obviate much of the friction that makes for war. The great question of the immigration of the colored races into territory occupied by white ones is more difficult. Yet the ventilating of it by an impartial international body and the focussing of the public opinion of the world upon reasonable compromises might do much to prevent the outbreak of war over issues no war can permanently settle.

In these brief notes, I have, I hope, shown clearly the importance I attach to the action that may be taken by the United States at the conclusion of the war. Naturally I do not presume to advise. But I think the mere facts of the situation show that upon the action your country may be able and willing to take may depend the whole trend of western civilization. And in trying to show that, I have, I think, accomplished the task I was invited to undertake.

AMERICA'S POSSIBLE CONTRIBUTION TO A CONSTRUCTIVE PEACE

BY MORRIS HILLQUIT,
New York.

The time has passed when two or more great nations could wage war without involving the rest of the world. Today the international organism of human civilization is so delicately attuned that the slightest disturbance in any of its parts immediately communicates itself to the whole body.

The United States can no more be indifferent to the frightful ravages of the European cataclysm than the brain of a man can be indifferent to an acute disorder of his heart. We are united with the leading countries of Europe by intimate and vital ties. Every economic or social improvement, every scientific or spiritual advance and every progress of the arts on the other side of the ocean, raises our standards of thinking, feeling and living, and every retrogression in these fields of human endeavor checks our own progress, deteriorates our own worth.

The war, which is fought on battlefields more than three thousand miles removed from us, is disarranging the entire social and industrial fabric of this country. We are involuntarily drawn into the maelstrom of the war in everything but the physical fighting.

I hold that the United States has vital interests and imperative duties in this war, and should exert every atom of power to bring about a speedy and lasting peace between the nations.

How can this great task be accomplished?

There are three main channels through which modern countries interact on each other—political, economic and spiritual. If the people of the United States have the power to influence the belligerent nations in favor of a cessation of hostilities, such power must be found in one or more of these channels; and I maintain that we may exercise a decisive influence on the destinies of the world-war in all three directions.

Politically the nations are almost equally divided into belligerents and non-combatants. One-half of the world is under arms,

striving for mutual extermination, while the other half witnesses the inhuman spectacle with impotent dismay.

If all the nations at peace, all American republics and all neutral powers of Europe and Asia, would join in a definite and urgent offer of mediation, the proposal would come with such commanding moral force that it could not be long ignored by the belligerent powers.

Every neutral country is deeply and disastrously affected by the war and wishes to see peace. But the world is inert and inactive for lack of leadership. It is this leadership which we must assume. The United States is the largest, most powerful and influential of the neutral nations. It is also the most independent and secure. It is naturally placed in a position of leadership in this world-crisis. Our government could properly take it upon itself to organize a council of all neutral nations, a modern "International Concert of Powers" to conciliate the warring nations and not to relax in efforts until peace is finally and firmly established.

This may be a rather unconventional step in established diplomatic procedure, but the world has never faced a crisis as great as that through which we are now passing. The extraordinary situation calls for unusual methods, bold measures and big men.

Economically we have it within our power to minimize the ferocity of the European slaughter and perhaps to shorten its duration by cutting off our supply of arms, war equipments, ammunition and credits from all belligerent countries. It is barbarous enough to set the engines of industry to work manufacturing instruments for the assassination of an "enemy," but it is criminally culpable to produce such weapons for the killing of people with whom our country is supposed to be at peace. By furnishing arms to the belligerents we take an active part in the direct hostilities, and our part in it is all the more hideous and revolting because it is a cold-blooded traffic for profit. It is urged that if we refused to export arms and ammunitions, it would aid Germany as against the allies, and result in increasing militarism in Europe because each country would be forced to increase its production of military supplies in times of peace. These arguments bear on their face the trade-mark of the armor-plate works and are as full of holes as the main products of these works. The fact is that our broadminded manufacturers of war supplies sell indiscriminately to both sides, and the chances are

that wars would be rarer and milder if each country had to depend on its own resources for waging warfare.

Morally we may influence the course of the European war by our general attitude. Our people, and particularly our press, are too much inclined to view the appalling tragedy on the other side of the Atlantic in the light of a sport. We follow the moves of the hostile armies with an interest akin to that which we feel towards a fascinating chess play or an exciting ball game. We pick the winner, we take sides. In the people of the belligerent countries such an attitude is excusable. War is a pathological state and creates a morbid psychology. But we have no such excuse. Our press, our pulpit and our lecture platforms should resound with emphatic protests against the wholesale carnage and with consistent and persistent councils of peace. Our views and sentiments are instantly communicated by the electric spark to the entire world. We speak daily to the people of Europe—let us speak to them of the horrors of their war and of the blessings of peace, and eventually they must hear us.

But there is another and greater moral service which we may render to our unfortunate fellow-men in Europe—the service of example.

This war will end some day. Whether peace will come sooner through neutral influences, or whether it will come later as the result of the physical exhaustion of the combatants, come it must some time. And when this greatest of all wars in history will be over, the world will have its greatest opportunity for laying the foundations of eternal peace, of a civilization worthy of the name. This war is bound to have a great sobering effect upon mankind. It has robbed warfare of its romantic halo and has revealed it in all its ugly and brutal nakedness—a mutual butchery by factory methods, a general carnage on land, water and in the air, a prostitution of all the sciences and arts to the task of destroying human life. It has demonstrated the ruinous character of the policy of imperialism and the dangerous fallacy of militarism.

When the smoke of the battle will be cleared, and the masses now in the war will cast their eyes around them, they will encounter nothing but ruin and devastation, nothing but evidences of madness, savagery and shame, the total and fatal collapse of a false civilization based on the philosophy of the jungle, on the rule of the claw

and the fang. They will find but little comfort, little promise in old Europe. They will turn to us, the great democratic republic in the new world, which alone of all great world-powers has managed to preserve sanity and peace. What shall we offer them? Shall it be the old, destructive gospel of armament, "preparedness" and militarism, or shall it be a message of peace, a promise of a better, saner civilization? By our own example of peace and good-will we may help to usher in an era of brotherhood into the history of the human race. This is the signal opportunity that the great world-crisis offers us. Let us not fail.

HOW CAN AMERICA BEST CONTRIBUTE TOWARD CONSTRUCTIVE AND DURABLE PEACE ?

BY CHARLES W. ELIOT,
Cambridge, Mass.

In accordance with your request, I send you a brief answer to the question "How Can America Best Contribute toward Constructive and Durable Peace?"

1. The United States can teach by precept and example that no nation should endeavor to establish by aggressive war dominion over any other state large or small. It has already twice abstained under trying circumstances from adding to its territory by conquest, once in Cuba, and once in Mexico, and is entitled to assert steadily that aggressive war is not an available means, in the present state of the world, of settling international disputes, or of extending national power.

2. The United States, as an original advocate of the doctrine of exemption from capture of private property at sea, may now properly maintain that all seas, and all canals or channels connecting great seas, should be free to the commerce of the world, and that this freedom should be placed under international guaranties.

3. The United States should urge for general acceptance John Hay's policy of the "open door" as the best means of promoting the trade of all manufacturing peoples—Occidental or Oriental.

4. The United States has no desire to hold colonial possessions by force, or to govern subject peoples in any part of the world, and can, therefore, contend and hope for the general recognition of the principle that the only enlargements of national territory worth having are those brought about by consent and with good will and, therefore, likely to become bound to the central or parent state by the sense of mutual service and advantage.

5. The United States has advocated arbitration as a means of settling international disputes, and has itself resorted in numerous cases to the method of arbitration as a means of settling its own disputes with other nations. Recent events, however, seem to prove beyond question that the major cases of international strife

are matters which do not permit of either arbitration or conciliation, because they originate in racial or religious differences, hot commercial competitions, or other popular emotions and passions. The court contemplated in the Hague Conferences has always been of an arbitral nature, suited for composing disputes on minor points which permitted of compromise. The United States should hereafter use all its influence toward the creation of an International Council capable of securing a permanent peace, and created by fresh international treaties.

6. Since such a Council would be ineffective unless supported by an international force, the United States ought to prepare to furnish its full quota, in proportion to its population and its wealth, of the international naval force competent to prevent any interference with the freedom of the seas. This quota should be of the highest possible efficiency as regards types of vessels, ordnance, munitions, and skill of officers and men.

7. The United States should use all its influence in international discussions to substitute frankness and honesty in negotiations, amity, mutual forbearance, coöperation, and stable international peace in place of secret and cheating diplomacy, enmity, domination of the strong over the weak, injustice, and recurrent war.

8. When a Supreme International Council or Tribunal has been established, the United States can urge consistently with its own practice that national armaments should be reduced, and that the practice of fortifying frontiers and cities should be abandoned.

ACQUISITIVE STATESMANSHIP

BY W. MORGAN SHUSTER,

Washington, D. C.

I am not going to discuss the neutrality of the United States. It is, I presume, in good hands. At any rate, we cannot alter it. It *was* in good hands when Judge Moore had something to do with it. I wish to say a few words on the very elusive subject of the right of small nations to independence. This sounds something like a joke, after a review of the history of the past fifty years; yet our friends of South and Central America ought to be interested in it, at least academically. The fact is that the denial by us at times of that right, and the refusal of all the other leading civilized nations of the world to observe it, is what has been the real cause of all the wars of the last century. Each nation, in denying it, can always offer good pretexts to its own people and to the rest of the world. You cannot catch up with the modern international diplomat. He is always three leaps ahead of the rest of the people. A government may do anything if it has carefully prepared to issue the proper bulletins on the subject afterwards.

Let us begin with ourselves. The United States has been guilty, during the past 140 years, of several breaches of the ethical right which we are discussing. We must freely admit that fact before proceeding to criticize others. Doubtless we played the game on quite as high a plane as the international standards of the different epochs involved seemed to require. We evidently believed in the fundamental justice of the law of conquest. Certainly up to very recent times it has been well recognized that when a nation went to war with another it might take the other's territories or its colonies, among other things. And we have done it. Sometimes we have done this without going to war and sometimes by going to war. Of course there are many other nations which pursued this course on a larger scale, and there are other nations which circumstances prevented from doing it to so large an extent as they wished. These facts practically caused the present world struggle.

I do not believe at all in Peace Societies. I gladly and freely acknowledge the sincerity and high-mindedness of their work; I mean I do not believe that they are on the right track. You cannot make people stop fighting for loot simply by preaching godliness to them. If they were godly, they would not be fighting for loot. Then there are gentlemen who are so Utopian as to believe that we might create a red, white, blue, pink, green and yellow international police force, composed of warships and armies contributed by the various civilized nations of the world—I suppose on a per capita basis—and that after establishing a supreme arbitral tribunal, with this, I do not like to say motley, naval force back of it, wise and just decisions of all kinds in cases of international disputes could be effectively enforced. I do not think that the idea is practical. I cannot imagine, with patriotism defined and taught as it is today, with our civic education following the lines with which we are familiar, any ordinary person committing treason against his own country (and in time of war, of course, treason is defined as bearing arms or taking service against one's own flag); nor can I imagine that an international police force composed of ten or twelve different races and nationalities would bring about anything but ample opportunity for dispute, even in time of peace.

There remains the proposition of disarmament as a means of bringing about peace. After all, whatever we may start to talk about, what we are thinking about is peace—permanent world peace. There are people who sincerely believe that if the strong nations disarmed, or partially disarmed, continued peace would be rendered more possible, or more probable. History does not indicate anything of the sort. I have been unable to discover in my leisure moments the case of any nation which, unarmed, has been treated with more careful consideration by any other nation or nations because of the former's defenseless situation. There may have been such instances, but they are not recorded in history. Perhaps the Chinese Republic is the best example of an unoffending, unarmed and unaggressive nation, but it is suffering bitterly at the present time. So that, while it is true that great preparations for war, great armies and powerful navies, may set the hair-trigger, may render it easier for the ruling powers to bring about war, if they so desire, because the nations feel so well prepared for it, it is equally true that lack of preparation for defense has never pro-

tected any nation or people in the world, and it would be a very dangerous experiment, it seems to me, for the American people to endeavor to test out that theory just at this particular time. We have then the idea of a supreme arbitral tribunal which requires an international *posse comitatus*, as Colonel Roosevelt has suggested, to enforce its decrees, and we have the idea of disarmament, and I declare frankly, as a lover of peace, that I do not believe that either of the plans would produce peace. The question therefore becomes whether there is any tendency towards peace which we could further or encourage. I think that there is, if we are ready to face it.

I believe that the cause of every war in the past century, and many before that, has been acquisitive statesmanship, the wrongful lust for land, and the commerce and advantages flowing from it. It is the basic cause of the present war. There is not a nation with even a fifth rate statesman which cannot offer a perfectly good pretext for going to war; and, unfortunately, most of the people in the country always believe the pretext put forward by their own statesmen, and pay no attention at all to any arguments advanced by the other side. The result is that we have the almost incredible spectacle of eight or nine different nations, of relatively high civilization, ranged in a death struggle against each other, with the people of each nation sincerely believing—90 per cent of them at least—that its cause is just. It is not of any real importance whose cause is just, because it may well happen that the really just cause, practically speaking, will be defeated by the greater number of men, ships and cannon. The important point is: what state of diplomacy or what state of education exists in the world when nine nations can go to war, with not only the statesmen but the mass of the people of each believing that it is right? There is only one possible explanation, in my opinion, and that is that the people of those nations are in reality fighting for something very much nearer to them and more tangible than a theory of academic justice. The war has been put to them on racial lines, or on religious lines, or on the line of altruism, or on the line of the upholding of treaties, but the fact is that the real appeal is to something very much more solid, very much more practical than anything of that kind, and that appeal is to the long since familiar "larger national development." Can't you see those words when they appear in the official bluebooks and communiqués? It is this aspiration for more land

which at least one neutral nation in Europe is using today to inflame the war spirit of its people. What does that mean? What does it mean in the case of this neutral nation? It means "more territory," "more commerce," "more people to be taxed," more land over which to rule, and more people over which the flag might float. I would take great pleasure in uttering these same words to any audience in the world. We Americans are no more free from it than any other nation in the world. We have our own name for our national exploits. We free the oppressed. We do pretty well, all things considered. There is some good in everything, but I am thinking about the principle not of ethics, but of international custom which permits a nation on any pretext to violate the sovereignty of any other nation. The denial of this may sound rather radical, because war between sovereign peoples has been the fashion for thousands of years. But we have grown out of a great many fashions, and the fact is that until land, fixed by international boundaries, shall be recognized as inviolate, and until some other method of punishing a nation which infringes on the rights of other nations shall be found, war will continue, and no peace societies, arbitral tribunals, or international fleets, or anything of that kind, can possibly stop it. We have seen in the last fifty years a dozen flagrant and shameless violations of treaties, violations committed by the leading nations of the world, including, in one instance at least, the United States, where in a small or weak country there has been some little oppression of foreigners or other cause for the complaint which has been seized as a convenient pretext for the treaty violators, at home and abroad.

We have seen a whole continent practically divided up in the last twenty years. We see a large part of another great continent about to be divided up between two of the leading civilized nations of the world. We have over here two great continents whose future status is by no means permanently fixed, certainly not, if the principle is to be accepted by the world that strong naval or military power allows a nation or group of powers to dictate new international rights.

The United States and the American people who are neutral, officially, in this present struggle will probably come out of the situation disliked by all parties. We cannot do anything now but prepare for eventualities, except begin to think in larger terms than

those of counties and states. The great glaring defect in the international affairs of the American people is that they cannot think in broad terms. Let us begin by remembering that there are a great many nations in this world, contributing to its welfare and civilization in a high degree, and making life both interesting and profitable for all of us, which could never by any reasonable probability become great military powers. If these nations are to be wiped out, if they are to become subject peoples, merely because of their indisposition, as in the case of China, or their inability, as in the case of many smaller nations, to become great military powers, then the world will live in centuries more of strife. And if that is to be the future, the United States should become a military power as soon as possible. On the other hand, if there is such a thing as a manly appeal, if there is such a thing as an unselfish proposition in international affairs, let us put forth, in proper diplomatic language, at proper times and under proper conditions, a distinctly American doctrine, which has not to do with the interneging of vessels or the shipment of arms, but declares that under all circumstances the integrity and sovereignty of all neutral nations as they exist shall be recognized, all pretexts to the contrary notwithstanding.

The first and most important result to flow from that declaration would be the way in which our neighbors to the south would regard us. I do not blame them for having the greatest suspicions of what American policy—(Yankee policy, as they call it)—means for them. I myself believe that those suspicions are unjustified, as do you, but I am speaking from their standpoint. We ought to put forth that doctrine for their sake. We ought to make it very clear to them that no matter what happens, no matter what the temptation or the crisis may be, or what interests may be involved, we will never take a hand in stealing from any other nation on the Western Hemisphere (nor, of course, elsewhere) a single square mile of territory under any pretext. It is possible that after we have proclaimed that and made good at it, we might get some other nations in the world to see the permanent value to peace of that doctrine. There is not very much unseized land left in the world except China, and she seems to be on the point of being altruistically taken in charge, so that we ought not to be considered entirely unreasonable when we suggest to them that all nations stop fighting among each other for the land which they have already divided up.

But the United States, you say, took the Philippine Islands purely for altruistic reasons. I know some will smile at this, because there are many people who really think that we are there for that reason, and we may be, but the fact is that the British say, the French say, the Russians say, and the Japanese say, "You found it convenient to rob poor old Spain when you were in a war with her, and you took the Philippine Islands." We quote our speeches in Congress and everything of that kind to prove that we are there for the welfare of the people. England is where she is all over the globe for that, and France is in a good part of Africa for that purpose, and Japan and Russia are struggling in one direction or another for that purpose. I am aware that this is a very unpopular line of conversation. I wouldn't go out and run for public office on this platform, but the fact is that it is impossible to make exceptions. It may well be that the great mass of us are sincere in our belief that we can govern better certain portions of the globe which we could hardly have found on the map seventeen years ago than could the people who were there for hundreds of years before us, or the people who were born there. It may also well be that a Russian form of government would be much better for the people of Constantinople than the present one. But that is not the point. The point is, is there anything practical about such a doctrine? Where would we stop?

How are we to demarcate acquisitive statesmanship from altruistic statesmanship, if you once admit you can take another's native land? Suppose that the intricacies and tendencies of international law do make it more difficult in future for a nation to pick a quarrel of conquest, it is easy for clever statesmen to devise new pretences. The right of conquest, the taking of territory by bald conquest, has already gone out of fashion. Now-a-days a weaker nation is rarely taken by conquest. There is a clash of interests, carefully advertised and worked up in advance, then the national commerce of the aggressor becomes vitally important, or a racial affinity is discovered which makes it necessary that one nation leap eight or nine hundred miles to stand by another nation in going to war. I only mention these things because we have grown used to them. Fine expressions may be very consoling to the people of the country being seized. But we all know that such things are merely a question of a pretext, and there can be no just pretext for taking the

land and the birthright of another people. Certainly the American people should never admit such a pretext, and if we do, it must be because of some finesse of diplomacy and international law.

When certain difficulties arise I can conceive that it would be almost easier to go in and "spank" a smaller nation than to reason with it, or to arbitrate. I think we have seen cases of that kind not so very long ago. But the vexations of self-restraint are much less than the difficulties which flow to the world at large from the admission of the doctrine of the right of the acquisition of territory belonging to another sovereign people. I should like to see the United States (and I suppose that we can do so at least as fittingly as any other nation) put forth this doctrine at the proper time, take it as their national slogan and await the result. We cannot impose it upon others, if they do not choose to accept it, and it will be hard at times to sit quietly by and see other nations reject it and profit by their attitude while we are following a principle. That is true, however, of every principle which is worth while. I should like to see our country do one thing more, at the same time that we are preparing to put forth that doctrine of the fixed balance of territory as a possible safeguard against war,—I should like to see established and maintained in this country an army and a navy so efficient and so large that, whatever the international situation might be, there could be no suspicion in the mind of any "doubting Thomas" anywhere in the world that we were putting forth this peaceful and generous doctrine from either weakness or fear.

WAR—OR SCIENTIFIC TAXATION

BY C. H. INGERSOLL,

New York City.

Two important factors which mark the growth of civilization are an increasing control over the forces of nature, and a more minute division of labor. The latter makes us to a large extent dependent on others, and this has never been more conclusively shown than during the present war. Although we are a neutral nation, the struggle has affected every one of us in an economic sense. Some have lost—others gained, so far.

At any rate, the war's costs are enormous and will continue to be. Professor Charles Richet, of the University of Paris, estimated some years ago that a general European war would cost approximately \$50,000,000 a day. Recent figures from London indicate that the annual expense of England and her allies will approximate \$8,000,000,000 and the total annual direct expenditures of the nations at war will probably reach \$16,000,000,000.

Statistics of capital known to be normally available for investment and securities are compiled year by year by the Belgian Financial Publication *Le Moniteur des Intérêts Matériels* and these show the average annual amount available, for the past few years, to be about \$4,000,000,000. *One year's war will consume approximately four years' savings!* A costly plaything—War.

And I have not yet spoken of the indirect costs. The enormous destruction of property, the almost complete disorganization of the agencies of production and distribution, the economic loss sustained by the almost unbelievably large loss of life—these are factors which cannot even be approximated.

Who will pay for this war? Will the people of the nations at war stand all the costs, or will they be distributed among humanity in general? I believe that we will all have to bear a share of the burden, and that it will fall most heavily on those who are least fitted to stand up under it—the consumers. The consumer is the laborer in more than nine cases out of ten. Under the present system of taxation, business will stand the first costs. But a tax upon

business is a tax upon capital and industrial enterprise, on which the consumer-laborer depends for employment. If business thrives, the consumer-laborer pays the tax in the form of higher prices; if the tax is so high that business cannot be conducted at a profit, he pays it in the form of unemployment. In other words, he gets it coming or going. Perhaps it will be in the form of higher prices—perhaps increased unemployment—or in some other manner, but these costs will be paid. For many months we have been paying the costs in the form of disorganized and dislocated business, and by special taxes on proprietary and toilet articles, telephone and telegraph messages, and so on.

The government must be supported—that is not open to discussion. Under the present system governmental revenues are quite largely secured from import duties. When this source is cut off, or lessened, as it has been since the war started, we pay the penalty in another way—and always through taxes levied upon those who have least cause to have to bear them. Taxation as now in vogue is all bad; taxes fully deserve the evil reputation they bear. Taxation today means taking from people something they think they own; hence their persistent objections. This is evidence of the wrong basis for taxation, and proof that it is interfering with normal life, industry and prosperity. If we want to do away with war, let us first remove the cause—unjust taxation. Can business prosper while being driven from pillar to post by the tax assessor? Or is it better not to have business prosper? A stranger might reasonably infer that the prosperity of business is decidedly against public policy.

What is the present financial status of American industries? We are blessed with good crops, for one thing. In addition to having plenty for home consumption, we have enough to feed several of the warring nations and some of the neutrals. The farmer instead of worrying about how he will pay the interest on his mortgage, now spends his earnings assiduously studying the pages of the automobile catalogue. He is selling the products of the field at top prices, and so far at least, the increased prices of the things he has to buy do not equal his increased revenues.

It is the opinion of 2,000 leaders of thought and action in the financial, mercantile and industrial field that "while money is cheap, credit is subnormal." There is a super-abundance of money in some

sections of the country, mainly in the larger centers. This is to be expected, for the sequence of a period of business depression is always an accumulation of money at the large centers and a closer scrutiny of credit that results in the elimination of those who were hopelessly crippled by the panic but were temporarily carried along by bankers until better financial conditions permitted of their rehabilitation through bankruptcy or reorganization, with less shock to the community and with greater salvage to their creditors. Economy is general, and reports indicate that in many instances it is deliberate and is being followed as a matter of choice and not of necessity. The Federal Reserve Law is making money easier to secure. We have a brisk home trade and a strong export trade in foodstuffs and war materials. Our "balance of trade" has reached a record figure. Our citizens are "Seeing America First." Millions of dollars are being kept at home this year through force of necessity.

This war was not desired by any nation now involved in it, nor by the people, nobility or ruling class of any country, and was beyond the power of the world's financiers to have averted. It is a *commercial war*, always raging, due to the fact that each nation is always unconsciously fighting to extend its area of *free trade*. The existence of tariff walls is the prime cause of national and racial hatreds. On the other hand, the examples of the German Zollverein and the United States of America show the mutual advantage and amity that flow from state autonomy and the freedom of commerce.

"Suppose" with me for a moment. Suppose that there were tariff walls between the various states of the Union. Now then—Michigan automobile manufacturers are trying hard to build up an export trade in South America. The cheapest method of transportation is, we will assume, by Mississippi River boats, to New Orleans. But to reach the Mississippi or Ohio, the Michigan manufacturers would have to pass through Illinois, Indiana or Ohio, and there pay a duty on their products. Think of the jealousy and hatred this would cause! We are so accustomed to free trade within the United States that our senses have failed to grasp the importance of the cause which has thrown Europe into a state of indescribable turmoil.

The real cause of the European war was not the shooting of an Austrian noble by a Serb—the real cause was an economic one—the unconscious fight of each nation to extend its area of free trade. Russia, for example, is a nation without a good seaport. What is

more natural then, than for her to look with envy at German soil along the Baltic, and at the region of the Dardanelles? What would prevent her from shipping her goods from German ports? The answer is the existence of tariff walls. If she sent her goods through Germany, she would be taxed. This is a condition which has existed for centuries, has caused numberless wars, and will continue to create discord and ill-feeling until governments remove tariff barriers and gain their support from nature's creation instead of from the fruits of man's labor.

The remedy—the only insurance against war—is a more scientific, rather *a* scientific, system of levying taxes. Under the present system unimproved land goes almost free on the theory that it is earning no income, and in disregard of the fact that it is a stumbling block, a drag on development, and that it is growing valuable by the industrious efforts of others. Build a house, or even paint one, or beautify your property, and you must pay a penalty. Buy a suit of clothes, a barrel of sugar or a ton of coal, and you will have paid another fine that must discourage your effort to live comfortably. Our present system is a direct encouragement to speculative inaction, and at every turn a blow at honest industry.

The site tax, or tax on land values would not disturb existing titles to land at all, but by surrounding *users* of land with fair conditions, not now existing, would make these titles absolutely secure. The force of the change would fall on those non-users or partial users of tracts they are holding for an advance in price. For example, of two adjoining pieces of land, one is occupied by a building and other improvements, and the other is in its raw natural state. The owner of the first pays a high tax on every building and its contents,—on even his fences, ditches, grading and so on, as well as a high tax on the land itself, while his neighbor pays a *low* tax on the land alone. A tax on site values would remove all tax from the improvements and take the full rental values of the land only, without considering in the slightest degree the improvements, thus lowering the tax paid by owner No. 1. The tax on the unimproved plot would be increased three or four times, bringing it to the actual economic value, corresponding to the adjoining land. And what would be the net result of this? First, an industrious man's taxes would be lowered, and he would be encouraged to make further improvements. Second, the "dog in the manger" would realize

that there was no longer any profit in holding land idle; so he would use it, build upon it, cultivate it, and employ labor; thus raising wages. Third, another house would be in the market, lowering rents for houses, and more produce would be sent to market, contributing to cheaper prices for such. Fourth, as the revenues from land would more than suffice for all expense of government, every other tax would be abated, so that general public would actually be exempt from taxation! The land would take care of it all, and justly so, because these same people have made every dollar of these values. "Every other tax would be abated." This would mean the end of war and its terrors. There would be little incentive to reach out for more land if every country levied taxes on site values alone.

Great Britain made a step in the right direction by removing tariff barriers and establishing free trade. But England did not dig down to the roots of the question—and as a result England has perhaps the worst tax system of any nation. A few nobles—lawlords as well as land-lords—hold the greatest share of the land, and are encouraged to hold it, idle and useless, by a tax system which lets unimproved land off nearly free and puts a high tax on improvements.

The whole object of any system of taxation is that it shall be certain, just, easily collected and shall not be a burden to industry, thrift and initiative. Our present system, in order to be certain, is unjust, for it is not placed on those who should and are best able to bear it. Under the present tax laws, those whom we have a habit of thinking pay the tax are in reality tax collectors from those who rent, use and purchase. Such factors as labor, sea and rail transportation, supply of capital and interest rates do, of course, contribute to the prosperity of American industries—and I speak of industries in the broad sense. But back of these factors, and more fundamental, is another factor—taxation. Until we have just and scientific taxation—wars or no wars—the prosperity of American industries will be uncertain. Until tariff walls are broken down and taxes levied from site values only, we must always be prepared for the outbreak of war.

THE CONSTRUCTIVE WORK OF THE AMERICAN ARMY

BY LEONARD WOOD,

Major-General, United States Army.

I want to say a word to you about the life-saving work of our country in the tropics through its principal agent, the Army, an agent which is more generally misunderstood in this country, perhaps, than any other branch of the government, an agent whose life-saving work has been of infinite value to mankind and to the nation. We in America understand too little the work of the Army, too little of what it has done to save life, and we talk too much of it as a destructive force. There are very few who realize or know that in ten peaceful Fourth of July celebrations of a war finished about 135 years ago we killed some 1,800 people, mostly young boys, and wounded some 35,000 and odd, also mostly boys and young children. The killed of those ten peaceful single day celebrations about equal all the killed of the Spanish war and the Philippine Rebellion and the Indian wars of the preceding ten years. And the wounded of those ten peaceful single day celebrations, were, roughly, seven times the wounded of all those wars.

War is by no means the greatest cause of death among the human race. Typhoid fever every year in this country, until some doctors discovered how to control it, cost 40,000 lives. That number almost equals the loss of life on the battlefield of all our wars, excluding that of the Civil War, beginning with the foundation of the Republic. Our industrial accidents each year amount to some 462,000, with a death list of nearly 80,000. You take little interest in correcting the causes and conditions which make such things possible, but talk a great deal about war, of which you know extremely little. Seventy-nine thousand lives a year, or a number of lives equal to the losses of any two average years of the Civil War, and more than the total loss in battle of all our other wars, and yet you don't think much about it.

We have heard here tonight that international peace can best be secured by doing away with patriotism, and that there is no such thing as a national conscience. So far as America goes, I claim that there

is such a thing as a national conscience, and a very strong and a very active one. On some questions it is not keenly alive because their importance has not been brought to the attention of the people, but once brought to their attention and placed squarely before them in such a way that they can understand it, the national conscience becomes active. The best type of national conscience will only be found where the training of individuals has been broad and sound. The national conscience as a whole consists, as it were, of the collective conscience of individuals, consequently it depends upon individual training and individual morals. International congresses can do very little if the training of the people has been unsound and they are wanting in proper moral principles. It is the education of the individual, after all, which counts, and this education must begin in the home. If we have decent, moral boys and girls and sound teaching in the home we shall have good morals in public life. You will have a quiet, strong, God-fearing nation which, while not aggressive, will, I hope, always be proud of its flag and all that it stands for, willing to defend its interests when attacked, and, while seeking to avert war through justice and fair dealing, will nevertheless be ready and willing to resist injustice and accept war rather than peace with dishonor or peace which involves conditions worse than war.

We must always remember one thing: we are too prone in this country to, figuratively speaking, pat ourselves on the back as being the most intellectual and the most advanced people. Our opinion in this matter is not generally accepted by foreign countries. Do you know that our criminal rate is the highest of any of the great Christian nations? I doubt if you do. Our murder rate is several times that of Switzerland, where general military training to defend the country seems not to have debauched the youth, if we can judge by the criminal rate.

Now, when we took over our trust in Cuba, the conscience of the American people decreed that we should not exploit that island, but that we should do all that we could to build up and better the people. For four years the work was entirely in the hands of the Army, acting as an agent of reconstruction. The courts and municipal and provisional governments of Cuba ran without interference. The record for the prompt punishment of crime was better than in any state of the Union. The death-rate in that Island was re-

duced from one of the largest in the world to one of the smallest. The wonderful results which grew out of the work and discoveries of Dr. Walter Reed and his associates, who nobly and generously gave health and even life itself to the work, have been applied to the control of yellow fever in our southern states, in Central American and northern South American countries, as well as in Cuba and the islands of the West Indies, and have brought untold blessings to those lands through the doing away with their most terrible scourge—the much dreaded yellow fever. The tropics have been made a white man's country so far as this disease is concerned. The number of lives saved in the tropical lands every year are many times the number of those lost during the war, and the saving in our own country has been very great, not only in life but in money, exceeding in all probability many times the cost of the war, in each. Those who are business men can appreciate what a quarantine extending from the mouth of the Rio Grande sometimes almost to the Potomac and away up the Mississippi above Memphis, cost the people of the South. All freight was tied up, all movement of individuals greatly curtailed—business practically paralyzed. Not only was its effect far-reaching in the case referred to, but out of its results came the possibility of another great work, the Panama Canal. Magnificent as has been the engineering work and its conduct by General Goethals and his assistants, in my opinion it never would have been possible to build the canal had it not been for the discovery of Reed and his associates and the application of this discovery to Panama under the direction of the present Surgeon-General, Doctor Gorgas, who for a long time had charge of yellow fever work in Havana and established there methods of handling it which were later applied in Panama with great success. The sanitary work of Gorgas in Panama made it possible for that great undertaking to be conducted under health conditions which were exceeded in few portions of the United States. When we speak of what has been accomplished in the control of yellow fever you must remember that the accomplishment is for all time and for all people living in the tropical and semi-tropical region of the western hemisphere.

In Porto Rico one of our young medical officers, Dr. Bailey K. Ashford, interested himself in what is known as tropical anemia, or hookworm disease. He established the method of its control,

established a systematic campaign against it throughout Porto Rico, and finally reduced the death-rate from this disease alone in this little island with its million people, some 1,400 per year. Here again is a great sanitary discovery growing out of our war with Spain, and like yellow fever, it is a discovery which is of immense value to tropical and semi-tropical peoples. What we for a long time considered as tropical laziness or shiftlessness is traceable very largely to the effects of this disease, so that the discovery of its cause and the establishment of a method of treatment and control means the revitalizing of the people of these tropical countries, as well as of the people of a considerable portion of our southern states. A recent estimate by planters in Porto Rico places the increased efficiency of their men, incident to doing away with this disease, as high as 60 per cent. It is hard to estimate the economic value of a discovery of this kind, and it is still more difficult to appreciate the far-reaching effect in the way of the saving of human life and adding to the measure of human contentment and happiness.

You are no doubt familiar with the assembling of troops on the Mexican border, and that when first assembled a great deal of typhoid existed on the Mexican side of the river. This made it necessary to take up the systematic control of typhoid through the use of a typhoid serum beginning to be used in the British Army. It was taken up by our medical officers with such success that last year, with something over 100,000 men scattered all over the world, there was not a death from typhoid in the Army. Contrast this with the conditions at Chickamauga when there were over 1,500 cases of typhoid in that camp alone, with a huge death-rate.

Again, in the Philippines, our medical work incident to the occupation of those islands has done away with beri beri. This was not the work of the Army, but was accomplished by the medical officers connected with the Insular government, working under the direction of the Insular Bureau of the War Department.

Other great results have been accomplished in the control of malaria and the general betterment of sanitary conditions. In fact, the whole work in these tropical possessions has tended to the betterment of conditions under which people live, both from the standpoint of government and the standpoint of sanitation. The improvements in sanitation have been more generally appreciated than in any other department of our work, and they have been

accomplished without any exploitation of the country and have undoubtedly resulted in building up bonds of lasting sympathy between the people who have come under our control and ourselves, for they must appreciate in their hearts the great work which has been done for them.

So, when you think of our Army and its work, do not think of it always as an aggregation of fighting people, bent only on fighting, but remember that it is one of the great constructive life-saving agencies of the Republic. Its work has been continuous from the earliest days. In addition to the great work of the Spanish war and the subsequent colonial period, and preceding it, it was engaged for years in opening up the West, controlling the Indian situation, safeguarding the mail routes, keeping roads open, aiding in surveys, conducting many of them, in fact. It was the advance guard of civilization and the protecting agent of people crossing the great unsettled section between the Pacific slope and the eastern frontiers. In recent years the control of conditions resulting from Mississippi floods has been handled by the Army—handled so quietly and so effectively that few have ever heard that at times 200,000 people were being taken care of each day. This work was done quietly by young officers who were trained to be obedient, to do things as told and when told, to do them promptly, to get things done. This is possible when you have conditions of discipline and training. Remember that the Army is not working for a large army, we are working for an efficient one, and a system which will make it capable of expansion in time of need. We believe in a good militia, supported like the regular Army, by good reserves, and a system which will make military training more general among the people, believing that reasonable preparation is the best insurance against war.

There is no more democratic element in this country than your Army and your Navy, and no class which stands abuse or misrepresentation with less resentment than the two sister services. We know you do not understand us, our purpose or work, but don't constantly refer to armed force as a destructive element. You might as well say that your police force is a destructive element simply because it is trained to do certain things with force if it has to.

Another idea you must get out of your heads is that soldiers and sailors are fond of fighting for its own sake. You might just as well say that the life-saving service down on the coast in winter

is praying for gales of wind and rough work at sea simply because they are trained to it. The Army and Navy are willing to do cheerfully what the nation decrees in this line because they are the people to do it. That is as it should be. Look at the constructive work the nation has done through its military arm (Army and Navy), and remember that it is always subordinate to the will of the nation, that it is without unworthy ambition, that it hates militarism, that it is simply your agent. When you turn to the work of your country in its dealings with the tropical peoples who came under our control as a result of the war of 1898, remember that none of these countries has been exploited for our profit, that their people have received great benefit as the result of our control, and that they are living under far better conditions as to education, material comforts and health than ever before.

SOME PROBLEMS OF DEFENSE

BY AMOS S. HERSHEY,

Professor of Political Science and International Law, Indiana University.

In this crisis of the nation's history, I have thought that some consideration of problems or methods of defense would not be out of place. Knowing little of military matters, I shall leave it to military experts to decide upon the means and methods of military defense. I wish merely to pose some general problems and discuss means and methods from a diplomatic rather than a military standpoint.

First let us consider the main *objects*, or perhaps we had better say, *subjects* of defense. These may be said to consist of the nation's frontier, the strategic points commanding the entrances to the Gulf of Mexico and the Panama Canal, and other vital interests, such as the Monroe Doctrine and the freedom of the seas, more particularly of the great trade routes on the Atlantic, Pacific, and the Mediterranean.

With respect to the nation's territory, it may be observed that, if we except the possibility of war with Canada or England, it includes only one exposed frontier—that of the Philippine Islands. It is useless now to indulge in vain regrets over our great mistake in taking over this hostage to fortune, but a frank recognition of our blunder may help us in the solution of the difficult problem of making a wise disposition of these Islands and in avoiding similar pitfalls in the future.

It will, I think, be generally agreed that our northern and southern frontiers are relatively safe from attack or invasion. I think the same can be said of our eastern and western coasts. I believe the invention and improvement of the submarine will practically insure us against invasion on either the Atlantic or Pacific seaboard. It is inconceivable that a fleet of transports even if covered by the great guns of modern calibre on board dreadnoughts and battleships should be able to effect a landing of troops in the face of a goodly number of up-to-date submarines. Whether these sea wasps will be able to prevent the bombardment of our coast towns and the infliction of serious damage remains to be seen.

Sharing with Great Britain, as we do, important strategic points in the Bahamas and the West Indies, the Caribbean entrance to the Panama Canal is practically at the mercy of England. We are likewise largely dependent upon the mistress of the seas for the maintenance and enforcement of the Monroe Doctrine.

I do not propose to enter upon a discussion of the merits or demerits of this doctrine. Whether it be a wise or a foolish doctrine is not pertinent to this discussion. It may be a "shibboleth" but it is certainly not an "obsolete shibboleth," as one critic has termed it. This he would soon discover, if he undertook to violate it at the head of an army or a navy. Upon no point are the American people more sensitive or determined than upon the maintenance of this doctrine. This was illustrated by the instantaneous and vociferous approval of President Cleveland's application of the doctrine to the boundary dispute between England and Venezuela in 1895. It is shown today by the suspicious attitude of the American press and of the American people toward alleged Japanese activities in Mexico.

Originally suggested by Great Britain for selfish reasons of her own, though at times flouted and disregarded by her, the Monroe Doctrine, at least in its essence, has become almost as much a British as an American interest. Certainly we are largely dependent upon the good will of England for its maintenance unless we choose to enter upon a long and exhausting career of naval rivalry with her and attempt to build a navy equal or superior to her own. For the enforcement of the Monroe Doctrine is primarily a matter of sea power.

The Monroe Doctrine is often said to be vague, ill-defined, and uncertain in its meaning and application. This may be true with reference to certain implications or corollaries which have been drawn from the doctrine, such as the degree or extent of our responsibilities for the preservation of order or the payment of obligations contracted or guaranteed by Latin American states. But it is not true with reference to the essence or substance of the doctrine itself, upon which nearly all authorities seem to be agreed. The consensus of opinion is that the American people or government would not tolerate without resistance the permanent occupation, a future attempt at colonization, or an endeavor to control the political destiny of any portion of this hemisphere by any European power.

Another vital interest of America is the freedom of the sea, the common highway of nations, more particularly the great trade routes on the Atlantic, Pacific, and the Mediterranean.

For a century or more we have acquiesced in British naval supremacy partly, I suppose, because it was regarded as a settled and inevitable fact, but mainly because it has been to our advantage to do so. In the navies this trust of sea power has been administered in a liberal, considerate, and non-despotic manner.

True it is that Great Britain has managed to occupy many of the best strategic points and most important colonies on the great trade routes, but she has maintained an open door so far as possible and has granted equal opportunities of trade to all nations, not even excluding her recent arch enemy, Germany, who has grown fat and prospered under the free trade policy of England the same as we have.

Even during the present struggle, though we are not permitted to trade with Germany which is in a state of virtual siege or blockade, our trade flourishes under the protection of the British flag. Great Britain has managed to keep the great trade routes of the Atlantic open in spite of a method of warfare new and unprecedented in the history of civilization.

Imagine the effect upon our commerce of a successful or effective blockade of the British Isles or of the destruction of the British fleet, whether by legal or illegal and inhumane methods of warfare! Commercial ruin, a financial panic, bankruptcy on a scale hitherto unknown would inevitably follow in the wake of such a calamity. How could the sale and delivery of cotton, copper, arms and ammunition, or even of foodstuffs to Germany compensate us for such frightful losses?

And what of the future? What expectations or prospects of a wise, liberal, and benevolent régime would there be in a future with the trident in the hands of Germania? The answer may be found in the traditions, history, and spirit of Prussian militarism and in a bare enumeration of some of the numerous acts of German brutality which have defaced the pages of modern history—such acts as the treacherous invasion of Silesia by Frederick the Great in 1740, the treatment within recent years of Alsace Lorraine and Prussian Poland, the piratical seizure of Kiao-chow for the murder of two German priests in 1898, the excesses of the German troops in China dur-

ing the Boxer uprising in 1900 directly inspired by the Kaiser, the rape of Belgium, the destruction of Louvain and of many other well-attested German atrocities in Belgium and France, the countless violations of the letter and spirit of international law during the Franco-Prussian as well as the present war, and finally the destruction of the *Lusitania*.

Another vital interest (which is also a matter of national honor) is the protection of our own citizens on the high seas or in foreign lands—a duty too much neglected by our government during late years. It is possible to be too aggressive and sensitive in this matter, but a nation which fails in this important duty will soon find itself losing in self-respect and lowered in the esteem of the world.

Now what are the chief means and methods of defense? In such a world as this the first and main reliance of a nation must always be upon its own strength. We must depend chiefly upon our navy, the discussion of details bearing upon whose increase and improvement, I leave to naval experts.

It is, I believe, generally agreed that, in addition to an increased and improved personnel, the greatest present-day needs of our navy are perhaps several hundred submarines, a considerable number of swift battle cruisers, together with a variety of air and sea craft such as aeroplanes, hydroplanes, torpedo-boat destroyers, etc.

There is an additional method of defense which is generally employed by other nations than the United States. It is that of leagues or alliances.

We have relied mainly upon our geographical isolation for immunity from attack. It is not many years since England was forced to abandon her policy of "splendid isolation," and it is probably only a question of time when we shall come to see that our traditional policy of freedom from entangling alliance may need modification. At any rate it would be well to consider the question with minds unhampered by prejudice.

I do not for a moment question the wisdom of the Fathers in committing us to a policy of non-entangling alliances during the formative period in the history of our Republic, nor do I question the wisdom of their successors in following the policy until recent times. But we live in a changed and rapidly changing world of international relations. The United States is now a world power

and cannot indefinitely continue to evade the duties and responsibilities incumbent upon her as a world power.

Besides, the modern means and methods of intercommunication between nations (largely the result of the application of steam, oil, water-power, and electricity, together with the invention of the telegraph, telephone, and the various forms of aircraft) will soon make it evident to nearly all of us that a policy based on the idea of geographical isolation and separate national interests and ideals cannot always be successfully maintained. In spite of appearances to the contrary offered by the fearful spectacle of the great European war, the nations are rapidly becoming more and more intimately bound one to another in a spiritual as well as a material sense; and the illusions of nationality, state sovereignty, and independence are rapidly giving way to the great facts of international solidarity and interdependence. Even the present war is a demonstration of the superior power of ideals based upon the ideas of freedom, humanity, coöperation, and democracy over those based upon mere nationalism, bureaucratic autocracy, militarism, and brute force.

Occupying, as we do, a position in the great ocean between Great Britain and France on the Atlantic and Japan and Russia on the Pacific, all now bound in close alliance, would it not be well to look ahead and cultivate closer relations with these powers, particularly with England and France? Until Germany is either crushed or converted to the ideals of peaceful intercourse, democracy and humanity, there can be no permanent peace between her and the Allies. We may sooner or later be forced to take a position on one side or the other of this conflict as was the case during the Napoleonic struggles. Heaven grant it may not be on the side directly opposed to our national interests and the cause of humanity as then happened. We could not afford to repeat that error.

A recent facile and somewhat reckless writer has predicted that we shall be compelled, sooner or later, to fight the victor in this war, whether it be England or Germany. I have long been of the opinion that Germany was a menace not only to Europe, but to America and the Far East as well. If Napoleon had effected a permanent conquest of Europe, his "manifest destiny" would have called him to America and India. In 1803 he was forced to choose

between America and Europe. He chose Europe. Hence the sale of Louisiana to the United States.

A war-with England is inconceivable. It is in the highest degree improbable because we have behind us a century of peaceful intercourse. Then, too, our language and literature, our institutions, our customs, our religion even are for the most part of Anglo-Saxon origin. In spite of past differences, of real and imaginary grievances, in spite of much mutual dislike and a number of family quarrels, the two peoples are united not merely by genuine bonds of sentiment but by the indissoluble ties of sympathy and interest. A blow at the heart of Great Britain would inflict serious, if not fatal, injury upon the United States.

The existing interdependence between Great Britain and the United States stands revealed more clearly than ever in this war. The destruction of the British fleet or of British commerce by German submarines would be only less disastrous to the United States than to Great Britain. The destruction of the *Lusitania* has brought it home to us that just as Great Britain and France are largely dependent upon us for food and other supplies, so are we largely dependent upon British sea-power not merely for a continuance of our prosperity but for our very security and peace of mind.

What is the solution for this precarious situation? Is it that we must enter into naval rivalry with Great Britain? Is it not rather that, while augmenting and improving our means of defense, particularly the navy, we must draw still closer the bonds which unite us to the British Empire and to France? Whether we realize it or not, whether we like it or not, we are already a powerful, albeit silent member of that great free Confederacy of English speaking peoples which compose the most important part of the British Empire.

An additional reason for joining or openly proclaiming our allegiance to this league of free peoples which, with the addition of France and possibly of Italy and Japan, might readily be transformed into the League of Peace, advocated by many distinguished peace advocates, may be found in conditions in the Far East.

The recent treatment of China by Japan furnishes a sad commentary upon the aims and methods of Japanese policy which now stands revealed to all the world. Japan has shown her hands, but whether she will play her cards depends upon future events. It will probably be found at the end of this war that she has acted in con-

cert with Russia and it will lie largely with England and the United States whether or not she is to be thwarted in her designs upon China.

It is not likely that Japan desires the Philippine Islands, but they form a very vulnerable point of attack and if we decide to retain or protect this exposed frontier at all hazards, we may eventually have to choose between a Far Eastern fleet equal or superior to that of Japan or an alliance with Great Britain.

ECONOMIC PRESSURE AS A MEANS TOWARD CONSERVING PEACE

BY HERBERT S. HOUSTON,

Vice-President, Doubleday, Page & Company.

Everyone seems to agree that nations should arbitrate their differences. That demand for compulsory arbitration is heard the world over. The Woman's Peace Conference, which met at the Hague in the spring of 1915 under the presidency of Jane Addams, declared strongly in favor of compulsory arbitration. The week before several hundred German Socialists held a conference in Vienna and joined in a similar declaration. But above and beyond these recent pronouncements stands the final declaration of the last Hague Conference, that of 1907. I think we sometimes forget that that conference, before adjournment, passed, without a dissenting vote, a declaration in favor of compulsory arbitration. Now, when the next peace conference meets it will be in a world wasted and exhausted by war and it does seem that such a conference ought to be willing to start where the last Hague Conference ended, namely, with this declaration in favor of compulsory arbitration.

Now, if arbitration is to be compulsory, how is that compulsion to be applied? In my judgment, the most effective possible means is that of economic pressure.

Economic pressure could be applied in three ways:

1. To compel nations to submit to arbitration.
2. To compel nations to submit to the decrees of the High Court of Arbitration.
3. To serve as a penalty against an offending nation for breaking a Hague Convention.

Let us briefly examine economic pressure. Of what does it consist and how could it be applied? The most effective factors in a world-wide economic pressure, such as would be required to compel nations to arbitrate and to submit to the decrees of arbitration, are a group of international forces. Today money is international because in all civilized nations it has gold as the common basis. Credit based on gold is international. Commerce based on money

and on credit is international. Then the amazing network of agencies by which money and credit and commerce are used in the world are also international. Take the stock exchanges, the cables, the wireless, the international postal service, and the wonderful modern facilities for communication and intercommunication—all these are international forces.

The sum total of these forces would constitute economic pressure of the most powerful kind. It would affect subsistence, armament, equipment and every side and phase of war. If nations felt that they were going to meet the pressure of such an embargo as soon as their own resources were exhausted, isn't it fair to believe that such days as July 29 and 30 and August 1 of last year will not be so likely to come again in the calendar? White papers and gray papers and blue papers of the future would have to do with mobilizing the great protective reserves of commerce rather than those of the army and navy.

Of course, the one apparently strong and valid reason against such economic pressure is that it would bring great loss to the commerce of the nations applying it. But that loss would be far less than the loss brought by war. And there would be no loss whatever if war were avoided. Still to one beholding the wheels of his factory whirring with overtime work brought by war contracts; to the farmer enchanted with the magic of "dollar wheat," and to those especially affected by mounting export balances, an economic pressure that resulted in smaller trade will seem an astonishing and absurd measure to adopt, unless we are utterly bereft of our senses. But ask the cotton growers who had their market cut from under them by war; consider the virtual moratorium when the exchanges closed, bringing an incalculable loss in shrinkage in security values and affecting all business; listen to the poignant human appeal on bundle days and from country-wide unemployment; at least one must grant that the shield of Mars has two sides. But the burnished side is not that which reflects the ghastly image of war.

If a balance could be rightly struck in this country is there anyone who sincerely believes that our interests would be best served by war in some other country? This is quite apart from any question of humanity or civilization. Let it be a trial balance of commerce alone and it will show a heavy debit against war. And an accounting will show the same result in all other countries. If this

be true, with only current commerce entering into the equation, how staggeringly true it becomes when the piled up debts caused by war are considered.

So why shouldn't business, which has been binding the world more closely together for centuries, be employed to protect the world against the waste and loss of war? Hague Conferences have sought earnestly for penalties that would save their conventions from being treated as mere "bits of paper." Penalties that every nation would be bound to respect could be enforced through economic pressure. The loss in trade would be small or great in proportion to the amount and duration of the pressure; but it would be at most only an infinitesimal fraction of the loss caused by war.

This pressure would not require an international police force to make it effective. Each nation signatory to a Hague Convention that some nation had broken could apply it against that nation. Of course, the fact of infraction would have to be established, but that would be equally necessary if an international police force were to be used. The point urged is that economic pressure is a powerful and peaceful way to insure peace, while an international police force is likely to be a warlike way to provoke war. Probably such a force could be employed as a constabulary for the Hague Conference, under well defined limitations, but its use would be beset with endless difficulties and enormous and perpetual expense. Economic pressure, on the other hand, could be put in operation from within by each nation without expense and its power would be as sure and steady and irresistible as gravity.

In conclusion, may I read some brief resolutions, that it was my privilege to present at the recent convention of the Chamber of Commerce of the United States in Washington, embodying this idea of economic pressure as a means toward conserving peace?

These resolutions, which are now being considered by the Chamber of Commerce of the United States, are as follows:

Believing that commerce as the organized business life of the world is interdependent because international and believing that it can become a great conservator of the world's peace, therefore, be it

Resolved, by the Chamber of Commerce of the United States, that the next Hague Conference be urged in the interest of peace, to provide as a penalty for the infraction of its con-

ventions that an embargo shall be declared against an offending nation by the other signatory nations as follows:

1. Forbidding an offending nation from buying or selling within their territory or in territory under their control.

2. Forbidding an offending nation from raising money through the sale of bonds or of any other forms of debt within their territory or in territory under their control. Be it further

Resolved, that the President and the Board of Directors of the Chamber of Commerce of the United States be instructed to take all possible and proper means at their command to secure the adoption by the next Hague Conference of this proposal to apply the economic pressure of commerce as the most efficient, humane and civilized means of insuring the world's peace.

AN INTERNATIONAL COURT, AN INTERNATIONAL SHERIFF AND WORLD PEACE

BY TALCOTT WILLIAMS,

Director of the School of Journalism, Columbia University.

Constructive peace can only come when international courts are stronger than international causes of war. Not only a possible but the largest possible service America can do the world's peace is to put the sheriff behind the courts of arbitration. We have had international tribunals for over a century. They have not prevented war. We have had recorded treaties for forty centuries. They have not prevented war. The peace of humanity will only come as the peace of the people and the king's peace came, when behind treaty and international courts there is a strong man armed able to deal with the sons of violence and the lovers of war. Last July, when Serbia offered arbitration and the neutrality of Belgium was in peril, had all the neutral powers, outside those now at war, led by America, with America led by the United States, insisted on arbitration as a *posse comitatus* of humanity, arbitration would have come, and war would not have come. The machinery was not ready. It should be prepared when peace comes. No nation is strong enough to fight all the world, even if it may be ready to risk war with half the world. Humanity is still stronger than any one nation and as the peace of the people can only be protected by all the people so the peace of humanity can only be protected by all humanity.

No hemisphere can lead in this organization of humanity but the American hemisphere. No nation can lead the American hemisphere but the United States. As it is, the two issues of fact on which the war began remain unadjudicated. War cannot give justice. Peace alone walks hand in hand with righteous justice. Were the Servian government or its officers implicated in the murder of Grand Duke Ferdinand? Who first violated the neutrality of Belgium? These are justiciable issues of fact. Even now, these ought to be adjudicated. Were they tried, and the judgment of an impartial court enforced, war would cease among men and per-

petual peace be brought nearer than any possible issue of the present conflict, whichever party to it crushed the other.

Unless America, led by the United States, in due time secures and organizes a force behind courts of arbitration able and willing to insist on all issues likely to lead to war being adjudicated, out of the furrows of this great war no harvest of the peace of humanity can come. Either we must create an international force strong enough to keep the world's peace or we must arm to defend ourselves to keep our peace in a world of war. Such a court with such a force behind it, not of one nation, but of all nations that love peace and ensue it, could deal with the weak disordered land that breeds war. Weak and disordered China, Turkey, Persia, Morocco, these have brought twenty years of war. The one indispensable service constructive and perpetual peace demands is an international court with an international sheriff behind it, made up of allied powers strong enough to compel attendance at court, to enforce its judgments and to execute an international receivership of a land like Mexico unable to keep its own peace. By force, stronger than the unruly, law, courts and peace have in the past been established in each civilized land. So will come the peace of humanity and by no other path.

WORLD COURT AND LEAGUE OF PEACE

BY THEODORE MARBURG, M.A., LL.D.,

Former Minister of United States to Belgium.

A realization of the unintelligent methods by which nations regulate their relations with each other, and the waste and danger of competition in armaments, led to the call for an international conference which met at The Hague in 1900. No progress whatever was made at the conference on the question of disarmament, for which primarily the gathering was called. But there did emerge from it new institutions, not looked for, which were a real gain to the world. I refer first of all to the Permanent Court of Arbitration, which has decided several difficult questions, among them the Casa Blanca Affair between France and Germany, at one time quite acute. There emerged also an International Commission of Inquiry which, in 1904, proved of the highest value. You will remember that the Russian Admiral Rodjesvensky, emerging from the Baltic, thought that he discovered an enemy in some innocent English fishermen. He attacked them, sank a ship and killed several men. Now, in the minds of many men that incident might have led to war the next day—a generation before it would undoubtedly have led to war. But there happened to have been set up by the First Hague Conference this institution, the Commission of Inquiry. The question was referred to it and it was found that Rodjesvensky, however foolishly, still honestly believed he saw in these fishermen Japanese warships. Moreover, time was given for national passion to subside. As a result there was no war between Russia and England. Then, too, at the First Hague Conference, good offices and mediation were recognized for the first time as friendly functions. It was agreed that if a country should tender its good offices to two countries on the verge of war, or at war, this act should not be regarded as unwarranted interference but as a friendly act. It was under this institution that Mr. Roosevelt succeeded in bringing Japan and Russia together at Portsmouth and so terminating, earlier than would otherwise have been the case, the Russo-Japanese War.

A second peace conference took place at The Hague in 1907. The task of improving the rules of war which had been begun at the first conference was carried forward at the second conference. The second congress, moreover, adopted in fact an institution known as the International Court of Prize. Then it adopted in principle the Court of Arbitral Justice, intended to be a true international court of justice, composed of judges by profession, whose tenure should be permanent. This latter institution was to be brought into being through diplomatic channels as soon as the nations should agree upon a method of selecting the judges. The reason the court is not in existence today is that up to this time such a method of selecting the judges has not been found.

Now, why did the Second Hague Conference vote for this Court of Arbitral Justice when we already had in existence, working successfully, the Permanent Court of Arbitration set up by the First Hague Conference? The reasons were several. In the first place, the Permanent Court of Arbitration was not a true court. Its decisions were to be based upon the principles of law but at the same time its functions were those of arbitration; and, as you know, the main object of the arbitrator is to bring about the settlement of a dispute; that is to say, he is more interested in that which often involves compromise, than he is in bringing out the true justice of the case, that which would tend to develop the principles of law and enlarge accepted practice.

Now, those of us who believe in this true court of justice for the world feel that international law would be built up by it in two ways. First, it would grow through the decisions of the judges themselves in cases actually coming before them, the judges being governed by previous decisions of the court—the way in which the great Common Law of England has grown. That process produces the most natural, healthy, sound, and permanent kind of law. Then it is felt that the existence of this court will invite the codification of certain spheres of law. An example in point is the way in which the provision for the International Court of Prize led to the London Conference of 1908–1909, at which the law of prize was codified. England declined to proceed with the project of the International Prize Court until that was done. Hitherto the law of prize has depended upon the interpretation each nation has placed upon it. One nation might set up as contraband that which another nation

declined to accept as contraband. Questions of how long an enemy's ship should be suffered to remain in a neutral port, whether merchantmen may lawfully be converted into armed cruisers after leaving home waters, and numerous similar questions, were differently answered by different countries. England said "we must know what we are undertaking." Therefore, at her instance, the conference met at London and evolved the London Convention which codifies the law of prize. When the present war began, Germany announced her willingness to accept the Convention. On the other hand, England, who had not yet ratified the Convention (owing to the opposition of the Lords), proceeded to modify it and proclaimed it in this modified form. France did the same. It was accepted in its original form by the United States Senate but not promulgated by the President, who took the position that the United States could not accept a convention in which several nations had introduced their own amendments not agreed to by all. But the history of the London Convention shows how the existence of an international court will invite the codification of certain spheres of international law. I use that term advisedly because it is a tremendous undertaking to codify the whole body of international law, nor is it certain that it is advisable so to do: it may become too rigid.

Now, that project of the Second Hague Conference, the Court of Arbitral Justice, was accepted by the forty-four nations participating in the conference. It was indorsed in 1912 by the Institute of International Law. It has been supported earnestly by all the powers, including Germany, France, and England; and every lawyer, every man who feels what justice means, approves of it. There is no difference of opinion as to the desirability of putting it into effect.

The name of the proposed court, the Court of Arbitral Justice, is misleading. The word "arbitral" does not belong there. It was put in because Germany insisted on its being there. The word "court" carries with it the idea of obligation. When a court in municipal law renders a decision, usually an obligation goes with it. Germany was not ready for anything obligatory in international institutions; therefore her demand. But a true court of justice is none the less provided for by the convention.

In 1910 a society known as the American Society for Judicial

Settlement of International Disputes was formed to promote this court. The society has had four annual meetings, the proceedings of which have appeared in four substantial volumes. Besides, it publishes a quarterly usually limited to one article on the subject by some prominent man. The Proceedings have been translated, have been liberally quoted by foreign publicists, and have made a profound impression upon public opinion not only here but in other countries. The distinguished foreign minister of The Netherlands, Jonkheer Loudon, said we had demonstrated the feasibility and the necessity for this world court.

Now, conjointly with this project there is in the minds of many of us a desire to have the world go a step farther and introduce the element of obligation.

Mr. Hamilton Holt is one of the principal advocates of this latter idea, which is nothing less than a league of peace. The subject was put forward by him in September in *The Independent*. Then he came forward with the suggestion that we should have a public conference. We first got together a group of about twenty scientific men, professors of political science, of international law, of history, of economics, threw the subject into the arena and had it torn to pieces by them at three meetings held at the Century Club in New York. In this way was worked out what we regarded as a "desirable" plan. We then took this "desirable" plan and on April ninth laid it before men of wide practical experience, including Mr. Taft, and Mr. A. Lawrence Lowell, in order to ascertain how much of it was, in their opinion, a "realizable" project. It was found that they were not ready to accept as realizable the whole of the plan of the first group, which was practically this: a league of peace which shall bind its members to resort to a tribunal for the settlement of all disputes to which a member of the league may be a party, and obligate them to use force, if necessary, both to bring the nation law-breaker into court and to execute the verdict of the court.

When the element of force is introduced in a plan it is found that the unanimity of opinion to which I have referred as applying to the Court of Arbitral Justice as at present proposed, and to similar purely voluntary institutions, no longer exists; that there is very great diversity of opinion as to whether force should be used against a nation under any circumstances. The reason for this

diversity of opinion is the shortcomings of the leagues of the past. The Quadruple Alliance, the Grand Alliance, and the Holy Alliance, all formed immediately after the Napoleonic wars, were by no means wholly beneficial. The Holy Alliance, set up between Prussia, Russia, and Austria in 1815, ostensibly to promote Christianity, but really to support dynasties and combat the democratic tendency of the times, operated in fact to suppress liberty in Hungary, in Italy, and in Spain. It was the Holy Alliance acting through France as a mandatory which overthrew the liberal form of government in Spain and restored full autocratic powers to the king. Then there were the partial successes and many failures of the Concert of Europe. The Concert of Europe has done some good things. It smashed the Turkish fleet in 1827 and liberated Greece. It has prevented more than one Balkan war. It has improved the lot of the Armenians in Turkey. But it has had many failures, this present disastrous war the most conspicuous of them. Then there were these groups like the Triple Alliance and the Triple Entente, which, though set up for purposes of peace, have really given to the present war its broad character. All of us felt that, owing to their existence, when war came again to Europe it must be a general war. The breaking out of the war surprised many people; its extent surprised no one.

Manifestly, then, the first step in planning a league of peace is to find out why the leagues of the past have failed. I think the answer lies in one thing: the narrowness of the group composing the league, permitting of the triumph of selfish interests, permitting of collusion, the swapping of favors, and resulting in injustice and oppression. That is what men fear.

Now, many of us believe that if we can set up a league so broad as to include all the progressive nations, big and little, it will be permanent and successful. Such a league would include the eight great nations of the world, among them the United States and Japan. It would include the secondary powers of Europe—Switzerland, Norway and Sweden, Denmark, Belgium (such as it was and such as it will be again), Spain, Greece, and, in fact, all the countries of Europe with the possible exception of some of the Balkan states and the certain exception of Turkey. The "ABC" countries of South America would also be included. It would not include the backward countries, because we feel that the country which cannot

maintain law and order within its own borders would bring no strength to the league.

We believe that such a group would be successful. In the first place, it would embrace three great nations with common political ideals—England, France, and the United States. These three peoples feel that democratic government is no longer a passing phase of political experiment but a permanent fact in politics. Therefore they would cling together. Then you have in the group two great nations—Great Britain and the United States—who may be said to be satisfied territorially; you have the secondary powers of Europe who have no disturbing ambitions and whose voice would be for reason and justice, so that we think that if we could get these states associated together in a league, substantial justice would emerge, just as substantial justice results from the united action of the forty-eight states composing the American Union.

Whether you believe this league is practical or not depends on your answer to the question whether justice would emerge from its united action. Unless it does justice it cannot endure. Unless it does justice we don't want it: we don't want oppression. Injustice within a country—persistent injustice—sooner or later brings war; if not civil war then foreign war, or both; just as gross injustice in the conduct of a war will draw into the struggle an ever-widening circle of nations, because there are irresistible forces which insist that justice shall emerge finally in the world.

Now, it was not proposed that this league should itself pass upon disputes. All it would do is to insist that members, party to the league, or any nation having a dispute with a member of the league, shall not resort to war. It may refer the disputants to existing institutions at The Hague or to other institutions to be hereafter set up. They shall be privileged to go on with their dispute indefinitely if they choose, but they may not resort to war. The United States, under this plan, would have been permitted to continue the Fisheries dispute with Great Britain, as it did, for three-quarters of a century without interference; but if either Great Britain or the United States had shown a disposition to resort to arms the league would have been invoked and would have used its combined forces to prevent aggression.

There are four ideas or stages in the conception. The first is simply a true court of justice to which nations may refer their dis-

putes, if they see fit to do so. This is the court called for by the Hague Convention of 1907 under the name of the Court of Arbitral Justice—simply a voluntary institution. To this institution we find no objectors. Practically all the governments of the world have endorsed it, peoples have endorsed it, experts and plain men have endorsed it. In other words, it is a realizable project. It is therefore well to keep the movement for a world court quite distinct.

Now, the second stage of the larger and more problematic project is a league in which the element of obligation enters to this extent, that the members of the league, if you call it such—parties to the treaty—should obligate themselves to resort to the court. There is no such obligation embodied in the present Hague Convention. Like all our other international institutions, it is there for the nations to use or not, as they like.

In the third stage, the element of obligation is extended to forcing the nations into court. That is to say, if war threatens, we say to the disputants, "You must refer this dispute to the court. We will not force you to carry out the award nor do you bind yourself to do so, but you must go into court and have a hearing."

Now, many men have come to realize that publicity is three-quarters of the battle for justice. Very often simply bringing out the facts stops not only illegal practices, but also unjust practices not covered by the law, and does it without resort to a court or even to arbitration.

The fourth stage is enforcing the award, admittedly giving rise to the danger of oppression unless you have all the progressive nations in the league so that substantial justice would result from its action. The meeting of April ninth, to which I have referred, was unwilling to accept the fourth stage of this plan, namely, enforcing the verdict. Men like Mr. Taft, with his wide experience, Mr. Lowell, who has made a study of governmental institutions, in fact all except two out of the twenty eminent and experienced men gathered at that meeting, were, however, willing to adopt the first three stages of the plan as a "realizable" project, namely, the court, the obligations of the states to each other to go into court, and the obligation of the League to force the nation law-breaker into court if recalcitrant.

If there is no obligation on the part of the nation entering the court to abide by the verdict and the league itself will not enforce

the verdict, surely no oppression can result from the demand for a hearing. It is a reasonable demand as applied to any controversy whatsoever, whether it be a justiciable controversy or a controversy arising out of a conflict of political policies. The league would simply act as an international grand jury to hale the nation law-breaker into court for a hearing. That is as far as the meeting of April ninth was willing to go, and that is the project which the notable gathering at Independence Hall, Philadelphia, on June seventeenth, made the program of the League to Enforce Peace. By starting with this minor project we get something which is practicable and out of the minor project, the larger plan may grow of its own accord.

BOOK DEPARTMENT

GENERAL WORKS IN ECONOMICS

ELY, RICHARD T. *Property and Contract in Their Relations to the Distribution of Wealth.* (2 vols.) Pp. liv, 995. Price, \$4.00. New York: The Macmillan Company, 1914.

The work is as difficult to classify as it is to review. It is not an interpretation; nor is it a source book or a book of readings. Perhaps it would be fair to call it a compilation of invaluable data regarding property and contract. There is an index of some fifty-eight pages, and a list of authors and cited works of forty-five pages. The book itself contains but seven hundred and fifty-one pages, including voluminous references and notes. The reader is oppressed with a feeling of unbalance and a lack of continuity, which comes dangerously near being a lack of unity.

Professor Ely speaks very frankly of the "years of growth" of this work (p. ix). He also alludes in the same paragraph to "the orderly nature and continuity of progress" and the "internationalism of law and institutions corresponding to economic internationalism." Some of his students, he says, urged him to publish the work "as early as 1900." The final debt of gratitude for the finishing touches on the work Professor Ely gives to the "stimulating environment" of the University of London, where he delivered a course of lectures on "Property and Its Relation to the Distribution of Wealth" in 1913-14 (p. xvi). "The lectures on property and contract were written more than ten years ago, and as early as 1899 many parts of the book were substantially in their present form" (p. viii).

The author is immensely impressed by the simplicity of the ideas growing out of the economic experiences. He writes: "My ideas are the outgrowth of American life; yet applicable again in many particulars to conditions in Germany, England, and other European countries. The German economists are regarded as progressive and our American courts as conservative; but I have found no difficulty in passing from German economic literature to the decisions of American courts. Each land shows continuity of thought and the similarity of ideals is here striking for frequently the decisions are as progressive as modern economic thought" (p. x). The reader will be more readily convinced of this similarity by reading the Preface than from the book itself.

The book covers a wide field. In the Introduction distribution is defined. The forces behind it are analyzed, and a general statement is made of the subject matter of economics, with particular relation to distributive problems. Part I deals with property, public and private; Part II, with contract and its conditions; Parts III and IV contain appendices. Appendix III consists of an essay written by Dr. W. I. King on *Production, Present and Future*. It contains, as Professor Ely says, a statement showing "the limitations on distribution in production." Professor Ely describes this appendix as "an invaluable contribution to our economic

literature." It is difficult, however, to see exactly why it was included in the present work.

The reader is prone to raise questions regarding the position of Appendices I and II. Appendix I deals with vested interests. Appendix II, headed *Personal Conditions*, contains discussions of slavery, caste, and other forms of personal status in their relation to contract. In so far as these problems bear upon contract, it would seem that they might have been included in the section headed *Contract and Its Conditions*. In their present position they go far to upset the unity of the work.

The content of the book is of the very highest order. The work has apparently been done with the most scholarly care. At the same time, the language of most of the text is simple, and the style is so direct and telling as to make the reading of it a positive delight. The work is an admirable statement of the issues involved in property and contract. Its thought-provoking analyses of the relation between economic situations and political problems are particularly suggestive. There have been a number of books on property which attack and defend it; the present work explains. There is no apparent leaning to this side or to that. The author has been content with an exposition.

Professor Ely has prepared an invaluable body of data regarding property and contract. The two volumes of the work contain a mine of useful and highly available information. Nevertheless, even the most confirmed scholar will regret that Professor Ely did not make a book. Surely it would have been possible with the extended body of notes and references following each chapter to compress the data necessary to the scholarly understanding of the chapter contents. Such a scheme might easily have resulted in the avoidance of the unwieldy body of appendices appearing at the end of the second volume. The author attempts to explain why it was necessary to exclude certain data from the text. He seeks to justify the inclusion of certain material in the appendices. A compendium of useful information on property might legitimately be constructed on this basis, but a book on property must exhibit more organic unity if it is to be regarded as a book. Professor Ely is to be highly congratulated upon the character of his contribution, however unsatisfactory its form may be.

SCOTT NEARING.

University of Pennsylvania.

CLARK, WALTER E. *The Cost of Living*. Pp. 168. Price, 50 cents. Chicago: A. C. McClurg and Company, 1915.

No recent book written in English on the cost of living question has attempted to cover a wider field. The author has made his statements regarding price increases international, and has covered the cost of living subject under six principal headings: The Facts, the Money Problems, the Question of Supply, the Question of Demand, the Effect of the Increasing Cost of Living, the Remedies. The whole book is of necessity general in treatment and popular in tone. At the same time, the author has a knowledge of the subject which lends a weight of authority to most of the things that he says. The reader lays down the book with a feeling that increasing living costs are, after all, not a particularly unde-

sirable thing, and that time may provide a remedy. The book must be criticised chiefly because of its incompleteness in this respect.

CROWELL, JOHN F. *Trusts and Competition*. Pp. 191. Price, 50 cents. Chicago: A. C. McClurg and Company, 1915.

This little volume gives nothing that is fundamentally new as regards trusts and competition. However the reader will find it valuable in giving a compact and concrete discussion of trust problems in their many ramifications. The author sees a great value in competition, using that term to mean a competitive struggle to serve the interests of the public and the investors. He then portrays big business activities which are tending toward such a goal. Carefully arranged and enumerated are the many arguments bearing on almost all of the issues arising out of monopolies and competition. Mr. Crowell has filled a need in giving a small volume, general in scope and briefly summing up the trust situation of today—especially as it stands in the light of inherited ideals of competition.

TAUSSIG, F. W. *Principles of Economics*. (2nd ed. revised) (2 vols.) Pp. lv, 1120. Price, \$4.00. New York: The Macmillan Company, 1915.

The changes introduced in this revision affect entirely chapters dealing with practical problems of current interest. The chapter on banking in the United States has been rewritten so as to include discussion of the Federal Reserve Bank system. Similar reorganizing and rewriting have made almost new the chapters discussing trusts and combinations, workmen's insurance and taxation. These changes add much to the current value of a work which in its earlier edition had a reputation as unusual as it was merited.

COMMERCE AND TRANSPORTATION

RIPLEY, WILLIAM Z. *Railroads: Finance and Organization*. Pp. xix, 637. Price, \$3.00. New York: Longmans, Green and Company, 1915.

In this second volume of his treatise on railroads, Professor Ripley brings to a close what is unquestionably the most comprehensive and adequate work yet written on the various phases of railway transportation in the United States.

Railroads: Rates and Regulation which constituted the first volume gave a description of the intricate structure of transportation rates and an account of the long struggle of the people to secure rate regulation by the government.

Though the clarity with which Professor Ripley presents the analysis of the many aspects of railway finance and organization commands the constant admiration of the reader, it is the history of the financial life of American railway corporations which gives the chief interest to this work. Sorry, mean and sordid, however, is the story, a repulsive chapter of the economic history of the nation, a chapter, too, which many thought had been closed until the disclosures concerning the New Haven, the Rock Island, and the Frisco Systems showed that in many quarters the financial morals of "Jay Gould and Jim Fiske" still survive, and that the swindling practices of the early construction companies and of the looters of

the Alton treasury have not been forgotten. But in the midst of his condemnation of the fraud and dishonesty which has characterized so much of the financial history of American railways, Professor Ripley does not forget to point out and commend the leading examples of sound railway finance. Such examples are conspicuously rare. Even many roads which have had a long and honorable record of conservatism and sound policy have fallen a prey to piratical speculators and manipulators into whose pockets have been swept the fruits of years of honest prosperity.

It is this long persistence of knavery, this constant danger that rank outsiders may raid and destroy a sound financial structure, that help make Professor Ripley's argument for public regulation so effective and convincing. Though the action which single states have taken in the regulation of capitalization receives his approval, he points out that state governments are unable to cope with the situation, and recommends the creation of a federal commission, separate from the Interstate Commerce Commission, which shall have powers over railway capitalization similar to the powers now possessed by the strongest state commissions. The recommendations of the Railroad Securities (Hadley) Commission he flatly rejects, and with convincing arguments disposes of the important features of its proposed policy.

But while seeing in government control of railroads the only safety of the public, Professor Ripley is not unaware of the serious problem which the possession of a full measure of public control involves. As he explains, railway regulation has had two phases. The first, which is past, was the struggle of the people to demonstrate their right to regulate the railroads and to establish the machinery for regulation; the second, which is now beginning, is the problem of using wisely the hard-won power. The issue, while capable of expression, cannot be so clearly visualized. The separation of interests is less distinct, the alignment of parties not so definite. What is designed to eliminate evil must not harm the good. "Public regulation in future must not be governed by the mandates of the law applied too narrowly. It may be sound business policy to be more generous. . . ." The railway problem is still that of securing adequate service at reasonable rates but now that the people have the machinery by means of which this can be done, "the point to carry forward is that they cannot hope to reach this goal, under private ownership at least, until the investors' interest is accorded just and full consideration." If this warning is unheeded, private ownership must give way to government ownership. What a change of view such a statement represents. A dozen years ago government ownership was the sole alternative in case the public could not secure a proper degree of control over the railroads; today it is the alternative in case the railroads cannot secure a sufficient measure of protection from the public.

Like most economists, Professor Ripley believes that a certain degree of coöperation among competing railways should be permitted, and he favors a relaxation of the present legal prohibition against pools and rate agreements.

Excellent statistical charts and tables presented here and there throughout the pages aid the reader in grasping the thought of the text. Well-chosen references are indicated in connection with each important topic. Errors are few, except

for a number of slips in the use of "infra" and "supra" in footnotes. These slips are not confusing; one merely wonders why the expressions are used at all.

T. W. VAN METRE.

University of Pennsylvania.

HOUGH, B. OLNEY. *Ocean Traffic and Trade*. Pp. vi, 432. Price, \$3.00. Chicago: La Salle Extension University, 1914.

Mr. Hough, who is the editor of the *American Exporter*, has in this volume aimed to produce a text-book on the organization of practical ocean shipping and foreign trade. The scope of the book is consequently so wide that many phases of ocean transportation are treated very briefly. Thus the chapters on Ocean Carriers, Tonnage Measurement, Ocean Routes, Mercantile Marine Policy and Public Regulation are brief, and the chapter on Ocean Freight Rates, although it contains much practical information, does not describe the forces which determine and the principles which underlie rates.

Mr. Hough's discussion of the methods of conducting foreign trade, on the contrary, constitutes an addition to the literature on that highly important subject. Particular attention is called to the chapters dealing with Handling Export and Import Shipments, Handling Small Export Shipments, Getting Foreign Business, Developing Export Trade, and Foreign Credits and Collections. These chapters on foreign trade methods may be profitably read in connection with an earlier volume entitled *Elementary Lessons in Exporting* which was written by the same author. No phase of commercial organization is more important, for the development of export markets for American manufacturers has become a national problem. The chapter on Marine Insurance is also an excellent one which may be read with profit by anyone interested in that phase of shipping.

LABOR PROBLEMS

PRICE, GEORGE M. *The Modern Factory*. Pp. xx, 574. Price, \$4.00. New York: John Wiley and Sons, Inc., 1914.

Since there are some six million persons working in industrial establishments in the United States, Doctor Price thinks that the modern factory is a paramount economic force in the life of our nation. Consequently questions of safety, sanitation and welfare within work-places, and the legal steps necessary to improve factory conditions are among the vital problems of the present day.

With this in mind, the author traces the rise, growth and influence of the factory, discusses the cause of factory fires and their prevention, deals with industrial accidents and treats the subject of factory environment in its various phases of lighting, sanitation and ventilation. The effect of wage work on physical well-being is brought out in chapters upon industrial poisons, gases and fumes, and the dangers of dusty trades. The trend that factory legislation and inspection ought to take is also considered.

From the foregoing it can easily be seen that the book is a comprehensive piece of work. Although it covers a wide range of topics no one of them has been slighted. The experience of the author has fitted him admirably to write

just such a book as he has given us. He has been a medical practitioner in a congested city, a sanitary inspector of the New York Health Department, a director of the Joint Board of Sanitary Control in the Cloak, Suit, Skirt and Dress and Waist Industries, a director of the New York State Factory Commission and a special agent of the United States Department of Labor to investigate European factories. This wealth of experience is reflected in the present book. Points are proven by numerous examples. Comparisons between American and European factory conditions are made. The official position of the writer has given him access to a great number of photographs whose use makes the book more valuable. *The Modern Factory* is the only work in its particular field and is to be recommended.

MALCOLM KEIR.

University of Pennsylvania.

HEDGES, ANNA CHARLOTTE. *Wage Worth of School Training*. Pp. xvi, 173. Price, \$2.00. New York: Teachers' College, Columbia University, 1915.

A number of recent studies directed toward the problems of the wage-earning woman have led to a growing conviction that there must be some modification in the educational scheme that will lead more directly into vocational activity. The outcome of this detailed report, based on 617 questionnaires, answered by working women, is a conviction that the present system of education does not meet the vocational needs of girls, and further, that any system of education that fails in this respect is false. The study is analytical rather than constructive.

KELLOR, FRANCIS A. *Out of Work: a Study of Unemployment*. (Rev. Ed.) Pp. xiii, 569. Price, \$1.50. New York: G. P. Putnam's Sons, 1915.

The very serious industrial situation with its accompanying mass of unemployment which has so aroused the interest of the country in the last year makes very timely this new edition of Miss Kellor's study originally published in 1904. In this volume she has attempted to introduce material bearing on the later situation, together with an account of the measures that have been tried in various places to cope with the problem. It is an extremely valuable book which deserves wide use.

MARTIN, ELEANOR; POST, MARGARET A., and OTHERS. *Vocations for the Trained Woman*. Pp. xvii, 175. Price, \$1.50. PERSONS, CHARLES E.; PARTON, MABEL; MOSES, MABELLE, and THREE "FELLOWS." *Labor Laws and Their Enforcement, with special reference to Massachusetts*. Pp. xxii, 419. Price, \$2.00. BOSWORTH, LOUISE MARION. *The Living Wage of Women Workers*. Pp. vi, 90. Price, \$1.00. New York: Longmans, Green and Company. HEWES, AMY (Prepared under direction of). *Industrial Home Work in Massachusetts*. Pp. 183. Price, 80 cents. ALLISON, MAY (Prepared under direction of). *The Public Schools and Women in Office Service*. Pp. xv, 187. Price, 80 cents. Boston: Women's Educational and Industrial Union.

The series contains a popular statement of the relation existing between women and the economic and educational world. The books are planned to be of

particular value to working women. The most important problem which the editors of such a series necessarily face is that of getting the studies to the attention of the workers. The value of the studies to students is quite apparent. Their utility in the direction for which they were intended may well be called into question.

SUFFERN, ARTHUR E. *Conciliation and Arbitration in the Coal Industry of America*. Pp. xvii, 376. Price, \$2.00. Boston: Houghton, Mifflin Company, 1915.

The author has attempted to cover in an historic and constructive manner the chief incidents leading up to conciliation and arbitration in the various coal fields of the United States. The book is well written. Authors are quoted at length; many passages bear the earmarks of fine scholarship. The style is clear and flowing. The treatment is sufficiently general to be interesting and suggestive, and at the same time so detailed as to satisfy the inquirer regarding the minor incidents to which the work relates. Although the author displays a strong sympathy for the laborers' side of the case, the reader cannot help feeling that the sympathy is justified, in view of the conditions which the book portrays

MONEY, BANKING AND FINANCE

LYON, HASTINGS. *Principles of Taxation*. Pp. v, 133. Price, 75 cents. Boston: Houghton, Mifflin Company, 1914.

In his introduction, the author frankly acknowledges that he may be prejudiced, but urges his readers to consider his arguments. He is equally frank throughout his brief but excellent discussion. Disagreement with some of his conclusions by no means implies a lack of appreciation.

His argument rests on two principles as the bases of taxation, viz., "the cost of performing the public service to pay for which the tax is levied, and ability to bear the public burden." Cost of service, it is urged, is better than a benefit theory, since benefits are subjective and incapable of measurement. Moreover, most persons usually mean *cost* when they say *benefit*—a contention with which the reviewer agrees. A proper allocation of cost being frequently difficult and often impossible, ability to pay must in practice be used to supplement it. Faculty, however, also presents difficulties and cannot in practice be determined with accuracy. Income as a measure is very faulty because of the differences between earned and unearned and between continuous and fortuitous income.

Market price of property is a much better faculty test than income, because it makes allowance for risk. Properties, however, differ in many important particulars and should not be taxed at the same rate. Especially should property be distinguished from debts which are not wealth and do not create wealth. Taxing credits is not taxing wealth, but a method of doing business. Moreover, the tax is usually shifted from creditor to debtor. The difficulties are increased because residents of one community often own wealth located in another. Conflict of interest among communities often results in unjust double and multiple taxation which is proving especially burdensome to corporations doing an inter-

state business. Local assessors are partial and hence objectionable, central control of tax machinery is favored and arguments are advanced against the single tax and the increment tax, even the unearned increment.

To many of the arguments in the treatment no one will object. That there are weaknesses in the modern income tax must be acknowledged, and we can all agree to the author's criticism of the injustices resulting from double taxation. At the present time, however, destructive criticism is insufficient. Increasing public expenditures and a realization of the injustice of many phases of our present system (including those mentioned by the author) make constructive suggestions imperative. Except in a few particulars, these have not been presented. It is true that economic interest is urged (p. 88) as a solution for the evils of double taxation, but no method of determining that interest in each community is presented.

In one important particular, also, the author is at variance with most modern writers and that is in his failure to provide for progressive taxation. The principle of progression is becoming fully interwoven in our modern systems, especially in the income tax and the inheritance tax, yet no allowance is made for it. In one passage (p. 58) there is a suggestion that might even be interpreted as opposition to the entire idea. In this paragraph the author points out that a tariff on luxuries is a tax on productive consumption and that unproductive consumption decreases ability to pay and then adds: "Assuming that labor will in the long run shift the incidence of a tax on necessities from a tax on consumption to a tax on production in the form of higher wages, the consumption of necessities comes nearer being an index of ability to pay than a tax on luxuries."

E. M. PATTERSON.

University of Pennsylvania.

CHEN, SHAO-KWAN. *The System of Taxation in China in the Tsing Dynasty, 1644-1911*. Pp. 118. Price, \$1.00. New York: Longmans, Green and Company, 1914.

Dr. Chen has recognized in his study the importance of acquainting English readers with the general structure of the Chinese government as a preliminary to explaining the system of taxation. He then describes the public expenditures before discussing taxation which he takes up under the three headings, taxation of land, taxation of salt and taxation of commodities. The defects of the arrangement now in force are the scrambling for funds by the different provincial governments and the numerous opportunities for the concealment of revenues. Unfavorable conditions will be slow to disappear.

SECRET, HORACE. *An Economic Analysis of the Constitutional Restrictions upon Public Indebtedness in the United States*. Pp. 131. Price, 40 cents. Madison: University of Wisconsin, 1914.

Professor Secret has treated his subject by dividing it into an analysis of the constitutional restrictions on state debt and on local or municipal debt, treating each topic both historically and analytically. His conclusions are that present restraints hamper legitimate borrowing without accomplishing the desired

purpose of restraining public debt within reasonable limits. The study is a valuable one. It is to be hoped that at some date in the near future the author will be able to present a larger number of constructive suggestions, especially as to control over state debts.

SMITH, HARRY EDWIN. *The United States Federal Internal Tax History from 1861-1871*. Pp. xix, 357. Price, \$1.50. Boston: Houghton, Mifflin Company, 1914.

This volume was awarded the Hart, Schaffner and Marx prize in Class A for the year 1912. After an introductory chapter discussing the conditions prior to 1861 and the causes of the fiscal policies during the period just prior to the Civil War, the author treats his subject by devoting chapters to each of the different kinds of taxes. The last two chapters are more general, treating the influence of internal taxes on the important duties and the administration of the tax system during the period under discussion. An appendix contains a number of tables and a bibliography.

The book contains a large amount of detail; the various measures proposed in Congress being analyzed, their provisions presented and their progress traced. This plan is extended even to many measures which finally failed of passage and in some instances to bills which do not seem to the reviewer important enough for such extended treatment. The treatment is thorough and painstaking, but the reader must follow the subject matter very carefully to grasp the thread of the discussion amid the mass of detail. This failure to interpret the material presented is illustrated by the criticisms at the close of the second chapter dealing with the direct tax. In view of the preceding description, the criticism seems very brief and very mild.

Criticisms are, however, ungracious when the volume is such a valuable addition to the literature of our financial history. The very detail is important and beyond the general suggestions just made regarding method of treatment there is but little adverse comment that can be offered. Emphasis should be placed on the very valuable collection of tables in the appendix and on the admirable index.

SOCIOLOGY AND SOCIAL PROBLEMS

BOWEN, LOUISE DE KOVEN. *Safeguards for City Youth at Work and at Play*. Pp. xv, 241. Price, \$1.50. New York: The Macmillan Company, 1914.

For many years the author of this book has been devoting much of her time and resources to activities in aid of Chicago children. Gradually the realization dawned upon her that it was not enough to maintain the juvenile court with its probation system and permit causes of distress to work unchecked year after year. With others, therefore, Mrs. Bowen organized the Juvenile Protective Association.

The chapters in this volume, therefore, really cover a description of the conditions which have been brought to her attention, together with an account of the methods adopted to try to meet the situation. We thus have chapters dealing

with civic protection in recreation, legal protection in industry, legal protection for delinquents, legal safeguards for the dependent, protection against discriminations in legal treatment, with a closing chapter on the need of further protection. Into this account she has woven innumerable personal anecdotes illustrating points discussed.

Among the needs yet to be met, Mrs. Bowen feels is the more active participation of women in the government of the city. Though for years a board of women had overseen the work of school nurses, when the school nurse became a city official there was no longer any woman fit to be a member of the city council and continue such supervision. Mrs. Bowen feels that women should also be members of the Board of County Commissioners in order to maintain some direct supervision over the probation officers of the juvenile court. She feels that better laws and better enforcement of law dealing with the sale of food, particularly of milk, better registration of births, better control of child labor, particularly with reference to newsboys, messenger boys, etc., better supervision of employment agencies and more adequate provision for the treatment of the inebriate are needed.

To those who are dealing with problems of social welfare in our large cities and to those who are interested in knowing what is being done, this volume is to be heartily commended.

Miss Jane Addams contributes the preface.

CARL KELSEY.

University of Pennsylvania.

HEALY, WILLIAM. *The Individual Delinquent*. Pp. xi, 830. Price, \$5.00. Boston: Little, Brown and Company, 1915.

This masterful achievement is an inductive and analytical study of a thousand juvenile delinquents. It is the result of five years of study and investigation by the Juvenile Psychopathic Institute of Chicago under the direction of the author. Based upon the assumption that most criminals begin their career of crime at a very early age, Dr. Healy has sought to analyze the causes and conditions which lead to anti-social conduct. It is a most comprehensive treatise. The effects of heredity, of disease, of mental abnormality, of physical defects, of environmental influences, including home life and associates, are all studied with the most painstaking care. Methods of study and investigation are presented with the purpose of developing a science of diagnosis and treatment. Part I, comprising ten chapters, deals with general data. This part should prove invaluable to judges, lawyers, probation officers, physicians, clergymen, social workers; in fact, to all who are interested in the problem of delinquency. Part II, with twenty-seven chapters, is devoted to the description of cases and types and to the study of causative factors. Here the concrete material is presented upon which the scientific results are based. This part is characterized by balanced judgment and ought to have the effect of disciplining the imagination of the theorist.

The comprehensiveness of the work, its thoroughness and intensiveness, make it a valuable source book both as to material and as to method. It is an epoch-making work in the study of delinquency. Dr. Healy is to be congratulated

on his achievement. He has made every scientific student and every practical worker in this field his debtor.

J. P. LICHTENBERGER.

University of Pennsylvania.

MELVIN, FLOYD J. *Socialism as the Sociological Ideal.* Pp. 216. Price, \$1.25. New York: Sturgis and Walton Company, 1915.

Dr. Melvin, having in mind the social philosophy so well put by Ward—"the conscious improvement of society by society," finds great emotional and intellectual forces making for this ideal in the tenets of socialism.

Entering this kingdom of "social self-consciousness," the individual finds bulwarked against his further progress the evils of a rockbound competitive system of industry—a system diametrically opposed to the ideals of the sociologist. Under this competitive reign he sees justice mocked, ethical and aesthetic tendencies choked, and religion shackled. These spiritual ideals are now demanding realization. Likewise coöperation, the division of labor, the factory system and the introduction of machinery are the material forerunners of the social commonwealth. Means and methods of social regulation such as education, a "controlled" evolution and a "representative decision" must replace the anarchistic means of deadly warfare, natural selection and gruelling competition.

The writer closes his book with a clear portrayal of the aims and ideals of the socialist summed up in his sentences: "Having no classes, socialism has no irrational principles to uphold, no vested rights to be protected, no cherished institutions to be maintained. All is fluid, plastic. This is spiritual freedom."

Many sociologists will take bitter exception to Dr. Melvin's linking an economic panacea with the science of sociology as the latter's ideal. This branch of study has fought and fought hard to establish itself, and now to link it with socialism, a movement and a term arousing so much antagonism, must to many minds work havoc for sociology as a science.

C. E. REITZEL.

University of Pennsylvania.

MORGAN, BARBARA SPOFFORD. *The Backward Child: A Study of the Psychology and Treatment of Backwardness.* Pp. vii, 263. Price, \$1.25. New York: G. P. Putnam's Sons, 1914.

The recent development of clinical psychology and statistical studies of retardation in elementary school systems have outlined the problem of the "backward child." This is not the problem of the feeble-minded child whose training can never have great social value. It is rather the problem of the child whose educational progress has been delayed through certain mental or physical incapacities or through lack of proper training and education.

To the latter problem the book is addressed. It is intended for the use of parents, teachers, and other educators who have to deal with atypical children. Its primary emphasis is on individual treatment. There must be a careful psychological analysis of the individual child in question. He must "be very delicately persuaded into revealing" his handicaps and abilities, and the "tests

used for this persuasion are a kind of abbreviation of the activities of a child's life." But these tests must never become a merely formal means to a rigid classification. They must be interpreted and the writer bases her interpretation on clinical experience from which she has taken a number of cases for illustration.

Once the problem of a particular child is outlined, his training must follow the lines indicated. This must conform to certain psychological principles of mental development, and a large portion of the book is devoted to an interesting treatment of the familiar topics of attention, memory, perception, reasoning, etc.

The careful reader will certainly realize that most of the principles and even much of the method of the book will have application in dealing with the precocious as well as with the backward child.

F. N. MAXFIELD.

University of Pennsylvania.

ANTIN, MARY. *They Who Knock at Our Gates*. Pp. x, 142. Price, \$1.00. Boston: Houghton, Mifflin Company, 1914.

It is too much to expect that an author who has won deserved renown for her autobiographical sketch *The Promised Land* will rise to quite the same heights in an attempt to interpret modern immigrants. She writes in interesting, sympathetic and friendly fashion and the book is enjoyable. She feels that our present duty lies in the distribution and safeguarding of the immigrants rather than in artificial tests of fitness whose real aim is exclusion.

BERNHEIMER, CHAS. S. and COHEN, JACOB M. *Boys' Clubs*. Pp. 136. Price, \$1.00. New York: The Baker and Taylor Company, 1914.

Contains in brief compass suggestions for the formation and conduct of clubs for boys (and girls) with a brief parliamentary guide, typical constitutions and by-laws, and many hints as to programs for meetings and various other aids.

BOWLEY, A. L. *The Measurement of Social Phenomena*. Pp. viii, 241. Price, 3s. 6d. London: P. S. King and Son, 1915.

The author has departed from the standard of his previous books and attempted to write a popular book on statistics. The result of his effort is an interesting combination of statistical technicalities and explanations of the most elementary character. The book was aimed to reach a group of social workers. It is improbable that they will get from it a working knowledge of statistical method.

Boyhood and Lawlessness; with The Neglected Girl. Pp. xix, 215; iii, 143. Price, \$2.00. *The Middle West Side; with Mothers Who Must Earn*. Pp. xiii, 67; viii, 223. Price, \$2.00. New York: Russell Sage Foundation, 1914.

The Russell Sage Foundation in these volumes continues the publication of investigations made under its auspices.

In the first volume is a study of boys in a part of the West Side of New York City, a description of their daily life and their troubles as well as troubles caused by them which lead them into the court. The material was collected by Mr.

Edwin M. Barrows and Clinton S. Childs. The second part of the book on *The Neglected Girl* was written by Miss Ruth S. True. It is rather curious that so little has really been written on the neglected girl. Miss True's study, therefore, of actual conditions will be of value.

In the second volume we have a sketch of *The Middle West Side* of New York City by Otto G. Cartwright and a study of *Mothers Who Must Earn* by Katharine Anthony.

At first glance little relation may appear between these books, but the student is moved to ask if the mother who must go away to work under city conditions does not offer a partial explanation of the lawless boy and the neglected girl. Whether these descriptive studies, therefore, immediately lead to any changes in public conscience or industrial methods it must be recognized that the knowledge of actual conditions is the necessary basis of all wise changes, and the dissemination of such reports by the Russell Sage Foundation will have its own real influence in the gradual shaping of public opinion of the subjects discussed.

BRIGGS, JOHN E. *History of Social Legislation in Iowa*. Pp. xiv, 444. Price, \$2.00. GILLIN, JOHN L. *History of Poor Relief Legislation in Iowa*. Pp. xiv, 404. Price, \$2.00. Iowa City: The State Historical Society of Iowa, 1915.

The State Historical Society of Iowa has made a commendable record through its publication of monographs dealing with the history of the state. In the volumes now before us we have a history of poor relief legislation in Iowa by John L. Gillin, which is probably the first book of its kind emanating from the Middle West. Mr. Gillin has done an excellent piece of work. He outlines the old laws of the territory, describes the problems of the almshouse, outdoor relief and the care of defectives. He tells what has been done and indicates very plainly many things which have not been done and are left for the future.

A companion book is the one on *History of Social Legislation in Iowa* by John E. Briggs, in which the public health, provisions, care of prisoners, defectives, pensioners, laborers are discussed in chronological order.

Both volumes contain very complete notes and references to the statutes and other documentary material.

CAPEN, EDWARD WARREN. *Sociological Progress in Mission Lands*. Pp. 293. Price, \$1.50. New York: Fleming H. Revell Company, 1914.

The fact that the father of the author of this volume was for many years the head of the American Board of Foreign Missions doubtless has much to do with his interest in this subject. The knowledge growing from this home environment, however, Dr. Capen has strengthened and widened by extensive journeys around the world, in which he had opportunity to observe the work of the foreign missions. He is now professor at Hartford Theological Seminary. He writes of the changes he has found bearing on education, on material prosperity, as well as on the position of woman, ideals of the family, development of ethical ideals, progress in social reconstruction and christianizing tendencies in non-Christian religions. He has given us a bird's-eye view, as it were, of

the field described at so much greater length years ago by Dennis. There will be many who will welcome such a story.

DEVINE, EDWARD T. *The Normal Life*. Pp. 233. Price, \$1.00. New York: Survey Associates, Inc., 1915.

In a series of lectures given before the Social Service Corporation of Baltimore in February and March, 1915, Dr. Devine undertook to emphasize the positive rather than the negative side of social questions, speaking therefore of the normal life rather than the abnormal, and in this little volume containing these lectures we have infancy, childhood, youth, maturity, and old age discussed from the standpoint of one who is tremendously interested in social welfare.

Like all of Dr. Devine's writings, these essays are interesting and stimulating.

ELLIS, GEORGE W. *Negro Culture in West Africa*. Pp. 290. Price, \$2.00. New York: The Neale Publishing Company, 1914.

Few men have had better opportunity to study the negro in his African home than the author, who for eight years was secretary to the American Legation to Liberia. This little volume is an account of the culture of the negroes with whom he came in contact, and is descriptive of their life from day to day.

Approximately half of the volume is given to their proverbs and stories. He deals primarily with the Vai peoples.

KELLOGG, PAUL U. (Ed.) *Wage-Earning Pittsburgh*. Pp. xv, 582. *The Pittsburgh District—Civic Frontage*. Pp. xviii, 554. Price, \$2.50 each. New York: Survey Associates, Inc., 1914.

Both volumes consist of a number of articles by different authors, many of which have already appeared in the original Pittsburgh survey. The value of the articles is enhanced by a number of maps, diagrams, and illustrations. The editor, Mr. Kellogg, has now made available for public use the material collected in the first great American movement toward an intensive survey of a large industrial community. This survey has played a rôle of vast importance in leading the way toward the ascertainment of social facts. The student of social science cannot but regret that the example so splendidly set has not been followed on a large scale in any other industrial community.

MAYO, MARION J. *The Mental Capacity of the American Negro*. Pp. 70. Price, 85 cents. New York: The Science Press.

This little study is an attempt to determine from an analysis of the records made from white and colored children in high schools of New York City the relative capacity of the two races. The author recognizes that the old tests of race superiority and inferiority are of little value. He thinks that this method will ultimately give us very important results. The study and the method is to be commended. Whether conclusions based on this material are sound is another question, for progress in school depends not merely upon individual but upon race, background, home atmosphere and all the outside stimuli to progress. Little attention, however, is paid to this fact.

MOOREHEAD, WARREN K. *The American Indian in the United States*. Pp. 440. Price, \$3.25. Andover: The Andover Press, 1914.

Frankness and candor seem to be characteristic of this work. The author is interested primarily in neither the historical nor the ethnological problem but in the present welfare of the American Indians now living in the United States. Descriptions of all the principal groups in all parts of the country are given, with many of their customs and peculiar characteristics, but the main purpose of the book is to reveal the situation of individuals, tribes, and groups as a result of their care or lack of care since 1850. We have in this book the most frank and fearless presentation of the wrongs inflicted upon these defenseless wards of the government which has yet appeared. The gigantic land steals and swindles, the individual and collective fleecing of near-citizens and helpless women and children by unscrupulous land grabbers are set forth in all their shocking detail. The weakness of our governmental machinery is made clear without personal malice or incrimination. The faults are due to politics and lack of publicity. The good features of our Indian policy are presented fairly and with appreciation.

The book is a mine of information for the social student, but it is intended to arouse public feeling and action in behalf of the Indian. Written for this avowed purpose, it is remarkably sane. It is profusely illustrated and well indexed.

REDFIELD, CASPER L. *Dynamic Evolution*. Pp. xi, 210. Price, \$1.50. New York: G. P. Putnam's Sons, 1914.

The word *dynamic* is used here in the purely mechanical sense. Accumulated energy in parents is transmitted to offspring. Illustrative material is drawn from the pedigrees of horses, cattle, dogs and men. Energy is acquired by use, such as training in trotters. This is the Lamarckian theory of hereditary transmission in a new form. Longevity in man, the author holds to be conditioned by the age of parents. The older the parents the greater the expectancy of the child. Peculiar mental abilities correspond to the characteristics of parents at various ages; *i. e.*, the fathers of military heroes average 30 years; of artists, musicians and literati, 31-40; of statesmen, 41-50; of philosophers, 51 and over. The data seem inadequate for such generalizations, but the subject cannot be dismissed without further investigation. The theory is to be reckoned with, and invites corroboration or disproof by further studies.

REEVES, EDITH. *Care and Education of Crippled Children in the United States*. Pp. xi, 252. Price, \$2.00. New York: Survey Associates, Inc., 1914.

Ordinarily, few people realize how many crippled children there are in this country, and much less the extent and nature of the provision which is made for their care and education. Miss Reeves has rendered a genuine service in the collection of this material and its translation into available form by the student. While nearly every sane person recognizes and welcomes the development of medical science and the resulting saving of life through our knowledge of how to deal with the sick and injured, the author would be the last to have us forget that prevention of accident or sickness is a greater public service than the cure of those who are afflicted.

ROMAN, FREDERICK W. *The Industrial and Commercial Schools of the United States and Germany*. Pp. xv, 382. Price, \$1.50. New York: G. P. Putnam's Sons, 1915.

A comparative study, full of informative detail. Those interested in vocational education and continuation schools will read the book in its entirety. To others it will be particularly serviceable as a reference work.

SUMNER, WILLIAM GRAHAM. (Ed. by Albert G. Keller.) *The Challenge of Facts and Other Essays*. Pp. xii, 450. Price, \$2.25. New Haven: Yale University Press, 1914.

For this third volume of the late Professor Sumner's writings we are indebted to the careful and persistent research of his associate, Professor Albert Galloway Keller.

At least five of these essays are here printed for the first time, so far as Professor Keller can discover. The twenty-five others had become inaccessible. It is obviously impossible to attempt in a review even to outline the ground covered by the author in such varied fields as are indicated in some of the subjects: In Reply to a Socialist, Who Win by Progress, Federal Legislation on Railroads, Democracy and Responsible Government, Foreword to *Lynch-Law*. One can only express his amazement that so busy a man as Professor Sumner managed to do all of this work. One must be equally impressed by the modesty revealed in the fact that he allowed much of it to go unpublished. Professor Keller is to be congratulated for collecting and publishing the essays of one of the most interesting and virile teachers of his time.

POLITICAL AND GOVERNMENTAL PROBLEMS

DEWITT, BENJAMIN PARKE. *Progressive Movement*. Pp. xii, 376. Price, \$1.50. New York: The Macmillan Company, 1915.

This book is more than a eulogy of the progressive party. The author realizes there are men in all parties who are trying to place the government more fully within the control of the community and to make it more serviceable to the community at large and especially to those who are laboring under economic disadvantages. He describes this movement within the various political parties in recent times and then takes up in turn the national, state and city governments in order to show the most important efforts which have been made within recent years to entrust the government to more representative men, to improve its structure or to increase its usefulness. While he exhibits strong sympathy with the progressive party, he usually tries to be non-partisan, and he states the results of his studies in a most interesting manner.

The discussion of popular control of the government, however, is extremely weak. The word "politician" is used frequently and only in a disparaging manner. The author nowhere shows that he realizes that the running of our government requires, in addition to the services which our public officials render as such, the expenditure on the part of a large number of men of an amount of thought, time and energy which is far greater than can be expected from the

average citizen, that such an expenditure is not in itself an evil but is essential, that the inducing of sufficient men of the right type to make this expenditure is the main difficulty in any real reform movement, and that indiscriminating abuse of those who do this work adds to the difficulty and injures the cause of good government.

The author deploras the fact that in some places it is necessary to have watchers at the polls on election days and says that policemen should be substituted. He fails to realize that the work done on election day is only a very small part of the work done in a campaign by men who have strong convictions and who make practical efforts to have those convictions adopted by the electorate. His opinion that police supervision would be sufficient is amusing. The reviewer himself has been obliged to keep from voting a man who did not live in the division but who was brought to the polling-place by a policeman, and he has caught another policeman repeatedly violating the election law. Both policemen had secured their positions by the method which is said to secure efficient and faithful public service. They were no worse than many other members of the force.

The book has, it is true, many good features. But it does not show that acquaintance with political conditions which is essential to an adequate discussion of our system of government.

ROBERT P. REEDER.

Philadelphia.

MCLAUGHLIN, ANDREW C. and HART, ALBERT BUSHNELL. *Cyclopedia of American Government*. (3 vols.) Pp. xxxiii, 2290. Price, \$22.50. New York: D. Appleton and Company, 1914.

The classic example of the old lady who was well informed on such subjects as those which began with the letters A to D, but none others, because she had not read further in the encyclopedia, does not apply to reviewers of such works. It is a safe prediction that reviewers of encyclopedias, academic or otherwise, either sit down immediately and read critically a few sections or use the encyclopedia as a reference work for a time and then give their judgment resulting from this use. The author of this review has used the latter method.

As tested by a year of use, the reviewer feels that this encyclopedia is one that will be of material assistance to all students of government as a ready-at-hand reference work. Even on those subjects that come within the owner's specialty, the encyclopedia will offer at least a bibliography of secondary and original material that will almost invariably prove suggestive and valuable. And aside from one's specialty, the encyclopedia presents concise, readable articles of both general and informational value. The articles, as a rule, are not evasive, but concise and "meaty." What this means with reference to the mass of detailed, practical information presented in its 3,000 pages is barely suggested when one is told that the index alone refers to 13,500 topics.

The authors, Professors Andrew C. McLaughlin and Albert Bushnell Hart, have surely realized their ambition to present a work that will supply "the need for a usable, succinct and comprehensive presentation of practical, actual and theoretical government in America" of particular use not so much to the specialists who will be aided by the discussion of subjects in neighboring fields as to the

"general reader and to those whose interests and duties call them to the study of public affairs; it is meant for the library, the study table, the editorial room, and the class room." There are some 250 contributors to this work, including many of the best known university men in America.

CLYDE LYNDON KING.

University of Pennsylvania.

MOSES, ROBERT. *The Civil Service of Great Britain.* Pp. 324. Price, \$2.00. New York: Longmans, Green and Company, 1914.

The thesis of this doctoral dissertation is essentially that the results secured by the British system of dividing civil service employment into two classes (one open to university graduates and practically closed to others, the second open to all comers with the prerequisite qualifications) have, on the whole, proved successful and beneficial in securing high-grade talent in the public service. The author feels that the government "should see that its schools educate for all kinds of work, that ability and promise are lifted as far as possible above want and social handicap. . . . For the present we must recognize and be prepared to find men who are ambitious and dissatisfied, and for whom the state can do nothing; and we can extend only our sympathy to the stenographer or clerk of long standing who sees himself subordinated to recent university graduates, and feels that he has suffered the last indignity."

The author points out that there is no such thing as really open competition in the United States in civil service. As obstacles separating the ablest available competitors from the best available positions he enumerates: the apportionment to states, the practice of submitting to the appointing officer the names of three eligibles for each vacancy, the low standards of examinations for all but the technical and legal positions, the practice of preferring disabled veterans, soldiers and sailors for all civil positions, the want of proper waiting lists and the practice by which "candidates bid for salaries"—that is, indicate the lowest salary that they are willing to accept.

It is contended that the personnel and efficiency of the civil service should be improved by "raising educational standards and salaries and making a definite appeal to men of the highest college and university training, and to those especially prepared to choose the civil service as a career." On the whole, the thesis is a well supported, well written and creditable piece of research work.

CLYDE LYNDON KING.

University of Pennsylvania.

TAFT, WILLIAM HOWARD. *The Anti-Trust Act and the Supreme Court.* Pp. 133. Price, \$1.25. New York: Harper and Brothers, 1914.

First and last an enormous amount of literature has been written upon the various decisions of the Supreme Court under the Sherman Anti-Trust Act. But it may be confidently asserted that never has there appeared a more keen and searching analysis of those decisions than is contained in ex-President Taft's little book *The Anti-Trust Act and the Supreme Court.*

The volume begins with an examination of the common law rule regarding

restraint of trade and carries the reader through the successive interpretations of the Sherman Act by our highest court, closing with a brief summary of its effects upon business.

Several interesting points are made by the author. In the reviewer's estimation one of the most important is that of the common law doctrine of the reasonableness of restraint of trade measured "by the lawful purpose of the principal contract." The common law rule of reasonableness did not and does not extend to cases where the main object was to get or keep another man out of business or to restrict his business in quantity, prices or territory (p. 11).

In Chapter III the inadequate preparation of the first Sugar Trust case is forcibly emphasized as one of the causes leading to the decision and it is pointed out that Mr. Justice Harlan's emphatic dissent "represents much more fully the present view of the court." The author takes the ground that both the Trans-Missouri and Joint Traffic decisions were based upon a misconception of the common law rule of restraint of trade induced partly by the error of the lower court in holding the arrangements reasonable at common law and partly by a failure to interpret correctly the Mogul Steamship case. In other words, the decisions of the court were correct, since the arrangements involved were not reasonable at common law; but this body erred in the grounds upon which it placed those decisions. In the chapter on the Oil and Tobacco decisions, the author endeavors to show that these decisions harmonize with the other decisions of the Supreme Court.

The author's view of the Sherman Act is that under the construction of the Supreme Court and measured by the common law test this measure has constituted all the law necessary for adequate regulation of the trusts. It is difficult to escape from this conclusion in the light of the careful analysis made. Furthermore, the author points out that under the common law interpretation adopted by the court there is no need of any doubt in the mind of any man as to the legality of any given business arrangements under the Sherman Act. If the main purpose is to reduce competition and gain control of the business in any particular branch and if this is not a mere incidental result, the arrangement is a violation of the Sherman Act and a man "must know that he is violating the law and no sophistry, no pretense of other purpose need mislead him."

W. H. S. STEVENS.

Columbia University.

VAN HISE, CHARLES R. *Concentration and Control*. (Rev. Ed.) Pp. xiii, 298. Price, \$2.00. New York: The Macmillan Company, 1914.

When Dr. Van Hise's book first appeared some two or more years ago the present reviewer criticized it in THE ANNALS because of many statements which not only would not bear careful scrutiny but which also indicated both carelessness and lack of knowledge. The new edition seems to have made no attempt to correct the loose and erroneous statements of the old. In so far, therefore, as this is the case, the second edition is subject to the same criticisms that were made in the earlier review.

The new matter in *Concentration and Control* consists of a few additional pages in the chapter on the Laws regarding Coöperation and a new appendix deal-

ing with the Trade Commission and the Clayton Acts before the same were passed. Even in these additions of but a few pages Dr. Van Hise does not escape errors and misstatements of fact. Thus, he declares that the power given the Trade Commission by the House Bill of prescribing a uniform system of accounting is among those which "have already been exercised by the Bureau of Corporations" (p. 287). The reviewer confesses some curiosity as to where Dr. Van Hise derived this bit of information; when has the Bureau ever exercised any such power, and finally from what law did it derive this authority. Similarly the author is somewhat in error in regarding as new the power given the Trade Commission "to make a report to the court regarding the form of dissolution." Apparently Dr. Van Hise is unaware of the services of the Bureau of Corporations in connection with the tobacco dissolution. Otherwise, he would have qualified this statement to some extent at least.

W. H. S. STEVENS.

Columbia University.

HUNT, GAILLARD. *The Department of State of the United States: Its History and Function.* Pp. viii, 459. Price, \$2.25. New Haven: Yale University Press, 1914.

Dr. Hunt has not attempted to write a popular account of the machinery of our foreign relations, but has limited himself to a careful and well-arranged exposition of the various functions with which, from time to time, the Department of State has been entrusted. The subject is of necessity somewhat technical, but the pages are interspersed with interesting incidents and examples which make clear the subject-matter and lighten the treatment. The Department of State has cared for a great variety of matters beside our foreign relations, which are naturally its most important duty. The list of its activities includes patents, census, pardons, supervision of the affairs of the territories, care of the Great Seal of the United States, and the publication of the laws. Obligated to cover so wide a field, the author, as was natural, has curtailed his consideration of those functions of the Department which relate to the conduct of our relations with other states. Nevertheless, the book contains a wealth of detail which will facilitate the task of investigators. It is to be hoped that in some later publication Dr. Hunt will give a fuller treatment to the Department of State as our Foreign Office, and not confine himself quite so closely to the documentary side of his subject. His long experience in the service and his personal relations with his colleagues would, if recorded, help us to understand the actual place of the Department of State in our polity.

INTERNATIONAL QUESTIONS

FULLERTON, W. MORTON. *Problems of Power.* (New and rev. ed.) Pp. xxiv, 390. Price, \$2.25. New York: Charles Scribner's Sons, 1915.

The reviewer recalls the keen pleasure with which he read this most stimulating book when it first appeared in 1913. It then impressed him as a most remarkable "study of international politics," to quote the subsidiary title, written

by an evident international expert, a former correspondent of the *London Times*, and one who unmistakably has been admitted into the innermost circles—the *coulisses*—of the diplomacy of Europe.

The events which have supervened testify in a striking manner to the extraordinary knowledge and the substantial accuracy displayed by Mr. Fullerton concerning the whole field of European politics. When irresponsible idealists like Norman Angell, and responsible statesmen like Lord Haldane, together were demonstrating the folly and the entire improbability of war, Mr. Fullerton in a most logical, forceful manner was endeavoring to make thinking men face the realities of the menacing situation in Europe.

It is true that the author has his *leit motifs* to emphasize, namely, his belief in the predominance of the influence of economic interests and of public opinion in international affairs. He also sees the death agonies of the principle of nationality. But it must be confessed that one loses interest rather in his main thesis, and becomes absorbed in the extraordinary array of facts he presents and his brilliant comments on these facts. Mr. Fullerton's work does not compel assent so much to his general conclusions as it enlarges one's mental horizon and stimulates clear thinking through the clever presentation of powerful facts and truths.

Problems of Power at this particular time is a book that all earnest students of international affairs should read and re-read most conscientiously. No other contemporaneous work presents so completely and convincingly the fundamental truths not only in respect to the situation in Europe but also in respect to international realities in general. Americans who are conscious of the momentous fact that the United States is actually a *world power* should not fail to heed the vital lessons that Mr. Fullerton has learned from his profound study of international politics.

PHILIP MARSHALL BROWN.

Princeton University.

HODGES, H. G. *The Doctrine of Intervention*. Pp. xii, 288. Price, \$1.50. Princeton: The Banner Press, 1915.

The importance of an understanding of the problems involved in intervention needs no argument. Practice is so divergent and even the opinions of text-writers so various that the formulation of a doctrine is at best difficult. Among such a mass of conflicting examples as confronts the investigator, it is often hard even to express what is the general practice on specific points.

Mr. Hodges reviews intervention from ancient times to the present. The first portion of the book treats political intervention, most of the instances of which involve policy as contrasted to law to so great a degree that its underlying principles are and perhaps must remain confused.

Non-political intervention is, of course, the phase presenting the most interesting problems. The author gives a summary view of the general holdings as to intervention, for protection of property and persons of citizens, for the protection of missionaries, on the grounds of humanity and for the collection of debts. A brief review of the so-called right of asylum is included.

A chapter on non-intervention brings out some strong contrasts as to theory

and practice among the nations of the world. The main discussion closes with a chapter summarizing the status of the attempts to limit the possibilities of intervention by contract provisions and municipal law; the feeling of the smaller states as to intervention and an estimate of its results.

Unfortunately the discussion is presented in language which often lacks clarity and present-day developments enter into consideration more than is to be expected in a general work. Those who are anxious to follow the subject farther than the text will be disappointed in that the author often omits a statement of the source of his material when discussing recent developments, though he regularly cites his authority when quoting from the standard texts. One is surprised also to find that apparently no use has been made of *The Right to Protect Citizens in Foreign Countries by Landing Forces*, a memorandum of the solicitor issued from the Department of State, 1912—the best summary, especially of the practice of our government, which has appeared. The neglect of United States practice is a serious defect. Few foreign countries have temporarily occupied parts of other states to protect the safety of citizens and their property oftener than we, and it is these repeated actions which show the trend of development in the doctrine of intervention.

CHESTER LLOYD JONES.

University of Wisconsin.

ANGELL, NORMAN. *Arms and Industry*. Pp. xlv, 248. Price, \$1.25. New York: G. P. Putnam's Sons, 1914.

The author of *The Great Illusion* and of *War and the Worker* once more writes most interestingly in furtherance of his intellectual *war upon war*. Mr. Angell has won wide recognition as an advocate of civilist philosophy and politics as opposed to the militarist, but his argument in this book is disappointing in presenting no constructive program. Few will deny his thesis that intelligent self-interest and coöperation should supplant coercion and blind physical force as determinants of international as well as national action, but the author fails to give any intimation as to how this desirable end can be attained in the international field. The pessimistic admissions that the "prehuman" elements in man outnumber his human and spiritual ones, that "civilization is but skin deep," and that "man is so largely the unreflecting brute" might be met with something more concrete than social conceptualism, and mere lament. Regardless of past and present wars in Europe, some content yet remains in law and in compacts still observed, of the accomplishments of diplomacy. Whether Utopian or not, former President Taft's *League of Peace* based on international force seems constructive in comparison with Mr. Bryan's conceptualism of the world and America peacefully slumbering on imaginary "Isles of the Blessed" protected by inaccessible seas. The six lectures of the book, though delivered in a most important group of German and English universities some time prior to the war, do not seem to have led to any interdependent or coöperative suggestions there.

LONGFORD, J. H. *The Evolution of New Japan*. Pp. 166. Price, 40 cents. N. Y.: G. P. Putnam's Sons.

After a brief historical sketch of Japan, the author presents summaries of the chief features of Japanese life in our own day. The discussion is sympathetic and at some points glosses over defects in Japanese civilization generally recognized. Among foreign influences which are discussed that of England is given decided prominence. The more important chapters deal with Japan's foreign policy, social reforms and the struggle for national autonomy.

MASAOKA, NAOICHI. (Ed.) *Japan to America*. Pp. xii, 235. Price, \$1.25. New York: G. P. Putnam's Sons, 1914.

This little volume containing some thirty-five brief essays from the pens of Japanese statesmen and leaders of thought, expressing their candid sentiments on Japanese-American relations, should be helpful toward preserving the historic friendship between the two nations. The editor, a Japanese newspaper correspondent, who saw service during the Portsmouth peace conference and subsequently, is to be commended for his efforts to make Japan better known to Americans and America better known to the Japanese.

In a very terse and direct way leading Japanese statesmen like Premier Count Okuma and Privy Councillor Viscount Kaneko; commercial men like Asano, president of the Oriental Steamship Company; bankers like Baron Shibusawa; business men like Fukui of the Mitsui Products Company and Otani of the Yohokama Chamber of Commerce and professors like Suyehiro and others make their special pleas for the Japanese view of certain disputed questions. But they all emphasize coöperation, friendship and peace with America and the spirit of the message they desire to convey is encouraging and hopeful for good understanding and good feeling.

RUSSELL, LINDSAY. (Ed.) *America to Japan*. Pp. xv, 318. Price, \$1.25. New York: G. P. Putnam's Sons, 1915.

This book is in response to *Japan to the United States* published in 1914. Mr. Russell, who is president of the Japan Society of New York, modestly announces himself as editor, but also contributes to it a valuable paper on "America's Interest in the Orient." The book contains a series of short articles, some fifty in number from statesmen, college presidents, business men and others expressive of America's good will to Japan, and dealing sensibly with points of danger. It ought to aid in the righteous work of removing misconceptions and cultivating an honorable and profitable friendship. Such an antidote to the apparently studied attempt to create animosity and misunderstanding is needed.

MISCELLANEOUS

BOLTON, HERBERT EUGENE. (trans.) *Athanase De Mézières and the Louisiana-Texas Frontier, 1768-1780; Documents published for the first time, from the original Spanish and French manuscripts, chiefly in the archives of Mexico and Spain; translated into English; edited and annotated.* (2 vols.) Pp. 743. Price, \$10.00. Cleveland: Arthur H. Clark Company, 1914.

Professor Bolton has creditably performed a difficult task in selecting from a mass of material respecting De Mézières some fifty-two documents covering a wide range of this interesting Frenchman's activities. De Mézières, though belonging to the former régime, served Spain so well at the time of the transfer of Louisiana to that nation that Spain proposed to reward him with the governorship of Texas. He was an explorer of the territory between Louisiana and Texas, and his efforts to promote the mutual advantages of these provinces and to win the Indians to support the new policy of Spain were important in the attempt to check English advance. The documents deal with Indian troubles in Texas, joint campaigns of Louisiana and Texas forces against the Osages and Apaches, the expeditions of 1778 and 1779, and with recommendations for reforms in the province of Texas. The editor's introduction, which covers 126 of the 351 pages of the first volume, and his notes give evidence of his care in the execution of this work which is the first in a proposed series of original documents from foreign archives relating to Spain in the West.

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FOREWORD

No matter what theory—be it individualistic or socialistic—may now or hereafter underlie our political thinking, scientific budgetary procedure will always be a matter of prime importance. Government is defensible only as an organization for action in the common interest—as a means for doing those things for the common good which it is conceived may be better done collectively than individually.

But governments do not furnish their own motive power. They always have and they always will produce results only through the application of human effort which would otherwise be exerted to satisfy individual wants. This is equally true whether the government attains its ends by the expenditure of money derived from taxes or by commandeering the labor of citizens as is sometimes done in rural communities for the construction and repair of roads. Taxes represent individual effort applied to community tasks as truly as does the labor of citizens directly enforced.

The budget provides a means through which citizens may assure themselves that their effort which has been diverted to community ends is not used for private gain, is not misused nor frittered away, but is applied to the accomplishment of those purposes which the community approves and is made to produce the maximum of results for the effort expended. Thus viewed the budget is something more than a method of checking or reducing the tax rate, more than any scheme of accountants and efficiency experts. Above and beyond its relation to economy and efficiency in public affairs it may be made one of the most potent instruments of democracy. Given at least manhood suffrage, any government so organized as to produce and carry out a scientific budget system will be susceptible of extensive and intelligent popular control. On the contrary those governments, whatever their other virtues, which fail to provide adequate budget methods will neither reach the maximum of efficiency nor prove to be altogether responsible to the people.

A new spirit in American politics is manifesting itself in the

powerful movement for the reform of governmental organization and procedure in the interest of popular control and efficiency. There are naturally many features in the program for the accomplishment of this twofold object. No single change would add so largely to both democracy and efficiency as the introduction of proper budget methods. The papers in this volume are published in the hope that they may contribute in some degree to the progress of this fundamental reform.

AUGUSTUS R. HATTON,
Editor in Charge of the Volume.

Western Reserve University.

BUDGET MAKING AND THE WORK OF GOVERNMENT

BY HENRY JONES FORD,

Professor of Politics, Princeton University.

When one consults the writings of the framers of the Constitution there appears to be singularly little on budget making, although it was perceived clearly enough that it involves the whole character of constitutional government. Nothing could be more emphatic than the utterances in *The Federalist* as to the power of the purse. And yet this full recognition of its importance does not seem to have been accompanied by any solicitude as to procedure. Apparently that was regarded as a matter which would take care of itself. All that the Constitution has to say about procedure is that "no money shall be drawn from the treasury but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time." Mention of the subject could hardly have been more vague than that. It seems to have been assumed as a matter of course that the administration would formulate proposals as to ways and means for the consideration of Congress. There is much about taxation in *The Federalist* but it is concerned with showing that there was no occasion for fear lest it should be unfair or burdensome. In No. 36, which is a detailed statement of the possible scope of internal taxation, Hamilton incidentally remarks:

Nations in general, even under governments of the more popular kind, usually commit the administration of their finances to single men or to boards composed of a few individuals, who digest and prepare in the first instance the plans of taxation which are afterwards passed into laws by the authority of the sovereign or legislature.

This observation occurs in a manner that makes it the more significant. He is refuting an objection to the effect that a power of internal taxation could not be exercised with advantage by the national government from want of a sufficient knowledge of local circumstances. An obvious answer might have been to say that the taxes would be laid by the representatives of the people who would naturally have knowledge of local circumstances. But

forthwith he proceeds to admit that in practice the plans would be digested and prepared in advance for the consideration of the legislature, and then he points out that those charged with the duty would doubtless avail themselves of the information possessed by representatives from various localities. He argues that this will suffice to keep those administering the finances duly informed of local conditions, and he then dismisses the point with this appeal to precedent:

Inquisitive and enlightened statesmen are deemed everywhere best qualified to make a judicious selection of the objects proper for revenue; which is a clear indication, as far as the sense of mankind can have weight in the question, of the species of knowledge of local circumstances, requisite to the purposes of taxation.

There can be no doubt that English budget practice was in mind and that it was assumed to be the normal practice, to which American usage would naturally conform without express provision to that effect. No other supposition was likely to occur to the framers of the Constitution. English parliamentary procedure had remained without change since the reign of Charles II and it presented all the appearance of being the settled form that constitutional government would naturally assume wherever established. As a matter of fact parliamentary procedure in England remained without substantial change until the middle of the nineteenth century, but in the United States radical divergence began soon after the national government got under way. Certain features of the Constitution adopted without intending to alter its nature soon effected a profound alteration of type, and tendencies were developed that were in no wise anticipated. The consequences are particularly marked in budget making which in no respect now corresponds to the intentions and expectations of the framers of the constitution.

It is clear from the debates of the constitutional convention and from the explanations of *The Federalist* that the framers anticipated for the House of Representatives a position of authority similar to that of the House of Commons. The risk to be guarded against was then thought to be too great stringency of control by the House tending to starve the government through inadequate appropriations. In *The Federalist* it is argued that the greatest circumspection and propriety of behavior would have to be displayed by the Senate to enable it to maintain its constitutional

position in its relations with the House. Hence it was deemed desirable to fortify the Senate by giving it the express right to propose amendments to revenue bills. The compromises made to conciliate the smaller states tended to aggrandize the Senate in which the states had equal representation, and to this circumstance rather than to the intentions of the federal leaders are due some provisions that have deeply affected the character of the government and have shaped budget procedure in ways that no one foresaw. The subordination of appointments to the approval of the Senate was a feature not contained in the original draft and it entered the Constitution as part of the compromises. This feature of the Constitution has exerted a powerful influence in destroying the proper function of the House of Representatives as an organ of control and making it a scuffle of local agency. The great concentration of authority in the Senate alienated Mason of Virginia who declined to sign the report of the convention, and it was the subject of adverse comment in some of the state conventions when the adoption of the Constitution was pending, but nowhere was there due appreciation of the consequences. It is explained in *The Federalist* that the advisory function of the Senate cannot involve any actual exertion of choice.

Thus while the framers of the Constitution intended to perpetuate the type of government with which they had been familiarized by English history, they admitted changes whose effect was to produce a radical divergence and to initiate organic changes that have yet to run their course. Procedure regarded by the founders of the government as so stereotyped by tradition and precedent as to require no special provision has been abandoned, and its place is taken by makeshift arrangements which exhibit no settled plan or constitutional design, and which change their shape from time to time in accordance with Hamilton's maxim that "the public business must in some way or other, go forward." As every constitutional system centers in the management of the public finances, budget conditions all through our history have been a reflex of the conditions under which the work of the government is carried on. The relation is constant and is plainly discernible when actual practice is considered.

The Constitution makes no particular mention of budget estimates. Administrative function in connection therewith was

included in the duty of the President to "give to the Congress information on the state of the Union, and recommend to their consideration such measures as he shall judge necessary and expedient." There is nothing as to the form in which he shall present his measures or the mode by which he will get them before Congress. It was assumed that the administration would possess the customary initiative existing under the English system. At the outset events followed the traditional course, the various enactments by which the organization of the government was completed being prepared for Congress by the federal leaders. Hamilton was busily occupied in drafting the regulations for the treasury department and digesting his financial plans before his appointment as Secretary of the Treasury. Examination of the details of his arrangements shows that he was influenced throughout by English precedents. Congress also conformed to English precedents. The House of Representatives resolved itself into a Committee of the Whole on Ways and Means in considering revenue measures just as in England. There were no standing committees to intervene between the recommendations of the administration and the action of the House. Any matter on which the House desired information, whether a claim, a petition or a memorial, would be referred directly to the head of the proper department, and reports from the heads of departments supplied the subjects of legislation. The House exercised its functions of criticism and control through the Committee of the Whole. When the sense of the House was ascertained, a select committee would be appointed to prepare the bill, which usually meant that the select committee's work would be done for it by the department interested in procuring the legislation. The original budget procedure is plainly indicated by this record upon the House journal for January 10, 1794:

The House went into Committee of the Whole on the statements and estimates of appropriations for the current year. Resolved, on certain appropriations, and moved that a committee should be appointed to prepare and bring in a bill for that purpose.

The resemblance to English procedure is plain and it should be added that the cabinet officials assumed direct relations with Congress after the manner of an English ministry. In the beginning all the branches of the government were bunched together in their quarters so that intercourse was ready and easy without formal

arrangements, and the brief notices of the direct presence of cabinet officials appearing in the records give an inadequate notion of the real extent of the intimacy. It was by direct, personal administrative initiative that the government was set in operation. Only by such agency could the finances have received the radical treatment by which Hamilton almost at a stroke lifted the nation out of bankruptcy, established its credit and secured its revenues. His plans were marked by a boldness of conception and an unity of design that would stamp them unmistakably as an individual product even if there were not abundant direct evidence of that fact. They surpassed popular comprehension and affronted popular prejudice to an extent that would have made them impracticable in an assembly without other means of action than its own varied impulses. It was because he was in a position to formulate his measures in their entirety and to press them directly upon Congress, unhindered by any committee system with its parcelling of influence, that he was able to carry his measures. Indeed, even then his success was made possible only by adroit management in which he utilized the controversy over the site of the national capital to secure the necessary votes. His personal initiative transcended even the function of an English Chancellor of the Exchequer on which it was distinctly modelled, for he had no compact party following on which he could depend. It is rather comparable to the parliamentary diplomacy of the German Imperial Chancellor, working with discordant factions and piecing together a combination of the requisite strength.

The system broke down as soon as the government became firmly established and new party divisions began to take place. Then the actual divergence of the American system from its English prototype was revealed. There is nothing to indicate that, by the provision prohibiting officeholders from serving as members of Congress, the framers of the Constitution had any idea of striking down the English system of government. The clause adopted a reform that had been much agitated in England and it is commended in *The Federalist* as a safeguard to the independence of Congress. It was not perceived that it would interfere with administrative initiative, nor does it necessarily do so. The Swiss constitution makes a similar provision and administrative initiative is in no wise impaired thereby, but mindful of American experience the framers

of the Swiss constitution conferred upon the cabinet officials the express right of appearing before the Congress with their proposals. This provision has profoundly differentiated the Swiss system from the American system notwithstanding a close resemblance in the general constitutional scheme. By virtue of it, the Swiss administration has developed as the agency by which all legislation is planned and drafted, even the amendments voted by the Congress being entrusted to the care of the administration for incorporation in the text of the bill. By a natural extension of the procedure it has become the practice to publish in advance of the meeting of Congress the text of the government measures that will be proposed for its consideration. The practical effect of the administrative initiative has been to give such precision and definiteness to legislative procedure that the Swiss Congress is able to transact the business of a session in a few weeks. Meanwhile there is never any anxiety as to the possibilities of its action as the system thoroughly matures all measures and apprises the public of their exact nature before enactment. But the dependence of the Constitution of the United States on mere tradition and custom as to the mode of administrative recommendation gave an opening to party violence, the consequences of which were soon experienced and have gone on ever since with steadily increasing volume.

An English parliamentary faction, however bitter against a cabinet official, has no way of silencing him. He is a member of the House and has a right to the floor which cannot be denied him. He can confront his enemies, and they cannot avoid the risk that he may confute their arguments and repel their calumnies to their own discomfiture. The constitutional right to the floor of Congress vested in the Swiss heads of administration gives them a like protection. But the constitutional right and duty of the President of the United States to recommend to Congress "such measures as he shall judge necessary and expedient" is neither defined nor protected. Actual procedure has varied from time to time and is still unsettled, but whatever the method that is actually employed, budget making is powerfully affected by it.

Although Hamilton's opponents were never able to defeat him openly, they were able to shut him off from direct access to Congress and terminate the direct initiative originally possessed by the administration; but this was done at the expense of the control

exercised by the House through the Committee of the Whole. To this day there is no Committee of Ways and Means or of Appropriations in the English House of Commons except the whole house sitting in Committee of the Whole to consider taxes and supplies. Our House of Representatives started with the same system but on December 16, 1796, it was resolved that a Committee on Ways and Means should be appointed and on January 7, 1802, it was established as a permanent standing committee. At that time there were only five standing committees but the parcelling of legislative initiative among committees once begun the process went on rapidly and motions to increase the number were made at every session. The effect in impairing the collective weight and dignity of the House was soon manifested. In 1797 Fisher Ames, a Federalist member of Congress, wrote to Hamilton:

The heads of departments are chief clerks. Instead of being the ministry, the organs of the executive power, and imparting a kind of momentum to the operation of the laws, they are precluded even from communicating with the House by reports. In other countries they may speak as well as act. We allow them to do neither The efficiency of government is reduced to a minimum Committees already are the ministers, and while the House indulges a jealousy of encroachment in its functions, which are properly deliberative, it does not perceive that these are impaired and nullified by the monopoly as well as the perversion of information by these committees.

Similar testimony is given by Justice Story. He was a political adherent of Jefferson who in 1811 appointed him an associate justice of the supreme court. His Commentaries were published in 1833, and he was speaking from personal knowledge of conditions in Washington when he wrote:

The heads of departments are, in fact, thus precluded from proposing or vindicating their own measures in the face of the nation in the course of debate, and are compelled to submit them to other men who are either imperfectly acquainted with the measures or are indifferent to their success or failure. Thus that open and public responsibility for measures which properly belongs to the executive in all governments, and especially in a republican government, as its greatest security and strength, is completely done away. The executive is compelled to resort to secret and unseen influences, to private interviews, and private arrangements to accomplish its own appropriate purposes, instead of proposing and sustaining its own duties and measures by a bold and manly appeal to the nation in the face of its representatives.

Story's characterization of the actual government as one of "secret and unseen influences" well describes the system that took

shape during Jefferson's administration. He broke with the practice of direct oral communication between the executive and Congress which Washington's administration had taken over from the English system and substituted a written message. He based his relations with Congress upon the standing committee system. It became party usage to allow the administration to pick the chairmen of important committees, which practically meant that the legislative proposals of the administration instead of going openly into Congress by the front door slipped in secretly by committee backstairs out of the public view. The system avoided administrative responsibility. As Story pointed out, "one consequence of this state of things is that there never can be traced home to the executive any responsibility for the measures which are planned and carried at its suggestion." Nor could responsibility be justly imputed to the executive since it was not free to determine the form and character of the measures promoted, that being a matter which had to be arrived at by arrangement with the House committees in which concessions naturally had to be made as in all diplomatic negotiation. This system of directing legislation by private arrangement between the administration and the standing committees lasted until John Quincy Adams' administration when it broke down completely. Senator Benton of Missouri, although himself a participant in the Jackson movement that caused this rupture, made an observation upon it which shows that the original tradition of administrative initiative still survived. In his *Thirty Years View* he remarked:

The appointment of the majority of the members in all committees, and their chairmen, in both Houses, adverse to the administration, was a regular consequence of the inflamed state of parties, although the proper conducting of the public business would demand for the administration the chairmen of several important committees as enabling it to place its measures fairly before the House.

With this breakdown disappeared from our system all recognition of the legislative initiative of the President as President. Administrative experience is so naturally and inevitably the source of legislative initiative that it cannot in practice be separated from the executive office, but ever since the Jacksonian period it does not inhere in the office but attaches to it through the development of party machinery peculiar to the United States. Nominating conventions, party platforms and all the complex machinery of party discipline and management have been evolved to fill the gap between

the executive and the legislature. The President possesses an actual initiative of masterful authority but he derives it from his position as head of his party and its national leader, and he exercises it through party agency. The connecting link between the executive and Congress is the party caucus.

As the President has no access to Congress for his measures save by the favor of his party associates, it is incumbent upon the party managers to keep their followers in an acquiescent temper. The system of indulgence thus introduced has caused the monstrous development of the pay and perquisites of Congress that makes it by far the most expensive assembly the world has ever known. To the same general cause is due the conversion of Congress into a legislative mill, tens of thousands of proposals being made every session whereas in the British parliament, with the affairs of an empire to control, the number of bills introduced during a session never exceeds a few hundred, and in recent sessions amounts to much less than a hundred. As part of the same train of consequences buncombe speechmaking is substituted for deliberation, the distribution of time for debate being treated as an individual perquisite to be utilized in any way the favored member may choose, irrespective of the subject nominally before the House. An incidental effect is to convert the Congressional Record into an electioneering dump. Executive appointments to office are included among Congressional perquisites and the ability of the President to obtain consideration of the public business is so strictly conditioned upon his surrender of the appointing power that the practice has been systematized and it is regarded as a violation of senatorial prerogative to make an appointment in a state save at the instance of the Senators from that state. This extension of the concurring power of the Senate, coupled with the Senate's ability to make any changes in revenue and appropriation bills it sees fit, has reduced the House to a position of really abject inferiority. There could be no greater contrast than that which exists between its present position and that anticipated for it in *The Federalist*. The constitutional position of the House as an organ of control over the government in behalf of the people has been altogether destroyed. There are numerous committees on expenditures in the various departments of the government provided by the rules of the House but in practice they are merely a part of the Congressional patronage fund, and

exercise no real control or supervision. Their futility in these respects was strikingly revealed in consequence of the Acts of 1870 and 1874, passed through the insistence of Mr. Dawes and Mr. Garfield, requiring all unused appropriations to be covered back into the treasury. It then appeared that unexpended balances had accumulated in the departments to the aggregate amount of \$174,000,000, and in a single bureau there was an unexpended balance of \$36,000,000, the accumulation of a quarter of a century.¹ The conversion of the House from an organ of control into a concourse of particular agency has caused its part in the government to become more and more that of an instrument for registering party determinations of policy arrived at outside of the House. The deliberative functions of Congress now hardly survive except in the Senate.

All these consequences, which affect every part of the government, are experienced with convergent force in budget procedure. Something in the nature of system existed for many years through the concentration of taxation in the hands of the Committee on Ways and Means. For the first forty years of the government all the appropriations were made in one bill. In 1865 revenue and expenditure were disconnected by the creation of the Committee on Appropriations. In 1880 the Agricultural appropriation bill was turned over to a standing committee. The River and Harbor bill was reported independently of the Committee on Appropriations for many years before 1883 when a standing Committee on Rivers and Harbors was authorized with the power of reporting appropriations of that class. In 1885 special exigencies of party management caused changes that destroyed the last vestiges of budget system. Mr. Randall, who was then chairman of the Committee on Appropriations, was opposed to the tariff policy of the administration. To break down his influence with members, the rules were amended so as to distribute seven of the regular appropriation bills among separate committees. There are now fourteen regular appropriation bills distributed among eight different committees of the House. Seven of these committees have jurisdiction over but one appropriation bill, the other bills remaining in the custody of the Committee

¹ Instructive details are contained in an address by Theodore E. Burton, delivered in the House, March 15, 1904.

on Appropriations. The consequence of the distribution was thus described by Chairman Tawney in 1909:

Each of those committees which has jurisdiction of but one appropriation bill naturally becomes the partisan representative of the department for which it recommends appropriations rather than the representative of the body to which its members belong. . . . When the jurisdiction of the Committee on Appropriations was thus divided, Mr. Randall and Mr. Cannon, then members of that committee, predicted that this division of jurisdiction would cost the people of the United States not less than \$50,000,000 annually. They were not far out of the way, as our experience has proven.

The collapse of all budget system in 1885 had a curious result in developing a method of control that to some extent counteracted congressional incapacity. But the new control was not constitutional but was absolutist. It was maintained through an autocratic power exercised by the Speaker with undisguised baldness. The process was simplicity itself. If he did not wish a bill to be passed he would not recognize any one to move its consideration. It became a regular practice for members to visit the Speaker to explain the purpose for which they desired recognition and get his consent. In addition, through a small Committee on Rules of which he was a member with such colleagues as he chose to appoint, he virtually controlled the time of the House. The Committee on Rules always had the right of way, and at any time it could bring in a special order fixing the time at which any matter should be taken up by the House and also the period to be allotted to its consideration; and nothing else could be considered until action had been taken on the report of the committee. A necessary incident of the method was the handling of patronage and appropriations to maintain party discipline, so the method involved increasing pressure upon the appropriation bills. But when the extravagance reached lengths that might make trouble for the party in the elections, the autocratic power of the Speaker could be exercised to reduce the aggregate by holding up appropriation bills. The bills usually attacked for this purpose were what are known in congressional slang as the pork barrels Public Buildings and Rivers and Harbors. The distribution of district "pork" would be made as usual but when the bill was ready for passage the Speaker would not allow it to be considered, even although petitioned by a majority of the House. The application of party discipline to keep members quiescent under this arbitrary rule was facilitated by the fact that

the privation was general and a member could explain to his district that although he had not been able to land local appropriations no one else had had any better success. The following item from the *Pittsburg Dispatch* of January 24, 1897, illustrates this curious situation which is probably without a parallel in constitutional history:

Congressman Ernest F. Acheson was in Pittsburg yesterday. He said he had been forced to agree with Speaker Reed in refusing to give a place to the Omnibus bill, providing appropriations for seventy public buildings, three of which were to be located in Wilkesbarre, Altoona, and his own town of Washington. Speaker Reed showed that the deficit for the month current was already \$8,107,118, and for the fiscal year \$46,009,514. And thus it was he refused to grant a petition signed by 308 members of the House.

The development of this autocratic power, which was not the work of any one Speaker and which went on no matter which party was ascendant, tended to displace the initiative which the President exercised as a party leader. There was a period when the chief seat of authority in the administration was not the presidential office but was a group of undertakers embracing the Speaker and some leading chairmen of committees in both Houses. During this period an extraordinarily naked display of the way in which the appropriations may be used to dictate public policy was made in the House. There was a strong sentiment adverse to the policy which the oligarchy was pursuing in respect of currency legislation but a committee chairman quelled revolt by the blunt announcement:

"I have the report on the Public Buildings bill in my pocket. I am going to keep it there until a satisfactory currency bill is passed."²

This rule of oligarchy was quite dependent upon advantages of position and it excited such antagonism that it was suddenly overthrown by the parliamentary revolution of March 19, 1910. A schism in the party to which the Speaker belonged carried over to the opposition votes enough to defeat him on a point of order. This victory was followed up by the passage of a resolution increasing the membership of the Committee on Rules from five to ten members, no longer to be appointed by the Speaker but elected by the House, and it was expressly provided that the Speaker should not even be a member. This exclusion of the Speaker from his old post of managing director of the House has been since confirmed by

² Congressional Record, May 30, 1908, pp. 7629, 7690 *et seq.*

further changes in the rules. Nominally the House now elects all the committees, but by a rule adopted in the Democratic caucus, January 19, 1911, the actual selection is vested in the Committee on Ways and Means. The practical effect is to make the chairman of that committee the leader of the House and to make the caucus the seat of party direction and management. The Committee on Rules now acts under caucus direction in reporting the special orders under which important legislative business is necessarily transacted. It has been calculated that it would take over sixty years to consider in regular order the bills poured into Congress at every session.³

These changes have invigorated the initiative attaching to the office of the President as the national leader of his party, but he has effective access to the House for his measures only through the party caucus. The task devolving on the party management of keeping the caucus in an acquiescent temper has tended to expand Congressional perquisites and to increase the pressure on the appropriations. In this respect the situation is now worse than in the days of the autocratic rule of the Speaker. It has become a matter of acute anxiety with members who feel their national responsibility. The present chairman of the Appropriations Committee has repeatedly urged without success that the House should return to the former system of control through the concentration of the appropriations in the hands of a single committee.⁴ In a speech delivered in the House, February 6, 1915, he suggested more radical treatment. He said:

When the burdens finally become so great as to be intolerable then the inevitable rising will take place. One thing that is essential to accomplish in this body—and it will be done some day—is to deprive the individual member of Congress of the right to initiate expenditures.

The present situation, with its entire lack of budget system, is admitted by thoughtful Congressmen to be indefensible and some reform is becoming practically inevitable. The beginning of a new system was incited by section 7, of the Sundry Civil Appropriation bill of March 4, 1909, putting upon the President the duty of revising the department estimates so as to coördinate them with the

³ Congressional Record, Vol. 43, No. 17, Jan. 7, 1909, p. 611 *et seq.*

⁴ A comprehensive account of committee conditions is given in the speech of Chairman Fitzgerald, June 24, 1913. Congressional Record, vol. 50, part 3, 63d Congress, first session, p. 2154 *et seq.*

revenues. Under President Taft's administration an executive commission made a thorough study of the subject with a view of devising an exact and comprehensive form of budget statement, but a spirit of antagonism developed in Congress and a clause was inserted in an appropriation bill prohibiting any change in the form in which the estimates are transmitted to Congress. Nevertheless, forms were devised that will be of service whenever Congress moves in the matter. But such is the relation between budget making and the work of government that no change will be sufficient that does not give the administration access to the House as a matter of right and not of favor. So long as the administration is dependent upon any sort of mediation in presenting its budget estimates and legislative proposals to the consideration of Congress, sound and economical management of the public finances is unattainable.

EVOLUTION OF THE BUDGET IDEA IN THE UNITED STATES

BY FREDERICK A. CLEVELAND,

Director, Bureau of Municipal Research, New York City.

Difficulty in tracing the evolution of the "budget idea" in the United States lies not so much in the historical material to be mastered as in decision as to what "idea" is to be discussed.

What is the "Budget Idea"?

Most controversies grow out of the failure of parties contestant to make clear what they are talking about. Words in ordinary use make expression of thought difficult whenever exactness is required. It is for this reason that science has gone entirely outside the common language for its terms. The word "budget" is a term used in so many different ways that no one can write on any aspect of budgets or budget practice without risk of controversy about the facts until he has taken the trouble to tell what he conceives a budget to be. Writers, therefore, not infrequently begin with a definition. It is an interesting fact, however, that nearly all these definitions are so indefinite that the reader is still left in doubt.

Definition of Budget as Herein Used

In this essay the term "budget," is used to mean *a plan for financing an enterprise or government during a definite period, which is prepared and submitted by a responsible executive to a representative body (or other duly constituted agent) whose approval and authorization are necessary before the plan may be executed.*

In order that no room may be left for inference, each of these clauses may be enlarged on and the reason given for its use:

(1) The idea "budget" is classed as a "plan" instead of a "document" or a "statement" for the reason that it is in the nature of a definite proposal calling for approval or disapproval with such details and specifications attached as are thought to be useful to the approving body or agents in arriving at a decision.

(2) It is differentiated from other plans by the phrase "for

financing an enterprise or government during a definite period." This includes the first idea of Leroy-Beaulieu's definition. But if it stopped here it would be just as defective; anyone might make a plan for financing an enterprise or a government. For this reason it is further differentiated by the requirement that to be a budget it must be "prepared and submitted by a responsible executive."

(3) One other essential is added, *viz.*, that it must be submitted to "a representative body (or other duly constituted agent) whose approval and authorization are necessary before the plan may be executed." Each of these qualifying phrases is so full of meaning and each so necessary to a budget practice that it is deserving of further comment.

The Budget as a Plan of Financing

The one thing that has been conspicuously lacking in our governmental business, federal, state and municipal, has been the element of careful, understandable, responsible planning. The lack of careful, understandable, responsible planning has been an incident of "invisible" or "irresponsible" government. Each year in every jurisdiction we have had "estimates" both of revenues and expenditures. But "estimates" in themselves do not constitute a budget. They only serve the purpose of laying the foundation for work plans and financial plans.

These estimates must be of two kinds, *viz.*: (1) there must be estimates of needs, and (2) there must be estimates of the financial resources that may be availed of to meet needs. To be of value the estimates must be made by a great many persons. The estimate of needs must be made by persons who are familiar with the requirements of each kind of work to be done, or each service to be rendered—with the operating requirements, the maintenance requirements, the capital requirements. Then one or more persons must make up estimates of needs for certain things that are common to all services—those which are general, such as requirements for interest, sinking fund requirements, the requirements for payment of maturing obligations for which no sinking funds are provided, requirements for purchase of common lands and the conduct of common business transactions such as advertising, printing, etc. Then again, estimates of the financial resources which may be availed of to meet estimated financial needs, to be of the highest value, must be made

up by a number of other persons who are familiar with present financial conditions; they must also be able to forecast probable revenues derivable under existing law; they must have knowledge of the present and probable future condition of appropriations and funds, having in mind present and proposed financial policies they must have the ability to forecast probable financial conditions of surplus and deficit at the beginning of the period to be financed and of probable surplus and deficit at the end.

Plan Must Be Made by a Responsible Executive

All these various estimates of expenditures, of revenues, and of financial condition must be brought together; they must be considered by someone who can think in terms of the institution as a whole; they must be brought to a conclusion; and conclusions must be stated as a definite proposal and a basis for action by some one person or agency that can be held to account. The only person who can be held to account is the one who is to execute the plan proposed. This executive therefore is the only one who can be made responsible for leadership.

The estimates and conclusions must be presented to the representatives of the people whose approval and action are required before spending officers are authorized to go ahead. They must be presented as a definite plan or prospectus which will show what is proposed to be undertaken. This plan must not only show what undertakings are proposed but what will be the probable cost on the one hand and how the cost is to be met. The financial plan must deal with great questions of public policy—must set forth how much is to be met by revenue, how much is to be met by borrowing, and how much, if any, is to be met from surplus. The plan must show what authorizations should be given to the executive to enable him to carry on the business efficiently and meet obligations as they mature. Not only is it necessary that the "estimates" be prepared by persons familiar with the facts, but it is quite as essential that the plan of work and of financing be proposed and submitted by the same person who is to be held accountable for directing the execution of the plan. This means the executive. To have a plan—in other words the "budget"—made by persons who have no responsibility for carrying on the business would be destructive of the very purpose of representative government.

The representative character of a government is to be found in its legislature and in its electorate. As has been pointed out, the constitutional or institutional purpose of a budget is to make the executive responsible and responsive to the people through their representatives and through the electorate. No plan or proposal can serve this purpose which comes from individual representatives any more than it could if it came from individual electors. In the first place it is incompatible that the proposer should also be the disposer of public funds. In the second place the proposal should not reflect the interests of a single individual or a single district—but the interests of the whole community of associated interests which are composed in the state or nation.

The one who submits the financial proposal should be responsible to all—he should be accountable for the management of the affairs of the whole government. Since the several parts of the government are interdependent, no legislative committee can prepare a budget unless the business of the government is to be managed by this committee as in a commission government, or in New York City where the executive power is in its Board of Estimate and Apportionment. But they must act together. Responsibility should be attached to some one man, or some group of persons acting as one man, who can be continued or retired as one man. It was for this reason that Great Britain did not succeed in establishing a true budget system till after 1800 when the principle of solidarity of responsibility was forced on the cabinet. Even then the budget could not be made effective until a means was provided for enforcing this responsibility through a truly representative parliament—until the reform acts of 1837 which made parliament in effect the people in session. In discussing the evolution of the budget idea in the United States, therefore, what is meant is the development of the idea of “a plan for financing the government during a definite period, which is prepared and submitted by a responsible executive to a representative body whose approval and authorization are necessary before the proposed plan may be executed.”

Budget Control by the Representative Body

As it is the institutional and constitutional purpose of the budget to serve as a means both of exercising control over what the government shall do and how it shall be financed and also for making

the executive responsible and responsive to the people through their chosen representatives and through the electorate, the budget cannot be more than a proposal or request. Actual authorization must come from the representative or electorate body before a dollar can be raised or spent. Or if some latitude is given to the executive to spend without such action first obtained, the expenditures so made must come to representatives and the electorate for approval. A budget can have no force. A budget, as such, can convey no authority. It is only the "act" of appropriation, the revenue or the borrowing "measure" which gives authority to the executive. Therefore, the "act" and "enacted measure" must be clearly distinguished from the "plan" or "proposal" of the executive.

How Legislative Control May be Made Effective

If the executive is to be held responsible for results, the legislature must do *three things: viz.:* (1) It must provide a means of enabling representatives to find out whether the executive has acted within his past authorizations and conducted the business efficiently; (2) it must provide a means of enabling representatives to inquire into the requests for future grants; (3) since the purpose of a representative system is to make the government responsible and responsive to the people, it must provide a means of reaching the people, of letting the people know what has been done and what is proposed and of getting controversies between a majority of representatives and the executive before the electorate for final decision. With provision made for these three things the representative system is adapted to the ends and purposes of a democracy; without provision for these three things the representative system is not adapted to the ends and purposes of a democracy.

How Legislative Inquiry May be Made Effective

The collateral means which have been found effective for keeping the executive within authorizations are the creation of an agency for independent audit and report on all transactions, the establishment of an independent judiciary for the settlement of legal controversies, and the authority of the legislature to make independent inquiries. But these are collateral means. The method which has been found to be most effective for enabling representatives to inquire into requests for future grants, and obtain exact information

about what has been done as well as what is proposed, is to require the executive to appear personally before the representatives of the people at the time he makes his request for funds to answer questions and details.

How the Electorate May be Reached

The method which has been found to be most effective for keeping the people in touch with public affairs and for having questions in issue settled by the electorate, is to make provision whereby each representative can openly question the executive and every item can be separately debated and voted on. And in case the executive is not supported to make further provision, the electorate may promptly retire either the executive or the opposing majority. What this means is, that a budget which is to serve its constitutional purpose must not only be an executive proposal submitted to a representative body, but it must be submitted under such rules of procedure that each representative may have a right to personally and publicly make inquiry of the executive concerning any matter or detail of the business in hand and also have the right openly and publicly to oppose any part of the plan which, in his opinion, is against the general welfare of the state. And the only procedure which has been found effective for doing this is to require that the estimates and the budget be considered and discussed in committee of the whole house with the executive present.

Furthermore, the financial plan which is to be considered as a budget must be laid before representatives of the people, in such a way that it will at all times be the measure of the responsible executive, and when approved or disapproved, the action taken must stand as the decision of sovereign power—must be the will of the people to support this responsible head of the government. The budget must be considered as the most important measure of any government.

Action on the Budget an Act of Popular Sovereignty

The passing of a budget, as the term budget is used in this discussion, is an attribute of sovereignty. When, as in a democracy, sovereignty is in the people, the authority given to the executive by the "acts" passed in response to executive request must come directly or indirectly from the people; therefore, the procedure

to be effective must make the people an integral part of the action. This is what is meant by Leon Say in the statement that "Every member of the society or nation exercises a share of the prerogative of the budget which corresponds to the share of the sovereignty which is vested in him." It is on this idea of a budget that the theory that the "act" of appropriation and the revenue and borrowing "measures" are in the nature of contracts made between taxpayers on the one hand and the executive in power. But the "acts" or "measures" are quite a different thing from the plan or, as it is here called, the "budget" of the executive.¹

The "budget idea" whose evolution in the United States is here traced bears little relation to the estimates presented by an irresponsible executive or to the devices by which financial legislation is passed in a scheme of invisible government, with no means provided for bringing executive and legislative action to the test of approval or disapproval by the electorate. Those methods, which do not make for responsible government, are not the subject of this essay. The view adopted is the only one that is compatible with the evolution of constitutional law where "control over the purse" has been effectively used to bring the institution and practices of a representative system into harmony with the ideals of democracy and popular sovereignty.

Taken as a whole it may be said that until within the last few years the "budget idea," as the term is here used, has had no evolution whatever in the United States. Our citizenship, our legislators, and our constitution makers have until recently been as innocent of such an idea as an unborn babe. True, President Wilson had written a masterly treatise calling attention to the *devolution* of our government—to the gross departure made from the ideals of the constitution as it was understood by the fathers—

¹ There are two special treatises on what the authors have chosen to call budgets in this country, *viz.*: Eugene E. Agger's *The Budget in the American Commonwealth*, 1907; and S. Gale Lowrie's *The Budget*, 1912. Both of these proceed from the notion that the documents which have been developed in American practice to carry out the various constitutional inhibitions and the devices used to control expenditures are budgets. While these works are highly meritorious exposés of American methods, the practices described are so far afield from what is here described as the "budget idea" that the contrast should be noted. And this distinction should be drawn if we are to consider the merits and demerits of these two widely differing practices.

and in this pointed to the fact that the administration was gradually drifting over into the hands of some forty odd irresponsible congressional committees. True, President Lowell and other students of foreign government had also written volumes on the gradual development of the principle of executive responsibility under representative systems abroad, and pointed to the part that the "budget idea" had played in this development. But these writings were unnoticed, except in academic discussion. The "practical" man complacently turned a deaf ear, or, if he did not refuse to listen, patronizingly put an end to all suggestions and arguments with the bold assertion that the idea was "undemocratic" and "un-American." When a single Congress authorized a billion dollars of expenditures and the party in power was attacked for extravagance, the answer was that "this is a billion-dollar country." But increases in expenditures went on until within a few years we had a "two billion-dollar Congress." It was the uncontrolled and uncontrollable increase in the cost of government that finally jostled the public into an attitude of hostility to a system which was so fondly called the "American system." This growing hostility to doing business in the dark, to "boss rule," to "invisible government," became the soil in which the "budget idea" finally took root and grew. Questions raised by Mr. Tawney, as chairman of the committee on appropriations, with respect to the system of raising and spending money were not new. It was only the circumstance of the "two-billion-dollar Congress" that caused the public to be disturbed. The bold assertion of Senator Aldrich that if he could run the federal government as he would a private business he could save \$300,000,000 a year did more to upset complacency and bring about a demand for change in the methods of doing business than all the treatises that had been written on defects in the organic law. But this dramatization of waste had a constructive value. It caused men to ask for a remedy. It caused people to read and reread what had been written by President Wilson in 1885; it caused editors and writers to consider the methods employed in other countries which had succeeded in making their governments responsible; it provided an occasion for editorial comment; it made an audience for Professor Ford's book,² which pointed to the fact that what had been so patronizingly characterized as un-American in methods of political control

²*The Cost of our National Government*, by Henry Jones Ford, 1910.

in England, continental Europe, Bermuda, Australia, and Japan were the methods used in the management of private business, and what had been so much lauded as the American system could be nothing else but wasteful and subversive of the very purposes of democracy.

Efforts Made to Apply the Budget Idea in the Federal Government

This brings us up to President Taft's administration. During President Roosevelt's two administrations, the ship of state had been rocked and tossed about by storms of abuse. In this both the President and Congress took an active part, but nothing towards constructive legislation was undertaken which had a distinct bearing on the methods of controlling the national finances. For a period of six months after March 4, 1909, these storms subsided only to break again with renewed force. But the storm center was not the cost of government; it was the tariff, "standpatism", "government for the privileged classes." From the viewpoint of those who were interested in the development of the "budget idea," this was unfortunate, for President Taft had seriously undertaken to use the great powers and the influence of his office to foster that idea.

The President's Inquiry into Methods of Doing Business

President Taft's answer to the demand for economy was to ask Congress in December, 1909, for an appropriation of \$100,000 "to enable the President to inquire into the methods of transacting the public business . . . and to recommend to Congress such legislation as may be necessary to carry with effect changes found to be desirable that cannot be accomplished by executive action alone." As soon as this appropriation had been made available the President instructed his secretary, Mr. Charles D. Norton, to make plans for the organization of the work. A preliminary inquiry was begun on September 27, 1910. The first task of Secretary Norton was to organize within each department a committee which would cōoperate with the White House staff in developing a definite plan of work. Speaking on the magnitude and difficulty of the task, the President in his first report to Congress said:

I have been given this fund to enable me to take action and to make specific recommendations with respect to the details of transacting the business of an organization whose activities are almost as varied as those of the entire business

world. The operations of the government affect the interest of every person living within the jurisdiction of the United States. Its organization embraces stations and centers of work located in every city and in many local subdivisions of the country. Its gross expenditures amount to nearly \$1,000,000,000 annually. Including the personnel of the military and naval establishments, more than 400,000 persons are required to do the work imposed by law upon the executive branch of the government.

This vast organization has never been studied in detail as one piece of administrative mechanism. Never have the foundations been laid for a thorough consideration of the relations of all of its parts. No comprehensive effort has been made to list its multifarious activities or to group them in such a way as to present a clear picture of what the government is doing. Never has a complete description been given of the agencies through which these activities are performed. At no time has the attempt been made to study all of these activities and agencies with a view to the assignment of each activity to the agency best fitted for its performance, to the avoidance of duplication of plant and work, to the integration of all administrative agencies of the government, so far as may be practicable, into a unified organization for the most effective and economical dispatch of public business.

The Organization of the President's Commission on Economy and Efficiency

One of the conclusions reached as a result of the preliminary inquiry is the following:³ "A very conspicuous cause of inefficiency and waste is an inadequate provision of the methods of getting before Congress a definite budget, *i.e.*, a concrete and well-considered program or prospectus of work to be financed."

The Need for a Budget one of the first Subjects of Inquiry

When the Commission was organized sufficiently to permit of collective consideration of work to be done by it, a program of work was formulated which provided for five fairly distinct subjects to be handled, as follows: (1) The budget as an annual financial program; (2) The organization and activities of the government; (3) Problems of personnel; (4) Financial records and accounts; (5) Business practices and procedure.

In the preliminary inquiry one of the first steps taken had been to ask the several departmental committees coöperating with the

³See report on the preliminary inquiry under authority of the civil act of June 25, 1910, prior to the organization of the President's Commission on Economy and Efficiency, covering the period September 27, 1910 to March 8, 1911—circular No. 29 of the commission.

President to reanalyze the estimates in such manner as to show the different kinds of things that were being purchased by the government and the amounts spent and estimated for each. As a result of this inquiry the President for the first time had brought before him a summary of such facts as the following: The amounts spent by each bureau, by each department, and the government as a whole analyzed to show what part was for such things as personal services; services other than personal; materials; supplies; equipment, etc. For the first time it became known that the government was spending nearly \$400,000,000 for salaries and wages (the digest of appropriations made it appear that only \$189,000,000 was for this purpose); that the government was spending \$12,500,000 for the transportation of persons; that it was spending \$78,000,000 for the transportation of things; that it was spending \$8,000,000 for subsistence of persons and, in addition, was spending \$18,500,000 for provisions, and \$5,500,000 for wearing apparel, etc.

Among the first things undertaken by the commission after its organization was to continue the analytical work with a view of preparing a report on the need for an annual budget. In July, 1911, forms were drafted. These were discussed with department heads, and on August 1 were submitted to the President for his approval. On August 7 the President sent these forms to the departments and requested that they reclassify the data which was being obtained for the purposes of official estimates then in preparation. The forms asked for information on three subjects: (1) Expenditures for fiscal year ending June 30, 1911; (2) Appropriations for the fiscal year ending June 30, 1912; (3) Estimates for appropriations for the fiscal year ending June 30, 1913. A different form was prepared for reporting on each of these subjects and a fourth form for a recapitulation. Each of these forms was so drawn as to provide for showing the amounts expended, appropriated or estimated: (1) By each organization unit; (2) For each class of work to be done; (3) By character of expenditure, such as current expenses, capital outlays, fixed charges, etc; and, (4) By the amount which had been expended, appropriated or estimated under each act or class of acts of appropriation—whether by annual appropriation, permanent legislation, etc. The heads of departments were asked to have these returns in by November 1, but it was not until after the first of the next year that they were made available to the Presi-

dent. This was due to the fact that the forms required by Congress were along entirely different lines, and it was necessary for the heads of departments to have the official estimates in the hands of the treasury and before Congress on a prescribed date.

The report of the commission on "the Need for a National Budget" was sent by the President to Congress with his approval on June 27, 1912.⁴

The President Urges Congress to Accept the "Budget Idea"

In his letter of transmission President Taft pointed to the fact that the Executive is charged by the Constitution with the duty of publishing "a regular statement of receipts and expenditures" and "that he is also enjoined from time to time to give Congress information on the state of the union and to recommend for consideration such measures as may be deemed expedient." With these constitutional prescriptions President Taft held that the President had the power to prepare and submit to Congress each year "a definite, well-considered budget with a message calling attention to subjects of immediate importance." The President stated, however, in his message that he did not assume to exercise this power except in coöperation with Congress; and he urged the necessity of repealing certain laws which were in conflict with the proposed practice.

The purposes of sending the report to Congress as described by the President were:

⁴This was printed as house document No. 854 of the 62d Congress, second session (568 pages). The members of the commission who participated in the preparation and signed the report, besides the chairman, were: Frank J. Goodnow, for twenty-six years professor of administrative law in Columbia University, now President of Johns Hopkins University; William F. Willoughby, for more than twenty years connected with the government service in various capacities, now constitutional advisor to the Chinese Republic; Walter W. Warwick, for many years connected with the comptroller's office and auditing service of the federal government, now the comptroller of the treasury; and Merritt O. Chance, for twenty-six years connected with various departments of the government, now postmaster at Washington. From June, 1911, to January, 1912, Mr. Harvey S. Chase was also a member of the commission, but due to illness he was not able to be in Washington during the time that the budget report was being prepared and therefore did not share in authorship or join in signing the report. The subsequent use which Mr. Chase has made of the report, however, indicates that he is in general accord with the recommendations of the commission.

To suggest a method whereby the President, as the constitutional head of the administration, and Congress may consider and act on a definite business and financial program;

To have the expenditures, appropriations and estimates so classified and summarized that their broad significance may be readily understood;

To provide each member of Congress, as well as each citizen who is interested, with such data concerning each subject of interest as may be considered in relation to questions of public policy;

To have these general summaries supported by such detailed information as is necessary to consider the economy and efficiency with which business has been transacted;

In short, to suggest a plan whereby the President and Congress may cooperate, the one in laying before Congress and the country a clearly expressed administrative program to be acted on—the other in laying before the President a definite enactment for his judgment.

This was the first time that any responsible officer of the national government had advocated the "budget idea." This report not only contained a descriptive and critical report on the past practices of the national government with constructive recommendations, but supported these recommendations with an appendix of forms and a digest of the practices of thirty-eight other countries, in most of which the "budget idea" had already been incorporated and made a part of the public law.

Immediately following the submission of this report to Congress (July 10), President Taft issued an order to the heads of departments to depute some officer with the duty to see that estimates of summaries for the next fiscal year would be prepared in accordance with the recommendations contained in his message of June 27, and in a letter directed the secretary and treasurer

to print and send without delay to Congress the forms of estimates required by it; also to have sent to him (the President) the information asked for. . . . This will be made the subject of review and revision and a summary statement in the form of a budget with documents will be sent to Congress by a special message as the proposal of the administration.

Report and Recommendations Pigeon-holed

At the time that this order was issued, Congress had not yet passed all of the annual appropriation bills—some of the bills as passed having been vetoed by the President. When on August 24 the sundry civil bill became law it contained one clause modifying the form of the estimates to incorporate some of the suggestions of the commission, and another clause requiring the heads of depart-

ments to submit the estimates in the form and at the time required by law to be submitted and at no other time and in no other form. Following this, when it came to the attention of President Taft that heads of departments expressed some doubt as to what were their duties in the matter, on September 9 the President sent a letter to each member of the cabinet, in which each was instructed to follow the orders both of the President and of Congress. With both houses of the legislature organized against the executive and making demands on the departments for information, the retiring chief executive had difficulty in obtaining the information desired. About February 1, however, all the data had been brought together and, on February 26, President Taft submitted to Congress a budget with a message, which was referred to the committee on appropriations and ordered to be printed with accompanying papers.⁵ And there it lay without consideration, action or report.

Acceptance of "Idea" by the Public

The budget proposals of President Taft, however, were not pigeon-holed by the public. They were taken up by the press throughout the country. Almost unanimously they had the support of public opinion. This opinion was further registered in a referendum which was taken on the subject by the Chamber of Commerce of the United States. Furthermore, many leading men, and even some of the members of Congress who, at the time expressed themselves as being opposed to an executive budget, from time to time since then have come out strongly for the "budget idea." One of those who has been emphatic in his opinion, is Congressman John J. Fitzgerald, chairman of the appropriation committee, who at the time the budget was referred to his committee opposed the act as executive interference. But Mr. Fitzgerald, speaking before the committee on state finances at the constitutional convention at Albany, June 26, 1915, said:

We ought to have some way in the system of our government to fix direct responsibility, and you cannot fix responsibility if the power is too greatly scattered. . . . I would put it with the Executive. I would make him responsible at the outset. . . . Some persons object that we should not deprive the representatives of the people of the right to loosen up the purse strings, but the

⁵ *Senate document 1113*, 62d Congress, 3d session.

universal condition of this country today is not that we must safeguard the rights of the people to get money for things. The whole curse of our condition is that everybody is doing his utmost to get it and succeeds; and the evil to be corrected is the evil of excessive expenditure. . . . Now if there were some way by which that could be stopped . . . it would do what is done in the governments where they had a responsible government with the budget system. If my constituents were keenly interested in some matter that required an expenditure of public money, I would be compelled to present the matter to the department that had charge of it. They would make their investigations. They would determine whether it was one of those things that should be included, and they would have to take responsibility for requesting it.

Outlook for a Federal Budget

With President Wilson's long standing advocacy of a budget system, with Secretary McAdoo's reported determination to work for the introduction of a budget procedure; with the chairman of the appropriation committee outspoken in his belief as quoted above, it is confidently expected that something may be done in the next Congress to adapt the laws of the federal government and the procedure of Congress to a practical relation whereby the country may have the benefit of executive leadership and the voting of money may rest on a plane of openhanded dealing.

The Budget Idea in State Government

The provisions in the state constitutions as they were originally drawn having to do with the relations of the executive to the legislative branch follow very closely those of the federal constitution. At present, however, they differ very materially, due to the fact that the federal constitution, with few exceptions, is as it was originally drawn while the state constitutions have been frequently changed. With the federal government there has been a gradual departure in practice from the spirit and expression of the constitution as drawn. This was pointed out very clearly by President Wilson in his treatise on congressional government. In the state, the changed attitude of the people toward the government is found in the gradual decimation of executive power on the one hand and the increasing number of limitations placed on the legislature on the other.

Requirements of State Constitutions

It is of interest to note the duties that are imposed by state constitutions on the governor having to do with matters of money

raising and accountability for expenditure. In every state in the union some such provision as this is made: That the governor shall "from time to time" or "at every session" or "at every regular session" give the legislature information on the condition of the state and make recommendations. In four states—Colorado, Idaho, Illinois and Kansas—it is required that he shall "recommend measures." As a matter of practice, however, these requirements have been construed in the same manner as the similar provision in the federal constitution. The governor has not been assumed to have any standing whatever before the legislature until a bill is passed. He has not been assumed to have any right personally to introduce any bill or to appear for or explain or defend any measure openly. Nine of the constitutions⁶ require that the governor shall present at the commencement of each regular session estimates of the amount of money to be raised by taxation for all purposes. These provisions, however, have not been so construed as to lay upon the governor the requirement of preparing and submitting a "budget," nor has any procedure been developed that is based on such an assumption. As a matter of fact, the constitutional provisions have been either perfunctorily complied with by subordinates or have been dead letters, as is pointed out in the report of the Committee on Efficiency and Economy of the state of Illinois.⁷ Although the governor was specifically directed by the constitution to lay before the legislature the estimates of money required, the committee states that so far as they could ascertain no attention whatever had been paid to it. This, however, has only to do with the amount of money required to be raised by taxation; it does not lay upon the governor the duty of submitting estimates of proposed expenditure.

In the constitution of Maryland it is made the duty of the comptroller to prepare and submit estimates of revenues and expenditures. Other constitutions require that one or more other state officers shall prepare such estimates. In states where no constitutional requirement has been laid on the governor, or state officers, statutes have been passed providing that certain officers individually or acting as a board *ex-officio* shall prepare and submit estimates.

⁶ Ala. V, 123; Colo. IV, 8; Ida. IVA; Ill. V, 77; Mo. V, 10; Mont. VII, 10; Nebr. V, 77; Tex. IV, 9; W. Va., VII, 6.

⁷See report of the Economy and Efficiency Committee of Illinois, p. 22.

Boards of Control

The futility of efforts to establish a budget procedure without some means whereby the executive may be responsible for its proposal and in which the executive will be required to explain and defend the financial measure of the administration is shown by the experience in each of the forty-nine instances where it has been tried. In 1912 Wisconsin undertook to provide a means whereby a budget might be developed as a joint measure of the legislature and of the administration. It was in support of this idea that the report written by Dr. Lowrie was submitted through the State Board of Public Affairs. While this may be a desirable adaptation, as long as we are to assume that the governor is not to be a chief executive and that the government is to be divided up into various small jurisdictions over which there is no control other than that of the legislature, it is not a method which is consistent with the "budget idea."

New York undertook to interject into its budget procedure a means of central control by the same method.⁸ The purpose of this board was to make a budget as the term was understood by the legislators. The board was made up of the governor, lieutenant governor, the president *pro tempore* of the senate, the chairman of the finance committee of the senate, the speaker of the assembly, the chairman of the ways and means committee of the assembly, the comptroller, the attorney general, the commissioner of efficiency and economy—and four members *ex-officio* of the legislative branch and five members *ex-officio* of the executive and administrative branches. The first year that the estimates came before this board it was unable to come to any conclusion and made no report except such as was submitted through two officers of the board upon each of whom was laid the responsibility independently for submitting estimates with reports thereon.⁹

The unsatisfactory operation of the laws governing the admi-

⁸ See laws 1913, ch. 281—An act to establish a state board of estimate.

⁹ The commissioner of efficiency and economy was required to make a careful study of each office, examine the accounts, prescribe the form of submitting departmental estimates and examine these statements, and make recommendations. The comptroller was also required by law to prepare and submit to the legislature estimates of revenues and expenditures. Both of these officers performed the duties required by law, but the "board of estimate" were unable to come to any conclusion. Both of these officers were also members of the board of estimate.

nistration of various states, within the last few years, has been the subject of much popular unrest. In recognition of this dissatisfaction several states have appointed commissions or committees of inquiry for the purpose of ascertaining wherein the methods of conducting business may be changed with a view to increasing efficiency and economy. In 1912, Massachusetts and New Jersey each appointed such a commission. In 1913, New York, Pennsylvania, Minnesota, Iowa, Illinois and California appointed commissions or committees with instructions to report. Most of these commissions have pointed to the irresponsible character of our state governments; all of them have made recommendations.

Under the federal constitution the President is made responsible to the electorate for the executive departments. It was the opinion of President Taft, set forth in a special message to Congress, that the President had the power, under the federal constitution, to prepare and submit a budget, although, without constitutional change or legislation, his proposals might receive no consideration. In the states, however, the executive branch has been so far carved up into independent jurisdictions that the governor could not obtain the information or coöperation required to make an executive budget effective. The only remedy is constitutional revision, which looks toward executive reorganization as well as a definite prescription for a budget.

New York, through its constitutional convention—the one which has just adjourned—is the first state that has ever undertaken to frame the financial measures of its constitution around the “budget idea.” The extent to which the convention succeeded in injecting this idea into the constitution will appear from a reading of the draft which in November will be submitted to the electorate for their approval.

Budget Ideas Applied to Municipalities

The political consciousness of the duties of citizenship was first awakened in the government of our municipalities. There, attention was first given to matters of electoral reform and charter reorganization. Later, through the organization of independent civic agencies with staff equipment to inquire into matters of public business, attention became centered on methods and results. Among the first conditions which came to attention, after these agencies of

citizenship began to direct their attention to details, was the fact that the accounts did not provide the information needed to show what the government was doing, how it was doing it, what results were being obtained and what was the cost of results—whether good, bad or indifferent. Furthermore, it was found that responsibility for these conditions could not be located. The whole administration had been carved up into little jurisdictions and the business put into pigeon-holes and pockets in each of which some officer or subordinate came to have what was regarded as a proprietary interest or right to control. As a means of breaking down these many petty jurisdictions and requiring information on standard lines to come to a central office where it could be summarized and coördinated, the cities were led to adopt the same general method that had been employed in the national government—namely, that of sub-dividing appropriation accounts to such an extent as to force administrative agencies to account in detail to the legislative committee charged with the consideration of the appropriation bill. This detailed subdivision of appropriation accounts has come to be called a “segregated budget”—an evident misnomer. What the cities did which developed a new appropriation procedure from the viewpoint of enforcing accounting requirements was to confuse the “act of appropriation” with a “budget.” Since these legislative committees had no means of limiting administrative action in any other way, they substituted a highly detailed appropriation for control through a responsible executive by use of a “budget” under general law requiring detailed accounts to be prepared and submitted in support of the requests of a chief executive. This was only one more step in the direction of government by limitations instead of a step in the direction of responsible government with powers and a means of enforcing accountabilities.

But in another respect this experience has been misleading. The “budget idea” as it is here used assumes a responsible executive—in other words, such an idea cannot obtain in any jurisdiction, municipal, state or national unless there is some one who is responsible for executing the plans—for doing the things for which appropriations and revenue grants are requested. Where no such provision was made to definitize and locate responsibility and where no means was provided for enforcing efficiency and economy in administration what was called the “segregated budget” gained advocates

through preventing officers from doing harm. The cities which have adopted this means have been able to exercise control but they have not been able to establish responsibility—in fact, the method is one which stands in the way of enforcing responsibility for that discretion in management which will make for efficiency.

Municipalities that have been attempting to make budgets have suffered as much from charter provisions, passed on the theory that the purpose of a charter was to keep officers from doing harm, as have the states in their constitutions. For example, the city of Philadelphia, which has done much toward working out the forms and procedures of budget control, has not been able to make this effective because, although it has a highly centralized executive organization, the mayor is not made the responsible leader before councils in securing measures for better administration—the comptroller is the only one who by charter is permitted to submit to the board of aldermen the estimates and no one is required to assume responsibility for a definite financial plan or proposal for the next fiscal period. The finance committee on councils stands in the same relation to the administration in this respect as does the committee on appropriations of the national government. It is not until the finance committee has completed its work that there is anything officially before councils for consideration.

The charter of the city of New York constitutes a board of eight members as the chief executive of the city, made up of the mayor, the president of the board of aldermen, the comptroller, and the five borough presidents. In this there is no provision for the principle of solidarity of responsibility. Although the constitution requires that this board prepare and submit each year to the board of aldermen a budget, it has never done so in the sense in which the term "budget" is here used. What it has done is to prepare and submit each year in November an appropriation bill which when enacted by the board of aldermen determines expenditures for another year. Following the budget principle the board of aldermen is not permitted to make any change except to reduce and in this respect the charter has gone farther than in some other cities. It is some months later that the revenue proposals come before the city authorities. In any event the board of estimate and appropriation of the city of New York never has prepared and submitted to the board of aldermen a financial plan which will bring before the

city a prospectus of what is proposed nor a statement of affairs which will enable citizens or the board of aldermen to know what is the financial condition at the time that a vote is asked for.

Conclusion

In conclusion it may be said that the "budget idea" is just beginning to take hold of the American mind; that for a period of one hundred and twenty-five years American political institutions have been drifting steadily away from conditions which made the successful operation of a budget principle possible—away from responsible government; that the condition which is making possible the introduction of this idea into our political system has been a reaction against the results of irresponsible government, the political boss, log-rolling methods, pork barrel legislation; that the "budget idea" has finally come to be thought of as a constitutional principle—one which has been used effectively for the purpose of developing representative government and keeping it in harmony with the highest ideals of democracy.

While this idea has but recently been made a part of American political thinking it is one that is becoming rapidly absorbed and made a part of our political philosophy. More than any other principle of control, it is commanding the confidence and respect of those persons in the nation whose influence is being felt in legislatures and constitutional conventions, and other assemblies charged with the responsibility of redrafting our public law.

THE BUDGET AND THE LEGISLATURE

BY RUFUS E. MILES,

Director of the Ohio Institute for Public Efficiency, Columbus, Ohio.

Under the governmental institutions existing in this country, the legislative branch of government has ultimate authority over the public purse strings. Without its sanction in some form, no taxes may be imposed or other revenue raised; while on the other hand it may place such restrictions as it deems advisable upon the purposes for which expenditures may be made, or the amounts which may be expended for any particular purpose.

In many of our governmental units, this power of the legislative body is exercised in a haphazard, hit-or-miss fashion, little or no effort being made to take under systematic consideration the financial policy as a whole. Regular appropriations, special appropriations, supplementary appropriations, deficiency bills, etc., follow one another in confusing sequence, with little thought of where the money is to come from, the result being that nobody in the community, not even the officials themselves who are presumably responsible, have any intelligent idea of the existing financial status or of the policy which is being followed.

Reduced to its lowest terms, budgetary procedure is coming to signify a means through which this power may be exercised in a systematic and intelligent manner, taking all factors into consideration at the same time, or with relation to one another, and enacting or determining upon, so far as possible, all legislation at once for a given period.

The present article is not an attempt to add new contributions of a technical character to existing discussions of the subject. If it can by restatement present the main principles in such a way as to be helpful to a wider understanding of them and of their application, the writer's object will have been achieved.¹

¹For more extended and technical discussions, the reader is referred to such documents as Nos. 58, 59 and 62 of *Municipal Research*, published by the New York Bureau of Municipal Research, the report of President Taft's Commission on Efficiency and Economy entitled, *The Need for a National Budget*, and more formal treatises.

The greater part of the following discussion is stated in somewhat general terms, being in the main intended to apply broadly to all governmental units, whether federal, state, or local. Where particular instances are cited, they will be chosen from conditions with which the writer happens to be familiar, and for that reason only.

It is a familiar fact that the financial operations of the government are the reverse of those of private enterprise in one respect; instead of regulating its expenditures by its receipts, government to a considerable degree first determines upon its expenditures and afterwards upon the methods of securing the funds with which to meet those expenditures. Thus the budgetary procedure addresses itself to two main questions:

- 1 How much money is needed for a certain period?
- 2 How shall it be raised?

The advantage, if not the necessity of considering these two questions together is readily understood. No matter how much money is needed, there may be practical limitations to the possibility of getting it. Such limitations may be legal, political, or financial.

Municipalities may be subject in their tax levies to the limitations of a state law; elective officials, even when convinced of the advisability of increased expenditures, may hesitate to raise the tax rate because of its possible reaction on their political futures; in spite of a desire to proceed with public improvements, financial conditions may not be such as to enable the ready or advantageous marketing of the necessary bonds.

On the other hand, if money is plentiful, "needs" show themselves capable of expansion *ad libitum* or *ad nauseam*, according to the point of view. Like an individual, government can at some times and under some conditions "afford" to enter upon undertakings which at other times and under other conditions it can not.

Other considerations may be instanced. Taxpayers may be willing to agree to additional amounts for certain purposes, but not for others. Where referenda on extra levies are involved, such preferences may be decisive. Taxpayers have nearly always responded favorably to appeals for the support of schools, but have only recently begun to appreciate health needs. Legal limitations sometimes differ with reference to the purpose of expenditure. Thus it often becomes necessary to specify what a proposed expenditure is

for, in order to ascertain whether the money can be secured. To some extent, therefore, the consideration of income and expenditures simultaneously is unavoidable.

On the other hand, difficulties may be encountered in trying to make this simultaneous consideration of income and expenditures for a given period entirely complete. Emergencies of various kinds may occur which it was genuinely impossible to foresee. The procedure in connection with public improvements, especially where assessments on benefited property are involved, does not always lend itself readily to the same method of handling as the procedure relating to current purposes. As far as possible, however, a comprehensive review of the whole financial situation and policy at once is desirable, including both receipts and expenditures for both current purposes and for public improvements.

The following diagram may serve to illustrate the logical relations of the main parts of budgetary procedure, although the chronological sequence may be different:

OUTLINE OF BUDGET SCHEME

	Expenditure	Income
Budget.....	Proposal of kind and amount of work to be done and of amount of funds needed therefor	Proposal of method of securing money with which to finance proposed work
Legislative action	Act of appropriation (a) authorizing and (b) limiting expenditures	Revenue and borrowing measures providing funds for meeting expenditures

In the meaning most usefully employed, the budget itself is primarily a *proposal* which *leads to*, or forms the basis of, *legislative* action. To be ^ucomplete, the proposal should relate to both expenditures and receipts, as contemplated. The legislative action is thereupon directed on the one hand to the authorization and limitation of expenditures, and on the other to providing the necessary funds.

What shall the ^mproposal, or budget, contain? Who shall formulate it? What shall be done with it in order to bring about

legislative action best calculated to promote an efficient public service?

The contents of the budget should be determined by the use to which the budget is to be put. If the budget is considered as a proposal to be presented to the legislative body as a basis for legislative action, then the budget should contain two kinds of material:

(1) The proposal proper, or request, as it may be called for convenience, which indicates a tentative course of action for which legislative sanction is desired, together with the facts upon which it is directly based.

(2) Collateral information which will aid in the consideration of the request and in the determination of how far it should be granted.

In current practice, it is common to find only the former, and even that in the barest outline. Mere letters dealing with expenditures only, and saying in effect, "We want \$—————" with little or no explanation or detail, are not infrequent.

Included as part of the proposal proper, or request, should be data setting forth:

- (1) What kinds of work are proposed to be done.
- (2) What quantity of results of each kind of work are proposed to be accomplished.
- (3) What quantities of personal service, supplies and materials, etc., are estimated to be necessary to accomplish these results.
- (4) The estimated necessary expenditures for these quantities of personal service, supplies and material, etc.
- (5) When the proposed expenditures, if authorized, will probably be made.
- (6) The available sources of revenue.
- (7) The estimated amounts which will or can be derived from each source.
- (8) The purposes to which the amounts from these sources are applicable.
- (9) When the amounts from each source will be available.

The collateral information should be such as to show:

A. Relating to past performance:

- (1) What kinds of work have been done.
- (2) What quantity of results of each kind of work have been accomplished.
- (3) What quantities of personal service, supplies and materials, etc., have been used in the accomplishment of these results.
- (4) The actual expenditures for these quantities, etc.
- (5) When the expenditures were made.
- (6) The sources from which revenues were obtained.
- (7) The amounts actually derived from each source.

- (8) The purposes to which the amounts from these sources were devoted.
- (9) When the amounts from each source were available.

B. Relating to present condition:

- (10) What is the stage of progress of the work, and —
- (11) What is the financial condition, both at latest convenient date and on corresponding previous dates, with comparisons indicating changes.

C. Relating to future needs:

- (12) What are the kind and extent of needs which should be met during the coming period.

The degree of effectiveness which can be reached in marshaling such material in close working relations is greatly influenced by the periods for which the data are assembled and by the time at which the budget is formulated.

It is obvious that the more recent the information as to past experience, the greater is its value. It is an advantage, therefore, when the date of formulating the budget follows closely upon the end of an operative period.

On the other hand, it is equally obvious that the shorter the interval between the formulation of the budget and the beginning of the future period covered by its proposals, the more accurate its estimates are bound to be.

It is the view of the writer that the maximum of effectiveness might be reached if the budget could be formulated immediately after the close of an operating period, the interval up to the time when the new legislative action takes effect being bridged by an authorization to expend on account, or to continue pro rata as during the preceding period. Under such an arrangement, annual or biennial reports will be pressed into immediate service, and demands will be made upon them in the way of definiteness and accuracy which will vastly improve their form and content.

It is readily seen that to provide the data above indicated for budget purposes, systems of accounting and of service records are required. Without such systems properly designed, the necessary data can not be secured. It is not, however, within the scope of this article to enter upon a discussion of these further than to remark that they should be so devised as to enable expenditures and results to be matched accurately for given periods.

Of direct bearing upon the usefulness of the information pre-

sented in the budget is the classification of accounts. If the classification of expenditures employed fails to make distinctions between current operation and maintenance and those for capital outlay, it will be impossible to pass intelligent judgment upon the budget proposals. It is important also that the classification employed be flexible in application, ranging from extreme condensation to extreme detail and uniform for all departments.

The following classification of expenditures recently adopted by the State Bureau of Accounting of Ohio is of interest as being one of the latest developments in this direction.

Classification of Accounts

In order that the expenditures chargeable to the governmental functions or organization units may exhibit the information desired for administrative, statistical and other purposes, the expenditures are classified according to character of transaction and subclassified according to objects of expenditure.

Under each function or organization unit, the following captions denoting character of transaction are employed, the figures at the left of each serving as a code designation:

- 010 Operation.
- 100 Maintenance of Lands.
- 200 Maintenance of Structures and Improvements.
- 300 Maintenance of Equipment.
- 400 Contingent.
- 450 Debt Service.
- 500 Outlay for Lands.
- 600 Outlay for Structures and Improvements.
- 700 Outlay for Equipment.
- 990 Refunds.

Under each of the accounts in the above classification, in order that the object of expenditure may be denoted and separately charged under a specific caption, the following group of accounts may be used. The letters at the left of each serve as a code designation.

- A. Personal Service.
- B. Supplies and Material.
- C. Contractual Service.
- D. Contributions, Gratuities and Awards.

Suitable subdivisions in detail are provided for each of the accounts, but cannot be given here for lack of space.

In brief, then, the budget should contain such material as will in extent and form best enable it to present a definite working and financial program for a coming period, supported by adequate data for obtaining its approval by the legislature.

The question of who shall formulate the budget has been the subject of no little discussion, into which this article can hardly enter at any length. The views herein given are those of the writer, and are offered without argument for what they may be worth.

From its character as a body of information leading up to and supporting a proposed working and financial program, it would appear that the budget should originate where the work is being done and where the information is available, *viz.*, in the various departments of the executive branch. This seems not to be in controversy.

By whom, however, shall the departmental data be reviewed, modified, correlated, and united into a homogeneous whole? Among the considerations in favor of placing this function in the hands of the chief executive may be mentioned the following:

(1) By reason of the manner of his election, he represents the entire citizenship and not merely a section of it.

(2) There is now an increasing tendency in city, state, and nation, to hold the chief executive responsible for the policy of the government as a whole.

(3) It is a part of the regular duty of the chief executive to understand, correlate and supervise the work of the various administrative departments, which constitute the bulk of governmental work.

(4) It would be loose organization to have such departments dealing with the legislature independently of their chief, who is responsible for them.

(5) When the program contained in a budget formulated by the chief executive is approved by the legislature, the most definite and concentrated responsibility possible is placed upon him to carry out that program as set forth therein.

For such reasons, briefly stated, the writer agrees with those who hold that the budget should be formulated by the executive and be by him presented to the legislature.

In order that the budget may be kept within proper limits, the departmental proposals should at one or more points be search-

ingly examined in the light of the supporting data, to see that a case has been established, the burden of proof being considered to be on the proposals. Who should conduct this examination and how?

The scrutiny should be made from two standpoints—one, that of administrative efficiency; the other, that of general policy.

In view of the increasingly technical character of much of the public service, it seems necessary that the examination into administrative efficiency, to be effectual, should be conducted by a technically trained staff. That such a staff is an indispensable adjunct to the chief executive for the proper performance of his general administrative duties is coming to be more frequently urged. If such a staff constitutes a part of the executive's immediate organization, and if the executive is charged with the formulation of the budget as a single unified whole, the examination into the administrative technique of departmental proposals would most naturally take place at that stage. In such event, the main responsibility will come to rest upon the chief executive for ensuring that the proposals embodied by him in the budget are sound so far as administrative method and plan are concerned.

With respect to proposed general policies, the chief executive and the legislature may be expected to concern themselves almost equally, the one as initiator and the other as critic. It is too often the case that, for one reason or another, the action of one or the other is little more than perfunctory. Both, however, should conduct a thorough and systematic scrutiny of the proposals submitted to them. Their action thereon by way of approval or rejection will clearly locate official responsibility for the results.

So far as possible, the practice should be developed of the executive and the legislature coöperating in their consideration of problems calling for the action of both. Thus it would commonly prove advantageous for the investigations and data of the executive's technical staff to be rendered available to the legislature. Joint sessions of the executive and the finance committee or committees might well be found to expedite the consideration of the budget. The chief executive should have an opportunity, if he desires, to be heard, personally or by representative, in the legislative discussion of his proposals.

The submission by the executive to the legislature of the budget as a working and financial program raises several questions.

Is it advisable to limit the powers of the legislature in dealing with the budget? What shall be the form of the act of appropriation? What conditions should be attached to the authorization conveyed in the act?

It is urged that in dealing with the proposals contained in the budget, the legislature be restricted to a reduction or elimination of items, the argument being that there is a strong tendency to "log-rolling" and "pork barrels" arising in large degree from the sectional representation in the legislature.

The force of this argument would probably vary somewhat in its application to different constituencies. It would apply, for example, with less force to municipalities with councils or commissions elected at large than to state governments. In the commission manager type of city government, where the city manager is an appointee of the commission and the commission is the legal possessor of all powers, such a regulation would be still less in point. In the larger governmental units, however, it may well be found desirable. A restriction which clearly should be imposed upon the legislature in dealing with the budget is one preventing the imposition of "riders."

When the legislature comes to act, the form of its appropriation should be such as to impose only the restrictions necessary to ensure the proper application of public funds, while placing the fewest possible obstacles in the way of efficient administration. The combination is not easy to arrive at, and is perhaps not the same at all times or for all conditions.

Recent emphasis on the importance of the so-called budget, meaning thereby the appropriation, has apparently led many to suppose that everything can be accomplished through it. Functions have accordingly been imposed upon it which it is not suited to perform, and which should be performed by other instrumentalities, such as a proper financial reporting system, standardization of services and purchases, etc. Thus appropriations in minute detail, while fulfilling the purpose of securing the proper application of public funds, may and often do defeat the efforts of administrative officials to achieve efficiency and economy. The abuses of "lump sum" appropriations arose not only from the form of appropriation, but also from the absence of proper accounting and reporting meth-

ods which would substitute facts in place of guesses as a basis for discussing official policies.

From the standpoint of administrative efficiency, the presumption is in favor of a wide freedom to get results, subject only to the restrictions which experience has shown to be necessary to prevent specific abuses such as pay roll padding, indiscriminate salary increases, favoritism in appointments and promotions, closed or vague specifications, purchases without due competition, etc. To prevent such abuses, specific devices should be worked out which will offer a minimum of interference with administration freedom.

The much longed for efficiency in government cannot be obtained by securing experts and then tying them hand and foot. The two courses are largely inconsistent. We have been led into the tying method because we have not had experts with expert standards; to prevent our tyros from making excessive blunders, we have hobbled them. If now we propose to employ experts, as we should, we must cut away the hobbling devices and enforce their accountability by other and more grown-up means.

Nothing has thus far been said about the participation of the public in budget-making. The recent development of this factor has been marked, and should be encouraged up to the limit of practicability. It goes without saying that full publicity should characterize the budget proceedings from start to finish. Further than that, however, the interchange of views between officials, both executive and legislative, and the public as to the policies which should be embodied in the program should prove of increasing value to both, as the intelligence of the public, and especially of civic organizations of various types, grows with reference to governmental activities.

As has been pointed out in this connection, the right of petition is as fundamental and valuable a citizen's prerogative as the franchise and its systematic use as a factor in producing better government should be encouraged. The more extensively improved budget-making methods are put into operation, the better will be the public's understanding of governmental policies, and the more effective their participation is capable of becoming.

Much as has been said and written during the past few years about the budget, we have not even yet come to a full realization of its central importance. On the one hand, as advocates of social

progress are continually reminded by experience, forward steps are more frequently halted or delayed by alleged inability to finance them than by direct objections to their merits. For social workers and others favoring the extension of governmental functions an understanding of the budget as the financial program thus becomes essential. On the other hand, the extension of governmental functions may well be looked upon with concern unless more effective instruments of control are developed than are now in operation. The contention that until government can do well what it does do, it should not receive greater responsibilities, is too near the mark to be ignored. Expansionists and conservatives alike, therefore, may well turn their attention to the budget as the medium through which to attain their objects; for the power to raise and spend money is in practice the central power of government.

THE PROPER FUNCTION OF THE STATE BUDGET

BY S. GALE LOWRIE,

Professor of Political Science, University of Cincinnati.

The history of the development of representative government is the record of a struggle for popular control of the public purse. There is no principle upon which our political institutions are more firmly based than that the public finances, both with respect to the raising of revenues and the expenditure of state funds, should be regulated by those upon whom levies are to be made. The great land-marks of our constitutional history, the Magna Charta, the Model Parliament, the Declaration of Independence, the formation of the Union—all had their inception in the desire for a reform in fiscal management. No nation has made a more constant effort than have we to escape the perils of bureaucracy and to keep representative the offices charged with the management of the affairs of government, particularly those involving expenditures. Nevertheless, we stand almost alone among modern governments in that neither our federal government, nor any state, has as yet installed the most necessary device for regulating our public expenditures,—a modern budget system. With the tremendous growth in the cost of government, which the past decade has witnessed, caused chiefly by the ever widening scope of our governmental activity, there has been no little alarm because of the increased demand for revenues. Most of our states have begun to take serious thought of the need for new budgetary methods and we have ventured to hope that an adequate fiscal system may be installed in our federal government. Though attention has been drawn to the desirability of this reform and several states have proposed changes, looking toward a better control over public grants, no wholly adequate method has yet been adopted. In fact we have hardly begun to think clearly enough on the subject to know what may and what may not be accomplished through an adequate budget plan, or to know just what sort of a budget plan is desirable.

The budget is the fiscal plan of the government. It embraces an estimate of the receipts which are expected during the period

under consideration and of the expense of carrying out the program of work contemplated. A most essential feature of any budget is a budget balance—a close correlation between the state's receipts and disbursements. Should the revenues of the government exceed the authorized expenditures, a surplus will accumulate in the public treasury which not only represents an economic loss in taking funds needlessly from commercial channels, but which, as the experience of our federal government particularly has shown, invites extravagance upon the part of succeeding legislative assemblies. On the other hand, should the income of the state prove inadequate for the program adopted, the governmental functions must be interrupted and grants authorized be denied, or the services must be carried on through borrowings which must be repaid with interest at some future time. To establish a proper balance between estimated receipts and disbursements requires the most intelligent planning by persons possessed of the fullest information of the fiscal affairs of the state. It is no slight evidence of the skill with which the British budget is prepared that in normal times, the discrepancy between actual receipts and disbursements seldom exceeds $1\frac{1}{2}$ per cent. Not only must a balance be established between income and expenditure but a most careful scrutiny must be made of the work to be undertaken to see that the available funds are distributed wisely among the various state services. This can be accomplished only where the planning body has an intelligent understanding of the many phases of the state's activity and a definite program in view.

The first essential of any adequate budget plan is the preparation of estimates. This is a highly technical duty and must be performed by those most familiar with the facts. For this reason the best qualified officer to estimate the receipts is the auditor or other person whose duties give him the fullest information respecting state funds. The proper officers to prepare estimates of needed appropriations are the department chiefs. They are the government's experts in their respective fields. They have the most intimate knowledge of the work in their charge and of the appropriations needed for their proper development. Consequently every modern budget plan is based upon departmental estimates of funds required, together with the estimates of anticipated income from the official who best knows what the state will probably receive.

The accumulation of these data, however, is but the commencement in the preparation of the state budget. From these recitals of departmental requests, a state-wide plan must be evolved, wherein one need is weighed against another, and the entire scheme of expenditure compared with the plan for raising revenues, so that a well-rounded program may result.

There has been some difference of opinion as to what officer or body should receive the departmental estimates and prepare the state budget. Some have considered it a duty which should be performed by the chief fiscal officer, the auditor. Others have thought it to be the function of the chief executive, while still others hold that a committee, upon which these officers and members of the legislature are represented, should discharge this service. There is little doubt, however, in the minds of those who have given the matter most serious consideration, but that the chief executive is the proper officer for this task. The budget embodies the government's fiscal policy. It is a definite proposal for legislative action. It must be prepared by one thoroughly familiar with the government's plan of activity, and familiar with the needs of the state in its various branches. None other than the chief administrative officer possesses the information necessary for the construction of a proper plan, nor is any other official or body commissioned to propose legislative policies. Consequently, one can scarcely question that it is the duty of the Governor in our states, and of the President in our federal government to execute this task. But while it has become an established practice in our cities for the Mayor to propose the municipal budget, the practice has not as yet been followed in our state or federal governments. The requirement that the Governor prepare and transmit a budget is one of the most excellent features of the proposed constitution for the state of New York. It is made the function of the Governor of Ohio by statute, but as yet fear of usurping a legislative prerogative has prevented the executive of this state from properly discharging this duty.

But, however wisely and carefully the budget may be prepared, unless it is received by the legislative assembly in a spirit of coöperation, little good can result. The appropriating body may disregard the expert estimates submitted to it and proceed on its own motion to prepare a statement of what it believes to be the departmental needs. This practice is followed in France and is the cause of much

of the difficulty experienced with the system of appropriations of that country. Or the state budget, instead of being considered in its entirety as a great plan for the whole government, may be separated into parts and referred to distinct committees. This is the practice in our federal congress, where in the lower house alone, appropriation bills are considered by eight different committees. It is also a vice of the French system. Whether the legislative body be unicameral or bicameral, whether it sit as a committee of the whole or act through sub-committees, it is essential for any well-rounded plan that all phases be considered together. No intelligent plan embracing the entire state can be formulated or approved unless all the anticipated receipts and all the contemplated expenditures are viewed at the same time by the joint legislative assembly, or by a single joint committee.

The practice which has been followed in our federal government, and in our states, has signally failed because the most essential feature of state-wide planning has been lacking. It has been assumed that it is the function of the legislative assembly to propose the appropriation measures. In some way, it has been thought that this method assured a control of expenditure more in keeping with popular desire and that a check on the extravagance of administrative officials might thus be maintained. But our experience with the plan of legislative initiation has not been a happy one. The reason is simple—the preparation of the budget requires a minute insight into the affairs of the state departments, which the legislature does not have, and a skill in planning for the development of these agencies which the members can not easily acquire. By its very form, the legislature must be an approving, rather than an initiating body. Initiation must be an individual act. To require legislative initiation is to demand that some delegated member propose a plan for approval, and no member of the legislative assembly, with the machinery at his disposal and with his limited experience, can prepare a proper fiscal program.

The first step then in the making of a budget is the formation and submission of a plan by the executive for the support of the state service for the fiscal period. This is effected by the transmission of estimates prepared by the various departments and so adjusted as to make a harmonious plan for the whole state. The second step is the criticism and approval of these plans by the

appropriating body, keeping in mind always the resources and the entire demands to be met by the public treasury. The third step is the passage of the appropriation act, which is the authorization of the legislative body to spend. When this has been granted, the evolution of the budget is nearly completed. There remains but the function of the auditor in determining that the actual expenditures have been used for services authorized by the legislature.

One of the reasons we have made so little progress in budgetary matters in this country is that we have not had a clear idea of what a budget system really involves and just what we may reasonably expect to accomplish through its use. In fact the question might well be raised as to whether we have not done more to promote ignorant, corrupt and inefficient government through the adoption of ill-devised appropriation systems than to establish economical and intelligent government by the adoption of rational methods of granting funds. It is therefore as important to note what a proper budget plan should not include, as to mark its chief essentials.

An appropriating law which specifies in great detail the purposes for which allotted funds may be used, does not, by virtue of this feature, become a budget system; nor does the incorporation into the appropriation bill of restrictions as to the use of funds make a state budget; nor the inclusion of provisions that grants are to be available but for one year produce this magic device for efficiency, though many administrations have boasted the installation of a modern budget system because of the inclusion of one or more of these most undesirable elements. A budget is an orderly arrangement of data embodying the estimated needs of governmental services for the fiscal period, accompanied by a request, preferably in the form of a bill, for authorization to spend public funds in accordance with the plan set forth. A proper budget contains all the information which the legislature can use in order to enable it to come to a proper understanding of the government's needs. The departmental estimates revised by the submitting authority to fit the requirements of the state-wide plan, records of previous costs for like services and such other data as will justify the requests will all be contained in these documents. The appropriation law is not the budget, but is the authorization to spend granted by the legis-

lative authority after a perusal of the information contained in the budget.

A common difficulty found in our appropriating systems as they are operated in our American states arises from the fact that too many things are expected of the appropriation law. Not only does the legislature attempt in this act to present a plan of work for the administrative departments, but to correct payroll abuses, prevent improper purchases, provide a reporting system and what is thought to be a more efficient organization of administrative departments. All this is attempted by conditioning the grants so that funds are available but for certain purposes which are specified in considerable detail. To take an illustration from the last general appropriation law of the State of Ohio, we read:

DEPARTMENT OF PUBLIC INSTRUCTION

*Personal Service:

A 1. Salaries—

Superintendent.....	\$4,000.00
Assistant superintendent.....	2,500.00
2 high school inspectors.....	4,000.00
6 high school inspectors half time.....	6,000.00
Chief clerk.....	1,750.00
Examination clerk.....	1,800.00
2 stenographers.....	1,440.00
Filing clerk.....	900.00
Statistician.....	1,500.00
Messenger and shipping clerk.....	840.00
88 county superintendents.....	85,000.00
450 district superintendents.....	270,000.00
72 normal school supervisors.....	72,000.00
Total.....	<u>\$451,730.00</u>

*106 Ohio Laws (1915), 699.

Such detail can contribute nothing but confusion when inserted in an appropriation law. It substitutes for expert services comparative ignorance in the organization of departments. The state's experts in their respective fields are the heads of the departments. They are the ones best fitted to judge of the machinery necessary for their work. Certainly the members of the legislature who sit through but a short session, and are comparatively unacquainted with the duties of the departments, can not safely be

trusted to provide an organization for accomplishing the needed work. The assembly can decide what funds are available for the department or service, it can decide what functions it considers of greatest importance, but it is in no position to determine whether fewer inspectors or more equipment are required. This is an administrative, not a legislative, question, and can not be properly solved by a legislative body.

The itemizing of the appropriation law is productive of many difficulties: (a) It divides responsibility. The head of a department should alone be accountable for the economical and efficient conduct of the affairs of his office. Within the appropriation allowed him, he should perform the duties required by law to the best of his ability. He can do this only when he has free rein in the organization of his force for the work it must do; (b) It does not properly care for emergencies. Our state legislatures do not follow the practice of meeting at frequent intervals. The appropriation bills once passed must stand for one or two years just as they are made. No matter how skillfully the estimates may be prepared, unlooked for developments are certain to make some adjustments desirable. But a detailed appropriation law contemplates no such contingency. When difficulties arise funds must be forthcoming from some central contingent account or the state service must suffer because an important function is neglected. In Ohio, the detail with which appropriation laws have been made has required a frequent resort to the contingent fund. Services denied adequate support by the legislature have sometimes been given grants in this way; (c) It produces extravagance. When a saving in one service can be utilized for another purpose, an incentive to economy is provided. When funds must be expended lest balances lapse, there is little motive for economy. But the greatest danger is that an inadequate appropriation will force a department to discontinue an important service. A plan which allows administrative officers to use the funds allotted them with but slight legislative restraint through the appropriation law, but which requires careful planning by the department and a compliance with that plan, is in the long run the most economical.

A reason frequently urged for the insertion of detail in appropriation laws, is that it is necessary to prevent deception on the part of administrative officers. It is apprehended that funds may be

secured from the legislature by urging the needs for one service, but that the grants when allowed may be diverted for other purposes. It has been this practice which has done more than any other to fasten a system of detailed appropriations in our fiscal system.

Were it necessary to rely wholly upon the appropriation law to control administrative officers, the argument for detail in appropriation might rest on firmer ground. But it is one of the poorest methods that could be devised for this purpose, because this gives legislative control of what is essentially an administrative function. The best budgetary plans we have in this country are found in connection with private businesses, but who knows of a successful corporation which employs expert administrators and so hedges about their movements that their skill can not be used to advantage? Our cities furnish our most perfect examples of public budget systems, yet the best models of appropriation ordinances, as found in such cities as New York, Philadelphia, Cincinnati and Dayton, contain no such detail. Reliance is placed rather upon other agencies designed through administrative guidance to effect these economies. The question of the best organization of departments can better be settled through an efficiency bureau coöperating with a civil service commission. A properly conducted purchasing department will check abuses in the purchase of supplies and utensils; and the budget itself rather than the appropriation law is the proper place to exhibit the government's plan.

When the legislature has determined what the state can afford to expend for a given service, the question of planning the most economical use of these funds to accomplish the work which the legislature wishes performed, can best be done by administrative officers. Administrative officers should be required to submit a working program showing with considerable detail how they propose to employ appropriations granted, nor should expenditures be approved for purposes not on this sanctioned program. In case of emergency, it should be possible for the administrative officers to amend their program, if they can show that the funds at their disposal can under new circumstances which have arisen be used to greater advantage in a different way. Administrative safeguards should, however, be thrown about such changes to insure the continued use of these grants within the general purpose of their allotment. Such a plan will encourage rather than prevent

the use of expert planning for the most judicious expenditure of public funds and locate responsibility upon administrative officers for the wise use of appropriations.

Such a budget system will provide in the first place for proper planning; a planning which for each department will provide a program and, when departmental estimates are assembled, will present for the state as a whole a comprehensive outline for the year's work. It will show a correlation between revenue and expenditure and the amount it is proposed to use for one service in comparison with the sums available for other purposes. It will be a plan made out and approved by the state's experts, those who have had experience in the actual administration of the state's affairs and are most familiar with the public needs. Secondly, such a budget system will give the legislature and the general public full information as to the fiscal affairs of the state and will be a means whereby the administrative officers may be called upon to justify their administrative acts and give an account of their stewardship. Plans for the coming year must be presented and approved and submitted to the closest public scrutiny.

It centers responsibility because the administrative officials who must carry out the plan are charged with its preparation. The working plan is one prepared by the responsible administrative official, not by a legislative committee which has nothing to do with carrying out the functions for which funds are provided and may be in ignorance of the machinery most needed for this work. It provides for emergencies. A detailed appropriation law restricts closely the use of funds for a period, sometimes thirty months after the law is passed. It is difficult for even the most skilled administrative officers to plan with such accuracy for so long a period. With new state services, certain planning is impossible. A proper budget system allows a change in the detailed use of funds to meet emergencies as they arise without changing the purpose for which the legislature has allowed the grant. Such a budget system does not allow the legislature to do administrative work, such as providing for the organization of departments, the amount of supplies or material, or specifying kinds to be utilized. It establishes the legislature as a body of approval, rather than of initiation, which determines governmental policies, rather than engages in the work of carrying them out.

The proper budget plan should provide for the established services of the state. The appropriation law should not be utilized for reorganization purposes. When the legislature has established a service or organized a department by the passage of a law through the action of both houses of the legislature and the approval of the executive, such a service should be maintained as long as it is the law. It should not be competent for the executive or one branch of the legislature to destroy the service by failure to provide for its proper maintenance. But an appropriation system which requires the concerted action of the Governor and each house of the legislature at each session to maintain state services is faulty, in that it places the most important legislative functions under the control of any group which can influence the Governor or can control a majority in either house, or in states which require a two-thirds vote on appropriation laws, more than one-third of the membership of either house. Under such a system, the Governor of Wisconsin could have re-organized the state services by the abolishment of the Legislative Reference Bureau, which has done such valuable work in that state. But that this was not the will of the people of the state or their representatives is indicated by the fact that this proposal received the support of but eight of the one hundred and thirty-three members of the two houses. Yet under the system of annual appropriations, where the Governor proposes the budget and the legislature may not provide for services he neglects, or under the plan in vogue in many states with annual appropriations where the Governor may veto items, this department would have been entirely abolished. The plan of annual appropriations places the presumption upon the discontinuance of services, rather than upon their maintenance, but when the regularly constituted law-making authorities create departments, or allot functions, it is reasonable to suppose that it is the popular will that these services be adequately cared for until the law is changed. To carry out such a plan, however, a system permitting continuing appropriations is essential.

Probably the greatest evil resulting from the periodical appropriation plan has not been the abolishing of state departments or services, but the political control which is exercised over them by the threat of such action. There are in our state services many departments designed to be independent of the legislature or the chief executive. The judiciary is supposed to be such an independ-

ent branch. Frequently the controller is chosen by election in order that his actions may be free from executive restraint. Other devices are installed to free semi-judicial and administrative departments from executive dominance. We create bi-partisan or non-partisan boards, provide that the terms of their members shall expire at different times, in order that no administrative officer shall control these departments by virtue of his appointments. It is customary to organize civil service commissions, public utility commissions, public health boards and boards for the control of the state institutions in this way. However, the independence which we wish these departments to exercise is lost in a system where the favor of the chief executive or of a faction strong enough to control one legislative branch must be cultivated. In fact the most insidious form of corruption is found under such a system, because it is so little understood, and influence can be exerted of which the public is ignorant. The virility of the departments given police functions is taken away, because these agencies are afraid to make enemies lest the limited funds placed at their disposal weaken them to such an extent that their usefulness will pass and the justification for their continuance be lost. A public service commission fears to incur the enmity of the railroads or public utility corporations which usually maintain lobbies in our legislative halls strong enough to jeopardize the appropriation upon which the commission is dependent. In a similar way, the activities of agricultural commissions or organizations charged with the enforcement of pure food laws, or departments having other phases of public health work to do, must be shaped so as not to incur the ill-will of those who may be in a position to retaliate through the use of their influence with the executive or the legislature. We have constantly endeavored to keep our universities and larger public institutions of the state "out of politics," but when these institutions must fight for their lives at every session, they are forced into politics in order to maintain themselves. Yet the appropriation systems of many of our states require annual or biennial grants and two-thirds of them attach to this plan the power of the Governor to veto items in appropriation bills, which power ex-President Taft, with his general knowledge of political agencies, thinks "might be made an instrument of very considerable influence."

A system of annual appropriations is faulty again, in that it

does not permit planning over a period of years. The ordinary budget calls for a plan for one or two years. We are learning slowly in this country that great political organizations require, as do great industrial organizations, careful planning over a long period of years. We are awakening to this fact in our cities and are providing for city planning commissions. Every one familiar with the practices of industrial corporations knows that improvements are considered and held in mind forming a program covering a number of years. The expense of administering our large public institutions and the wastefulness due to what appears to be short-sighted policies can be largely attributed to this lack of planning. Consequently an adequate appropriation system must allow those in charge of these institutions to know with some certainty what funds will be available in the near future for the development of contemplated projects.

The objections which are most frequently raised to a system of permanent appropriations are that the permanent appropriations are not taken into consideration when the legislature considers the immediate appropriations of the state, and that appropriations established by permanent laws are too difficult to change. The first objection arises because of the popular error of confusing the appropriation law with the budget, and trying to use this statute as a fiscal plan. The error of such a method has already been pointed out. When the fiscal plan is presented as it should be through the budget documents, no difficulty can be found in noting in this plan what appropriations are already provided for and what still require legislative sanction in order to put the program of expenditures into effect, or where amendments to the permanent appropriation statutes are required. The difficulty of change is more a virtue than a fault, and it is not unreasonable to assume that when the legislature and executive have been convinced of the uselessness of further appropriations, the law authorizing the grant may be amended or repealed as easily as it was enacted in the first instance. Certainly the presumption should be that a state service created by law should be maintained until the law is changed. It should not be competent for any body with less authority than the legislature to nullify the law by refusing appropriations.

This is not a unique or untried plan which is advocated. It obtains in many of our states, it is followed for some appropriations

of the federal government and is to be found in certain services provided for by that model of modern budgetary systems, the British budget. The British budget has a number of items, which are permanent charges upon the consolidated fund, and annual grants by parliament are not required. Among such services, we find the interest and sinking fund of the national debt, and salaries and pensions of judges. The existence of such a system in Wisconsin has contributed as largely as any factor in making that state a model of administrative government. The Wisconsin Railway Commission could not have done its effective work had it been subject at each session to the control of those who constitute a minority among the people in the state, but who were frequently powerful enough to control one house of the legislature, or who have been supported by the Governor. Except for the system of permanent appropriations this Commission would many times during the comparatively few years since its creation have been abolished or rendered powerless to perform its functions. The University of Wisconsin could not have maintained its enviable position were it dependent upon annual grants; and the service, which it has so admirably rendered to that state, as well as to the entire country, would have been greatly curtailed. Examples of the evils of the annual appropriation system occur to every one who has been at all familiar with legislative practices in states following this method. We can scarcely expect strong and independent administrative organizations until we can provide some method for supporting them, which will guarantee their maintenance as long as the people of the state are in sympathy with their work.

It is unfortunate that the new constitution of the state of New York, while providing so acceptably for the submission of an executive budget, denies the legislature the right to appropriate funds for a period longer than fifteen months, and gives the Governor so complete control over the actual shaping of the appropriation measure. When such power is centered in one official, a system of permanent appropriations for established services is even more essential to prevent the chief executive from assuming legislative prerogatives through his control over public grants.

In our attempts to better our state government, we have been prone to apply the lessons we have learned in the government of cities. This is a very natural and in many respects a commendable

practice, because the municipalities of this country are far in the van in the crusade for efficient government. They are almost alone among our public bodies in being provided with budget systems, central purchasing agencies, standardizing bureaus and similar devices designed to secure a better government at less cost. But when institutions which have proved effective in cities are imitated in the state, it is important that differences between city and state governments be noted. The constituency of the city administration being much more contiguous than that of the state, can more easily inform itself of the actions of the executive and legislative officials and pass an intelligent judgment upon them. These public servants become more responsive to public opinion because public opinion is more definite and ascertainable. Opportunity for conferences between citizens and officers is greater and adjustments more easily made. The city council meets frequently, usually weekly and can be summoned for extra sessions within forty-eight hours with little additional expense. In most of our states the state legislature meets but once in two years and adjournment is usually taken after a short session for a two month period. Special sessions are inconvenient and expensive. The legislative body of an American city is with few exceptions unicameral and though this form has been considered for our state governments, it has as yet been nowhere adopted.

But what is possibly a more important distinction between state and municipal government lies in the widely different powers which the legislative departments of these governmental units possess. The legislature of a state is concerned, perhaps chiefly, with the enactment of laws affecting the rights of individuals in their relations with each other, or with the state. Secondly, it possesses the power, within the restrictions of the constitution, of organizing the administrative departments of the state and establishing machinery for the performance of governmental functions and determining what program of activity shall be followed. Thirdly, it provides for financing state services, decides by what method public funds shall be raised, how much is needed and the purposes for which the public money shall be used. The authority granted a city council, or other legislative organ of a municipality, is much more restricted. Its power to pass ordinances affecting personal rights is of too restricted a character to be comparable with the power lodged with a

state legislature and is chiefly administrative in character. The city council usually has relatively little to do with the administrative organization of the municipality. The only limitations on the state legislature are those found in the constitution; the city council is restricted by the city charter and by state laws. These latter with considerable more minuteness provide for the administrative organization of the city and confer powers and duties on these departments for which no action by the legislative authority of the municipality is required. Only state law, or, in most cases with home-rule charters, action by the people, can effect a change. When, therefore, an executive officer presents to the state legislature a budget, the body from which appropriations are asked is the one which can adopt policies changing completely the form of administrative organization or the functions of the departments, it can take away or add to their powers and duties. Until the extent of the change in administrative organization and functions is determined, accurate budget planning must wait. But with the preparation of the city's fiscal program such a difficulty is seldom confronted and budgetary procedure becomes far less complicated. Consequently, in endeavoring to shape systems of state organization from our municipal experience care must be taken that institutions be properly adapted.

The last administration in the state of Ohio came into power with an extensive program for legislation calling for administrative re-organization. The functions of many isolated departments dealing with agriculture were focused in a newly created agricultural commission. An industrial commission was organized to deal with affairs affecting primarily industrial relations. The Public Utility Commission was re-organized and given greater powers, and the Civil Service Commission was created pursuant to constitutional amendment. Even though his influence over the legislature was very great, the Governor was not entirely successful in prosecuting some of his original re-organization plans, and it was uncertain until the legislative days drew to a close just what form some of the administrative re-organization laws would take.

The present administration had an extensive program for re-organization. It wished to change the form of the Civil Service Commission, the Agricultural Commission and the Liquor License Commission. Yet the fate of the measure organizing this last Com-

mission was determined the last day of the session, and the re-organization plans for the other departments were pending until late. In Wisconsin, the Governor had plans for combining all educational institutions under a single board of education, and of radically changing the Tax Commission, yet he was unable to secure legislative approval of this program. It should not be competent for the Governor to force such a re-organization by his method of compiling the budget, nor should he be given such power over legislation as this control over appropriations accords him.

We have justified an increase in executive power, because we believe that in this way, we can locate responsibility, and that knowledge of this fact will deter officers from the commission of acts which will not meet with popular approval. We have admired the parliamentary system of government because it is "responsible." For every official act, censure or praise may be definitely located. But the responsibility of the British government goes farther than this. In case any act is contemplated by the British government, which it is thought may not meet with popular approval, the question is determined immediately by an election. Should it eventuate that the proposed action of the government is not supported by the people, this fact is at once apparent and the new government which results will shape its course on this very question in conformity with the popular will. The people are thus provided with machinery to prevent the government's action and so avoid the consequences of what it is believed will prove an unfortunate policy.

In our government, however, location of responsibility means fixing of blame. We cannot determine, except in some instances through the use of the referendum, what will be the popular judgment on any issue. We must wait until a periodic election presents opportunity for approval or censure of official acts. Then the judgment expressed is not a judgment formed upon any single issue, but an estimate of the actions of the executive of which we approve and of those which we censure. We form our judgment by determining the relative weight of these issues. Irreparable damage may have been done before the person "responsible" may be checked and the accounting to which he is subjected is usually limited to jeopardizing the chance of his reelection should he again stand as a candidate before the same constituency. A business organization could not operate under such a system. While it holds

its officers responsible, it does not give them power to administer corporate affairs in violation of the desires of the stockholders. A control is exercised in time to prevent abuses. Dependence is not placed on possible punishment for mistakes.

The development of most of our political institutions has come about by an adaptation of governmental devices which seem to operate elsewhere in an acceptable manner. But we should incorporate these innovations only after a careful study convinces us of their acceptability, and a close analysis of our own institutions proves them capable of being patterned after the model we admire. We cannot safely rely on temporary appropriations in this country even though that practice may be followed in certain countries which have responsible ministries. Nor can our officials be made responsible in that same sense until we make a rather complete change in our plan of government. But it is possible to install in our state and federal governments, systems which will perform adequately the proper functions of a modern budget without subjecting us to the dangers of such ill-advised reforms as have been noted.

There is no more important reform than the installation of an adequate budget system in our state governments. Only in this way can the affairs of government be conducted efficiently, economically and in a way to permit of an orderly development. That a budget system will prevent the constant increase in the cost of government, in accordance with a belief frequently expressed, few who observe the constantly expanding functions of government dare hope. It will, however, require that these developments be made in accordance with a well considered plan; a plan prepared by those most familiar with the government service and approved by the representatives of the people acting with full information and with the entire program of the state's needs in view. But these advantages will be secured at too dear a price if we confer initiative powers on our law-making bodies, or fail to protect the great institutions and services of our states from those who, representing a minority of the people, would seek to coerce them by controlling their funds. We must guard against these dangers while endeavoring to secure the advantages which may accrue through a reform in our fiscal plan. The proper function of the budget is not the reorganization of the state's services, but the presentation and adoption of a plan in fiscal affairs which will insure the most judicious use of the resources of the state for the purposes most desired by the citizens of the state.

THE BUDGETARY PROVISIONS OF THE NEW YORK CONSTITUTION

BY CHARLES A. BEARD,

Professor of Political Science, Columbia University.

It may be truly said that the New York Constitutional Convention of 1915 marks a new epoch in the history of budgetary procedure in the United States. The general subject of financial administration has, of course, received serious consideration at various times and places, and public attention has occasionally been aroused by particular fiscal scandals such as those which were attacked by Governor Tilden of this state more than a generation ago. Sometimes, also, a constitutional convention has bestowed a passing glance upon the fiscal problem while wrestling with the mighty matter of the separation of powers; but never before has the whole question of financial administration in all its ramifications and in all of its implications received a thoroughgoing and systematic consideration at the hands of a constituent assembly. Never before has there been a responsible citizens' agency, like the Bureau of Municipal Research in the city of New York, equipped with a staff of men trained in finance, accounting and administration and prepared to make for a convention long and searching investigations into all of the intricacies involved in budget procedure. In other words, the conditions surrounding the formation of the New York constitution of 1915 were such as to guarantee a more thoughtful review of finances than ever before in the history of state constitution-making in the United States.

Those who are familiar with European budget practice, who have read their Lowell, Stourm and Duguit, know very well that the budget is no simple matter of bookkeeping—that as Gladstone said—“budgets are not merely affairs of arithmetic, but in a thousand ways go to the root of prosperity of individuals, the relation of classes, and the strength of kingdoms.” The budget is the very heart of the governing process; it involves fundamental problems in administrative organization, in public policy, in legis-

lative responsibility, and in political leadership. Sound budgetary procedure cannot be injected into the hopelessly disorganized governments of American commonwealths. It requires a thorough-going reconstruction, even of the very elemental parts of the government framework.

It was in recognition of this fact that the Bureau of Municipal Research in preparing to make recommendations to the New York Constitutional Convention not only took into consideration the problems of appropriations, debt, sinking fund, deficits, and taxation, but also began at the same time the most painstaking and minute study of administrative structure that has ever been made in this country. This administrative study was undertaken in connection with the state Department of Efficiency and Economy and resulted in the publication of a truly monumental description of the organization and functions of the New York government. This volume, which was prepared for the state Constitutional Convention Commission, was issued early in 1915.¹ After its publication, the Bureau of Municipal Research prepared a critical "appraisal" of the system from the point of view of efficiency, economy, responsiveness and responsibility in government. In this second work the Bureau pointed out the necessity of establishing any sound budgetary law and practice upon a legislative and executive organization which would secure official responsibility for public policies and public work.²

Having thus laid both the fact and the philosophic basis for a scientific budget system, the Bureau prepared a series of bills embracing the following features:

1. The appointment of the heads of the great administrative departments by the governor, although several officers, owing to political exigencies, are left elective;
2. The establishment of a governor's cabinet, composed of the executive heads of the administration under the governor as chief executive;
3. The organization of a governor's staff to serve as a research and investigating agency for the chief executive;

¹ The volume is entitled *Government of the State of New York; A Survey of Its Organization and Functions*. A limited number of copies may be secured from the Bureau of Municipal Research for \$1.00.

² Published under the title of "The Constitution and Government of the State of New York." May, 1915, issue of *Municipal Research*. Can be procured from the Bureau for \$1.00.

4. The initiation of the budget by the governor;
5. The right of the governor and his representatives to appear before the legislature to submit, explain and defend administrative measures;
6. In case of the refusal of the legislature to pass such measures, the right of the governor to dissolve the legislature and submit the issue to the voters;
7. A constitutional procedure for locating responsibility and for giving publicity to the discussion of all issues which arise, whether they pertain to administrative measures or the bills of members. In other words, to do away with invisible government by establishing visible government.

These measures, the representatives of the Bureau supported at the hearings before the Constitutional Convention committees and the principles thus laid down, were with some exceptions, elaborated and defended by a number of gentlemen eminently qualified to speak upon financial administration.³

It was not expected that the Convention would accept this somewhat radical program in its entirety, but Article V of the new state constitution, while omitting two or three fundamental matters, includes such a large part of it that it may be justly said to constitute the beginning of a new era in state fiscal administration, whether adopted or not. This article falls into five main divisions.

In the first place, it vests the initiation of certain parts of the budget in the governor. It expressly excludes from his control, however, the legislative and judicial appropriations. This much is clearly set forth but there is considerable difference of opinion as to the exact limits of the remainder of the state appropriations which are to be initiated by the governor. The opening paragraph of the article in question provides that the head of each department of the state government shall submit to the governor

itemized estimates of appropriations to meet the financial needs of such department, including a statement in detail of all moneys for which any general or special appropriation is desired at the ensuing session of the legislature, classified according to relative importance and in such form and with such explanation as the governor may require.

Whether this provision would cover all of the appropriations coming under the general jurisdiction of the several departments, including special and local appropriations as well as those for purely departmental purposes, is now a matter of hot debate. The friends

³ The records of these hearings have been published by the Bureau of Municipal Research in two volumes—"Budget Systems" and "State Administration," Nos. 62 and 63 of *Municipal Research*, to be secured from the Bureau at \$1.00 each.

of the proposition contend that under it the governor is responsible for covering in his budget substantially every item which does not specifically fall within the province of the legislative or judicial appropriation.

In the second place, Article V provides that the governor shall take the estimates (which are to be prepared for him by the departments on or before the fifteenth day of November in each year), hold public hearings thereon, revise them according to his judgment, and then submit to the legislature, on or before the first day of February, a budget containing a complete plan of proposed expenditures and estimated revenues. In addition, it must contain all

estimates so revised or certified and shall be accompanied by a bill or bills for all proposed appropriations and reappropriations, clearly itemized; it shall show the estimated revenues for the ensuing fiscal year and the estimated surplus or deficit of revenues at the end of the current fiscal year, together with the measures of taxation, if any, which the governor may propose for the increase of the revenues. It shall be accompanied by a statement of the current assets, liabilities, reserves and surplus or deficit of the state; statements of the debts and funds of the state; an estimate of its financial condition as of the beginning and end of the ensuing fiscal year; and a statement of revenues and expenditures for the two fiscal years next preceding said year, in form suitable for comparison. The governor may, before final action by the legislature thereon, amend or supplement the budget.

In the third place the measure provides for a system of interpellation to be elaborated by legislative action. The constitution stipulates that the governor and the heads of all departments shall have the right, and it shall be their duty, when requested by either house of the legislature, to appear and be heard in the matter of the budget and to answer all inquiries relevant thereto.

In the fourth place the legislature may not alter an appropriation bill submitted by the governor except to strike out or reduce items therein. When the bill has been passed by both houses, it becomes a law without further action by the governor, except that appropriations for the legislature and judiciary (which are included by the governor in his budget as a matter of form) are subject to his veto in the regular course.

In the fifth place, the power of initiating "further appropriations" is vested in the legislature, but it is provided that such appropriations shall not be considered until the governor's entire budget is disposed of. Moreover, it is stipulated that further appropriations shall be made by separate bills each for a single work

or object, and that such bills shall be specifically subject to the governor's veto.

In the sixth place, as a means of checking somewhat the time-honored practice of log rolling, section 21 of Article III dealing with the legislative power provides that:

No public moneys or property shall be appropriated for the construction or improvement of any building, bridge, highway, dike, canal, feeder, waterway or other work until plans and estimates of the cost of such work shall have been filed with the secretary of state by the superintendent of public works, together with a certificate by him as to whether or not in his judgment the general interests of the state then require that such improvement be made at state expense. This section shall not apply to the contributions of the state to the cost of eliminating grade crossings or to items in the budget for the construction of highways from the proceeds of bonds authorized under section 4 of Article IX of this constitution, or section 4 of former Article VII thereof as in force on the first day of January, 1910.

It is by no means clear what this provision implies and how far it will act as a means of control over the "pork barrel."

Naturally these provisions of the new constitution are hotly attacked, particularly by those who believe that every state officer (including probably the janitor of the state capitol) should be elected by popular vote. It is contended on their behalf that this measure makes the governor a czar. Other opponents of the constitution, however, take the ground that Article V will be futile because it gives to the legislature full freedom of initiation after the governor's budget has been acted upon. The representatives of this group hold that the governor can thus escape responsibility and that pork barrel politics will flourish as of old. Most of the friends of the provision in question freely admit that it does not go far enough and that it does not assure absolute responsibility, but they do hold that taken in connection with a reorganized state administration, the new article makes possible the establishment of a degree of responsible government hitherto unknown in American politics.

CALIFORNIA'S STATE BUDGET

BY JOHN FRANCIS NEYLAN,

Chairman, State Board of Control of California.

There is no provision in California's constitution for a budget. There was no big campaign made to bring about this reform. It just came quietly and unobtrusively. The man who would attempt to abolish it now and return to the old log-rolling system of making appropriations would be adjudged politically insane in California.

Governor Johnson took office in January, 1911, the legislature convening simultaneously. In March a mass of appropriation bills was placed before the Governor. Following his usual custom he took up each bill, read it carefully and asked for the data showing the need of the particular appropriation. He also asked for a statement of the state's revenues, and a comparative statement showing to what the revenues were being devoted. He wanted a list of all appropriation bills introduced; in fact he wanted to know all about the state's needs and the state's revenues.

The Governor wanted a great deal of information but he did not get it. Because nothing of that kind had ever been compiled the chief executive was forced to blindly put his name to millions of dollars' worth of appropriations.

"Such a proceeding as this is a disgrace to the people of an intelligent commonwealth," was the Governor's comment. "It most certainly will never occur again."

It has not occurred since.

In June, 1911, the newly created State Board of Control, vested with far greater powers than other boards of control in different states, took over the general supervision of the business and financial affairs of the state. This board had absolute control of the expenditure of the appropriations made by the legislature for the forty-three state departments and twenty-three state institutions.

With its ample powers and close contact with all parts of the government the State Board of Control studied the financial needs

of each in the ordinary course of business. In July, 1912, the first step was taken towards putting this study into practical use.

The Board of Control notified all state departments and institutions to make a careful estimate of their needs for the next two fiscal years, California's legislature meeting biennially. These estimates were forwarded to the Board of Control. They were checked carefully with data accumulated by the Board of Control through the operation of what is known as its "preaudit system," which is nothing more or less than a monthly departmental budget system.

The Board of Control then invited the coöperation of the State Controller and proceeded to give each department and institution a hearing on its particular needs and estimates. All estimates for support of hospitals, for instance, were before the board so that comparisons could be readily instituted. So also in the case of normal schools, prisons, reform schools and other institutions. The estimates of departments also showed comparative salaries paid and so forth.

Members of the Board of Control visited the institutions and departments to secure first hand information. In the matter of buildings the State Engineering Department was called upon for estimates.

All financial needs of state institutions and departments were assembled in the Board of Control office prior to November 15, 1912. A statement of estimated revenue was then secured, and the Board of Control with the State Controller sat down to draw California's first budget.

This budget was finished and placed in the hands of the Governor on December 15, two weeks before the legislature convened. Copies were sent broadcast throughout the state to libraries, civic and commercial bodies and the public generally.

Announcement was made that the budget was a statement of the financial program of the administration to be taken up at the coming session of the legislature, and that if anyone had objection it should be urged before the legislature.

The legislature convened and for the first time in the history of the state its members had a chance to vote intelligently on appropriation measures.

The accepted method of securing appropriations under old conditions in California as elsewhere was particularly vicious.

Under the old system the legislature met and simultaneously the heads of departments and institutions left their posts and traveled to Sacramento. Here they stayed throughout the legislative session, begging, wheedling and whining for money enough to properly transact the public business. Of course they promised jobs to friends of legislators in return for votes; of course they promised to aid some constituent of a senator who happened to be in the flour or coal business; of course they neglected their work for three months or as much longer as the legislature lasted.

During the 1913 session of California's legislature the head of each state institution and department came to Sacramento when called to appear before the finance committee of the senate and ways and means committee of the assembly. They usually arrived in the afternoon, appeared before the committee in the evening to answer any particular questions which had been raised on the budget recommendations and left Sacramento the following morning for their respective residences. NO PROMISES OF JOBS OR OF ANYTHING ELSE WERE MADE FOR THE SIMPLE REASON THAT THE GOVERNOR AND BOARD OF CONTROL HAD ASSUMED RESPONSIBILITY FOR THE ENTIRE BUDGET AND THE HEADS OF DEPARTMENTS AND INSTITUTIONS REALIZED THAT THE SECURING OF PROPER APPROPRIATIONS WAS NO LONGER A CONTEST IN TRICKERY AND WARD HEELING STRATEGY.

When the time came for appropriation bills to be passed to the executive for action, Governor Johnson made California's budget a permanent institution. He said:

Those appropriations which have been studied and approved by the Board of Control and State Controller, acting as a budget commission, will receive executive sanction. Those which have not been approved by the budget commission will fail. Of necessity no Governor could personally in the time at his disposal examine the justice of all these financial bills. Common sense demands a business-like and scientific budget. We have one, and, mark well what I tell you, the time will never come again in your lifetime or mine in California when any politician will dare put this government back on the old log-rolling basis.

At the 1915 session of the California legislature further steps were taken to advance the budget idea, and perfect the machinery of presenting it.

At the present time while the Governor and Board of Control assume full responsibility for the budget, it is presented only indi-

rectly by the Board to the legislature,—that is, through the medium of committees. It would not be surprising at the next session of California's legislature to see the Board of Control appear before each house of the legislature in committee of the whole and in its entirety and in detail there defend the budget which it will have introduced.

The acceptance of the budget in California was so prompt that all budget discussion has been confined to matters of method in compilation and presentation of data.

One objection is frequently heard. That is that there is no budget provision in California's constitution. This is a defect which undoubtedly will be remedied in the near future. However, for the present we have a budget sustained by a public opinion that would brook no interference with its operation.

THE ILLINOIS BUDGET

BY FINLEY F. BELL,

Secretary, Illinois Legislative Reference Bureau.

While budgetry has been quite extensively discussed in Illinois during the last few years, it may still be said that there is a paucity of information on the subject. Much good, however, has resulted from the discussion, and the expenditure of public money is being studied by administrative officials, members of the legislature and the public with greater care than ever before.

The detailed budget as submitted to the legislature by the Legislative Reference Bureau at the convening of the Forty-Ninth General Assembly of Illinois was a distinct step forward. It met with the approval of the individual members of the legislature and its usefulness was manifested from the outset. Room for improvement, however, is plainly recognized. The demand for the budget authoritatively recommended by the executive that will embody all of the financial requirements of the state's service, and that can be enacted into law before the week of adjournment of the session seems general.

The Old Methods

To discuss a budget understandingly, some thought should first be given to the methods of making appropriations formerly employed, and indeed not entirely discarded at the last session of the Illinois legislature. Heretofore, the heads of the several departments, including constitutional officers, heads of boards, bureaus, etc., and even such quasi-public officials as have jurisdiction over the several agricultural agencies, submitted their fiscal needs through the members of the legislature. When the appropriations committees were appointed, they took up the matter of appropriations with the department heads and sought to ascertain what moneys were required to conduct the departmental affairs until the expiration of the next biennium. The estimates as given by the department heads were generally based upon the amounts appropriated by the previous session and the experience of the

department. Little, if any, thought was given the question of how the money was to be actually spent. No classification of the amounts asked for was sought or disclosed. In most instances salaries were included in lump appropriations, generally containing but one or two items for the entire two years' work of each department. The requests usually were in excess of the amount appropriated by the preceding legislature, although the purpose of such an increase was seldom disclosed, except possibly that in a hearing before the appropriation committee the head of the department might personally explain why advances were necessary. The hearings were rarely attended by all the members of the committee and no record of the proceedings was kept which would afford the members of the committee who happened to be absent any specific information as to why changes were made. The disadvantages of the system consisted not only in the matter of granting unnecessary advances in appropriations in some cases but also in cutting down or in failing to advance allowances in other cases, due largely to whether the department head in presenting his request was persuasive and forceful in manner.

The Practice as to the Charitable Institutions

The Board of Administration, which has control of the eleemosynary institutions of the state, twenty in number, filed with the Appropriations Committees a statement of the requirements of the several institutions based on the *per capita* cost, together with requests for additions and betterments in the way of new buildings, acquisitions of land, etc. For the purpose of such statement a member of the Board of Administration, known as the Fiscal Supervisor, would, before the convening of the General Assembly, visit all the institutions and check up, so to speak, the estimates of the department heads, approving or disapproving according to the general policy of the board. The original estimate, however, of the department head, together with the fiscal supervisor's recommendation and the approval or disapproval of the Board of Administration would, after the convening of the General Assembly, be filed, and the needs of each institution set forth on a *per capita* basis. There were no detailed statements, such as scientific budgetary embodies, contained in the Fiscal Supervisor's report. Later on the appropriations committee would afford each institutional head a

hearing. Many times the superintendents of the institutions for the insane and the charitable wards of the state were obliged to leave the work of administering the affairs of these institutions to their subordinates and spend days and sometimes weeks waiting to appear before the appropriations committee in Springfield. These hearings were always informal and it will be conceded more or less perfunctory. Nothing in the way of uniform statements were required and frequently when details were offered, what would appear as indispensable for one institution might be lightly passed over as unnecessary when found in another report on account of the manner in which the request was made.

To quote a very eminent physician who for many years had charge of one of our hospitals, "the matter of securing adequate appropriations was a constant struggle, the best mixer got the best appropriations, but not until the legislature had adjourned would we really know what had been awarded the institutions." Owing to geography or other circumstances, the requests of some institutions were allowed even when the Board of Administration and the fiscal supervisor had disapproved of certain items, while other allowances were not granted even when the approval of the board and the sanction of the fiscal supervisor had been given. The same discomforts that the institutional heads had to undergo were more or less the experience of the heads of most of the other departments. Their requests were frequently presented to the appropriations committees, or at least found embodiment in the omnibus bill, as the general appropriation bill is popularly known, through the good offices of a friendly representative. Under such a system expenditures were not, of course, compared with the probable revenues that would accrue for the same period for which appropriations were to be made. Such conditions naturally tended to increase expenditures and were ill-calculated to guard against unnecessary appropriations. Lack of responsibility, or rather a failure to place responsibility, was the chief weakness of the system.

Logical Result

Considering the very meager data that the appropriations committee was able to assemble and the still more meager information it was able to impart to the members of the legislature, and realizing that the completed bills were seldom presented until the

closing days, more often the closing hours of the session when the members were tired out from sittings lasting perhaps six months it is not strange that there was little inclination to question the recommendations of the committee. In fact, the general attitude of the assembly necessarily was manifested in a strong desire to wind up its affairs, pass the appropriation bills and go home. The logical and inevitable result was unsatisfactory appropriations. The riotous scenes that were sometimes pictured in the press as marking the closing days of the session, when millions of dollars were appropriated amid scenes of levity, were largely the result of this lack of system. The method in vogue encouraged the members to leave the adjustment of the state's fiscal difficulties to the next general assembly which would in turn continue to make appropriations upon the same haphazard basis, ending by imposing a similar burden upon the succeeding general assembly. The appropriations as passed by the Forty-Eighth General Assembly in 1913 were \$39,045,457.93 of which the Governor vetoed \$1,130,000. The amounts appropriated by the Forty-Ninth General Assembly which has just adjourned were \$48,336,297.52, the Governor vetoing \$2,322,096.42.

The Budget Movement

In the movement for system in governmental expenditures federal and state executives have urged the adoption of the budget system and pointed out the desirability of having the fiscal condition of the state fully presented to the legislatures when they convene. They have also urged that responsibility for the budget be placed upon some certain officer, usually the Governor, or appropriate department so that all of the fiscal data necessary might be collated and submitted to the legislature with adequate explanations and recommendations. The advantages of such a system may naturally be expected to flow more from the proper direction and application of the public funds than from the reduction of appropriations. Liberal, unrestricted appropriations make for extravagance while systematic application and administration of the same funds would produce valuable results and prevent useless expenditures. There may never come a time in this or in any other commonwealth when the cost of maintaining its institutions will permit a reduction in the appropriations, but this state and all other states will, no

doubt, find means of getting more for their money. It is not so much the amount of money spent but rather the manner and purpose of such expenditures that is important. If this information, together with a fairly accurate estimate of the income of the state, be placed before the legislature, appropriations may be made on a scientific basis. As officers and departments become familiar with the system their requests when based upon an audit which will disclose conditions, and an accounting that will exhibit the cost of maintenance, should require but little modification other than the fitting of expenditures to income.

The Illinois Situation

The method of financial legislation in Illinois previous to the Forty-Ninth General Assembly was as full of confusion and as unsystematic as that of most of the other states. The difficulty was so well recognized that the previous legislature adopted an act creating the Legislative Reference Bureau and assigning to that bureau the duty of preparing, printing and distributing a detailed budget for the use of the General Assembly. This budget was to be made up of the requested appropriations which the officers of the several departments of the state government reported to the bureau as required for the biennium for which appropriations were to be made, together with a comparative statement of the sums appropriated by the preceding general assembly for the same purposes. Several months before the legislature convened, the bureau set about to comply with the new enactment. So far as a comparative statement was concerned, this was a rather difficult matter for the reason that most of the previous appropriations had been in lump sums or limited to very few amounts. There was no itemization as to personal services and the moneys that were placed at the disposal of the Board of Administration for the conduct of the charitable institutions of the state were upon the basis of ordinary operating expenses, ordinary repairs and improvements, and ordinary care and improvements of grounds with a special appropriation of over two and one-half millions for a variety of items. These were principally in the nature of additions and betterments, such as an employees' building at the Elgin State Hospital requiring \$26,000, a cow barn at Kankakee, \$15,000, a contagious disease building, \$10,000, a coal shed at Jacksonville, \$6,000, a building for women

employees at Watertown to cost \$50,000. There were no supporting statements in itemized form showing just how these amounts were arrived at and no means that the legislature could conveniently employ to ascertain the necessity for these expenditures or, for that matter, to know that these amounts were adequate for the purpose intended. It should be said, however, that the General Assembly made no mistake in complying with the requests of the Board of Administration, whose efficient management of the different state institutions under its direction is generally recognized.

The Babel of Bills

There were ninety-three appropriation bills enacted by the Forty-Eighth General Assembly. One, known as the "State Officers' Roll," was in the amount of \$2,600,000, to pay the salaries of the state officers and the officers and members of the next General Assembly. Under the constitution this bill must contain no other appropriation or provision. As to this particular bill members of the legislature may or may not have known how the amount was arrived at, who were the state officers or what the rates of compensation were. A bill in chancery is now pending in the Circuit Court of Sangamon County raising some of these questions. The omnibus bill, to provide for the ordinary and contingent expenses of the state government, carried appropriations for ninety-seven different departments and purposes with only a meager itemization of the amounts for salaries, equipment, supplies, etc., and the appropriations were generally made in a lump sum. Comparison, therefore, of estimates as required for the present fiscal period with appropriations for the same purpose made two years before was virtually impossible.

The task of constructing a budget was further complicated by the fact that accounting in the different departments and institutions of the state was not conducted on any uniform basis. The methods employed were generally evolved with the economic and financial development of the different departments and institutions. While it would perhaps be impossible to find a single department head who would admit that the method employed in his department produced inefficiency, permitted dishonesty or tended to waste,—and possibly, the means employed were adequate for the individual department,—the fact remains that accounts were not standardized.

There was no standard system of keeping accounts and no uniformity,—at least none was disclosed that would enable the members of the legislature, during the short period of a legislative session, to ascertain costs and become familiar with classifications and other matters necessary to intelligent action.

The Visiting Committees

In order to familiarize themselves to some extent with the conditions at the state institutions, the expedient was adopted of appointing a committee of legislators to visit the different institutions. Such tours of inspection were necessarily hurried and while, no doubt, valuable as a matter of regulation, were, perhaps, not very satisfactory as a method of arriving at financial needs. Such visits and the hearings alluded to were, however, the only means of information the legislators had.

The New Way

Illinois, by the act of 1913, providing for the preparation of a budget, has enabled the legislature to avoid the difficulties above mentioned, to have estimates examined with care and deliberation and to become conversant with the necessity for and purpose of appropriations as well as to make at least some comparison between expenditures and income.

It is not to be inferred that the General Assembly has abdicated or surrendered any of its powers over appropriations. It has simply perpetuated its activities. The Legislative Reference Bureau is merely an arm of the legislature designed to pursue part of its work even though the legislature be not in session. Heretofore, with the exception of the case of special committees or commission, the legislature died with *sine die* adjournment. Now it has permanence and perpetuity in the Legislative Reference Bureau which is composed of the chairmen of the appropriations and judiciary committees of each house with the Governor as chairman. Much of the work of collecting, compiling, classifying and comparing appropriations that heretofore devolved upon the appropriation committees and had necessarily to be hastily done, admitting of but superficial examination may now be done with care and deliberation by appropriate agents or representatives authorized to act as a bureau for that purpose.

Of course, the General Assembly is in no way bound by the bureau. It is at liberty to ignore anything or everything done by it, but it is equally at liberty to make use of all or any part of the bureau's work and of any and all data, kept on file by the bureau. On all obscure or controverted points such data within immediate reach of the legislature is obviously of great value.

The Budget in the Making

In taking up the work, the Legislative Reference Bureau prepared a budget classification and rules of procedure for the convenience of the officers and heads of the several departments in filing estimates of appropriations which their departments required. Classification under the following general heads was suggested: "Salaries and Wages," "Supplies," "Equipment," "Material," "Contract and Open Order Service," "Additions and Betterments," and "Fixed Charges and Contributions."

In trying to effect the standardization of salaries so far as appropriations were concerned, it was endeavored to have the estimates show the present rates of salaries, to distinguish between new positions, to show, where possible, the classification of the state civil service commission as it effected salaries and wages, to include full or partial maintenance at institutions if allowed, and to indicate whether compensation was on a per diem basis or of a temporary nature.

"Supplies" was subdivided into food supplies, veterinary supplies, fuel supplies, office supplies, etc.

"Equipment," into office equipment, household equipment, medical and surgical equipment, live stock equipment, general plant equipment, etc.

"Material" was construed to include articles of every nature used in the reconstruction or repair of property.

"Contract or open order service," to include repair items, transportation, traveling expenses, expressage, communication, etc.

"Additions and Betterments," to include such estimates as were for new buildings or permanent improvements, etc.

"Fixed Charges and Contributions" was intended to cover appropriations to the different agricultural agencies such as the horticultural societies, beekeepers' associations, etc., and also to premiums for state fairs; rewards for the apprehension of fugitives from justice.

Classification, Difficulties

From the first it was apparent that the classification would have to be very general and that the matter of obtaining anything approaching an accurate estimate of the requirements of the different departments would have to be worked out with much patience and care and with the active coöperation of the different department heads. The estimates were filed with the bureau sixty days prior to the convening of the General Assembly.

In instances modification and re-classification were necessary and much correspondence with the departments and institutions was required before the estimates could be sent to the printer. Nevertheless, the budget was ready in time for the legislative session and every member of both houses had a complete copy for use during the entire session. While the law imposed no specific duty as to showing receipts or probable income for the period for which appropriations were to be made, such a statement was included. How nearly the budget compared with the actual appropriations may be seen from the following figures:

The total amount of departmental estimates was \$45,404,602.30; the total amount appropriated was \$48,336,297.52; of this amount as shown before, the Governor vetoed \$2,322,096.42, leaving the net appropriated amount \$46,014,201.10.

Much difficulty was experienced in trying to induce the department heads to adopt the classification submitted, especially the item as to salaries and wages. Some of the departments have on their present rolls, clerical and stenographic help, the salaries for which have been fixed by statute, and the custom has been to include such employees in the so-called state officers' pay roll. In the itemization of these positions, in some instances, increases in salaries were requested, and although it was obvious that no change could be made in the rate of compensation, unless authorized by law, nevertheless estimates were filed providing for these increases. The printed budget or detail of estimates specifically revealed this complex situation. Sometimes several lines were necessary in order to make the exhibit intelligible, and as for comparison with previous appropriations, which were usually made in lump sums, that was almost impossible.

Our classification, as above stated, was very broad. We presumed that many articles would be shown in the estimates, not

covered by our classification, but not in a single instance do I recall that any items were submitted other than those enumerated in the classification. Requests for supplies, material, equipment, etc., required considerable revision in the bureau before submission to the legislature but for a first attempt a very good showing was made. Additions and betterments, or estimates for new buildings, contained practically no information as to why the expenditure was necessary or how the amount requested was arrived at and there were no supporting statements or drawings from architects or engineers.

Most of the department heads seemed to fear that if the appropriations were made upon the basis of the estimate as filed, a great hardship would be heaped upon them and that they would be unable to exercise properly the functions of their several offices. They felt that no elasticity would be permitted and that the system was too rigid; that it was impossible to predict the needs of the departments for a two year period, and that inasmuch as no voucher classification scheme had ever been adopted, there were no means of comparing the estimates with past expenditures. Later when hearings of the appropriation committees were held this argument seemed to hold good because the appropriations were enumerated in the bills in a lump fashion, or many of the items were grouped, which permitted the elasticity so much desired by the departments.

Budget Disclosures

The budget, however, did have the effect of revealing the lack of uniformity, both in compensation that existed in the different departments and in matters of accountancy. It also disclosed the lack of co-relation in the different departments, particularly the duplication of functions.

Included in the budget or detailed estimates was a statement showing the income for the last fiscal year and the probable income for the next biennium. This was based upon the revenue that would accrue from the present property valuation and tax rate and also from sources other than the general property tax, such as fees, licenses, etc.

A summary of the estimates for each department was also included. Where an itemization for salaries and wages did not follow the classification which we submitted, the monthly pay roll was printed as a matter of information. All in all, the legislature at

its convening had for the first time a fairly adequate idea of the fiscal needs of the state.

In his message to the Assembly, the Governor, while urging strict economy, called attention to the budget or detailed estimates that would be filed by the Legislative Reference Bureau. It was the first attempt made by any Governor to comply with the constitutional provision which requires that he shall, at the commencement of each regular session of the General Assembly, present estimates of the amount of money required to be raised by taxation for all purposes. Perhaps this was more or less impossible heretofore especially with a new Governor, but the organization of this bureau seems to be ideal so far as this situation is concerned.

Many suggestions might be offered in the way of betterment, but most of the improvement that may be attained will have to be worked out along conservative lines with much patience and education, avoiding at all times usurping the prerogatives of the committees of the General Assembly, composed of the duly elected representatives of the people. Any assistance that the bureau may render in the way of preparing a scientific budget should always be considered as information furnished, never as a policy or in the spirit of dictation or suggestion.

Centralized authority is being generally advocated in the matter of submitting estimates and locating responsibility for appropriations. The Illinois method seems to provide both. This bureau is practically a continuing committee of the legislature. The Secretary and employees of the bureau are mere clerks for the General Assembly, engaged during the recess period in accumulating data and information for the use of that body when in session, and for the individual members, state departments, and the public, upon request.

Under this system the Governor, the Assembly, and the bureau can cooperate with the result that estimates may be submitted with harmony and a complete understanding. The guessing element that so largely enters into the making of appropriations should be eliminated as much as possible. There can be no scientific budget that is formulated upon mere speculation. The department heads should know, if there is any one that can know, just what the needs of their departments will be. When that knowledge is properly presented there should be no desire upon the part of the legislature to change the estimate, if the fiscal condition of the state will permit the expenditure.

With very little change in the present statute the work of the appropriations committee of both houses can be greatly reduced. The budget submitted by the bureau can truthfully be said to have originated in the General Assembly. Hearings on appropriations are unnecessary, unless the appropriations are questioned, or where some unlooked-for contingency may arise. Public hearings on the budget are desirable and this with the proper presentation of estimates should make for economy and promote efficiency in every department. Perhaps there will never come a time when the cost of state government can be materially reduced. The greatest saving that can be attained will necessarily have to come through efficient management.

Limiting expenditures to an itemized appropriation is one way of attaining efficient administration, providing that the itemization is based upon an accurate statement of the needs of the department. It might require years, especially in institutions, to work out such details scientifically. In the meantime perhaps only an itemization of salaries and wages should be insisted upon while supplies, material, etc., should not be too minutely itemized. For additions and betterments such as new buildings, etc., full details should be required.

The question of funding the budget is not provided for at present, excepting the constitutional requirement imposing upon the Governor the duty of presenting estimates of the amount of money required to be raised by taxation for all purposes. A scientific budget should include a carefully prepared statement of estimates properly classified with supporting statements for all items that need consideration. A comparison of estimates should be made with past expenditures; the lapses and the balances in every fund should be included, and these data coupled with a statement as to the probable income should furnish adequate information to the legislature. With the exception of the state officers' roll, which in Illinois must be in a separate bill, all of the needs of the different departments might be provided for in one bill.

It is one thing to theorize on how to spend public money and safeguard the public interest, but it requires a practical understanding and much experience in order to effect even a small saving. Some desirable things have already been accomplished in Illinois; with diligence and patience much more will be attained.

BUDGET METHODS IN ILLINOIS

BY JOHN A. FAIRLIE,

Professor of Political Science, University of Illinois; Director, Efficiency and Economy Committee, State of Illinois.

Although the state of Illinois ranks third in the Union in population, wealth and industrial activity, the expenditures of the state government, until the past few years, have been relatively low, in comparison not only with the financial transactions of the national and municipal governments but also with those of the other large industrial states. But this situation has been rapidly changing during the last decade. The biennial appropriation made by the general assembly, which had been about \$6,000,000 in 1875 and \$10,000,000 in 1895, increased to \$16,000,000 in 1905, to \$20,000,000 in 1907 and 1909, to nearly \$30,000,000 in 1911, to \$38,000,000 in 1913 and to \$46,000,000 in 1915. This increase has been due partly to the expansion of older state activities, such as charitable and educational institutions, and partly to the inauguration of new functions, such as state roads and a great variety of new executive offices, boards and commissions.

As a result of this increase in the amount and importance of state expenditures, attention has been attracted to the methods of authorizing and controlling the state finances, some improvements have been introduced, and proposals have been formulated and presented for a comprehensive budget system. It is the purpose of this paper to discuss the former and existing methods, the recent changes, and the proposed plans, which may aid in the general discussion of budget methods in the United States.

The fundamental requirements of the present system are to be found in the state constitution. The first constitution (of 1818) prohibited expenditures unless authorized by appropriations, and required a report of receipts and expenditures to be published with the session laws. The present constitution (of 1870) contains more detailed provisions which, if carried out fully, would provide more adequate methods than in practice have been followed. The power and responsibility for making appropriations and raising

revenue are vested, as is usual in this country, in the state legislature, subject to various restrictions. But a definite basis for an executive budget exists in the provision that the governor, at the commencement of each session of the general assembly, shall present "estimates of the amount of money required to be raised by taxation for all purposes." Moreover, all state officers and institutions are required to report to the governor before each session of the legislature; and the governor may at any time require information in writing from the officers of the executive department.

No governor appears to have carried out the provision of the constitution as to estimates; and an act of 1913 providing for a compilation of appropriation requests ignores the constitutional provision and places this function on the legislative reference bureau. Before this bureau was established, requests for appropriations were submitted informally by each office, department or board; and separate bills were prepared by the several departments and institutions, and introduced by individual members of the general assembly.

Appropriation bills are referred to a single committee in each house. But these committees are large and unwieldy. In the General Assembly of 1913 the house committee had 44 members (out of 153) and the senate committee had 37 members (out of 51). Sub-committees are appointed to visit the state institutions; and joint hearings of the committees of both houses are held to hear the state officers in reference to the appropriations required.

Except for deficiency and emergency appropriations, the appropriation bills are not reported to either house until nearly the close of the session. At this stage there is no opportunity for adequate discussion; and the committee recommendations are rarely changed. But not infrequently the bills passed by the two houses differ; and in such cases conference committees are appointed, whose reports are accepted as a matter of course.

After passing both houses, appropriation bills go to the governor, who may disapprove any bill or any appropriation item within ten days. A considerable number of appropriations are usually disapproved, and in some cases items are reduced, by the governor, and by this means the total amount is somewhat reduced.

As a result, instead of a carefully prepared budget, there are passed a large number of separate appropriation acts, with an absurd

range of variation in the amounts appropriated and the extent and character of the items. Thus at the session of 1913, there were passed 94 appropriation acts, which cover 116 pages in the volume of session laws. One act for the pay of members of the general assembly was for a lump sum of \$2,600,000,—the amounts payable to each person being regulated by statutory provisions. Appropriations for the state university (\$4,500,000) and for the ordinary expenses of the state charitable institutions (\$8,000,000) were made in a few large items. On the other hand, appropriations for buildings and improvements in the charitable institutions were specified in 131 items; appropriations for the five normal schools were in one act, with 33 items; appropriations for the penitentiaries and reformatory were in five separate acts; and the "omnibus bill" for the great number of state offices, boards and commissions was in 96 paragraphs, with more than a thousand items. For one office there were such small items as \$75 a year for rubber stamps, and \$75 a year for twine.¹

Some improvements in methods have been made in the last few years. The management of the state charitable institutions was centralized, by an act of 1909, under a single state board of administration, one of whose members is fiscal supervisor. This board has presented carefully prepared estimates of the needs of these institutions. The result has been to put an end to the former scramble and rivalry between the several institutions; and the acceptance by the general assembly of the estimates presented by the board.

At the session of 1913 a detailed compilation of the amounts requested by the various state officers, boards and institutions was prepared, after the legislative session had begun, with a comparison of the appropriations made two years before. But this was necessarily prepared in the form presented by each of the state agencies; and while of service to the appropriation committees of that year, was perhaps of more importance in demonstrating the need for more careful preparation of the estimates before the general assembly convened. At any rate, an act of that session establishing a legislative reference bureau imposed on this bureau the unusual duty of

¹ George E. Frazer: *A Report on the Accounts of the State of Illinois*, prepared for the Efficiency and Economy Committee.

receiving, compiling and preparing the requests for appropriations from the several state officers, boards and institutions.

Under this act, the legislative reference bureau prepared and had printed soon after the opening of the session of 1915 a voluminous compilation of appropriation requests, itemized in minute detail under a general scheme of classification. This work seems to have been carefully done and marks an important step towards a budget system. But it must be recognized that this fell far short of an adequate system. Necessarily the new classification made impossible in most cases a detailed comparison with previous appropriations; nor had the bureau been authorized to make an analysis of expenditures under the new classification, as a basis of comparison. To the writer the mass of detailed items has seemed too numerous, and more likely to bewilder than to enlighten the members of the appropriation committees.

But the most serious weakness of this undertaking was the lack of any responsible recommendations for the estimates as a whole. The bureau had no authority to make recommendations; and while it is supposed that the governor exercised some supervision over the requests from departments and institutions under the management of his appointees, the aggregate estimates amounted to more than \$45,000,000,—an increase of twenty per cent over the appropriations of two years before.

Large reductions in these estimates were made by the appropriations committees and confirmed by the general assembly. But these were offset by important additions for purposes not included in the estimates,—notably to pay for cattle destroyed to suppress an epidemic of foot and mouth disease—; and the total appropriations from ordinary revenue, after deducting the items vetoed or reduced by the governor, were \$8,000,000 more than in 1913. An expenditure of \$5,000,000 was also authorized from the proceeds of a bond issue for the construction of a waterway in and along the Illinois river, making a total increase of thirty per cent in authorized expenditure over that made two years before.

Many of the increased appropriations were perhaps justified. But the need for more far-reaching reforms in connection with appropriations can be shown by some of the methods used and some of the appropriations made by this general assembly. The "omnibus bill," appropriating \$15,662,296, was introduced in the house

on June 1, read a second time on June 2, and passed on the 3d. On second reading (the last opportunity for amendment) members complained that printed copies were scarcely obtainable. In the senate, this bill was introduced on June 8 and passed on the 10th.

There were 88 appropriation acts, 6 less than two years before. Many of them were in much greater detail than at previous sessions, and the appropriation acts as a whole cover 232 pages in the session laws, or twice as much as in 1913. The general salary appropriation was itemized; and the appropriations for the normal schools and penitentiaries were made in accordance with the classification in the estimates. But there were, as formerly, too many separate bills, and no approach to a uniform system of classifying items, while the detailed enumeration of petty items was extended.

On August 28, an injunction was issued by the circuit court to restrain the payment of salary items in the omnibus bill amounting to \$262,348, as unconstitutional; and at the same time an act making an appropriation (of \$26,270) to pay railroad fares of members of the general assembly was also held to be unconstitutional. Bills appropriating \$92,601 for the relief of individuals, \$458,802 for deficiencies, and for certain committee expenses, are also being attacked in the courts as in conflict with the state constitution.²

The need for a new budget system has been urged and a definite plan has been prepared and was submitted to the general assembly this year by a joint legislative committee established two years before to investigate all departments of the state government and recommend a plan to reorganize and centralize the administrative system with a view to economy and efficiency. This committee made a comprehensive study of the existing state administrative authorities, and proposed a general reorganization into ten executive departments, including a department of finance with provisions for preparing a comprehensive budget.

In its report, the committee called special attention to the absence of any satisfactory budget of estimates as a basis of appropriations, and to the provision of the state constitution requiring the governor to present to the general assembly estimates of the amount required to be raised by taxation:

In the opinion of the committee the constitutional provision contemplates that the governor shall present to the general assembly a detailed

² See *Report of the Citizens' Association of Chicago*, September 9, 1915.

budget of appropriations recommended by him for the coming biennium, together with an estimate of the revenues of the state from sources other than direct taxation during the biennium, and a statement of the amount to be met by taxation. The careful preparation of such a budget would be a potent factor in securing economy and efficiency throughout the executive departments.³

A satisfactory budget statement should include a classified analysis of revenues as well as proposed expenditures, which should be subject to close scrutiny by competent and responsible officials charged with authority in the administration of the state finances, and submitted to the general assembly with the definite recommendations of the governor.⁴

The plan for organizing a department of finance proposed that there should be a state comptroller, appointed by the governor, who should be charged, among other things, with the preparation of a budget of revenues and expenditures for submission to the governor.

In summing up the results to be expected from the plan of administrative reorganization presented, the committee urged that:

The proposed reorganization will also aid in the preparation of a proper budget of estimates as a basis of appropriations. Each department will be able to formulate a careful estimate of needed appropriations, considering the relative demands of its several bureaus and services; and these departmental estimates will be compiled and analyzed for submission to the governor, who will recommend the aggregate budget of items approved by him to the general assembly. This will place on the governor the responsibility for the total amount requested; and the general assembly will hesitate to increase the appropriations recommended by the governor.⁵

Neither the finance bill nor the other bills prepared by the efficiency and economy committee to carry out its plan of administrative reorganization were enacted,—with the exception of a revision of the law relating to printing and other contracts, which should effect a considerable economy. But the recommendations are still before the people of the state; and a prominent candidate for governor at the election in 1916 had definitely announced that he favors and will urge a reorganization of the state administration and the introduction of business methods and a budget system in the state government.

³*Report of the Efficiency and Economy Committee, State of Illinois, 1915, p. 22.*

⁴*Ibid.*, p. 34.

⁵*Ibid.*, p. 75.

STATE BUDGET MAKING IN OHIO

BY W. O. HEFFERNAN,

Ex-Budget Commissioner of Ohio.

Original Status of Financial Procedure in Ohio

Senate Bill No. 227, entitled an "Act to Establish a Budget System for the State Officers, Departments, and Institutions," was passed on April 11, 1913, and approved by Governor James M. Cox on May 6, 1913. Nothing was done towards carrying out the provisions of this act until after August 6, as a referendum was threatened against it, and it was deemed wise to wait until the referendum period of ninety days expired before going into its organization.

The law provided that on or before the fifteenth day of November, biennially, in the even numbered years, all state activities requiring appropriations should submit to the Governor a statement of their wants for the next biennium. It also provided that the Auditor of State should furnish the Governor a statement showing the balance standing to the credit of the several appropriations for each department, institution, commission, and office of the state, for each and every current purpose of the state government at the end of the last fiscal years in which appropriation accounts had existed; a statement showing the monthly average of such expenditures from each of the accounts for the fiscal year and also the total monthly average from all of them for the last four fiscal years. It was further provided that all of the departments, institutions, commissions, and officers of the state, upon request, should furnish to the Governor any information desired in relation to the affairs of their respective departments, institutions, or officers.

The information, or rather the statements which the Auditor was supposed to furnish, were very unsatisfactory. It took weeks and months to get them because there were no available records in the Auditor's office from which figures for purposes of comparison could be taken. In other words, there were no comparative records kept up to the time of the installation of the Budget System.

The budget act also provided that, at the beginning of each regular session of the General Assembly, the Governor should submit to the General Assembly the estimates of the departments, institutions, commissions, and offices of state together with his budget of current expenses of the state for the biennial period beginning on the first day of July next thereafter. The act carried the usual appointive power and gave to the Governor the power to examine, without notice, the affairs of any departments, institutions, or public works, commission, or office of the state for the purpose of ascertaining facts, and to make findings and recommendations relative to increasing the efficiency and curtailing the expenses therein. The Governor or his appointees had the power to compel the attendance and testimony of witnesses, administer oaths, and examine such persons as they deemed necessary, and to compel the production of books and papers. The orders and subpoena issued by the Governor or his Budget Commissioner in pursuance of the Authority in them vested by the provisions in this act, could be enforced upon the application of the Governor by proceedings in contempt in any court of common pleas.

I assumed office on November 1, 1913. The Governor was then considering convening the Ohio legislature in extraordinary session for the purpose of passing much needed school legislation and to repeal the 1914 appropriation act if sufficient reductions could be made to warrant this action. My first duty was to take the old 1914 appropriation act, which became available on the sixteenth of February, 1914, tear it apart, analyze it, and report to the Governor whether or not sufficient reductions could be made to warrant his calling a special session. About the middle of January, I reported to him that a million dollars could be lopped off the 1914 appropriations without in any wise affecting the efficiency of the various departments. The new budget was presented to the extraordinary session of the legislature and passed with a reduction of some \$900,000. There was hardly any change made by this legislature in the figures which I presented to them for their consideration.

Under the old scheme of things in Ohio, we had an appropriation year beginning February 16 and ending February 15. We had a fiscal year beginning November 16 and ending November 15. Several of our other institutions and departments ran on different years, and this made all of the records useless for purposes of com-

parison. A bill was then passed fixing the year for all activities of the state government to begin on July 1 and end June 30. This change in years necessitated the four and one-half months budget from February 16 to June 30, the interregnum between the old and the new year.

The old state emergency board was empowered to authorize various departments when appropriations ran short to borrow money from the banks. This was changed by giving to the state emergency board an appropriation sufficient to prevent the carrying forward of deficits. On an average of \$250,000 is given to this board each year, which is quite sufficient to care for any emergencies that may arise within the budget period. It was found that the old emergency board was authorizing the borrowing of money when we were blessed with a plethoric treasury, and a plethoric treasury without budgetary control is a curse to any state.

Towards the end of the 1914 appropriation year, despite the wails and howls emitted by the heads of departments affected by the cuts heretofore mentioned, a study of the balances resulted in the lapsing to the general revenue fund of almost \$1,000,000. This was accomplished through the supervision of expenditures, admonitions to the officials, and holding down the outgo far below that to which these departments were accustomed.

So long as there were no figures available for comparison with previous years the adoption of a system of classified expenditures, without which there could be no budget, was prevented. Under the old regime the legislature usually had before it in considering financial matters only the *ex-parte* testimony of interested persons, whose statements and statistics in support of their alleged needs it was nobody's business to examine critically, and which, in the absence of reliable and exact information, could not be readily refuted.

I found nothing of immediate value in the state reports. The obvious lack in these reports were as follows:

1. Improper classifications and segregation of accounts for the purpose of reporting financial transactions of the department.
2. Inadequate classifications by objects of expenditure.
3. Amounts of expenditure for specific objects not specifically classified.

4. Amounts showing expenditures by objects containing amounts representing inventory on hand.

5. Amounts of expenditure shown in report containing amounts and specific appropriations, which unbalanced any comparison which one might wish to make.

The obvious, helpful reports suggested were:

1. A division of accounts in accordance with budget classifications.

2. A schedule which would show the number of employees and salaries paid to each, to be incorporated in the report so that a comparison could be made as to the number of employees in each of the departments and institutions; and this same system to show the per-capita expenditures for salaries for each of these departments and institutions. This item could be sub-divided further, but it might not be desirable.

3. That all of the Ohio State Reports be incorporated in two volumes and be known as the "Ohio State Reports."

Under the system which formerly prevailed in this state the heads of departments, boards and commissions were requested to submit to the Auditor of State, upon blanks furnished by him, their estimate of funds necessary to run their departments until the next biennium. These requests were then returned to the Auditor of State, who tabulated their wants and submitted them without comment to the incoming legislature. Hearings before the finance committee of the house were held behind locked doors and drawn blinds, and the men who were the best talkers got the most money. It was not a case of need so much as it was a case of "you scratch my back and I will scratch yours." All of the house appropriations were made in two ways, either in lump or inflexible specific appropriations. The lump sum scheme seems to have predominated in appropriations during the last decade, though many examples of specific appropriations occurred during this period. A thoroughly efficient and honest administrative official can oftentimes get better results if he has a free hand in the use of funds, and circumstances sometimes arise which make it desirable to use funds for purposes which the legislature could not foresee. But on the other hand, the same kind of an appropriation in the hands of dishonest or incompetent officials are so easily misused that they have proven generally unsatisfactory and often vicious. Specific appropriations were the

natural ends towards which legislative bodies reacted after having found the lump sum inadequate. The fact that the money appropriated specifically, could be used for no other purposes and no other money was available, made it necessary to allow a wide margin for any contingency that might arise. Usually the maximum amounts provided were not required, but the official thinking that he must allow the money to lapse or spend it for the purposes as specified, was apt to be too free in spending.

Not until the budget was established in 1914 was any attempt made to combine the virtues of the two systems and eliminate their vices. In order to avoid the evils of both lump sum and specific appropriations, appropriations were made specifically but were provided with the necessary degree of flexibility. This was done by means of the transfer system which made it possible to appropriate, instead of maximum estimates, those slightly above the minimum. Provided with the privilege of transfer, departmental officials could reduce their estimates on each item knowing that according to the "law of probability" all projects would not cost the maximum, and that the small margin of safety could be transferred from those which cost the minimum to the few that actually approach the maximum. The result of following this plan was economy and smaller appropriations for specific items, and in consequence a smaller budget. Along with this a check was provided on expenditures for the reason that the request for a transfer invited investigation by the emergency board, and required a statement of explicit reasons why the fund to which transfer was sought was not adequate.

During the early history of Ohio, the state was poor. Funds for expenses were largely raised by direct taxation and the pinch of taxes could be expected to react upon officials and check their waste and extravagance. With tremendous increase in wealth these checks became less effectual and there came a tendency to resort to indirect taxation for funds with which to run the government. Scandalous waste and inefficiency resulted. In 1914 a book of budget classifications and rules of procedure was distributed in all of the departments at the same time that the blanks for their estimates were requested. According to this classification all known departmental wants were itemized to the penny. The fact that the original requests had to be itemized reduced considerably the total

of the estimates. The word "Contingencies," which had appeared in divers places in all past appropriation bills was entirely eliminated. It had been the custom to request under this head large sums of money, and what few records there were showed that it was disbursed for all sorts of things from "Personal Services" to "Additions and Betterments."

The old appropriation bills, because of the appropriations of "Receipts and Balances" year after year, were absolutely beyond the comprehension of any person who tried to digest or analyze the financial acts of any session. In fact, with these words appearing in the bill, no one knew how much money was being voted from the state treasury. So long as this practice continued attempts at retrenchments were largely nullified by these blind appropriations and it was urged upon the legislature that this practice be discontinued. A survey showed that all departments receiving these blind appropriations of "Receipts and Balances" were guilty of the greatest extravagance. Detailed classifications checked these extravagances, because the General Assembly would not countenance the granting of money for purposes not entitled to state aid.

Under the old scheme hearings on the appropriation bills were had by the Committee on Finance of the House of Representatives, and then the whole thing was duplicated by the Senate Committee on Finance. This practice was not only expensive but it prolonged the session indefinitely.

Suggestions Made

The budget is not new. Primarily it balances income against outgo, prevents extravagance, and forces attention to fundamentals long recognized in English finance and administration. In England the ministry stakes its tenure of office on the passage of the budget substantially as prepared. There it is not merely a recommendation by the executive, but it is the fiscal program of the ruling powers in both the legislative and executive branches. It is effective because under this arrangement it has behind it all the force of the party organization. In Ohio the budget is merely an executive recommendation, and the most persuasion that can be given it is its preparation by expert talent.

In the installation of a budget it is quite obvious that certain reorganizations are necessary. The budget officer should report

directly to the Governor, and should give to him economy and efficiency reports on each and every function of state government. Some scheme should be evolved whereby the legislative and executive functions may be brought closer together in the process of budget making. For instance, Wisconsin provided during the last session of her legislature, that the Governor might sit with the budget authorities during a certain period of its preparation.

The Governor should have the selection of the officials who are to be his advisors, and most of the appointments now referred to the senate for confirmation should be left to him alone. On the other hand, it should be understood that the acceptance of budget recommendations by the legislature does not deprive it of power to originate legislation, and the preparation of the budget does not involve the acquiescence of the legislative majority in advance.

It was recommended to the Ohio legislature that public hearings be had on all estimates—under the old scheme hearings being held behind locked doors. This was designed to bring about citizen coöperation, coöperation of the people who are interested in various projects, and the body voting the appropriation.

The attention of the legislature was also invited to ways and means for shortening their session. It was pointed out to them that unduly protracted sessions increased the cost of each law—this cost now being \$269 in Ohio, with only New York and Illinois higher. Emphasis was placed upon the recommendations that the quality of laws must not be lowered, and that time should not be saved through the sacrifice of quality of their work. I wanted the adoption of a rule prohibiting the introduction of any bill in either house carrying an appropriation unless the request for money was classified according to budgetary form. I also asked for the adoption of a rule keeping committees up to their work and penalizing them when absent or tardy. This suggestion, which savored strongly of discipline, went unheeded by the last session of the legislature.

If retrenchment was to be brought about, some radical changes in the state governmental machinery were necessary in the interest of both economy and efficiency. The following consolidations were recommended:

Building and Loan Department with the Department of Banks and Banking.

The State Library, the Traveling Library, the Library Organizer with Ohio State University.

The Adjutant General's Department with the Ohio National Guard.

The Medical Board, the Pharmacy Board, the Embalming Examiners, the Dental Board with the State Examining Board.

The Lima State Hospital, Reformatory for Women, the Soldiers and Sailors Orphans Home with the Board of Administration.

The Bureau of Vital Statistics with the State Board of Health, and

The State House and Grounds with the Board of Public Works.

Also I recommended the following abolishments:

Commissioner of Soldiers Claims, Public Printer, State Bindery, Armory Board, Flag and Relic Room, Extension Work by Educational Institutions, not specifically authorized by the General Code, the Naval Militia, and Cavalry in the Ohio National Guard.

None of these recommendations was even considered.

The total request of the budget for the period beginning February 16, 1915, and ending January 30, 1917, was \$50,128,000. The total recommendations for the same period were \$39,927,000. There was a free and unincumbered balance in the state treasury on the day before the budget bill became a law, of \$3,000,000. The estimated revenues over my budget recommendations were \$1,273,000; this provided a liberal margin for shrinkage in revenues in this period, and kept the expenditures within the revenues. Adding to this excess of revenues over my recommendations the balance of \$3,000,000, which was a heritage to the new administration, there was \$4,273,000 more than was actually needed, according to the budget recommendations, for maintenance of the state's activities.

The total appropriations for this period, as finally passed, reached the stupendous sum of \$46,298,000 or an excess over the budget recommendations of \$6,371,000. The appropriations exceeded the estimated revenues by \$5,098,000.

Advance Secured

The Governor of Ohio during 1913 and 1914, although pilloried as an enemy of state progress, is here given unstinted tribute for making possible the modern fiscal system Ohio enjoyed during these years. The budget system was first condemned as being

autocratic and a dangerous power in the hands of the Governor. It was declared to be so vicious that it must and would be abolished upon the accession of his opponents to power; that it was not a function of the Governor and would be transferred to the State Auditor's office.

In spite of this misrepresentation and lung thinking in the last campaign, the whole system was kept right where it was placed at the beginning. The campaign conducted last year in Ohio, mainly on the contention that the Governor should not have so much power, was won by those who said that they would limit his power. We have seen that this fear of executive power was merely pretense.

During the summer of 1914 a special session of the legislature was called for the first time in its history to reduce taxes. They were in session one day which I believe is the record for a session of any legislature in this country. This session cost approximately \$3,500 and resulted in a horizontal cut in taxes approximating \$2,200,000.

The increased demands from the various state departments due to growth of population and developments of the state in general, which necessitated larger expenditures for activities then being performed, and the clamor by the people for state departments to undertake new functions, all tended to swell the budget estimates and make the job of paring down much harder. There were a number of demands for new activities and increased expenditures that could not be well denied. It was my opinion that a rigid curtailment should be made in the allotments to such departments as were performing service of doubtful value.

I found many activities long established and yet appropriated for, which had absolutely no reason for continuing to receive state appropriations. Expenditures begun at a time when conditions were different were often continued year after year when the necessity for them no longer existed. No legislator could be expected to familiarize himself with ninety different departments and the burden of proving that the necessity for an appropriation no longer obtained was on the person suggesting the change. Now the system is reversed.¹ If after careful inquiry the budget commissioner refuses to recommend an appropriation, his recommendation is

¹ Copies of the Ohio 1915-1917 Budget Report may be had by addressing Mr. W. O. Heffernan, of The National Cash Register Company, of Dayton, Ohio.

prima facie evidence that the money should not be spent. The budget of 1914 provided for the General Assembly a means of obtaining an impartial statement of facts, which were obtained by diligent research and submitted by a department which had no axes to grind and was biased by no consideration of prejudice or favor.

FINANCIAL ADMINISTRATION OF THE COMMON-WEALTH OF MASSACHUSETTS

BY ERNEST H. MALING,

Secretary, Massachusetts Commission on Economy and Efficiency.

Introduction

The state government of Massachusetts is financed by revenues appropriated annually by the legislature, by revenues expended under standing statutory provisions and without appropriation, and by loans.

A budget, in the sense of a comprehensive financial plan with recommendations for all classes of expenditures and a plan of financing them, has never been prepared. For such departments and work as are financed from revenues annually appropriated, the departmental officials submit estimates to the state auditor who tabulates them, without modification, for the use of the legislature, governor and the Commission on Economy and Efficiency, an agency to conduct investigations for both the legislature and the governor. In addition to the departmental estimates, numerous petitions for appropriations are introduced into the legislature with the result that the auditor's tabulation cannot be accepted as complete, and no other tabulation of proposed expenditures is made.

The departmental estimates and other proposals for expenditure are acted upon exclusively by the legislature and its agent, the Commission on Economy and Efficiency. The governor takes no part in the preparation or revision of estimates, his action in appropriation matters being limited to the approval or veto in its entirety of each supply measure passed by the legislature. The law provides that the auditor's tabulation of estimates shall be submitted to the governor-elect approximately three weeks prior to the convening of the legislature, but such a practice has little significance since the law makes no other specific provision for the governor's participation in budget making and no facilities for the preparation of a budget are furnished him.

The present law governing the preparation of departmental

estimates was enacted in 1912 and supplanted an act passed in 1910 which provided that the auditor's tabulation of departmental estimates shall be submitted to the governor and council "for examination, and the governor shall transmit the same to the general court with such recommendations, if any, as he may deem proper." With respect to estimates for "special purposes," *i.e.*, in addition to those covered by regular, annual appropriations, the law of 1910 further provided that the governor "shall make recommendations as to how much should be raised by the issue of bonds and how much should be paid out of current revenue."

The purpose of the act of 1910 was to place the responsibility for a budget upon the governor. It was claimed by proponents of the law that under its provisions the governor "must exercise control and be responsible for increase in expenditures and in the debt as well." The law became fully operative in 1911 and it soon became evident that the governor and council had neither the authority nor the facilities for investigating the administration of the departments in order to determine the reasonableness of the estimates. The law contemplated that the auditor's office would furnish such data as might be needed, but no increase in the personnel of that office was authorized. The auditor furnished data relative to receipts and payments but had no means for assisting the governor in determining whether the departments were in genuine need of the amounts contained in the estimates. At the request of the governor, the legislature authorized him to investigate the departments and for this purpose public accountants, engineers and other investigators were temporarily engaged. On the basis of the reports of his investigators, the governor submitted from time to time throughout the legislative session, recommendations on practically all of the estimates. Material reductions in the estimates of some departments were recommended by the governor, but the legislature was influenced to only a small degree by the governor's messages and proceeded with its appropriation bills in much the same manner as formerly.

Although the law of 1910 did not prove satisfactory, it cannot be regarded as a failure of the principle of an executive budget. The intent of the law was to place responsibility for the estimates upon the governor, but the legislature in fact never relinquished its prerogatives and did not give the governor adequate means for in-

vestigation and preparation of a budget. Moreover, it is extremely doubtful if a genuine executive budget procedure can be adopted so long as the state government remains in its present status of decentralization with over 100 distinct units of organization controlled by some 335 officials and members of boards. Another obstacle in the way of an executive budget is the annual election of the governor.

In order to correct one of the defects in the law of 1910, the legislature created in 1912 a permanent investigating body, the Commission on Economy and Efficiency. At the same time, the governor's authority and responsibility for recommending appropriations were abolished and the whole function of budget making was taken back into the legislative branch. The 1912 law provides that the Commission on Economy and Efficiency shall examine the departmental estimates and "shall report thereon to the general court," thus making the commission a legislative agency so far as the investigation of estimates is concerned. On other subjects, however, the commission is required to investigate sometimes for the governor and at other times for the legislature.

Further changes in the methods of handling estimates and making appropriations have been advocated recently. In his last inaugural address, Governor Walsh made a recommendation for again placing upon the governor the responsibility of submitting estimates to the legislature. A special committee on legislative procedure at the last session recommended several changes in methods of preparing estimates and drafting appropriation acts. No changes resulted from these recommendations, which are here referred to as evidence of the efforts being made to effect improvements in the state's appropriating machinery.

At present, different methods are followed in administering the revenues subject to annual appropriation, the revenues expended under standing statutory provisions, and loans. The procedure for each class will be described in some detail.

Revenues Subject to Annual Appropriation

The principal classes of revenue subject to annual appropriation are a general property tax, known as the "state tax," corporation taxes, inheritance taxes, licenses, and departmental revenues, together with assessments on Boston and neighboring cities and

towns in the "metropolitan" district to reimburse the commonwealth for the costs of acquiring, constructing and operating water and sewer systems and parks for those municipalities. With the exception of the state tax and the metropolitan assessments, the revenues are assessed and collected at established rates. The state tax is fixed annually by the legislature at that sum which with the estimated receipts from other revenues will equal the total amount appropriated by the legislature.

Each important stage in making annual appropriations is briefly described in the following outline, and a more detailed description of the preparation and investigation of estimates and of the form of appropriation acts is then given. First, however, it may be well to explain that the fiscal year for the state ends on November 30; the governor is elected annually in November and is inaugurated on the first Thursday in January; and the legislature convenes on the first Wednesday in January of each year.

Outline of Appropriation Procedure

The appropriation procedure may be summarized as follows:

(a) Preparation of estimates by department officials and submission to state auditor not later than November 15 of each year.

(b) Tabulation of departmental estimates, without revision or change, by auditor and submission of tabulation to governor-elect and to State Commission on Economy and Efficiency not later than December 15.

(c) Publication by auditor of departmental estimates, together with his estimates of revenue for ensuing fiscal year, in a report submitted to the legislature on the first Thursday of January.

(d) Report and recommendations of Commission on Economy and Efficiency to legislature "as to any or all of the appropriations requested or the method of raising money for the same, as it may deem expedient," submitted "annually on or before the first Thursday in January, and at such other times as it may see fit."

(e) Preparation by House Committee on Ways and Means of appropriation bills for meeting ordinary, recurring expenses. As a rule a separate bill is prepared for each department or institution but in some instances two appropriation bills are drafted for a single department. The bills are reported to the House in whatever order they may chance to be prepared. The bills are based

on the estimates tabulated by the auditor, supplemented by information obtained at committee hearings or submitted by the Commission on Economy and Efficiency.

(f) Legislature's action on appropriation bills for ordinary expenses. These bills, when reported out by the House committee, follow the usual course of legislation and almost without exception are enacted in the form reported by the Committee on Ways and Means.

(g) Governor's action on appropriation bills for ordinary expenses. One or more separate bills for each department or institution, as enacted by the legislature, are laid before the governor for his action from time to time throughout the legislative session. These bills are invariably approved by the governor.

(h) Legislature's action on appropriations for "special" purposes to be met from revenue. Requests for "special" appropriations submitted by departmental officials are included in the auditor's tabulation, but other requests for "specials" are submitted directly to the legislature. All requests are first referred by the legislature to the committee concerned with the activity or function for which a special appropriation is sought. For each special appropriation which is approved, the committee reports an authorization in the form of a "resolve" or "special act," which is then referred to the House Committee on Ways and Means for a report. In contrast to the favorable action taken on their appropriation bills for ordinary expenses, the Ways and Means Committee's reports on "specials" are frequently not accepted by the legislature.

(i) Governor's action on measures authorizing "special" appropriations. The separate resolve or act authorizing each "special" appropriation is submitted to the governor who not infrequently vetoes such measures.

(j) Preparation by House Ways and Means Committee and enactment by legislature of appropriation bills for such "specials" as have been authorized, all "specials" being included in three or four bills.

(k) Preparation by House Ways and Means Committee of a bill fixing the "state tax" and apportioning it among the cities and towns of the commonwealth. The act fixing the state tax is passed near the close of the legislative session and in the form drafted by the Committee on Ways and Means.

Preparation and Investigation of Estimates

In part, the form of the estimates is determined by Chapter 719 of the Acts of 1912 which requires departmental officials to submit to the state auditor "statements showing in detail the amounts appropriated for the current fiscal year, estimates of the amounts required for the ensuing fiscal year, with an explanation of the reason for any increased appropriation, and with citations of the statutes relating thereto, and the expenditures for the current year and for each of the two years next preceding." The law further requires that separate statements of estimates for any "special purposes or objects . . . in addition to the ordinary running expenses" shall be submitted "in detail" to the auditor.

For many years, the statutes have required the submission of estimates to the auditor for tabulation and presentation to the legislature. In carrying out this provision of law it has become customary for the auditor to draft forms to be used by the departments in submitting their annual estimates. For the 1915 estimates the forms were revised so as to require more information and a more nearly standard classification than formerly.

In each of the two tabulations of estimates required by law, the auditor incorporates the estimates for current expenses and those for "special purposes" in separate reports. For many departments and offices, the estimates for current expenses are presented in practically the same detail as that used in the appropriation acts, but for each institution the estimates are given in from seven to ten items while the act grants a lump sum appropriation. Additional details as required by the estimate sheets sent out by the auditor's office are not tabulated but are available for use by the Ways and Means Committee and the Commission on Economy and Efficiency. In addition to the estimates for current expenses, the tabulation shows the appropriations and expenditures for the preceding year, together with the unexpended balances at the end of the year.

The tabulation of estimates for "special purposes," which is presented in a separate report, shows the departmental estimate for each proposed building or project together with brief explanatory statements of the officials' reasons for requesting an appropriation. The detail in these estimates is usually the same as that appearing in the resolves providing for such of the work as is authorized by the

legislature. Neither the tabulation of current items nor that of "specials" contains any summary or recapitulation of the total requests to be financed from revenue.

The second tabulation of estimates made by the auditor is submitted in the form of two legislative documents (House Documents Nos. 1 and 2), one containing the estimates for current expenses and the other, the estimates for special purposes. The estimates are presented in the same form as in the tabulation for the governor-elect and the Commission on Economy and Efficiency. The second report differs, however, in that it presents expenditure figures for the last three years and omits the data on unexpended balances. In his second tabulation, the auditor also shows his estimate of the amount which will be received from each principal class of revenue subject to annual appropriation.

In addition to the estimates submitted to and tabulated by the auditor, large appropriations are requested by petitions submitted directly to the legislature. In the session of 1915, approximately 200 petitions requesting over \$2,500,000 in appropriations to be met from revenue were submitted directly to the legislature and thus omitted from the auditor's tabulation. Of this amount, only a negligible sum represented requests which could not have been submitted in time for tabulation by the auditor. With few exceptions, the appropriations requested in the legislative petitions were for departmental and institutional purposes of the same nature as the "specials" tabulated by the auditor. The "specials" in the auditor's tabulation amounted to \$2,630,103 or a little over one-half of the total requests of this class. Bond issues of over \$8,000,000 were also requested in petitions to the legislature. None of these was included in the auditor's tabulation, since that statement, as previously explained, is limited to revenue appropriations.

Those requests for appropriations submitted as petitions cannot be considered by the governor, the Commission on Economy and Efficiency or others interested in budget making until the petitions have been referred to the several legislative committees and printed. With such a practice in force, it is impossible for a genuine budget to be prepared.

Supplementing the estimates submitted to the auditor, plans and specifications for the construction of proposed buildings at state institutions must, by provision of law, be submitted by the

institutional officials to the state board having supervision over their institution, or in the case of institutions not under the supervision of a state board, to the committees of the legislature by whom the request shall be considered. The procedure required by this law has assisted in improving the character of construction as well as giving the legislature a basis for considering and granting appropriations for new buildings and other improvements at state institutions. In one respect, however, the procedure under this law should be radically changed, so as to avoid paying architects large sums for plans which are used only in making unsuccessful attempts to procure appropriations.

The Commission on Economy and Efficiency has investigated estimates for both ordinary expenses and "special purposes" and has presented its material and conclusions partly by means of conferences with the House Committee on Ways and Means and partly by written reports. In its studies, the Commission has made a special effort to collect facts relative to the work conditions and needs of the state institutions whose requests constitute a large proportion of the total sum asked for "special purposes." In addition to the returns made to the auditor and to the plans and specifications for new buildings submitted in compliance with law, the institutional officials have furnished to the Commission on Economy and Efficiency further data on proposed construction together with statistics on the physical plant, such as accommodations for patients and employees, etc. The information has been furnished in response to a questionnaire designed to develop facts which would furnish the means for testing and interpreting the figures on estimated and actual expenditures submitted to the auditor.

Form of Appropriation Acts

As a rule, a separate appropriation act is passed for the expenses of each department and state institution. Exceptions occur, however, and in some instances several appropriation acts are passed for a single department while a small number of acts (four in 1915) are passed for "sundry miscellaneous expenses." The larger part of the appropriations in these miscellaneous acts are for work or purposes authorized by the legislature then sitting, including the construction of institutional buildings, public improvements and other "specials" which do not properly come within the title "expenses."

The acts granting appropriations are in a variety of forms, and the only factors commonly specified are (a) the revenue from which money is appropriated, as "ordinary revenue" or some special class of revenue as the assessments on the Metropolitan Park District, and (b) the period in which the appropriation is available for use. The appropriations for some departments and institutions are made in lump sums and for others in detail, but with no logical reason for the differences.

Some acts designate the department or official authorized to expend the appropriation while others contain no reference to any department or official. In the latter case no practical difficulty arises as to authority since appropriations are granted only for such work or purposes as have been previously authorized by a statute which designates the department or official to perform the work.

In many instances, the salaries of officials and employees are fixed by law and, as a rule, the acts appropriate separately for such salaries, while allowances for other salaries are grouped or are merged with other objects of expenditures. In those acts which appropriate in some detail for a single department, half or more of the items frequently specify the amount allowed for salaries which are fixed by statute. For example, in 1915 the appropriation act for the office of the treasurer, an elective official, contains 19 items of which 15 are for the salaries of individuals, from the treasurer down to a messenger at \$1,000.

Some appropriation acts specify the amounts to be expended on distinct functions and sub-activities, some of which are unimportant, and other acts specify the amounts for the several organization subdivisions of a department.

The appropriations for "special" purposes, principally construction work, are included in the acts for "sundry miscellaneous expenses," as previously explained. The amount granted for each institution or undertaking is stated as a lump sum in the appropriation act but a reference is given in each instance to the legislative resolve, which specifies the sum appropriated for each principal piece of construction or job.

The four acts for so-called "sundry miscellaneous expenses" in 1915 contain 138 distinct items of appropriation, the number of items in a single act ranging from 9 to 54. The total amount carried by each of these four acts is not stated therein, neither are the

items classified or arranged according to any system nor are they listed in the index to the session laws, for the reason that these appropriation acts are considered as perfunctory measures, being made up largely of items for which separate resolves were passed by the legislature. With slight changes in methods, the amount appropriated to meet the requirements of new legislation might be clearly shown in a single appropriation act. This information may be obtained from a statement issued by the state auditor shortly after the close of each legislative session, but unfortunately this statement receives little attention.

The number of appropriation acts passed in each month of the legislative session of 1915 and the amount appropriated in each month are shown in the following statement:

Month	Number of acts	Amount
January.....	18	\$1,194,907.44
February.....	34	5,795,018.85
March.....	61	10,594,275.59
April.....	16	2,986,295.04
May.....	5	1,372,058.00
June.....	2	786,623.31
Total.....	136	\$22,729,178.23

Revenues Utilized Under Standing Statutory Authority

The revenues which are not subject to annual appropriation but are expended under standing statutory authority comprise several classes of imposts, as motor vehicle fees, highway assessments levied on counties, assessments on cities and towns for harbor improvements, etc., together with the earnings of institutional industries and other undertakings, and the interest from invested funds. The amount of revenue collected from these sources and expended without specific appropriation could be ascertained only by extended investigation, but in 1914 the chief sources of such revenue, exclusive of interest from investments, produced over \$2,240,000 or approximately 10 per cent of the receipts from revenue subject to annual appropriation. Practically all this sum is used for meeting expenses of operation and maintenance and construction costs of the same nature as those met from revenue subject to annual appropriation.

The statutes governing the expenditure of revenues not subject

to annual appropriation indicate in general but not in detail, the purposes or objects for which they may be used. No information concerning these revenues is presented in the auditor's tabulations of estimates for the legislature, and in fact, neither that body nor the governor have any important part in the administration of these public funds. In the auditor's annual report, detailed statements of the receipts and expenditures of non-appropriated funds are given but they are understood by very few persons other than the officials who administer them.

Loans

Although Massachusetts has for many years expended large sums of current revenue for new work, bonds have been issued extensively, principally for construction of armories, institutional buildings, additions to the State House, highways, harbor developments, and war expenses. Bonds issued for these purposes are known as "direct debt" of the state. State bonds have also been issued to finance the construction and development of parks, water systems and sewer systems in the so-called Metropolitan districts. These latter, known as the "contingent debt" of the state, are to be met by assessments levied on the benefited cities and towns.

By a law enacted in 1912, all state bonds must be issued on the serial payment plan. With the exception of a few loans for indefinite periods, the statutes specify the period for which the bonds may run. The statutes usually name only the general purpose for which the proceeds of the loans are to be used, but occasionally the law specified in some detail the work to be financed. Many issues are authorized for a stated sum with provisions that a specified portion of the total may be issued each year for a term of years, on the recommendation of the department expending the loan, but with a provision that any proposed issue of a portion of the bonds must be approved by the governor and council. Some bond acts require a similar approval before the expending department can execute contracts for construction or other work.

Legislative bills for bond issues originate from recommendations of state officials, from petitions of members of the legislature or of citizens interested in the development of some branch of state work. The bill or petition follows the same course as that described for appropriation bills for "special purposes," being referred to the

committee concerned with the proposed work. If that committee reports in favor of a bond issue, its bill is referred to the House Ways and Means Committee. Each proposed bond issue is considered separately, no attempt being made to prepare a loan budget, nor to study the loan measures in their relation to revenues devoted to the same general purposes as are contemplated in the loan bills. A separate act or resolve is enacted for each approved bond issue, thus placing each loan project before the governor for his approval or veto. In 1915, 20 separate bond issues were authorized by the legislature, of these 9 were "direct debt" loans aggregating \$3,076,000, and 11 were "contingent debt" loans for \$697,000.

While the bond issues of Massachusetts appear to have been authorized for carefully considered purposes or projects, it is questioned whether the state has succeeded in granting funds to its several departments and institutions in proportion to their genuine needs. The method of administering the finances makes difficult such an allotment of moneys. With some of the largest spending departments financed in part from revenues annually appropriated, in part from revenues expended under standing or continuing statutory provisions and in part from bonds which may be issued annually for a term of years, on the recommendation of the departmental officials, it is exceedingly difficult to secure well balanced grants of public funds.

TAXATION AND THE MUNICIPAL BUDGET

BY MILTON E. LOOMIS,

New York University, School of Commerce, Accounts and Finance.

The relation of the revenue side of municipal finance to budget administration is a subject that has not attracted a great amount of public attention. The development of the municipal budget in American cities during the last few years has been almost wholly in the direction of a more effective control of expenditures. In fact, the term "budget" is generally used to refer solely to a more or less detailed estimate of future expenditures. The fact is lost sight of that the budget properly includes an estimate of probable income as well as of outgo. This failure to recognize the full meaning of the budget has been due, in part, to the circumstance that frequently the administration of the revenue-raising function has been in the hands of a set of officials entirely distinct from those charged with the duty of supervising expenditures. Moreover, in many cases the tax ordinance is passed at a time so far distant from the time when future expenditures are determined that it is difficult to associate the two acts as part of the same procedure—the passing of the budget. Finally, American cities have been given so little independent authority in regard to the objects and methods of local taxation that the process of raising revenue to meet estimated needs has been largely reduced to the formal administration of a previously enacted law or constitutional provision. The revenue system has not been open to substantial improvement through local action, and has, therefore, lost its position as a complementary element in the development of budget administration.

The fact remains, however, that the nature of the revenue system may have an important bearing upon the effective carrying out of a scientific budget plan. From the standpoint of successful budget administration a good revenue system should possess at least two salient characteristics—ready adaptability to changing demands for revenue, and certainty and regularity of yield.

Unless the revenues can be adjusted to meet the estimated ex-

penditures without causing serious disturbance in the economic and social organization of the community, the city administration may be handicapped in putting into effect a constructive budget program. Municipal expenditures are steadily increasing. This increase must be met by a corresponding increase in revenues. The revenue system should be so adjusted to take care of the necessary annual increase with the least strain on the tax-paying public.

Certainty is as important as flexibility. If it is not possible to estimate with reasonable accuracy the amounts that the various sources of revenue will yield during the coming year, it will obviously not be possible to construct and carry out an intelligent plan of expenditure. There should be no marked fluctuations in the amount of income from year to year, or at least no fluctuations not due to readily foreseen and assignable causes.

The following brief discussion will deal exclusively with these two characteristics of American municipal revenues—flexibility and certainty of yield—consciously omitting all considerations of a more fundamental nature touching the substantial justice of taxation.

I. Adaptability to Revenue Demands

Theoretically, the administration of the budget calls for a revenue system composed of certain main sources which are relatively stable and dependable, and which do not require adjustment or change from year to year. Additional revenues should be obtained, as needed, by adjusting the rate of return from minor sources. In this way, conceivably, revenue increases could be made possible with little or no disturbance of existing conditions. As a general thing, municipal expenditures do not increase from year to year at a rate exceeding 10 per cent. In theory, the most satisfactory way of handling such an increase would be to increase the yield of one or more of the less important sources of income without tampering with the principal source.

In American practice no such rule is followed. Up to the present time cities have been depending largely upon increasing the returns from the general property tax, either by raising the rate, or, if that was not legally possible, by raising the basis of assessment to some point nearer the true valuation. Other sources of revenue are only occasionally considered as available to meet the requirements for more money. In fact, it is only when the general property rate has been increased to the legal limit, and the basis of assess-

ment raised to 100 per cent, that the cities begin to look around for other sources of additional revenue. The city is thought to be in rather desperate financial straits when the administration is forced to consider anything but the general property tax as a means of raising more revenue.

The general property tax, which is thus made the principal equalizing element in the revenue system, is, at the same time, the main dependence of American cities. Taking the cities of the country as a whole, the general property tax produces over 60 per cent of the annual municipal revenue. As the tax is administered in most cities, it amounts practically to a tax upon real property, since the yield from the personal property tax constitutes a small and decreasing proportion of the total income. The result is that the owners of real property, paying more than half of the total income of the city, bear in the first instance the direct burden of every increase in expenditure. In most large cities the land-owning population constitutes from a sixth to a third of the voting population. The number of real property taxpayers is, therefore, relatively small. The burden of increased budgets thus falls upon a small element in the community, who, because they contribute so largely to the financial support of the city, not unnaturally feel that they are being unjustly treated.

Moreover, in most cities the real estate fraternity is strongly and compactly organized, and consequently in a position to hamper plans for administrative development that call for added expenditures. Taxpayers' organizations which undertake to criticise the work of city administrations perform a useful public service. But when the sole standard by which the acts of the local government are judged is the amount of immediate expenditure that will be involved, the result is likely to be mere obstruction, regardless of ultimate public benefit. It is highly desirable that an administration, on extravagance bent, should be effectively checked, but, by the same token, the administration that is sincerely attempting to promote the best interests of the community should not be hindered and restrained through fear of arousing the taxpayers' ire by reason of an increased tax rate. The fact that practically every American administration is subjected to just this fear is due, in part at any rate, to a lack of flexibility in the revenue system. It does not respond properly to legitimate demands for expansion.

The remedy is easily effected—on paper. It is only necessary to establish the general property tax at a flat rate, which could be retained year after year without change. Increased revenue from the general property tax would then arise only through an increased property valuation. The needed increased revenue from year to year could be obtained by increasing the rate of some other tax, or by levying a tax upon some new class of objects. In this way the real property owners would be able to estimate for a reasonable period of time in advance exactly what their contribution to the public treasury would amount to. They would not be subjected to the harrowing experience of discovering each year that the tax rate had been raised, and that they were required to shoulder an even larger share of the city's financial burdens. The constricting influence of the property owners on the plans of the administration would be somewhat lessened, and an elasticity given to the city's finances that would open the way for constructive programs of public improvement that would be of lasting benefit to the community.

Given complete local autonomy in matters of finance, a program similar to the one suggested above might be practicable. The general property rate could be fixed at some point near the customary rate, and held there during a period of years. The problem of raising needed additional revenue would then probably have to be solved by the imposition of some new tax. There is no tax or source of revenue, other than the general property tax, in the systems of most American cities that lends itself readily to annual adjustment and manipulation in the interests of additional income. The most important sources of revenue, aside from the property tax, are the proceeds of special assessments and the earnings of public service enterprises. Naturally the latter consist chiefly of the income from water rents, and this revenue is in most instances devoted directly to the support and extension of the water supply system, or in other ways sequestered, and not available for general purposes. Special assessments, from the nature of the case, expand and contract as the need for them demands, and cannot be considered as part of the general revenue system. Taxes other than the general property tax, usually various license and business taxes, are not wholly adaptable to the purpose of annual adjustment, because it does not necessarily follow that an increased rate

will result in increased revenue. Moreover, in a considerable number of instances, the chief of these special taxes, the liquor tax, is imposed by the state, and the administration of the tax is either in the hands of state agents, or directly under the control of the state legislature. State subventions and grants are, of course, wholly out of the question. The other sources of municipal revenue yield such a trifling proportion of the total income that they could not be used successfully to produce the required amounts of additional revenue.

It is not possible within the limits of this discussion to consider all the possible new sources of city revenue. It is suggested, however, that as an equalizing element in the construction of the revenue side of the budget, a local income tax would be probably as satisfactory as any other. From the restricted viewpoint of budget administration, the income tax would prove an admirable balance-wheel. It would not be necessary to use the tax to raise large sums. It would be resorted to only for the excess revenue not provided for in other ways. The tax would probably never have to produce over 10 per cent of the total revenue. For this reason a rate could be fixed so low that it would not be a serious burden to anyone. At the same time the exemption limit could be placed sufficiently low to include a considerable proportion of the income-earning population, so that the burden of a slight increase in the rate from year to year could be distributed among a comparatively large number of persons. A change in the rate of a tax such as the income tax could be depended upon to bring about a corresponding change in the revenue derived. Moreover, a change could be effected without seriously upsetting the established economic and social order. These considerations commend the adoption of the income tax to provide the needed element of flexibility in the local revenue system.

It is recognized, of course, that the adoption of the income tax, or for that matter of any other new source of revenue, as a generally accepted element in American municipal finance is hardly practicable. The chief obstacle is found in the legal fetters that bind the cities in matters of finance. An objection fully as powerful, as far as an income tax is concerned, lies in the fact that the American public is not prepared to accept the income tax as a proper source of municipal revenue. The proposal for a municipal income tax is

therefore not offered as an immediately practical solution of the present illogical practice of calling upon the general property tax for every needed increase in revenue. However, it is doubtless a fact that this practice is the only thing that can be done with conditions as they actually exist. But this does not change the fact that the system is illogical, nor necessarily act as a bar to the consideration of possible remedies.

II. *Certainty of Yield*

The second important characteristic of a good tax or source of revenue from the standpoint of the budget is certainty of yield. The budget is an estimate of expenditures, and an estimate of revenues. If these estimates, either on the side of income or outgo, are not borne out by future results the budget system will fail, since the city administration will be burdened with financial embarrassments which it is the function of the budget to obviate. It is, therefore, of great importance that estimated revenues actually accrue.

In formulating the basis for an estimate, the most dependable indicator is past experience. If the income from a certain source has, in the past, been steady and regular, it is fairly safe to assume that it will remain so, and that the amounts realized in past years can be counted on for the future. The same confidence could be reposed in the estimate if there had been a reasonably steady increase or decrease, or if past fluctuations could be traced to causes the future operation of which could be foreseen. In this connection, it may be worth while to examine in more detail some of the more important sources of municipal revenue, actual or possible, in regard to their adaptability to an accurate estimate of future results.

1. *The General Property Tax.* In the strict sense of the word, the revenue from the general property tax is not estimated in American municipal budgets. The income from all other sources is estimated, and it is then assumed that the property tax will yield the necessary amount to make up the remainder. Thus, when it is determined how much can be expected from other sources, the remainder is divided by the total property valuation, and the resulting tax rate imposed. The revenue budget is then complete, on the assumption that the property tax yield will be 100 per cent of the levy.

In the case of the tax on real property, this assumption is not wholly unjustified. For reasons that it is not necessary to consider here, it is the usual experience that a large proportion of the real property tax is actually collected during the year of the levy, or is collectible soon after. The experience of the city of New York may be cited as an illustration of the relative certainty of the revenue from the real property tax. The following statement shows, for the period of five years, 1909 to 1913 inclusive, the percentage of the original levy remaining uncollected at the end of 1913, the percentage that had been written off on account of discounts, cancellations, or deductions, and the percentage of the net collections:¹

Percentage of

	Uncollected balance	Deficiencies written off	Net collections
1909.....	1.16	2.99	95.85
1910.....	3.08	1.83	95.09
1911.....	4.09	1.30	94.61
1912.....	5.60	0.86	93.54
1913.....	15.18	0.93	83.89

These figures indicate quite a remarkable stability of yield. The average percentage of net collections to total levies for the four years previous to 1913 was, at the end of that year, almost 95. There is, of course, a steady decline as the final date is neared, but the difference between 1909 and 1912 was only 2.31 per cent. There is a sharp falling off in 1913, but it should be borne in mind that the second half of the property tax is not due till November 1, and to have collected over 80 per cent two months after the last installment was due is not a bad record.

The experience recorded above is fairly typical, and upon this evidence may be based the general conclusion that the real property tax is fairly satisfactory from the standpoint of an accurate forecast of future results.

¹ Figures taken from report of Department of Finance and Bureau of Municipal Research, New York, 1915, on *Revenues and Expenditures, 1910 to 1914*, inclusive. Page 222.

As has been pointed out many times elsewhere, the personal property tax is not a satisfactory tax as regards the budget estimates. Whatever certainty there may be in relation to this tax is a certainty that it will not produce as much as the levy calls for. Properly speaking, an estimate of the yield would be in effect an estimate of how great the deficiency would be. It has universally proved practically impossible to collect a respectable percentage of the total levy. In this connection, the experience of New York is interesting, though not wholly typical. New York exempts large classes of personal property which, if an attempt were made to levy and collect taxes on them, would materially increase the percentage of the deficiencies. As a general indication, however, figures similar to those just cited for the real property tax are given here for the personal property tax:²

Percentage of			
	Uncollected balance	Deficiencies written off	Net collections
1909.....	31.96	7.31	60.73
1910.....	22.43	7.47	70.10
1911.....	23.67	5.51	70.82
1912.....	29.23	0.96	69.81
1913.....	35.30	0.65	64.05

These figures show that for the three middle years, 1910-1912, there was a fairly consistent collection of about 70 per cent of the levy. The year 1909 was a poor year, with only 60 per cent collected five years after the levy had been made. But the results seem to show that 70 per cent is about all that can be expected. If this assumption should be made, and the inevitable deficiency made up in some other way each year, the results might not be so serious. But as a matter of fact, it is assumed each year that the whole amount will be collected, and the uncollected balance is either added to some later budget or made up by the issuance of bonds. The combined real and personal tax deficiency in the city of New York for the years 1899 to 1913, inclusive, was \$77,478,043.99. Of this total, \$41,259,855.04, or 53.2 per cent, was personal tax deficiency; in spite

² *Op. cit.*

of the fact that the total personal levy for the same period was only 8.4 per cent of the total levy, for personal and real property combined. These facts serve to emphasize the fact that in comparison with the real property tax the personal property tax is an undesirable tax when considered in relation to budget administration because of the uncertainty of the yield and the difficulty of collection.

2. *Other Revenues.* Of the other sources of revenue resorted to by American cities, special assessments and state subventions may be dismissed without comment. The only other important revenue, from the point of view of the amount of the yield, is the revenue of the water supply system, and other public service enterprises. In regard to these revenues, it should be noted that only in exceptional instances do they yield a real income to the city, over and above the actual cost of carrying on the enterprises. It is, nevertheless, necessary and important that the income from these sources be accurately estimated. As a matter of fact, there should be no serious difficulty about this. Once an enterprise is firmly established it should be possible to estimate the revenue from it with a sufficient degree of accuracy for all practical purposes. The income from water rents, for instance, is steady and dependable. To be sure, the early financial officers of New York made serious miscalculations in regard to this revenue when they diverted it in perpetuity to the support of the sinking funds, with the result that enormous amounts of money have been and are being tied up, and have only recently been released by a virtual evasion of the law. Such an error, however, was due directly to lack of experience, and would not have resulted seriously had it been possible to correct it when the actual situation was realized. Once a basis of experience is established, there is nothing inherently difficult in estimating the probable revenue from any public service enterprise. The volume of business is not subject to marked fluctuations on account of economic conditions, the gross revenue can be forecast without difficulty, the costs of operation soon become standardized, and the net revenue is therefore easily deducible.

The importance of the various minor municipal revenues does not warrant an extended discussion. It may be interesting, however, to review the experience of the three years, 1912 to 1914 inclusive, in New York with certain of the more important of the minor revenues of that city. The revenues included are the bank

tax, mortgage taxes, county clerk's fees, county register's fees, and interest from overdue taxes. The following table shows the amounts estimated at the beginning of each year compared with the amounts actually collected during that year for each of the sources of revenue:

	Bank tax		Mortgage taxes		County clerk's fees	
	Total	Per cent difference	Total	Per cent difference	Total	Per cent difference
Estimated Revenue...	\$3,500,000.00		\$1,200,000.00		\$120,000.00	
1912 Collected Revenue...	3,489,313.67		1,290,479.75		131,387.80	
Difference.....	- 10,686.33	0.3	+ 90,479.75	7.5	+ 11,387.80	9.5
Estimated Revenue...	3,400,000.00		1,100,000.00		205,000.00	
1913 Collected Revenue...	3,600,728.73		1,518,694.77		197,202.98	
Difference.....	+ 200,728.73	5.9	+ 418,694.77	38.1	- 7,797.02	3.8
Estimated Revenue...	3,500,000.00		1,000,000.00		190,000.00	
1914 Collected Revenue...	3,629,408.92		1,130,545.28		200,559.36	
Difference.....	+ 129,408.92	3.7	+ 130,545.28	13.1	+ 10,559.36	5.6
			County register's fees		Interest on overdue taxes	
			Total	Per cent difference	Total	Per cent difference
Estimated Revenue.....			\$310,000.00		\$1,600,000.00	
1912 Collected Revenue.....			310,279.90		1,967,473.34	
Difference.....			+ 279.90	0.1	+ 367,473.34	23.0
Estimated Revenue.....			305,000.00		1,700,000.00	
1913 Collected Revenue.....			286,887.76		2,703,489.91	
Difference.....			- 18,112.24	5.9	+ 1,003,489.91	59.0
Estimated Revenue.....			300,000.00		2,300,000.00	
1914 Collected Revenue.....			270,854.97		1,819,587.19	
Difference.....			- 29,145.03	9.7	- 480,412.81	20.9

The greatest percentage of variation from the estimate appears in the cases of the mortgage tax and the revenue from interest on overdue taxes. The yield of both of these sources showed rather marked fluctuations from year to year, as might have been expected, since they both depend, in a measure, upon general business and economic conditions. In the case of the other taxes and revenues,

the percentage of difference between the estimate and the yield was never greater than 10 per cent. The returns from the bank tax and the register's fees were regular and fairly dependable, the former steadily increasing, and the latter steadily decreasing.

It is interesting to note the apparent effect of each year's experience upon the estimate for the next year. In the case of the interest returns, for instance, the large excess of receipts over the estimate in 1913 (59.0 per cent), was doubtless in part responsible for the increased estimate in 1914, which, coupled with a sharp falling off in receipts made a deficiency of over 20 per cent. This is an excellent illustration of the difficulty with an uncertain revenue. If the estimate for 1913 had been continued in 1914 the results would have been much more satisfactory. But there was no certain way of predicting the marked decline in returns in 1914, and the estimate was a guess, based in part on 1913 results, which did not materialize the next year.

The results with the bank tax were more satisfactory. In 1912 the yield was a trifle below the estimate. The estimate in 1913 was reduced by \$100,000. At the same time the collections increased so that there was an excess of over \$200,000. This experience justified a return in 1914 to the 1912 estimate, and the tax, not being subject to violent fluctuations, continued to yield more than \$100,000 in excess of the estimate.

As a general rule, it is probably better to have the results exceed the estimates, as a whole, than to have an appreciable deficiency. But the margin between estimates and collections should not be great in either direction. Moreover, the discrepancy need not be great with a properly constructed tax system. The operation of a tax should not be uncertain. If a large deficit is created by reason of the failure of certain sources of revenue, it must be made up, frequently by issuing bonds, to the detriment of future taxpayers. On the other hand, a substantial surplus may lead to extravagance. In actual practice, however, as in the case of New York, a general surplus in any one year would be applied to the reduction of taxes for the following year, so that there would be no danger of an accumulating surplus. Moreover, as a matter of fact, the difference between estimated expenditures and revenues and actual expenditures and revenues is not sufficiently great in any one year to cause serious embarrassment. As has been noted, however, the cumu-

lative deficiencies in the collection of the general property tax has, in New York, required the resort to long term bonds to cover at least part of the loss.

It is fair to conclude that the revenue systems of American cities, as a general rule, have proved more satisfactory from the standpoint of certainty of return, than from that of flexibility. The typical municipal revenue system needs the greater flexibility which might be obtained by the introduction of some form of taxation the rate of which might be varied from year to year without causing either great economic disturbance, or widespread popular opposition. On the other hand, the real property tax, the backbone of the system, has proved reasonably satisfactory with regard to the sureness with which results can be counted on, and the various minor revenues can be forecast with sufficient accuracy to avoid serious discrepancies between budget estimates and actual collections.

SOURCES OF REVENUE

BY HERBERT S. SWAN,

Expert Investigator, Committee on the City Plan, New York. Formerly Expert Investigator, Commission on New Sources of City Revenue.

Real Estate Tax. The backbone of the revenue system of American cities is the tax on real estate. In the average city the tax levy on ordinary land and buildings is more than four-fifths of the general tax levy and yields more than half of the total revenue. These proportions, of course, vary in different cities. In Augusta, Georgia, for instance, the levy is but three-fifths of the general levy and yields only one-fourth of the total revenue. In New York, on the other hand, the levy on ordinary land and improvements constitutes nine-tenths of the total property levy and produces two-thirds of the entire revenue.

As the real estate tax is the most important source of revenue, the method of its assessment and levy merits the most serious attention. The scientific assessment and taxation of real estate is obviously the first step to be taken by a city in any attempt to improve its financial condition.

Limitations on Tax Rate. The tax rate should always be fixed by budgetary requirements, not by statute. If the fixed tax rate is larger than that required by a city, it will result in extravagance and waste. If it is too small, it will result in the throttling of necessary expenditure; or in the tapping or retention of undesirable sources of revenue; or in the borrowing of money for current account. A congressional committee recommended the repeal of the fixed tax rate in Washington in 1912.

A limited tax rate is only less harmful than a fixed tax rate. The cities of Ohio are at present having serious financial difficulties on account of the statutory limitations imposed on the tax rate. The limitations on the tax rate in Massachusetts were found so ineffective in their design and so irksome in their operation that they were repealed in 1913. The only city in the state that has a limited tax rate at present is Boston.

Semi-Annual Collection of Taxes. Taxes should be collected semi-annually, the first installment at the commencement of the fiscal year and the second six months later. This policy has three advantages: (1) it effects a large saving in the interest paid on temporary loans issued in anticipation of taxes; (2) to the extent that such loans are reduced the market for long term borrowings is improved,—the capital available for investment in city bonds is increased; (3) it diminishes tax delinquencies by permitting property owners, unable to pay their whole tax, to pay half and to go into arrearage for the other half.

Tax Discounts. No discount should be allowed for the payment of taxes. The best way to secure prompt payment of taxes is to charge a high interest rate on those remaining unpaid after a fixed date. If a discount is granted, the tax budget will have to contain an appropriation equal to the amount of the discount. If all taxpayers could take advantage of the discount to the same extent, the result would be nil—the rebate allowed each property owner would exactly offset the amount of his additional tax. But all property owners cannot avail themselves of the discount. The result is that the taxpayers availing themselves of it are favored with a differential tax rate at the expense of those who don't.

Full Value Assessments. All real estate should be assessed at full value. With true value as the basis of assessment, over-assessments and underassessments are more apparent and, therefore, more easily corrected. An accurate assessment based on a percentage of true value entails a greater amount of work on the assessor than a full value assessment. He must first ascertain the full value and then proceed to calculate the percentage of assessment. A full value assessment saves this computation.

Assessment at part value, moreover, gives a low tax rate the appearance of a high one. This artificial stimulation of the tax rate results either in the non-performance of much necessary work, or in its payment out of borrowed money when it should really be charged to current revenue. The borrowing power of cities has as a consequence of this policy been seriously abused. When assessments are at, say 20 per cent of true value, as they are in many cities, the temptation to borrow for current purposes is almost irresistible. A 1 per cent levy on true value when translated into terms of a rate on such an assessment becomes a 5 per cent tax.

Annual Assessments. Assessments should be made annually, not biennially or triennially. An annual assessment of real estate greatly improves the administration of the assessing department. The assessors being practically the whole time in the field become experts in valuation. This secures uniformity of assessment. The annual assessment of real estate, moreover, increases the revenue of a city in that the increment in land value is intercepted every twelve months instead of every two or three years. It is also true that if real estate is not assessed annually, land of a declining value will be over-assessed a large part of the time. Biennial and triennial assessments necessitate large and abrupt increases in the assessment of property rising in value. This excites much dissatisfaction among owners. Annual assessments to a large extent overcome this difficulty in that the increases are smaller and more gradual.

Separate Assessment of Land and Buildings. It is most important that land and buildings be assessed separately. Unless this is done a scientific assessment of real estate is impossible. Land tends to appreciate in value; buildings to depreciate. This fact makes it necessary to assess the two by different standards. To value both together inevitably results in an unequal assessment of property.

Not more than half of the cities with a population exceeding 30,000 assess buildings and land separately.

In the cities that do make separate assessments the greatest divergency is found in the per capita land and building values. Taunton, for instance, has a per capita land value of only \$147. San Diego has a per capita land value of \$2,130. In Manhattan the per capita land value is \$1,258, and in New York as a whole only \$840. In Atlantic City it is \$1,089; in Los Angeles, \$1,100; and in San Francisco, \$1,380. These cities illustrate the extreme. In the average city it is less than \$400.

The assessed building value per capita ranges from \$140 in Perth Amboy to \$750 in Newton. In the average city it is between \$300 and \$500.

Methods of Assessment. An improved parcel scientifically assessed will usually not be assessed at a higher figure than its capitalized rental unless the land value alone exceeds this sum. Its assessment, moreover, will ordinarily not be raised on account of an

increasing land value, except where such increased value results in a larger rental.

No building should be assessed at more than the difference between the value of the land and the aggregate value of the land and building. The value of new buildings should be computed by applying appropriate factors of value per square foot of floor space to the entire floor surface. The factor chosen in any particular case should be adjusted among other things with reference to the kind of building, the height between floors, the state of depreciation and obsolescence, and the per cent of lot area covered.

Land Value Maps. Land value maps should be published annually. These maps show the value per front foot of inside lots on grade and of standard depth on each side of every block in the city. In the case of unplotted land they show the acreage value. Maps of this character aid: (1) the assessor in making equitable assessments by presenting him with a view of all his territory with comparable figures on every street; (2) the board of review in passing upon applications for a reduction of assessments; and (3) the public in judging the fairness of the assessments.

Land value rules should be utilized in computing the assessments of lots of irregular depth and shape. Such rules are used by Cleveland, Newark and New York.

Tax Maps. Tax maps showing the boundaries and dimensions of every lot are indispensable to an accurate assessment of land. Without their aid it is impossible to be certain whether all real estate has been assessed. Where they are not used considerable property escapes all assessment and taxation.

Tax maps are not found at present in most of the smaller cities and towns.

Exemption of Buildings. There is a movement on foot in many cities at present to exempt improvements from taxation. The policy has so far been adopted in part by only two cities, Pittsburgh and Scranton.

Exemption can be most readily effected in cities with a rapidly increasing land value and a small improvement value as compared with the total real estate value. Given this condition the untaxing of buildings would mean only a slight increase in the present tax rate on land values and this could be done without seriously inconveniencing either the city's finances or private property rights.

This is especially true of such western cities as Berkeley, Los Angeles, Oakland, Sacramento, San Diego, San Francisco, Seattle, Spokane and Tacoma. In all these cities the assessed land value is almost double or more than double the assessed improvement value. In San Diego for instance, improvements are assessed at but 17 per cent of the total real estate. The land tax, therefore, produces almost five times as much income as the building tax. The improvement levy yields less than 8 per cent of the total municipal revenue. The land levy yields 35 per cent of the total revenue. San Diego is, however, an extreme case. In the other cities named above the improvement levy yields from 15 to 20 per cent of the total revenue, and the land levy from 30 to 40 per cent of the total revenue. It is doubtful whether any city in the United States derives less revenue from the taxation of improvements than San Diego. This city is, therefore, the logical place in which first to exempt improvements from taxation. In no city, however, do land values contribute a greater share of the total revenue than in New York. That city derives 41 per cent of its total revenue from the tax on ordinary land values. The tax on improvements contributes 25 per cent of the total income.

The relation of land value to total real estate value varies enormously in different cities. Generally speaking it fluctuates between one-third and one-half of the real estate value. But in Chelsea, Everett, Pawtucket, Taunton, West Hoboken, and Woonsocket, the assessed improvement value is twice or more than twice the assessed land value. Taunton, for instance, derives only 11 per cent of its revenue from the taxation of land values while it derives 25 per cent from the taxation of building values. West Hoboken, Chelsea, Woonsocket, and Everett derive 13, 15, 17 and 19 per cent of their revenue respectively from the taxation of land values; and 29, 30, 34 and 38 per cent respectively from the taxation of improvement values.

Cities deriving such a large percentage of their revenue from improvements would obviously have great difficulty in exempting them from taxation. Exemption wherever effected will, as a rule, have to be very gradual or the municipal finances will be seriously embarrassed.

Special Assessments. Some cities derive as much revenue from special assessments as from the general property tax. They are

most freely resorted to in western cities. There the limitations on the debt incurring power are frequently so stringent as to render loans for improvements impossible and the tax limit so low as to make their payment out of the tax budget out of the question.

Assessment of Street and Park Openings. Any public improvement conferring a local benefit should be assessed. The assessment should be limited only by the cost of the improvement and the amount of benefit. No part of the cost should be assumed by the city where the local benefit is sufficient to pay the whole expense.

Assessments for street openings are more general than those for park openings. In the acquisition of parks, however, Kansas City assesses the entire cost. Denver, Indianapolis, and Minneapolis assess a substantial part of the cost. Before 1855 it was the practice in New York to assess the entire cost of park openings. During the next twenty-five years from one-third to one-half of the cost was assessed. Since 1880 the city has assumed practically the entire cost. Only within the last few years has an attempt again been made to assess the cost of parks.

The best procedure governing assessments for street openings is probably found in New York.¹ The Board of Estimate and Apportionment has the power to fix the benefit area. The benefits may be apportioned between districts of special benefit, one or more boroughs, or parts of boroughs, and the city at large. Levies against one or more boroughs or the city at large are in the nature of flat rate assessments and collected with the annual real estate tax. The rules controlling the benefit area and the apportionment of assessments in street openings are most elaborate. Lack of space forbids a detailed account of them here.

Assessment of Physical Improvements. The cost of local improvements, pavements, sidewalks, water and sewer mains, etc., should be assessed only in those cases where the work adds to the city's capital account. In other words such assessments should be limited to the original improvement unless a subsequent improvement is of a higher standard than the original. Then the cost of the subsequent improvement, in so far as it is of a superior grade than the first, might be assessed.

Only the first improvement confers a local benefit; the subse-

¹ Nelson P. Lewis, *Paying the Bills for City Planning*, Proceedings, Fourth National Conference on City Planning, 1912.

quent improvements, unless they are of a better quality, merely maintain the benefit conferred by the first. If this principle is not acted upon, assessments for local improvements will in effect have to be made a regular source of city revenue. This would be most unfortunate. It would result, as it were, in the creation of as many special taxing districts as there are separate improvements. The land values in the central part of the city are due quite as much to the activities of the people living in the suburbs as to those living in the heart of the city. It is consequently only just and fair that the cost of subsequent improvements should be provided for in the annual budget. In a large city the amount of work required each year is fairly regular. Its payment in this manner would consequently not impose any greatly fluctuating charge on the tax rate.

To have the contractor act as the collector of assessments increases the cost of improvements as in making his bid he must discount the probability of the less valuable properties being unable to bear their assessments.

The contractor should be paid during the construction of the improvement as the work progresses. To defer payment until the improvement's completion obliges the contractor to include an added amount for interest charges in his bid. This practice also reduces competition for city work. Contractors unable to command sufficient credit to finance the work to its completion are eliminated from the bidding.

Payment should be made, not in warrants or assessment bonds, but in cash. Paper issued to contractors is usually not sold at par. The amount of discount, which varies from 5 to 10 per cent, is, of course, added to the prices bid.

The maintenance of a revolving fund, replenished by assessments as they are collected, is probably the best method to enable the city to pay cash for its physical improvements.

Excess Condemnation. Every city should acquire the right of excess condemnation in undertaking public improvements, especially in the laying out of new streets and in the widening or extension of old ones.² The financial advantage that will accrue to the city from the exercise of this right will be found quite as much in the

² For an exhaustive discussion of excess condemnation see the report prepared by the present writer for the National Municipal League, and published by the New York Committee on Taxation, 1915.

increase of the taxable values due to the economic replotting of areas adjacent to such improvements as to the profits derived from the resale of surplus land. The land adjacent to a street is generally divided into plots the shape and size of which are adapted, as well as might be to the street's present use and condition. Widening a street, or laying out a new one in a built-up quarter disturbs this equilibrium. Not only are the existing buildings destroyed, but the abutting lots, after the work's completion, are frequently left so distorted in shape and so diminutive in size as seriously to impair, if not utterly to destroy, the proper use and development of the thoroughfare. For such a street to attain its natural importance it is necessary that the land fronting upon it should be wholly rearranged and replotted.

There are many instances in our cities where street improvements have appropriated all but ten or twenty square feet of large lots. Remnants of such size are not only useless themselves, but they also keep other lands to the rear of them from being utilized to their best advantage. The present practice in making street improvements instead of enhancing the values of adjacent land frequently militates against its best economic use as actually to depreciate the taxable values.

Under excess condemnation, the city might, in addition to the land requisite for a thoroughfare, appropriate these small parcels, obliterate the existing lot lines, and replot the frontages of the street in a manner conducive to its most wholesome development. The city would be in a far better position than the private owners to replot these injuriously affected plots. The cost, moreover, of acquiring the additional land would be negligible. When so much of a lot has to be taken as to leave the remainder practically worthless, the price that must be paid for the appropriated part is, as a rule, as great as the market value of the whole.

New York, Massachusetts, Ohio and Wisconsin have adopted constitutional amendments to enable their cities to exercise excess condemnation.

The Unearned Increment Tax. The unearned increment tax is the most fruitful new source of revenue that can be adopted.³

³ For a more complete discussion of this tax see the article by the present writer, entitled "The Unearned Increment Tax," in the *National Municipal Review*, April, 1914.

The scheme worked out by the New York Commission on New Sources of City Revenue for the taxation of the unearned increment is at once a model of simplicity and applicability to American conditions.

Briefly stated, this plan proposed to assess and tax annually all increment accruing in the future in the same manner as existing site values are now assessed and taxed. No heed is paid to sale or transfer of title in the imposition of the tax. The site value, as determined by the assessor for the year the tax goes into effect, is made the standard by which to measure all future increment, the assumption being that the valuations fixed by this department fairly reflect the current market values. Taxation of the increment in no wise exempts or relieves a parcel from payment of the ordinary real estate tax, the new tax being an addition thereto, although imposed only on that portion of the site value accumulated after the basic year.

If the assessed site value of a parcel, for instance, should be increased \$10,000 above the assessment of the basic year, the owner would pay an annual surtax on the amount of this increment in addition to the regular tax on the total value of his site.

Increment arising from improvements, such as grading, sewer-ing, paving, etc., the cost of which has been borne by the owner, is, to the extent of such cost, deducted from the increment assessed. The increment assessed in any particular year is, therefore, the difference between the site value assessment for that year and the site value assessment for the basic year, after deducting the cost of improvements made during the interim. To illustrate: if the value of a piece of land should rise from \$100,000 in the basic year to \$110,000 after the basic year, and the owner could show that he had spent \$4,000 in permanent improvements, either upon his own initiative or in payment of special assessments levied by the municipality, he would be taxed on an increment of only \$6,000; and the base value of the land for the future assessment of increment would thenceforth be \$104,000 instead of \$100,000.

Examined from every point of view, the tax recommended by the Commission on New Sources of City Revenue is an infinite improvement over the English or German method of taxing the increment in site values. It differs most radically from the tax in either of these countries. In England and Germany the state in

consideration of a lump sum payment parts forever with its right to appropriate these unearned values. Under the suggested plan the state would retain a rent charge in perpetuity on all increment.

As a revenue measure, the proposed tax has a vast advantage over the English or the German tax. As applied in these countries the revenue produced by the tax is almost entirely dependent upon the real estate market, and, therefore, subject to the most violent fluctuations.

The tax recommended by the commission would produce a revenue which in its amount would be easily calculable from year to year. Its yield, moreover, in addition to being steady, would increase in amount. The Department of Taxes and Assessments estimates that site values in New York City increase at the rate of 4 per cent per annum. The proposed increment tax at a rate of 1 per cent would reduce this increase to about $3\frac{1}{2}$ per cent. Assuming this rate of increase to continue, the proposed tax would in thirty-two years yield a revenue equal to a 2 per cent tax on the present assessment of ordinary land values.

Personal Property Tax. The personal property tax should be abolished. In some cities this could be done immediately without any great financial inconvenience. Personal property in New York, for instance, constitutes only 3 per cent of the general property assessment and yields only 2 per cent of the total revenue. Most cities, however, derive a much larger income from personal property. The levy in such cities as Chicago, Cincinnati, Cleveland, Detroit, and Minneapolis, constitutes between 25 and 35 per cent of the total general property levy. In these cities the abolition of the tax would probably have to be effected very slowly.

No increased revenue is to be expected by taxing personalty at a low rate. The experience of Connecticut, Iowa, and Minnesota proves this.

Business Taxes. The imposition of business taxes as a source of revenue is not to be commended. If large in amount they are apt to affect the business of a city most unfavorably, even to the extent of completely driving it away. They are also undesirable in that they confer a monopoly advantage upon those able to pay the tax by rendering certain businesses inaccessible to the poorer classes.

Licenses. Licenses should be confined to such businesses as require inspection and regulation under the police power. The

cost of necessary supervision should fix the amount of the fee charged. A fee in excess of the cost of regulation would be very much in the nature of a tax.

Permits, Privileges and Concessions. All permits, privileges and concessions should as a general rule be let at public auction. No free privileges should be granted. The fee should be of a fixed amount and collected periodically. It should not be based on the net or gross receipts of the business. This plan has been tried in different cities and is thoroughly discredited. A city to administer it successfully would have to employ a large staff of accountants and detectives.

Departmental Fees. Fees charged for departmental services should not exceed the amount necessary to make their respective departments self-sustaining.

Municipal Enterprises. Municipal enterprises, waterworks, electric light plants, gas plants, etc., should not be operated for profit. The rates charged should conform to the cost of service, including of course, the interest and amortization charges. To charge more than this results in unequal and inequitable taxation.

ACCOUNTING BASIS OF BUDGETARY PROCEDURE

BY WILLB. HADLEY,

Chief Accountant, Department of City Controller, Philadelphia.

An accounting system to properly supplement budget procedure must provide for such an analysis of actual and estimated expenditures and receipts that the official and the citizen may pass judgment upon the plans proposed for the new year by a comparison of actual expenditures and receipts in past years with the estimated expenditures and receipts for the coming year.

Such an accounting system has been developed in Philadelphia by City Controller Walton, who began January 1, 1911, to analyze expenditures by fund, organization unit, function (or activity), character and object. These classifications are indicated in the following outline:

FUND—General, Loan, Special and Trust.

ORGANIZATION UNIT—City Treasurer, Bureau of Water, Sheriff, etc.

FUNCTION—Fire Fighting, Isolation of Contagious Diseases, Construction of Sewers and Inlets, etc.

CHARACTER—Expenses Incurred and Payment of Funded Debt:

Administration,

Operation,

Maintenance,

Debt Service and

Other Expense.

Property Acquisitions.

Net Changes in Working and Current Assets:

Stores,

Postage and transportation,

Reductions in Current Liabilities,

Abatements of Revenue and

Expenditures on Account of Prior Years.

OBJECT—Personal Services,

Services Other Than Personal,

Materials,

Supplies,

Equipment,

Structures and Non-structural Improvements to Land, Land,

Rights, Obligations and Payment of the Funded Debt,

Fixed Charges and Contributions, and
Pensions and Retirement Salaries,
Losses and Contingencies

The above sub-head titles are complete under fund, character and object. Under organization unit and function only illustrations are given as the complete list of these two classifications would take considerable space. They are both given in full in City Controller Walton's budget statement for the year 1916.

Probably interest centers more closely upon the expenditure side rather than the receipt and income side of budget accounting. Expenditure classifications for budget purposes should cover at least a three-year period, namely: (1) the expenditures of the last completed year, (2) the appropriations of the current year, (3) the expenditures of the current year to as late a date as obtainable, (4) the estimated expenditures for the remainder of the current year, and (5) the departmental estimates for the coming year for which the budget is being prepared. These several groups of figures must be subjected to a common classification in order that they may be comparable. When so presented the eye can readily follow the changes from one year to another and can note the changes in the object of expenditure, in the character of expenditure, in the function (or activity), in the organization unit and in the fund. Any of these changes may be significant.

In the object classification, for example, an increase in personal services, materials and supplies and a decrease in services other than personal would mean that more of the city's work was to be done by administration and less by contract. A decrease in rentals and an increase in property acquisitions would indicate expenditures for permanent properties to replace leased properties, thereby reducing the fixed charges for rentals.

In the character classification a marked falling off in maintenance may indicate that properties and equipment are not being properly maintained. Large expenditures for property acquisitions should be reflected in increased maintenance expenditures to provide for the upkeep of the newly-acquired properties. Increase in operation may be the result of an expansion of the existing functions (or activities) or the taking on of new functions not previously performed by the city government.

The relative use of loan moneys for current expenses and reve-

nue moneys for permanent improvements and property acquisitions is clearly set forth in the fund expenditure classification. The classification by organization unit shows the expenditure for each department and bureau and the classification by function (or activity) shows the expenditures, actual or estimated, for each one of the many functions of the government of the city.

In order to have available for budget purposes the actual expenditures for the last completed year, it is necessary to keep expense, stores and property ledgers, together with a complete analysis of expenditures by the foregoing classifications. These analyses can be best secured by punching the information upon cards and sorting and tabulating the results thus obtained by means of machines. What would ordinarily be a very tedious task, if done upon analysis sheets, thus becomes a very simple one and the results are secured in a minimum of time.

General account receipts are presented in the budget in a statement which shows the actual receipts of past years and the estimated receipts of the coming year for which the budget has been prepared. In the budget for the city of Philadelphia referred to above, the estimated general account receipts are presented in two ways, *viz.*: (1) the departmental estimates of what will be received, the purpose of which is to show any discrepancies in the five-year average, (2) the five-year average made by the city controller as required by act of assembly, which estimate limits the amount of general funds which may be appropriated by city councils. In addition to this annual estimate there is usually a fund surplus available at the closing of the year's books, arising from an excess of the actual receipts over the estimated receipts and from merging balances of appropriations. These are the only sources from which general funds may be secured for appropriation, with the exception that city councils may authorize a temporary loan not exceeding \$1,200,000 redeemable in four months.

The amount of loan funds that becomes available for appropriation each year depends upon the increase in the assessed valuation of taxable property, upon changes in the gross amount of funded debt outstanding, upon the increase in the amount of city loans held as investments by the commissioners of the sinking fund and upon changes in the status of other liabilities of the city.

Special and trust funds become available for appropriation

through the receipt by the city treasury of money for special and trust purposes, being appropriated then only for those specific purposes, for which it was received.

In addition to classified statements of expenditures and receipts, a budget to be complete should include comparative balance sheets, with actual and estimated figures, and comparative operation and surplus accounts with actual and estimated figures. Such balance sheets, operation and surplus accounts may be found in City Controller Walton's budget statements for 1915 and 1916.

Budget accounting is a source of information by means of which the citizen can fairly judge the results secured by officials and their programs for future accomplishments. I say "fairly judge" because I do not believe that the great majority of American citizens want to judge unfairly or in ignorance, if the basis for fair and intelligent judgment is presented in the budget. It serves a second purpose in that it is a bulwark of defense for the honest official. With it he can defend his past performances and explain the various increases asked for.

UNIT COSTS IN RECREATIONAL FACILITIES

BY PAUL T. BEISSER,

Fellow, New York School of Philanthropy.

Of the \$17.34 per capita paid in 1912 in cities of over 30,000 for all governmental costs, sixty-four cents per capita represent the expenditures for recreational facilities.¹ That is, of the total expenditures for governmental expenses 3.7 per cent went to recreational purposes, including museums, art galleries, bathing beaches, playgrounds, parks and all other recreational facilities. The total spent for recreation in 1910 was \$16,108,808.00, or fifty-nine cents per capita; while in 1903 only thirty-four cents per capita were appropriated for this purpose. The per capita expenditure of the thirty-three "cities" of Massachusetts in 1908 was eighty-seven cents.² The 1914 Year Book of the Playground and Recreation Association of America shows 342 cities maintaining 2,402 playgrounds and recreation centers at a total expenditure of \$5,700,223.81 for the year 1913. The Detroit Recreation Commission shows for the coming year a carefully drawn budget of forty items amounting to \$169,299.00.

These facts indicate that recreational facilities are beginning to figure as items in the municipal budget. While the appropriations are as yet inadequate they are sufficiently large to be taken carefully into account, and they are rapidly increasing. A further indication of the growing importance of this item in the budget is the fact that the usual practice is to establish such facilities under private initiative, playground and recreation associations and the like, and when they have proven successful to have them taken over by the cities. This means that in the future the cities are likely to take over many of the burdens now resting on private shoulders. There is cropping up also a tendency to take many recreational facilities out of the "commercialized amusement" class and run

¹ *Financial Statistics of Cities Having a Population of Over 30,000.* United States Census Bulletin, 1912.

² *The Cost of Municipal Government in Massachusetts.* 1908, p. 17.

them in the interest of good morals, sound amusement and efficient citizenship rather than in the interest of profit. The municipal dance halls of Chicago and the municipal swimming centers of Philadelphia are good examples of this trend. This movement toward public coöperation in recreational facilities is natural and inevitable, for the social conscience is waking to the need for wholesome recreation for all. Furthermore only in this way can adequate facilities be provided within reach of all and at small individual cost.

The logical conclusion is that there is imperative need for careful analysis and standardization of the costs of these facilities. In order to plan improvements wisely, to estimate budget items, to compare the results which are secured in various cities, some bases of judgment and comparison are essential. In the matter of cost accounting most cities, as most recreation leagues and associations, are woefully lax. Cities run their playgrounds and recreation centers under the Department of Parks, or the city owns the parks or playgrounds and a private association equips them and directs their activities; or the Board of Education and the Bureau of Recreation handle the problem jointly. Some cities do not keep separate the attendance records of the various centers, some keep no records. At times the cost of operation is not separately kept for each center; again the costs of operation and of improvement are not separated. Frequently, when reasonably good figures are given, no careful description is given of the extent and character of the equipment and activities of the particular center. Even the terminology is varied and confusing. Thus this can as well be a plea for greater care and uniformity in reports and records as an analysis of available figures.

The reports of Chicago and Philadelphia contain much that is lacking in other reports and an analysis of them is more valuable than generalizations from less complete reports.

Parks

The following table was compiled from the report of Chicago's South Park Commissioners, February 28, 1914;

TABLE NO. 1

Park	Improvements ¹	Cost of operation, 1913	Attendance, 1913	Area, acres	Cost per capita, 1913	Cost per \$1,000 of improvements	Cost per acre, 1913
Jackson Park . . .	\$2,995,573.46	\$169,640.75	871,878	542.89	\$0.19	\$56.29	\$312.47
Washington Park.	1,418,474.93	144,915.28	590,465	371	.24	102.16	390.60
Marquette Park..	336,400.38	17,770.16	53,810	322.68	.33	52.82	55.07
Calumet Park....	20,001.24	9,729.02	76,343	66.19	.127	486.45	146.97
Sherman Park....	491,176.88	44,282.61	732,741	60.60	.061	90.15	730.73
Ogden Park.....	503,277.74	44,209.59	685,758	60.54	.064	87.84	730.25
Palmer Park.....	302,529.05	41,702.87	433,647	40.48	.096	137.85	1,030.20
Hamilton Park...	247,146.92	35,025.24	529,149	29.95	.066	141.72	1,202.84
Bessemer Park ...	329,615.97	35,677.33	510,635	28.88	.069	108.24	1,235.36
Russell Square....	167,800.67	29,078.84	433,004	11.47	.069	173.29	2,535.12
Mark White Square.....	257,374.23	35,564.97	606,725	10	.058	138.18	3,556.49
Fuller Park.....	510,554.07	39,722.01	781,887	10	.05	77.80	3,972.20
Davis Square ...	214,486.25	36,033.61	610,380	10	.059	168.00	3,603.36
Armour Square...	181,496.70	31,374.80	434,720	10	.072	172.87	3,137.48
Cornell Square...	174,459.53	30,337.07	527,857	10	.057	173.90	3,033.70

¹"Improvement" includes all equipment and improvements.

These parks naturally divide themselves into two groups, Jackson, Washington, Marquette and Calumet Parks, which are especially large, and the remaining eleven all of which have practically the same equipment and improvements. These consist of gymnasiums for men and women both indoor and outdoor, a field house, playgrounds for children, shower baths, swimming pools, tennis courts, ball fields and skating ponds. Jackson Park, the largest of all, contains some of the old World's Fair buildings, a yacht harbor, boating and fishing lagoons, facilities for baseball, tennis and ice skating, and two golf courses. Washington Park contains facilities for sports, a conservatory and rose garden and the administration building of the park commissioners. Marquette Park, in addition to facilities for sports, has a field house with a dance hall and the nurseries of the park commissioners. Calumet Park, though large, has few improvements except a public bathing beach along Lake Michigan with ample dressing facilities for bathers.

The most useful comparison, then, is between the last eleven parks, since these are very similar in equipment. The total improvements vary considerably. A study of the other columns reveals the fact that the cost of operation per acre varies inversely

with the acreage; also that the cost of operation per \$1,000 of improvement varies inversely with the improvements and the acreage. In other words, the greater the acreage the less is the cost of operation per acre, while as the acreage and the improvements increase the less is the cost of operation per \$1,000 of improvement.

In the case of these parks, attendance does not provide as useful a comparison as might be wished, since it is only the record of those participating in specific activities, and does not include those who may have been benefited by the park as a place for rest or an airing. However, it is interesting to notice that the cost of operation per unit of attendance varies comparatively little. The average cost of operation per unit of attendance upon activities for these eleven parks was .065 cents. It is *estimated* that the facilities of Jackson Park and Washington Park were enjoyed by 11,334,716 and 11,650,000 visitors, respectively, during 1913. This would give a cost per unit of attendance of \$0.015 for Jackson Park and \$0.012 for Washington Park.

It is worthy of note that the cost of administration for all these parks was 5.19 per cent of the total cost of operation.

Playgrounds

The following table was compiled from the figures given by the Chicago Special Park Commission for the playgrounds under their charge during 1914.³

The equipment of these grounds varies from a single playfield to a separate athletic field, sand house and shelter platform, baseball and foot ball field, and indoor gymnasium. There are from twenty-five to forty pieces of apparatus on each playground. The playgrounds are open all the year, have a skating pond for winter and at each there is at least one director and one attendant in charge throughout the year.

The figures show at what low cost playground facilities can be furnished. The average cost per unit of attendance for all the playgrounds was \$0.0159. Here again the cost of operation per \$1,000 of equipment and the cost per unit of attendance decreases with the increase of equipment.

³ *Report of Special Park Commission, Chicago, December 31, 1914.*

TABLE NO. 2

Playground	Equip- ment ¹	Cost of operation, 1914	Attend- ance, 1914	Area, square feet	Cost per capita, 1914	Cost per \$1,000 of equip- ment
Wrightwood.....	\$16,000	\$3,815.06	348,020	361 x 454	\$0.0109	\$23.84
Beutner.....	10,000	3,322.98	308,685	258 x 546	.0107	33.23
Holden.....	10,000	3,205.39	196,750	116 x 696	.016	32.05
McCormick.....	9,000	3,335.92	212,350	125 x 275	.015	37.06
Corkery.....	9,000	2,910.26	254,284	265 x 164	.011	32.33
Fiske.....	8,000	3,139.66	215,545	264 x 174	.014	39.24
Christopher.....	8,000	2,993.77	200,351	125 x 275	.014	37.42
Commercial Club.....	8,000	2,722.44	114,958	{ 120 x 123 } { 125 x 200 }	.023	34.03
Audubon.....	8,000	2,098.84	173,476	138 x 264	.012	26.23
Moseley.....	7,000	2,416.41	188,875	200 x 200	.012	34.52
Drake.....	7,000	2,239.05	110,162	181 x 194	.020	31.98
Sampson.....	7,000	3,203.42	217,991	125 x 215	.014	45.76
McLaren.....	7,000	2,186.82	98,750	185 x 175	.022	31.24
Adams.....	7,000	2,101.25	115,172	102 x 288	.018	30.01
Hamlin.....	6,000	3,060.52	201,235	300 x 598	.015	51.01
Dante.....	5,000	2,320.34	175,261	235 x 95	.013	46.40
Washington.....	5,000	2,176.41	169,420	128 x 174	.012	43.53
Northwestern.....	4,000	2,363.45	144,970	70 x 350	.016	59.08
Orleans.....	4,000	2,135.26	59,919	126 x 136	.035	53.38

¹ Approximate.

The per capita cost here is much smaller, naturally, than that for the parks, since in the first place there are many more expenses such as policing, care of lawns, landscape gardening, etc., in the case of parks, and secondly, the complete record of attendance at the parks is not secured. If we take the per capita cost based on the estimated attendance at Jackson and Washington Parks we find that the figures \$0.015 and \$0.012 respectively compare well with the average per capita cost of the playgrounds, \$0.0159. However, the additional expenses which the park features entail are cause for the fact that the cost of operation per \$1,000 of improvement for parks is much higher than that for playgrounds. In the case of the playgrounds, salaries and wages amounted to 86.53 per cent of the cost of operation.

The figures for playground costs in Philadelphia are given in the following table:⁴

⁴ Compiled from report of Board of Recreation, January 1, 1914.

TABLE NO. 3

Playground	Cost of operation, 1913	Attendance, 1913	Cost per capita, 1913	Months open
Athletic Park	\$4,769.28	113,822	\$.041	2
Kingsessing Park	5,323.84	131,341	.04	9
Chestnut St. Pier	6,379.46	133,371	.047	12
Coxe	1,603.34	87,483	.018	10
Disston Park	4,539.12	202,826	.022	12
Tunfield	6,600.49	355,043	.018	12
Happy Hollow	7,237.72	162,054	.044	12
Point Breeze	600.90	21,999	.027	6
Race St. Pier	3,342.91	48,630	.068	4
Sherwood Park	13,120.49	291,146	.044	12
Shot Tower	1,116.09	82,332	.013	8
Starr Garden	13,420.10	360,269	.037	12
Viaduct	3,102.37	164,889	.018	12
Waterview	3,303.43	57,687	.05	7
Weccacoe	2,731.15	66,314	.041	8
Westmoreland	1,454.10	73,816	.019	7
Womrath	459.09	13,975	.032	4
East Germantown	538.14	42,151	.012	5
Friends' Meeting House	473.77	17,453	.027	2
Parkway	225.50	10,859	.02	2
Belfield	547.64	36,579	.015	4
Pomona	624.79	6,382	.097	4

The average cost of operation per capita for these playgrounds was \$.0341 as compared with Chicago's figure of \$.0159. A comparison between these averages is hardly fair, for in the first place Chicago's playgrounds were open all the year while most of Philadelphia's were not. Taking those that were, Chestnut Street Pier, Disston, Tunfield, Happy Hollow, Sherwood, Starr Garden and Viaduct, we find an average cost per capita of \$.033. Five playgrounds open only four months show an average cost of \$.044, while the five grounds open from six to eight months show an average cost of \$.03. Thus, irrespective of the length of the playground term, Philadelphia is spending more per unit of attendance than Chicago. It also seems evident that keeping the playgrounds open during the winter months does not increase the per capita cost of operation, indicating that they are used to an extent which makes it worth while to run them all year.

The difference between Chicago and Philadelphia might be explained by the fact that a comparatively lower attendance raises the per capita cost. However, we find that while Philadelphia has a somewhat lower average attendance, 114,110 for 1913, compared with Chicago's average of 172,956, its average cost of operation per playground, \$3,705.31 is much higher than Chicago's figure, \$2,-618.28. Evidently, then, the difference is caused by a comparatively higher cost of operation.

The proportion of salaries and wages to the total cost of operation is 77.81 per cent as compared with 86.53 per cent for Chicago.

Bathing Beaches and Swimming Pools

For bathing beaches and swimming pools Chicago again has the best available figures as shown in the table below.

TABLE No. 4

Pool or Beach	Cost of operation	Attendance, one year	Cost per capita
Rocky Ledge Beach ¹	\$3,029.59	111,565	\$0.027
Ohio Street Beach ¹	1,744.52	152,708	.011
Washington Heights Pool ¹	2,710.78	51,717	.052
Mark White.....	1,988.57	85,218	.023
Armour.....	921.74	55,399	.016
Fuller.....	2,253.95	66,066	.034
Cornell.....	1,134.21	48,738	.023
Russell.....	1,269.66	36,611	.034
Sherman.....	1,125.12	92,525	.012
Ogden.....	1,765.27	105,838	.016
Bessemer.....	1,658.64	70,942	.023
Palmer.....	1,491.23	79,889	.018
Davis.....	1,428.78	60,334	.023
Calumet Beach.....	1,983.59	59,993	.033
Jackson Beach.....	7,496.67	176,751	.042
McKinley.....	3,232.29	82,211	.039

¹ From *Special Park Commissioners' Report*, December 31, 1914. All others are for 1913 from *Report of South Park Commissioners*, February 28, 1914.

The four bathing beaches, Rocky Ledge, Ohio Street, Calumet and Jackson show an average cost per unit of attendance of \$.028. There is little difference in the case of the twelve swimming pools, which had an average cost of \$.026. These pools and beaches were

open for the months June to September, inclusive. The slight cost of operating a beach like Ohio Street beach, or a pool like Sherman Park pool, a little over one cent per unit of attendance, is the most effective argument for municipal recreational facilities.

In Philadelphia, fourteen municipal swimming centers during ten weeks gave 26,533 swimming lessons at a total expenditure of \$2,739.33, or a cost of 10.3 cents per lesson.

Miscellaneous

Philadelphia conducted supervised play during July and August 1913, under the Board of Recreation, in 106 school yards. The average cost per yard was \$385.51 or a cost of \$.041 for every time a child used the school yard. Their home and school gardens had an attendance of 173,307 during six months with an expenditure of \$11,138.86, making a cost of \$.064 per unit of attendance.

The playground in Reading, Pa., had in 1914 an attendance of 204,107 at a cost per capita of \$.023. This compares favorably with the average cost for Chicago's playgrounds of \$.0159.

The municipal dance halls of Chicago are able to sell two admissions for twenty-five cents, with free checking service included. Jackson Park, Chicago, has one nine-hole and one eighteen-hole golf course. During 1913 more than 300,000 persons played over these courses at an average cost of a little over five cents each.

What one small city can do is told by a correspondent of the *Playground Magazine*.⁵ Amherst, Nova Scotia, with a population of 10,000, had a recreation campaign during the summer of 1913. The high school grounds and one other plot were used as centers. Three experienced workers were employed at a cost of \$310.00 and \$169.00 were spent on work and equipment. It is estimated that the children's games, athletics, ball games and other sports were participated in by 1,700 different persons at an average cost of \$.27 per person for the summer. The total attendance at all activities was more than 17,000 or about \$.027 per unit of attendance.

This analysis shows the comparatively low cost of recreational facilities furnished by public coöperation. It is not pertinent or necessary here to discuss their importance. Recreation is an item in the city budget and is rapidly growing larger. The need now is for careful cost and attendance records and greater care and uniformity in reports.

⁵ *Playground Magazine*, February, 1914, p. 445.

SOME SUGGESTIONS FOR PREPARING A BUDGET EXHIBIT¹

BY J. HAROLD BRADDOCK,

Vice-President, American City Bureau, New York.

Primarily the function of the budget exhibit is to bring public opinion to support public officials who have visions as to what might be accomplished toward social well-being and to counteract the indifference of the passive many and the selfish interests of an active few who hamper the work of civic progress. The budget exhibit accelerates the forward movement by pointing out graphically the need for municipal improvements and helps communities approach these higher standards by guiding them in the actual work of carrying out the recommendations indicated. Thus the budget exhibit is a potent factor in the social education of the public, the connecting force between the educational agency and those intent upon active civic advance.

An efficient budget exhibit, accordingly, is educational in its nature and shows to the taxpayer such facts as:

- A. The work accomplished by the department or bureau asking for money
 - How much spent last year
 - How much wanted for the next year
 - What is to be done, and the reasons for the increase or decrease
- B. The cost of such work per unit, with the comparison of the cost of such work in other comparable cities
- C. Relative efficiency of the work done as compared with that of other comparable cities
- D. Work that might be done effectively and estimate of the cost of such work with a comparison of conditions in other comparable cities
- E. Opportunities for saving in the conduct of the city's business by the introduction of scientific management

¹ It is the purpose in this paper to deal with no phase of the budget exhibit other than the details for charts. For treatment of other phases, see "The Efficiency Value of the Budget Exhibit," *The Annals of the American Academy of Political and Social Science*, May, 1912, page 151; "How New York Views Its Budget Exhibit," the *Twentieth Century Magazine*, November, 1911, page 21; "The Significance of the Dobbs Ferry Idea," *The American City*, August, 1912, page 106.

To avoid confusion, the functional method of display is adopted, with coördinate displays by departments as arranged in the budget, unless the budget is functionalized.

1. General charts for the city as a whole give the area, population and death rates, marriage rates, tax rate, miles of highway, etc., with a comparison of these with another comparable city.

2. The system of government is illustrated by charts showing the general plan of the system and of regular departments and offices.

3. The "cube" scheme for showing budget totals usually is adopted, classifying both by departments and by functions, together with cubes showing the city debt as compared with other comparable cities.

4. The city budget as a whole is shown on two charts. The first is departmentalized as follows:

- General administration
- Fire protection
- Police protection
- Health
- Sewerage
- Garbage
- Sidewalks, cross-walks and parks
- Street lighting
- Street sprinkling
- Assessments and collection of taxes
- Public library
- City court
- Etc.

The second shows the following classifications:

- Salaries and wages
- Repairs and replacements
- Fuel
- Forge
- Shoeing horses
- Telephone
- Light, heat and power
- Water
- Advertising and printing
- General supplies
- Contingencies
- Etc.

5. General administration—Chart showing present expendi-

tures and estimates for next year with increase or decrease, and reasons.

6. Fire protection—The exhibit to show the following charts:

a. Expenses last year and estimate for next year, with increase or decrease as to

Salaries of permanent men
Salaries of call-men
Supplies
Alarm system
Telephone
Uniforms
Apparatus
Etc.

b. Fires per month for ten years

Number of fires per month per 1,000 population

Number of fires per month per 1,000 population in comparable cities

c. Number of men employed

Permanent

Call

Number of men employed in proportion to population; compare with other cities

d. Property loss through fires for ten years; compare with other cities

e. Equipment of department Equipment of department in other cities

No. value

Engine houses

Hose

Engines

Etc.

Total Value

No. value

Engine houses

Hose

Engines

Etc.

Total value

f. Increase of property valuation last ten years

Increase of appropriation for fire protection last ten years, with relation to property valuations

7. Police protection exhibit on same lines as above, emphasizing possibility of saving, and showing needs.

8. Health exhibit on lines as above.

9. Sewage exhibit showing:

a. Complete chart of expenses and estimate for next year with increase or decrease

b. Chart of present system and extensions desired, with cost

c. Work accomplished

d. Cost of sewers and operation

e. Cost of different kinds of sewers, pipes, drains, etc.

f. Cost of cleaning sewage basins per basin with number cleaned last year, force employed, and number of cubic yards removed per basin with comparison of cost in other cities

g. Same for sewers

h. Method of disposal of sewage

i. Show better method of disposal, etc., and cost of installation of better system of improvements

j. Budget appropriation for maintenance of sewers, with number of miles of sewers and appropriation per mile

k. Number of employees

10. Garbage.

a. Complete chart of garbage expenses last year, with estimate of cost for next year, and increase or decrease

b. Portions of city covered, with cost per cubic yard of material removed and per capita of population and comparison with comparable city

c. Cost of extending to other sections of city

d. Methods used and better methods possible, with cost

e. Number of employees

f. Equipment and value of same

11. Sidewalks, cross-walks and parks.

a. Complete chart of expenditures and estimate for next year, with increase or decrease

b. Map of square yards of new walks laid, with kind of walk and needs for next year

c. Repairs made, and the cost per square yard of repairing various kinds of walks

d. Cost of cleaning snow per cubic yard for walks, with snow falls in square yards, and cubic yards cleaned and per capita cost. Cost in comparable city

e. Number of parks, acreage, and location by map

f. Cost of up-keep of parks per acre

g. Number of employees

12. Street lighting—similar exhibit.

13. Street sprinkling—similar exhibit.

14. City court.

a. Chart of expenditure and estimate for next year, with increase or decrease

b. Number of persons held and final disposition during year

c. Cases of various sorts for ten years, comparative statement

d. Charts classifying persons held by nativity, age, color, marital condition, etc.

e. Needs and cost comparisons with other cities

15. Finance.

- a. Charts showing cost of administering finances of city and estimate for next year, with increase or decrease
- b. Total city debt showing increase for ten years. Total and proportional debts of other comparable cities
- c. Comparative budget totals for ten years, with estimated total for next year
- d. Increase in budget compared with increase in population, showing per capita expenditures
- e. Sinking fund
- f. Bonds issued last year
- g. Proposed for bond issues next year

16. Assessment and collection of taxes.

- a. Charts showing cost of assessing and collecting taxes, and estimate for next year with increase or decrease
- b. Work done in last year
- c. Income from various taxes and estimate for next year, and per capita rate

In some instances it is desirable to have a more complete exhibit for a particular department. For example, the exhibit for the department of street cleaning shows for a number of years and for comparable periods, the following standard facts.

- A. Average cleaning cost per thousand square yards cleaned by all methods, all pavements
- B. Average carting cost per cubic yard of all refuse removed
- C. Average disposal cost per cubic yard of garbage disposed of
- D. Average disposal cost per cubic yard of ashes, sweepings, and rubbish disposed of
- E. Average stable cost per horse day working

But it is desired to go further in the exhibit of this department. Accordingly, such facts as the following are shown:

1. Map of city with appended statistics as to
 - a. Population
 - b. Density of population
 - i. Maximum
 - ii. Minimum
 - iii. Average
 - c. Area of city
 - d. Length of streets
 - i. Paved
 - ii. Macadamized
 - iii. Unpaved

e. Area of pavements

- i. Rough (Block, cobble, granite)
- ii. Smooth (Asphalt, wood block, brick)
- iii. Macadam (Tarred, oiled, plain)
- iv. Unpaved

2. Organization chart of department.

3. Digest of statutes, charter provisions, city ordinances, health regulations, police regulations and department rules relative to street encumbrances, street cleaning, carting, disposal of refuse, etc.

4. Arrests for violations, with number fined, amount of fines, number of fines, number imprisoned, number discharged.

5. Expenditures for the following:

- a. Salaries
 - b. Wages
 - c. Apparatus, machinery, vehicles, harness, etc.
 - d. Furniture and fittings
 - e. Repairs and replacements
 - f. Telephone service
 - g. Automobiles, purchase and maintenance
 - h. Horses—purchase
 - i. Horses—maintenance
 - j. General supplies
 - k. Contracts
- Etc.

6. Salaries and wages—Number at each price, number of days, and total paid for each class of labor.

7. Revenues from sale of garbage, trimming dumps, etc.

8. Equipment of each sweeper.

9. Square yards cleaned each day per sweeper, per sweeping machine, per flusher, per flushing machine, per squeegee.

10. Samples of receptacles on streets.

11. Monthly work of department by loads and by cubic yards in carting street sweepings, ashes, garbage, rubbish, snow and ice.

Etc.

These statistics are not required for every city, nor are they available in most cities. They serve to indicate, however, the variety of matter possible to place in the exhibit of a department which is studied intensively.

The budget exhibit, then, shows by means of photographs and

charts how much the city spends each year and what it gets for its money. Expenditures, accounts and annual reports are compared with expenditures for similar purposes in other towns. On the physical side, the best that the city has is compared with the worst that it has, with a view to pointing out what the city needs as to parks, repairing of streets, cleaning of streets, sidewalks, trees, artistic electric light poles, underground electric wires and city planning. Public amusements are compared with provisions made by other towns for playgrounds, entertainment halls, game rooms and public baths. In the matter of health, is set forth what the city does and what other towns do to control the quality of milk, water, ice, foods, plumbing, nuisances, tenements and contagious diseases. Similar figures show school attendance, absences, non-promotion, and elimination, medical and physical inspection and treatment of school children, ventilation, decoration, equipment, ungraded classes for retarded pupils, manual training, domestic science, vocational guidance and wider use of the school plant. In each instance the best things in the city are set forth, thus lauding the city for its accomplishments. Where both good and bad conditions exist, the best are set forth, and alongside are shown the worst, with the question as to whether the best is any too good for all of the city.

In every instance it has proved essential to procure the coöperation of city officials in charge of each of the city departments for which an exhibit is planned. Usually city officials are glad to show the public what they are doing with their appropriations and what they would like to do if they had larger appropriations. The same thing can be done with the private organizations engaged in philanthropy and civic welfare work. In fact, it is profitable to arrange for heads of departments to coöperate with the executives of private agencies in getting up exhibits covering their mutual fields. For instance, the anti-tuberculosis league and the organization in charge of milk stations coöperate with the health officer; the associated charities coöperate with the superintendent of the poor, etc. If each department head will endeavor to show how much money was appropriated at the beginning of his term or at the beginning of the year, how much was expended and what services were rendered for the money spent, a pretty clear picture will be given of the results of that department's activity. Have this tied up to what

the executive would like to have accomplished, and there is the basis for increased public interest.

Throughout the exhibit there are shown photographs. For illustration, at one budget exhibit there were shown such pictures as the following:

1. The best looking house and home site in the village, cost or rent of which was not over a certain specified amount
2. Vistas looking over the surrounding country
3. The first village playground
4. Schoolhouse, closed and not used; with complementary picture showing children playing in the street
5. Aqueduct not used and available for playground
6. Abrupt ending of main street, with complementary picture of monument or fountain in similar location
7. Ugliness of poles and wires on streets, with complementary picture indicating remedy
8. New engine house, a model of its kind

But the strength of the exhibit in attracting the public at large lies in the number of active exhibits or working models. For this purpose the following devices have been useful:

1. Fire department exhibit—real alarms turned in at fire alarm box, and firemen in full regalia spring to their places on fire apparatus
2. Street lighting department—lights flashed to show tests made on arcs
3. Street cleaning department—model of two-storied fire department headquarters building, beside which stands a pile of street sweepings three times as large, indicating comparison of amount of street sweepings removed each year
4. Health department—laboratory showing saving of babies from impure milk
5. Building department—charts, pictures and models showing how to build and how not to build houses or tenements
6. Purchasing department—piles of all kinds of groceries, coal, engineering supplies, etc., purchased by city in one year, with prices on them and gilded cubes indicating amount of each purchase annually. Each cube connected by colored ribbon to central chart containing salient figures and information about the department
7. High-pressure water system—miniature sky-scraper aflame, with a stream from a hydrant, one from an engine, and one from a high-pressure hydrant, contrasted with the 320 feet to which a stream can be raised by a modern high-pressure system
8. Education department—1,000 feet of film show fire drills, etc.
9. Schools—examples of articles made by pupils in vocational training departments, both boys and girls

10. Purchasing department—pictures showing trees growing through machinery and tools cast away in store yards and disorder in store rooms, contrasted with sample shelving and bins for keeping supplies in order, together with perpetual inventory records

11. Health department—dental clinic, examining teeth of school children

12. City laboratory—testing apparatus for determining heat units in coal

13. Model of farm yard well, showing facility with which water is contaminated from barn-yard filth

14. Large bottle with electric light flashing, labeled and designed to show danger of patent medicine

15. Model showing six small dolls in cradles passing across table top into a door marked "Entrance to Second Year," with a seventh small doll covered by a grave and stone before it enters this gateway; indicating graphically the infant death rate.

Limitless ideas suggest themselves to those actively engaged in the preparation of a budget exhibit. For those whose facilities for putting their ideas into practice are limited, there is always available the coöperation of the Educational Exhibition Company, of Providence. A number of the models and devices suggested in the preceding paragraph were designed and made by this company of young men.

Each successive budget exhibit witnesses a broadening of the scope. Early exhibits gave attention to few subjects other than those included strictly within municipal activities. Later social welfare became an important theme in budget exhibits. Then came commerical facts relative to the city, with charts giving such information as the following:

1. Assessed valuation for past ten years
2. Building permits
3. Post office receipts
4. School enrollment, public and private
5. Public library, volumes and circulation
6. Industrial activity, number of factories and number of employees
7. Building and loan associations, total membership, borrowing members, assets
8. Bank capital and surplus
9. Savings deposits
10. Bank loans and discounts
11. Total bank deposits
12. Bank clearings
13. Value of products
14. Capitalization of industries

15. Cost of materials used
16. Value added by manufacture
17. Salaries and wages
18. Miscellaneous expenses
19. Imports and exports
20. Port arrivals and clearances—coastwise, foreign, tonnage

Meanwhile there has been growing up a group of men throughout the United States who have a vision of the intimate relationship between sewers, streets, tunnels, and the administrative and commercial activities of cities. Sewer systems built without provision for community growth required money which should be available for other city needs. In contrast, the telephone companies in most cities have their trunk lines planned and built upon the certainty of future growth. On the one hand, an exorbitant over-tax is laid upon every person living or doing business in the city, with resultant loss in efficiency and waste of funds. On the other hand, a process of conservation brings a potential benefit to every citizen. Consequently, the relationship between city planning and community development and actual administrative efficiency has taken concrete form in a visualization of the principles involved—in the American and Foreign City Planning Exhibition, as it is called, of the American City Bureau.

This city planning exhibition, which has been shown in connection with municipal exhibits, budget exhibits and government expositions in the United States, Canada, and Chili, marks the most recent step in the evolution of the budget exhibit. Beginning with such prosy municipal subjects as sewers, pavements, streets and switching yards, it leads upward to the highest interests of humanity. It is designed graphically to analyze the city into elemental parts, to show their structural relationship and the scientific method of city planning. It is part of the great movement typified by the budget exhibit, a movement which is sweeping across the land and transforming our municipal life. That transformation is to be from waste to economy, from confusion and congestion to order. It means that the great distributive function of our economic life is to be articulated with the other great function, production, in agreement with the dominant principle of the day—efficiency.

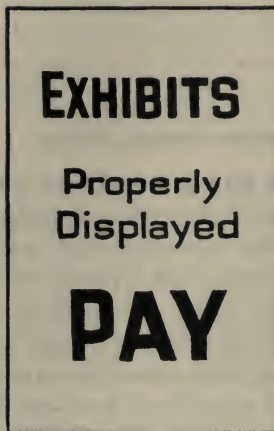
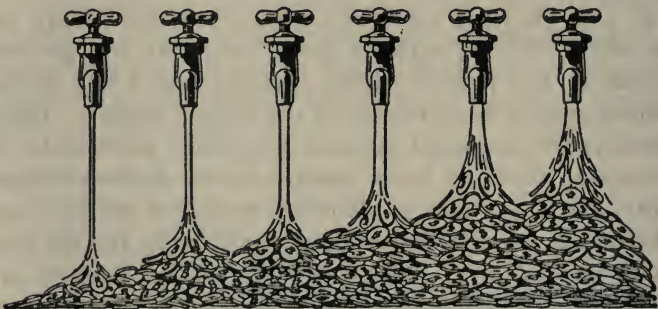


Illustration of difference between two styles of display charts.
Hold this page at arm's length to see which
is more readable.

A GRAPHIC METHOD OF SHOWING THE MONEY COST OF LEAKY FAUCETS.

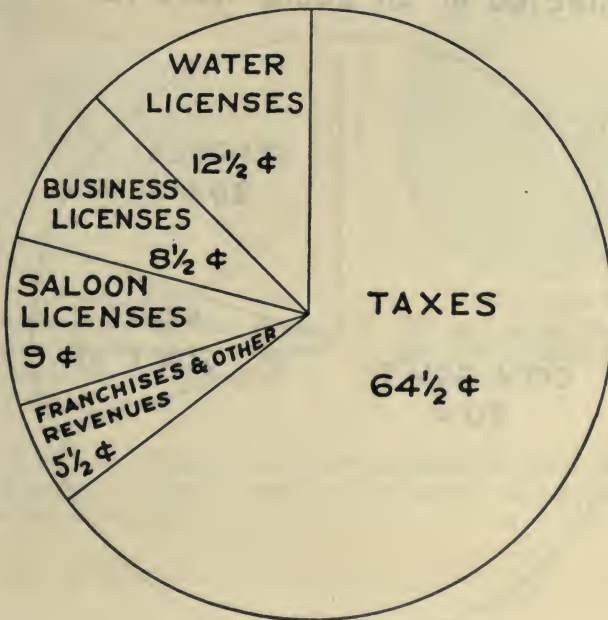


Under Average Water Rates and Pressures This is the Way That Leaks
Run into Money.

Each 1-64 inch leak wastes 2 gallons per hour and costs	. . .	1c per day
Each 1-32 inch leak wastes 8 gallons per hour and costs	. . .	5c per day
Each 1-16 inch leak wastes 34 gallons per hour and costs	. . .	21c per day
Each 1-8 inch leak wastes 137 gallons per hour and costs	. . .	86c per day
Each 1-4 inch leak wastes 514 gallons per hour and costs	. . .	\$3.21 per day
Each 1-2 inch leak wastes 2057 gallons per hour and costs	. . .	\$12.84 per day

Next, here are all the sources of revenue—from general taxes and special license taxes.

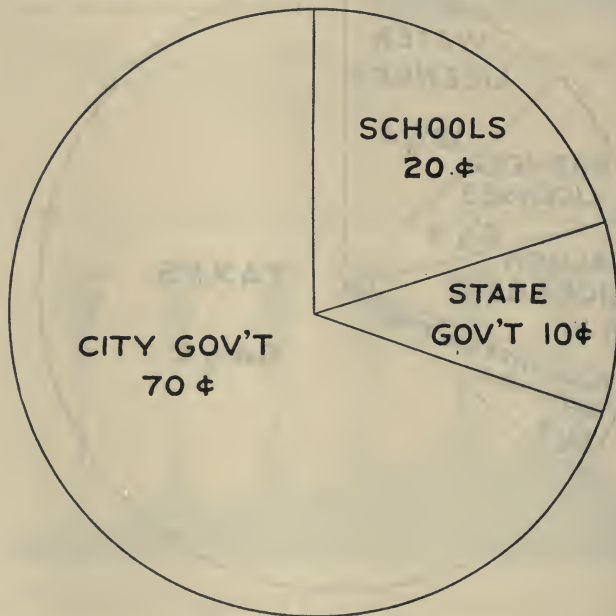
Where every dollar of public revenue collected in St Louis comes from—



That completes the story of the increased tax rate. There are some significant points in our fiscal system which, however, need attention in connection with an increasing tax rate,

First, let's see how the money is distributed.

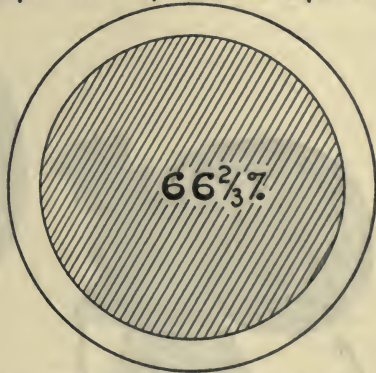
Where every dollar of public revenue collected in St Louis goes to -



One reason why St Louis bears an unfair share of the states expenses.



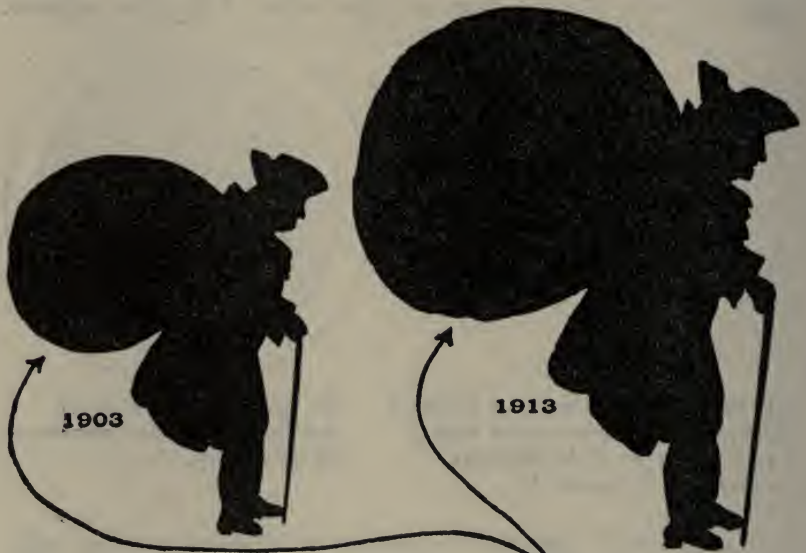
Productive farmlands in Missouri (excluding all unproductive lands) pay taxes on 25% assessed valuation of property.



St. Louis pays taxes on 66 2/3 % assessed valuation of property.

If all property in Missouri were assessed at 66 2-3 per cent of its true value, the state would have plenty of money and St. Louis would not bear an unjust share of the state's burden.

Our City Will Grow No Matter Who's Elected



Will it ever grow as fast as its budget?

From 1903 to 1913 the budget grew $2\frac{1}{2}$ times faster than the city's population.

A graphic cartoon.

BUDGETARY PROCEDURE UNDER THE MANAGER FORM OF CITY GOVERNMENT

BY ARCH M. MANDEL,

Dayton Bureau of Municipal Research.

Forty-five cities have at the present writing adopted the commission manager form of government, which is modeled upon the organization of private corporations, and which plan, more than any other, it is believed by its adherents, lends itself most readily to the development of an efficient administration of city business. It is logical and rational because it recognizes the fact that managing a municipality is a specialized profession and cannot be left to merchants, manufacturers or mechanics.

What have these cities under the manager plan of government accomplished in the way of efficiency and economy? Scanning a list of achievements enumerated by Richard S. Childs in the July number of the *National Municipal Review*, it is found that Dayton, in 1914, by an increase of \$77,709 in its operating expense over the year 1913, gave \$140,000 worth of new service under the new régime; Springfield reduced its operating expense by \$50,000, wiped out a floating debt of \$100,000 and was getting more service than before; La Grande reduced \$110,000 of outstanding warrants by \$35,000 during the first year; Manistee saved \$20,000 on a budget of \$104,000 and at the same time increased the service; Cadillac reduced its annual operating expense by \$6,000, at the same time improving the service.

Such results give evidence not only of adherence to the fundamental principle in city business—keeping expenditures within the income—but also of having planned expenditures so as to produce a maximum of returns. In private business the expenditures determine the income. Under normal conditions, every dollar spent means a dollar plus of returns. On the other hand, the income of a city is limited to a definite amount, while the needs as a rule seem infinite. It is, therefore, essential under these conditions to prepare a budget by which one benefit can be weighed against another and

the money apportioned according to benefits to be derived. This seems to have been done by the commission-manager cities, but whether in a scientific manner or not is another question. At least it was done in an effective manner.

Data were received from the following cities:

Manistee, Mich.....	12,381	\$90,453.00
Titusville, Pa.....	8,533	58,819.79
La Grande, Ore.....	4,843	103,800.00
Abilene, Kans.....	4,118	36,169.00
Hickory, N. C.....	3,716	65,320.00
Montrose, Colo.....	3,252	23,615.00
Morris, Minn.....	1,685	37,000.00
River Forest, Ill.....	2,456	20,640.23
Dayton, Ohio.....	123,800	1,303,467.11 ¹

¹ For current operating expenses only.

Taking the budgetary provision of the charters as a basis, the cities enumerated above may be divided into two groups—Dayton comprising one and the remaining cities the other. In the cities of the second group the charters provide merely that at a certain time each year the commission shall cause to be prepared or that the manager shall prepare a list of receipts from all sources and detailed estimates setting forth the necessary expenditures for all purposes for the ensuing year. Neither the nature of the information desired, nor the extent of the detail required, are specified.

However, from information gathered, it is found that the city managers base their requests upon detailed information of expenditures during past and current periods. Furthermore, because of the small size of the cities and the correspondingly small amounts involved, the managers and even the appropriating bodies have intimate and detailed knowledge of work done and work proposed, of the need and the cost. An example of this is furnished by Morris, Minnesota, where "unit costs of all work and a statement of expenditures are made bi-monthly. The progress and plan for all work is discussed at the weekly commission meeting."

Appropriations are made for each department, without being functionalized and not according to a uniform classification. Although the budgets are unscientific in form, they seem to work out satisfactorily in practice. In formulating the budget, the executive

in every instance obtains all the information necessary for the presentation of sound estimates and intelligent recommendations.

It is evident from the results achieved that not only was an adequate relationship between receipts and expenditures established and maintained, but that expenditures were made according to a well considered program. While such informal methods apparently proved satisfactory from an administration standpoint and did not hinder willing officials from operating efficiently, it must be remembered that city officials are not alone interested in the budget. The public also is vitally interested in how its money is being spent and it is therefore incumbent upon those preparing the budget to present to the public in a concise and clear manner such statements as will assist the layman in comprehending intelligently how and why funds are being apportioned in the specific manner in which they are. Comparative summaries of receipts and expenditures of past and current periods should be prepared, the financial status should be explained through a debt statement and balance sheet, and appropriations should be made in such manner as to make clearly evident the definite purposes for which the funds will be spent. This information is essential for efficient financial control in small as well as large cities.

Dayton, Springfield, and Sandusky operate under similar budgetary provisions in their charters, but because of the size of the city and the fact that all department heads are appointed, by the manager, the success or failure of Dayton's government has a special significance and its budget is of a correspondingly peculiar interest. In the smaller municipalities, where the managers know every minute of the day the status of all activities, noteworthy economy seems to have been effected even with unscientific budgets. In Dayton, however, with a budget of \$1,303,000 for current operation only, the manager cannot without a formal system of budgetary procedure determine intelligently the amounts necessary for the various functions, nor can he without a functionalized work-program judge the efficiency of his department heads. Furthermore, a painstaking and concise exposition of the finances of the city must be made for the information of the public.

Prior to January 1, 1914, under the federal plan of government, Dayton operated under an inadequate and unscientific budget and the result was government by deficit. Twice a year, the finance

committee of the council prepared a six months' budget based upon requests from department heads. These requests were not sufficiently detailed, nor did they contain adequate supporting data of past expenditures to substantiate the new demands. The finance committee based its recommendations upon the last appropriations without knowing how efficiently the money was spent, and council then made its appropriations in more or less aggregate sums. These appropriations were not necessarily kept within the estimated income and as a result for six successive years a deficit of \$60,000 per year was created. Public hearings upon the budget were not held.

Since January 1, 1914, Dayton has been operating under a commission manager charter of which the provisions governing the appropriations are as follows:

The fiscal year of the city shall begin on the first day of January. On or before the first day of November of each year the city manager shall submit to the city commission an estimate of the expenditure and revenues of the city departments for the ensuing year. This estimate shall be compiled from detailed information obtained from the several departments on uniform blanks to be furnished by the manager. The classification of the estimate of expenditures shall be as nearly uniform as possible for the main functional divisions of all departments, and shall give in parallel columns the following information:

a. A detailed estimate of the expense of conducting each department as submitted by that department.

b. Expenditures for corresponding items for the current fiscal year, including adjustments due to transfers between appropriations plus an estimate of expenditure necessary to complete the current fiscal year.

c. Expenditures for corresponding items for the last two fiscal years.

d. Amount of supplies and materials on hand at the date of the preparation of the estimate.

e. Increase or decrease of requests compared with the corresponding appropriations for the current year.

f. Such other information as is required by the commission or that the city manager may deem to be advisable to submit.

g. The recommendation of the city manager as to amounts to be appropriated with reasons therefor in such detail as the commission may direct.

It is realized that the wording of the above section which provides that the "classification shall be as nearly uniform as possible for the main functional divisions of the departments" is no longer applicable, and should read "shall be uniform for the main functional divisions. . . ." In practice the latter interpretation is carried out.

The Dayton budget for 1915 does not include a program for

permanent improvements to be paid out of bonds, but except for this phase it is complete and according to scientific standards of budget procedure. Based upon a detailed estimate of revenue from all sources except bond sales, appropriations are made in accordance with a uniform classification of expenditures for each functional division.

The following sections go to make up the 1915 budget:

Classification of expenditures;

Estimated income by source;

Summary of expenditures by objects purchased;

Summary of expenditures by organization units and according to objects purchased;

Appropriation ordinance including detailed appropriations to each function, in accordance with a uniform classification.

All the receipts of the city coming from taxes and miscellaneous sources go into one fund called the general fund. From this fund all appropriations are made to each departmental division, by character of expenditure, which is divided into two main groups,—current operation and capital outlay. Under each of these groups appropriations and allotments are made in accordance with the following classification:

A. Personal Service

Personal service is direct labor of persons in the regular or temporary employment of the corporation.

1. Salaries.

2. Wages.

B. Contractual Services

Contractual services are activities performed by other than municipal departments, under expressed or implied agreement, involving personal service plus the use of equipment or the furnishing of commodities.

1. Communication.

2. Contractual Repairs.

3. Hire of Equipment.

4. Insurance.

5. Public Utility Services, N. O. S.

6. Special Service.

7. Traveling.

8. Other Contractual Services.

C. Sundry Charges

Sundry charges include those outlays legally or morally obligatory upon the city as a public corporation and trustee.

1. Contributions.

2. Debt Service.

3. Depreciation.
4. Imprest Cash.
5. Pensions.
6. Refunds and Claims.
7. Taxes.

D. Supplies

Supplies are commodities of a nature which after use show a material change in, or an appreciable impairment of, their physical condition; and instruments liable to loss, theft, and rapid depreciation.

1. Chemicals, Drugs, and Medicines.
2. Clothing, Dry Goods, and Notions.
3. Food Products.
4. Forage.
5. Fuel.
6. Minor Instruments.
7. Oils and Lubricants.
8. Stationery.
9. Other Supplies.

E. Materials

Materials are commodities of a permanent nature,—in a raw, finished or unfinished state,—entering into the construction, renewal, replacement or repair of any land, building, structure or equipment.

1. Lumber.
2. Machine and Metal Materials.
3. Masonry.
4. Paints, Oils, and Glass.
5. Other Materials.

F. Equipment

Equipment comprises the live stock, furniture, machinery, implements, vehicles, and apparatus necessary and useful in the operation of the corporation, and which may be used repeatedly without appreciable impairment of their physical condition, having a calculable period of service.

1. Furniture and Furnishings.
2. Live Stock.
3. Machinery and Implements.
4. Motor Vehicles.
5. Vehicles and Harness.
6. Miscellaneous.

G. Lands, Buildings, and Structures,—By Purchase

Supplies are classified according to the nature of the goods and not according to the use to which they might be put; for instance, gasoline is listed under oils and not under fuel.

The appropriation ordinance, which has been found satisfactory for the past two years, is as follows:

AN ORDINANCE

To make the general appropriations for the year 1915.

WHEREAS, It is necessary in order to provide for the immediate preservation of the public peace, property, health and safety, and to provide for the usual daily operations of the municipal departments that the general appropriations for the year 1915 be made at once:

Be it ordained by the Commission of the City of Dayton:

SECTION 1. That there shall be and hereby is appropriated out of any moneys in the treasury, or any accruing revenues of the city available for said purposes, the sums of money set forth in the column marked "Appropriations" for the various purposes hereinafter specified for the payment of all expenses and obligations of the city during the year 1915. The positions designated herein are hereby created and the rate of wages or price per unit of any of the items hereinafter set forth shall not be greater than that indicated. Any additions to salary or wage, or the creating of new positions shall be by ordinance. Each department shall limit its expenditures for the various purposes set forth in the ordinance to the amounts appearing in the columns marked "Expense" unless the City Manager shall expressly authorize a transfer from one schedule to another. The amounts appropriated for the various purposes hereinafter set forth shall in no event be exceeded unless by specific authority of the Commission, by ordinance, authorizing a transfer from one fund to another.

All books of accounts, warrants, orders and vouchers, or other official reference to any appropriation, shall indicate the appropriated fund involved or to be drawn upon by the code number set forth in the column marked "Code" as hereinafter set forth.

A typical section of the detailed appropriation to a functional sub-division is as follows:

DEPARTMENT OF SERVICE

DIVISION OF WATER

Bureau of Pumping and Supply

Expense

Personal Service

80 A 1	Salaries	Schedule	Expense	Appropriations
	Chief Engineer (1) . . . \$1,800 per yr	\$1,800.00		
	Engineers (3) 1,350 per yr	4,050.00		
	Firemen (3) 900 per yr	2,700.00		
	Oilers and Wipers (3) 1,095 per yr	3,285.00		
	Janitor (1) 900 per yr	900.00	\$12,735.00	
80 A 2	Wages			
	Boiler Cleaners (3) \$3.00, 313 days	\$939.00		
	Steamfitter and machinist 4.40, 313 days	1,377.20		
	Laborers 2.00, 1,760 days	3,520.00	5,836.20	\$18,571.20

Contractual Services			
81 B 2	Contractual Repairs.....	\$2,500.00	
81 B 5	Public Utility Service, N. O. S.....	10,000.00	
81 B 6	Special Service.....	1,200.00	13,700.00
Supplies			
82 D 1	Chemicals, Drugs and Medicines....	\$250.00	
82 D 2	Clothing, Dry Goods and Notions...	100.00	
82 D 5	Fuel.....	18,000.00	
82 D 6	Minor Instruments.....	500.00	
82 D 7	Oils and Lubricants.....	2,000.00	
82 D 8	Stationery.....	50.00	
82 D 9	Other.....	50.00	20,950.00
Materials			
83 E 2	Machine and Metal Materials.....	\$900.00	
83 E 4	Paints, Oils and Glass.....	50.00	
83 E 5	Other.....	200.00	1,150.00
<i>Capital Outlay</i>			
Equipment			
84 F 3	Machinery and Implements.....		250.00
Total.....			<u>\$54,621.20</u>

While funds are appropriated in great detail for specific purposes, the appropriation ordinance provides sufficient flexibility for practical purposes. Without going into the advantages or disadvantages of a functionalized budget the fact remains that for Dayton, its budget worked and proved effective for control of expenditures. Merely with the consent of the manager a department head may interchange funds freely within the column marked "Expense"—as for example, the manager may authorize transfers from code 82 D 1 to 82 D 7, etc., but to make a transfer from one appropriation to another, as from code 81 B 5 to 82 D 1 the authorization of the commission is necessary. Thus though allowing adequate flexibility, a positive control over the budget is retained by the manager.

In addition to the above mentioned sections comprising the budget, there remains collective and supporting data not incorporated but which is furnished the manager and the commission, and informs them of the work done and the cost of operating the various functions of the community.

The method employed in Dayton for preparing the budget is the same as that in other similarly governed cities. The manager receives the estimates from the departments on uniform sheets furnished by him. These estimates are gone over by him with the

respective department heads, at which time definite data in the form of records must be submitted to the manager before he recommends amounts to be allowed by the commission. Before submitting his budget to the city commission, the manager has reduced the total request to within the estimated income for that year. The commission then reviews the budget with the manager, receives his explanation for the recommendations made and makes such changes as it sees fit. It may be noted that in Dayton, except for a few minor revisions after discussions at the public hearings, the budget was passed practically as the manager recommended.

The effectiveness of the Dayton form of budget and the control over funds which it affords was demonstrated in 1914, when the manager was able by following the budget to turn a probable deficiency into an actual surplus at the end of the year. In June, due to a threatened shrinkage in receipts, the departments were notified that a reduction in appropriations might be necessary. Immediately upon receiving the final returns from taxes for the year, on August 31st, cuts in the budget were made amounting to \$45,000. This reduction in appropriations was made, however, in sufficient time to allow of a revision of the work-program of the several departments, and, without having eliminated any major functions, or discharged any employe, resulted at the close of the year in a balance of \$5,600 remaining in the treasury. This presents a significant contrast to conditions under the old régime, when for a succession of six years an annual deficit of \$60,000 was incurred and the police and fire departments were reduced in numbers, all because a properly classified budget and adequate accounting to supplement such budget were lacking.

For 1916, it will be recommended that the budget of Dayton be elaborated in accordance with the procedure proposed for New York City by the New York Bureau of Municipal Research, and which has been adopted with modifications by Springfield, Mass., upon the recommendation of its local Bureau of Municipal Research. The plan calls for the following:

1. An explanatory text by the city-manager explaining new features necessitating requests for funds.
2. A financial program with a resolution fixing the revenue.
3. An appropriation ordinance prepared in the form in which the city-manager desires it to be passed.

4. Supporting data consisting of
- Summaries of financial statements, comprehending
 - Balance sheet
 - Operating account
 - Surplus account
 - Debt statement
 - Fund statement
 - Summaries of estimates, comprehending
 - Comparative summary of actual and estimated revenues, showing actual revenues for the past two years and estimated revenues for the next ensuing year.
 - Comparative summary of actual and estimated expenditures, showing actual expenditures for the past two years, and estimated expenditures for the next ensuing year, classified by
 - "Organization units"
 - "Functions" or kinds of activity
 - "Objects of expenditure" or things purchased
 - "Character of expenditure" distinguishing expense from capital outlay, fixed charges, and contingencies and losses
 - "Funds" or classes of funds to be charged.
 - Supporting detailed schedules of estimates, comprehending
 - Detailed analysis of comparative, actual and estimated revenues classified according to
 - Character or method of raising
 - Organisation units in which they occur

Scientific budgets are not inherent to the commission manager form of government, but this scheme of government is constitutionally the most conducive to the promulgation of a logical budget. The fiscal policy is an executive problem. The executive is responsible for the proper functioning of the various city departments, and it is to him that the success or failure of an administration is accredited. It is his duty to plan the work to be carried on and it is within his province to know what funds are necessary for the proper execution of his plans. To the executive, therefore, should be granted the power to initiate financial measures, and to the legislative body should remain the duty of authorizing funds and holding the executive accountable for results proportionate to the expenditure of funds.

Such a state of affairs has not been easy of attainment under the federal plan of government prevalent in American cities.

Dayton's condition prior to January 1, 1914, is typical of that to be found in hundreds of cities today. Under a modified form of the federal plan, members of council, the mayor, auditor,

treasurer and solicitor were elective officials. The heads of the departments of public service and public safety were appointed by the mayor, as were the members of the Park Board and Board of Health.

The budget was made up by the finance committee of council, from estimates submitted to them independently by each department head. This committee conducted hearings with the city officials, and in it resided the power to determine what salary increases should be granted, and what the work program for the ensuing year should be. The tentative budget was then presented to council which passed it, without inquiring further into the merits of the appropriations, except to assure themselves that favorites were receiving the salary increases and that their respective districts would be benefited to some extent. In other words, the legislative body of the government controlled administrative problems.

The mayor, who was supposed to be the head of the city and responsible for the administration of affairs during his term of office, could exercise no positive judgment in the formation of the budget. Council as well as most of the other officials were directly responsible to the electorate and unless all happened to belong to the same political party no incentive for coöperation existed. In fact as was the case in Dayton for two years prior to the inauguration of the commission-manager government, there was continuous discord and strife between the executive and legislative departments because of a difference in political faith. Accusations of discrimination against the mayor's departments, whether just or unjust, were frequent, the mayor did not attend the meetings of council and was not present at budget hearings unless specially invited. Needless to state the invitations were neither numerous nor urgent.

Coupled with these conditions, which are products of the federal form of government, is the difficulty of allocating responsibility for inefficient administration. The blame is shifted from the executive to the legislative branch and vice versa, with the result that no intelligent judgment can be formed by the citizen-body.

Although partisan bickering and diffusion of responsibility are largely eliminated in the straight commission plan, yet this form of government does not lend itself readily to a scientific budget pro-

gram. The fundamental drawback of this plan of government is the combined administrative and legislative powers vested in the same body. The commission initiates and executes measures and is judge of the results accomplished. It votes itself appropriations upon data satisfactory to itself and controls expenditures made by itself. Disinterested regulation is precluded.

Furthermore, each commissioner, being an administrative head, is vitally interested in the success of his particular department and in the amount of money appropriated for his use. He will bend every effort to secure funds adequate for the production of good results, and to bring this about it will frequently be found necessary to resort to log-rolling and combining with certain of the members of the commission against the remainder.

Contrasted to both of these types of city government is the commission manager plan, where the manager is the head of the administrative phase of the government and alone responsible for the operation of the various departments. He receives the budget estimates from all the departments and by virtue of his powers can demand adequate information to substantiate the requests. These estimates with his recommendations and supporting data are presented to the commission, which after conferences with the city manager and public hearings, makes the appropriations.

Log-rolling and personal consideration in appropriating funds are precluded under this system. The manager is accountable to the commission for the successful administration of the affairs of every department; one function cannot be sacrificed to another, and everything being equal he will recommend appropriations to the relative urgency and importance of the work to be done. The commission is disinterested in so far as the individual departments are concerned and no commissioner is identified with any particular subdivision of the city government. Being accountable as a whole to the electorate for an efficient administration of all the departments, the commission will apportion funds in such manner as to produce the most desirable results for the community considered as a unit.

The possibility of sacrificing judicious appropriations because of friction between the legislative and executive branches is eliminated because the continued employment of a city manager signifies harmonious relationships between him and at least a majority of the commission.

By having the department heads responsible to him and removable by him, the city manager controls expenditures. Frequent cabinet meetings such as are held in Dayton and reports of current appropriation balances enable the manager to keep in close touch with the progress of the work and with the adequacy of funds. He is then in a position to make curtailments and to recommend increases as the occasion presents itself.

While the commission manager plan seems to be the best medium for efficient administration in city government, material progress can be made only through the continued interest in public affairs by the citizen-body. The increased purchase value of the public dollar in the commission manager cities is the outcome of placing responsibility for spending the money, on one man, to whom the public turns for results. Such, at least, is the case in Dayton where as never before are the acts of the city officials being followed. As soon as the public demands to know where the money is coming from and how and why it is being spent, budgets will be gotten up and the information needed to interpret budgets intelligently will be supplied.

Recent events point to just such developments in city government. The injection of the business man into municipal affairs, the strengthening conviction that administering a city is a specialized business and requires specialists, the growing conception that city business is a matter of dollars and cents and not of bosses and parties, will all contribute to the dispersion of the air of mystery which has surrounded municipal government and to the introduction of those methods which have made private business in this country so eminently successful.

THE BUDGET AS AN ADMINISTRATIVE PROGRAM

BY HENRY BRUÈRE,

Chamberlain of the City of New York.

The year 1916 promises to be a memorable year in the development of budget practices in America. There are two conspicuous advanced steps now under consideration, both formulated by the New York Bureau of Municipal Research under the leadership of Dr. F. A. Cleveland. The first relates to the establishment in the state of New York of a definite budget procedure. This new procedure will center in the executive responsibility for determining financial policies and authorizing the use of public funds in the performance of state business, and is the first constitutionally prescribed budget procedure provided in American state government. The second relates to the further development of the budget practice in the city of New York, which during the past ten years has gradually evolved from chaos into a complex system of controlling expenditure of public funds through a meticulously detailed appropriation ordinance.

The bureau's proposals in both these fields mark, for the present, the culmination of the widespread thought that has recently been given to better control of the financial operations of the governments in America. I cannot do better than to commend to those interested in the scientific and at the same time the practical methods of budget making, a careful reading of the bureau's explicit statement of its proposals for New York City published in January, 1915.¹

The present volume contains numerous papers on the scientific aspects and theory of budget-making. My own purpose is to consider some of the practical problems involved in administering public finances and in determining on sound financial policies. First, let me review briefly the present status of budget-making in New York City, with a word of reference to the evolution of existing practices. I select New York City because it has taken

¹ *Next Steps in the Development of a Budget Procedure for the City of New York.*

leadership throughout the whole of America in breaking away from the confused and mischief-breeding methods of appropriation, once universal and still widespread, to a carefully conceived plan of correlating financial authorizations with work expectations and administrative responsibility. Because New York has been the pioneer, it is, in consequence, largely the victim of its own experimentation. As in every other government, departures from established practices, though difficult to make, once made, readily form themselves into routine, crystallized habits. New budget methods, instituted in the first instance to overcome specific abuses, and conceived one by one as these abuses were publicly recognized and sought to be corrected by official action, though of value in accomplishing their immediate purpose, have not aggregated themselves into a harmonious program correlating all the features of a proper fiscal policy.

It is this coördination and the consummation of a complete program that the Bureau of Municipal Research undertook in the submission of its notable document which now serves as at least the basis for the review of present practice and the formulation of a more broadly conceived practice for the future.

Ten years ago, appropriations in New York were in the nature of licenses to spend public funds, with only such restrictions as were imposed by general descriptive titles of appropriations or specific statutory requirements. It is conceivable that the form of budget prevailing in New York in 1906 was the result of a gradual accretion to a rudimentary financial structure. Never had an attempt been made to analyze or picture the character and variety of municipal activities, nor to correlate in any specific way the quantities of work to be done with the authorizations of funds by means of which the work was to be carried on. From time to time, by reason of legislative enactment, there had been added to the budget specific authorizations. This process continuing through a period of years finally evolved a great volume of appropriations which, with subdivisions into departments and occasional special classifications into items for salaries, wages and supplies, represented the form of budget in vogue in New York City until ten years ago.²

² The conditions prevailing in New York ten years ago still exist in many cities of the country, for clear budgetary statements are still the exception rather than the rule in America.

In 1906 the first attempt was made to break through the haze of meaningless appropriations to discover what services were contemplated to be performed in pursuance of them. The historical method was adopted. That is to say, an analysis was made of past expenditures, and these past expenditures traced through vouchers, payrolls and books of account and through items of appropriation against which they had ultimately been charged. It was then seen at once that the process of evolution had not coördinated appropriations with the functional classification of activities in the departments. The practical result of this defect was that those who made the appropriations were not called upon to consider the sums requested or finally authorized, in terms of prospective activities or the specific needs of units of organization. Department heads recognized in authorizations no specific mandates of work to be performed, and consequently were free to utilize appropriations once obtained for whatever purposes might subsequently seem to them wise during the fiscal period to which the appropriations applied. There was no opportunity presented for the consideration of prospective charges against the funds of the city by taxpayers and civic bodies in terms of service desirable or otherwise. Budget making was merely a compromise between the compelling exigencies of work, or the political or personal persuasiveness of those making requests, and the political inexpediency of increasing too rapidly the city's annual outlays.

It was this condition which the first attempt at clarification in 1906 sought to remedy. This attempt consisted in the subdivision of appropriations by functions, according to groups or lines of activities. This functionalizing, or segregation as it came to be known, made possible the consideration of requests in terms of prospective service, and formed the basis of a specific agreement between the appropriation authorities and administrative heads to spend money allotted to them for the purposes indicated in the budget statement.

It was found, however, that *functionalizing* did not accomplish all that was expected of it. There still remained the possibility of developing forced emergencies which would inflate appropriations before the end of the period to which they were expected to apply, and the further possibility, in numerous cases, of utilizing sums which were allowed on the theory that they would be used for the

purchase of supplies, for salaries, or vice versa. The door was left open for the subversion of appropriations intended for salaries to political purposes by withholding expenditures at the beginning of the year in order that the rate of spending might be increased at the end of the year under the promptings of a political campaign.

In short, there did not exist in the city of New York, as there did not exist generally throughout the cities in the country, the character of administrative responsibility or the method of administrative control in departments responsible for expenditures which would ensure the proper use of funds even when allotted under restrictions imposed by functional segregation. This condition, brought out in specific instances, prompted the institution of further devices for controlling administrative discretion through the appropriation ordinance or budget as it is called in the city of New York. These devices consisted in the:

1. Establishment of salary schedules under functions, showing the number of positions and rates of pay authorized for the performance of work;
2. Laying down the rule that, except in specifically indicated instances, the rate of salary expenditures must not exceed for any one month one-twelfth of the total annual allowance, thus preventing the particular exercise of discretion which customarily resulted in increasing the rate of employment prior to the preparation of the new annual estimate or the holding of a political primary or election.

Supply and equipment appropriations were treated in the same way. That is to say, they were analyzed in considerable detail according to the object of expenditure, so that department heads asking for funds were bound to utilize them for the purposes for which they had requested them, rather than for some later developed need or for a purpose not revealed at the time the authorization was made.

In addition to these fundamental restrictions on spending discretion, numerous administrative rules were laid down, as, for example, requirements that supplies should be purchased under specifications formulated by the board of estimate and apportionment, to prevent the unequal use of public funds for material of different grades for like purposes, and the prohibition of transfers between certain accounts because of abuses resulting from such transfers. This method of restricting the discretionary spending power of administrative heads developed to its height in the budget of 1913, when upwards of twenty-four conditions were laid down to control the use of appropriations.

X The method of budget appropriation which thus gradually developed, and which I have briefly outlined had this characteristic: It was conceived not by those responsible for administering the departmental affairs, but by those responsible for granting funds. It was prompted not so much by the desire to expedite the performance of public business, as to prevent age-long and conspicuous misuse of public funds which under lax organization and ineffective administration had become characteristic in New York as in other American cities. The purpose of the new budget method was in theory a negative purpose; that is to say, it was inhibitory rather than directive. But in practice this budget plan has worked a great many positive benefits. It has compelled department heads, in preparing their annual estimates, to scan the activities of their departments, not sectionally or in general terms, but item by item through the whole functional structure. It has served in a measure the purpose of the balance sheet, of an operating statement and cost accounts by affording an opportunity to match results with expenditures both to those responsible for obtaining results and to the appropriating authorities. It has revealed for the first time to the public the scope and range of city activities, and has made it possible in numerous instances to prevent unwise expenditures by compelling a detailed justification of requests in advance of authorizations.

The segregated budget plan of New York has operated to save millions of dollars which might have been spent without chicanery or desire for waste on the part of officials, but merely because they were permitted to obtain funds without careful self-analysis or analysis by special agencies which the segregated estimates have occasioned. But with its advantages the segregated plan has developed certain conspicuous disadvantages. These the bureau in its brochure points out in detail. I shall mention one or two to illustrate their character.

In the first place, the development of segregation produces in a city the size of New York with its vast variety of activities an appropriation ordinance of almost unwieldy proportions. Segregation by functions allots units of organization to specific activities which, if available, might profitably be utilized for service in a number or all of the divisions of a department. It ties down in advance authorizations for supplies according to prospective

functional use, although it is generally impossible to estimate in advance the quantities of such supplies which will be required for each function with the result that there are uneconomical purchases or evasion of budget requirements. In other words, segregation results in a degree of regimentation which restricts and in a measure paralyzes the freedom with which the organization provided in the appropriations may be employed, or the funds for purchases may be utilized.

So much for the New York budget practice as it has developed during the years of experimental improvement. There are, however, numerous omissions in the present practice which it is now proposed to repair. These omissions relate chiefly to a method of stating appropriations, the observance of distinction between the budget and the appropriating ordinance, the inclusion in the budget submission of a statement of the means of its financing, and the submission for public information at the time of the promulgation of the budget ordinance of a statement of the city's finances, its fiscal operations during the previous period, and the facts regarding the city debt.

In New York City the practice has not prevailed which is elsewhere followed of including in the budget authorizations a complete statement of permanent improvements to be financed by the use of borrowed funds. Only such part of the expenditures for public improvements as are represented by salary and incidental charges are included in the appropriation ordinance, the contract and open market order expenditures being entirely omitted. These it is now proposed to include.

To facilitate the freer exercise of proper administrative discretion, and to provide a more complete financial instrument therefor, are the purposes of the proposed revision of New York City's budget practice. As outlined by the Bureau of Municipal Research, it is proposed to divide the annual financial instrument into two distinct parts: *First*—A budget prepared by the board of estimate and apportionment after analysis of departmental estimates, to be submitted by that board to the final appropriating body, the board of aldermen. Accompanying the budget, there are to be submitted: (1) A financial program for next year; (2) a work program, indicating the activities to be performed or services to be rendered pursuant to appropriations; (3) the method of

financing authorizations; (4) statements showing the general financial condition of the city. *Second*—The appropriation ordinance proper. The budget, under the New York charter, does not become law until finally approved by the board of aldermen. The board of estimate and apportionment has, in practice, always prepared the budget in the form of an appropriation ordinance, the board of aldermen having authority only to reduce, not to increase allowances proposed. The Bureau of Municipal Research suggests that the board of estimate shall exercise a closer supervision over the expenditure of authorizations and that this supervision shall be continuous and not restricted merely to the itemization, terms and conditions of the appropriation ordinance. This supervision is to be exercised through the formulation of a work program, and through the subsequent allotment, monthly or otherwise, during the course of the year, by the board of estimate of funds from the appropriations to departments to carry out this work program. The budget or appropriation ordinance itself is to be changed in form. Instead of detailed items of appropriation by functions, departments are to be allowed appropriations in lump sums by objects of expenditure, *i. e.*, for salaries, wages, equipment, etc.

In short, it is proposed to exercise through the appropriation ordinance control over the total expenditures for personal services and total expenditures for purchases and other contractual relations. It is not proposed that there shall be an attempt, as now, to exercise through budget appropriations control over the quantities of work to be performed or the functional use of authorizations, but that this control shall be exercised through the work program and correlated accounts and reports. By this device appropriations would be made for each department under general headings as the following:

- Personal service;
- Supplies—classified;
- Purchase of equipment—classified;
- Materials—classified;
- Contract or open order service—classified;
- Contingencies;
- Fixed charges and contributions.

These appropriations would be made for an entire department, and not, as now, for each of the numerous subdivisions of a depart-

ment. It would not be necessary, as now, for department heads to obtain specific authorization from the board of estimate to transfer funds from one account to another if the actual requirements as developed during the year do not correspond with the estimated requirements as laid down several months before, when appropriations were determined. It would be possible, for example, to shift one employee from one division to another without restriction, except as I shall subsequently point out, and to purchase supplies in advance, making allotments to individual divisions as requisitions may determine. For an entire department it is urged there be established schedules of positions conforming to the standard groups and grades laid down by the board of estimate and apportionment in the standardization of city service now in progress. For supply appropriations, definite statements of the various classes of supplies required for the entire department are to be furnished, listed in accordance with the classification established by the board of estimate and apportionment, and these are to be purchased under standard specifications similarly prescribed.

Up to this point, in the form of the budget the difference between the present method and the proposed method consists merely in the elimination of the classification by functions and the treatment of departments as single administrative units. The purpose of this change is to expand the now restricted discretionary authority of department heads and to make more flexible the use of departmental organization. It is proposed also, to correct abuses developed through the attempt to control by functions the use of supplies in advance of their purchase, and to remove the confusion resulting from attempting to reflect the expenses of departments through appropriation accounts rather than through operating accounts.

A forward step is taken in the suggestion of the work program. As now prepared, there is lacking in the budget a specific understanding as to the quantities of work to be performed as a result of authorized expenditures. The amount of appropriations have been increasingly correlated with detailed explanations of proposed work to be performed, furnished verbally by department heads at hearings on the budget, or educed through examinations by accountants assigned to the investigation of requests by the budget making authorities. But these projected activities are

not specifically formulated into written terms which may serve as the basis for supervisory control either by department heads with respect to their subordinates, by the mayor with respect to departments under his control, or by the appropriating authorities with respect to all departments of the city government.

The bureau's proposal requires that there be included in the budget as submitted by the board of estimate a statement showing the expenditures by functional activities in detail corresponding to the detail required for proper administrative accounting control of departmental activities. Thus, for the bureau of child hygiene in the department of health, there would be shown proposed expenditures as follows:

- Administration and other general business;
- Medical inspection and examination of school children;
- Examination and treatment of school children for diseases of nose, throat, teeth and eyes;
- Technical instruction and direction of nurses;
- Sanitary inspection of buildings, medical examination of children in institutions and day nurseries;
- Investigation of persons and granting permits.

These expenditures would be classified, according to the bureau's suggestion, under six headings, as follows:

- Expenses other than upkeep;
- Upkeep of property and equipment;
- Capital outlays;
- Fixed charges other than pensions;
- Pensions and retirement salaries;
- Contingencies and losses.

The total of the authorized detailed expenditures in the work program for all divisions of the department would equal the total authorized for the department for salaries, supplies, equipment, etc. Thus, the appropriation ordinance would provide the means by which the work of the departments is to be done, and the work program would state in terms of proposed expenditures the uses to which these means were to be directed, according to the detailed functional activities of the department.

The bureau's plan proposes that there shall be made by a responsible member of the board of estimate and apportionment, quarterly allotments of funds appropriated for carrying out the

work program as submitted by a department head. By this suggestion it is sought to maintain control over the specific use of funds, but it presents the difficulty of practically requiring, quarterly, a complete review by the appropriation authorities of departmental activities. A better method would be to make the appropriation and allotment for the entire year, and to authorize the execution of a work program throughout the year unless on the request of a department head it is desired to amend it within the limitation of the appropriation ordinance.

By whatever method it is finally determined to exercise control over activities, it is recognized as desirable that there shall be a close correlation between the appropriation of funds and the obligation to perform specific services. In my view it is not material whether the current revision of the work program for the year is submitted for the approval of the appropriating board, provided there is established adequate executive control over the use of funds whereby the responsible head of the government may be kept informed through reports of the current use of funds and the current results obtained. Department heads will be made to account for all deviations from the work program approved as a part of the budget authorizations when they come before the appropriating authorities in the following year for new allowances.

The success of the liberalized budget plan as suggested by the Bureau of Municipal Research would depend on the complete development and skillful use of the instruments of intelligence and control which have been and are now being provided in the government of the city of New York. These instruments consist of accounts and reports, agencies of investigation and inspection, and special advisory staffs established by the board of estimate and apportionment. The change in budget method is not in itself so important as the fact that the time has come when the relaxation of restrictions may be safely considered. There has come about in a remarkably short time a complete alteration of the attitude of the public officer to his executive responsibility. Instead of mere opportunism, evasion and compromise to which the average public officer of a decade ago was driven by political conditions or by lack of method and organization, department heads are now seeking to increase, day by day, the quality of service performed by the organization responsible to them, and to exercise increasingly effect-

ive discretion with respect to the work for which they are responsible. Because of the exceptional character of its personnel, its conspicuousness, and the ease with which the public could deal with it, the board of estimate, the financial board of New York City, for years served as a shield between the political rapacity or administrative slovenliness of department heads and the public interest. Now, more and more, department heads are better prepared to exercise intelligence with respect to the administration of their departments than it is possible for a central body, such as the board of estimate, to acquire through personal contact or the advice of advisory staffs. The means which the board sought to develop for the purpose of exercising control over irresponsible and incompetent department heads are now the means which responsible and competent department heads themselves desire for effective control over their own work responsibilities. It is no longer necessary to compel departments to adopt modern accounting methods, it is no longer necessary to explain to departments the wisdom of adequate stores control, it is no longer a part of the work of reform to urge the establishment of cost records. These things are now desired by department heads as the means of assisting them in the discharge of their administrative responsibilities.

Thus, the restrictive purposes of the board of estimate and apportionment as expressed in the conditions of appropriations and minutely itemized authorizations of funds are coming to coincide with the administrative aims of departmental managers. To the extent to which these managers recognize the need for definite planning of work, the establishment of economical methods of operation, the close control of operative results, just to that extent will it be feasible to release them from the restraints of the present budgetary restrictions. When these things are accomplished, as they are now rapidly in process of accomplishment in New York City, there will be substituted for the inanimate control of an appropriation ordinance, the animate and directing control of a responsible and directing central executive department.

Because no machinery has as yet been developed for summarizing and interpreting currently the results of departmental operation, as reflected in accounting and service records, the chief instrument available to the mayor for control of departmental operations is the annual budgetary estimate. The estimate, however, has hereto-

fore been inadequate because of its failure to provide a definite work program, and because it does not correlate results accomplished with expenditure. Accordingly, executive control continues to be exercised very largely through the consideration of incidents in administration, and through the planning of new activities or special developments of old activities to meet exigencies as they arise.

A continuous and progressive direction of the multifarious activities of the government has never been exercised by the chief executive and cannot now be exercised because of lack of organization as well as information through which it may be achieved.

In order that the board of estimate and apportionment might more adequately discharge the functions of financial control, it established two principal agencies. One, the bureau of standards, is charged with the formulation of standards for supply and equipment specifications, and the standardization of compensation for various grades and classes of service throughout the city. This work has resulted in providing the board with exceptionally comprehensive information regarding the needs, organization and methods of the various departments of the city government. In order that this information may be utilized advantageously, the bureau is now employed by the board of estimate and apportionment to review requests for funds which involve the payment of salaries and wages as well as the purchase of supplies and materials. In this way, as an incident to its appropriating power, the board of estimate has gradually acquired an authoritative position on the executive side of the city government as well as the appropriating side. Departments may not increase compensation or alter organization without the consent of the board obtained or denied as the result of an investigation by the bureau of standards.

The second agency is the bureau of contract supervision which is charged primarily with the review of specifications and the approval of contracts executed for public improvements. As an incident to this function the bureau is currently assembling cost data with respect to various public improvements and accumulating expert information regarding the structural equipment needs of the city. It has become, therefore, an agency of direction as well as appropriation in respect of those matters which involve new

construction or the purchase of equipment chargeable against corporate stock.

These agencies which are subordinate to the board of estimate, the body of financial authority, provide information which is indispensable to intelligent executive direction. Their activity has developed naturally out of the more careful methods of budget preparation evolved by the board, and they are providing the means of supervising the administration of the budget which now occupies a considerable part of the attention of the board. The mayor has available to him now, as heretofore, the investigating staff of the commissioners of accounts. They, however, are not in a position to influence the organization and methods with the same compelling authority as the bureaus of the board of estimate which report on requests for appropriations.

In respect of the actual operation of the city government, therefore, the development of a systematic budget program in New York City has transferred, in considerable measure, the opportunity and means of detailed executive supervision from the mayor who is the chief executive of the city to the board of estimate and apportionment in which, though a member, he does not occupy a controlling position. This unbalanced condition will in a measure be obviated by the establishment of definite work programs to serve not only as a basis for appropriation, but as a basis for executive supervision.

The government of a great city, loosely constructed as most of them are, consists of a growing number of practically independent departments. These departments are each equipped with their special advisory technical staffs and are in a better position than the executive to determine on needs and policies. The practice has prevailed in New York, therefore, of executives relying upon department heads not only for administrative work, but for suggesting policies and for supervising their execution. Advantageous as is the practice in many ways of allowing, for example, initiative to department heads and giving latitude in the development of their own plans, there is this disadvantage: Each department seeks to enlarge its scope of activity and build up its own organization without regard to the conflicting needs of other departments. In putting in force a program of economy and efficiency, the chief executive of the city is confronted with the necessity

not only of curbing the natural tendency to expand which exists in every department, but with the difficult task of finding the means, through better organization and more efficient methods, to provide additional services where they are imperatively required without increasing the aggregate cost of government. The advisory staffs of the board of estimate and apportionment, engaged as they are in the preparation and administration of the budget, will become increasingly well-equipped to devise and put into force improved processes and more effective organization.

In order to protect the executive responsibility of the mayor and at the same time to preserve the effectiveness of the budgetary control exercised by the board of estimate and apportionment, it is apparent that the mayor as the head of the corporation is called upon to take leadership in the direction of the fiscal activities of the board of estimate and apportionment of which he is chairman. Not to do so would result either in neglect of his responsibility to maintain active supervision over the administration of departments or duplication of the agencies of supervision. New York is therefore confronted with the necessity either of recognizing in the board of estimate a body of executive authority, or of revising its budget method to the extent of vesting in the chief executive responsibility for the preparation of the annual estimates and the supervision of their expenditure. This executive responsibility in preparing the budget estimate is one which will be exercised by the governor if the new plan of budget procedure laid down in the proposed new constitution of the state is put into effect. In the case of the state, as ultimately it is to be expected in the case of the United States, the chief executive will assume the responsibility for budget planning exercised by cabinets in parliamentary governments but heretofore exclusively exercised by legislatures and administrative departments in American state and city governments.

The board of estimate in New York is neither a cabinet nor a legislature. It is a body of officials individually responsible to the electorate and without collective responsibility for the administration of the city government. To achieve effective administration as well as competent financial supervision, the city of New York must presently choose between a government of board control and the transference of the agencies of supervision from the

control of the appropriating authority to the control of the mayor. Under the present charter there are difficulties in the way of centering this control in the mayor, because a large part of the government of the city is under the direction of the borough presidents, who are members of the board of estimate, but who are not in any sense responsible to the mayor for the conduct of their departments.

It is clear, however, that executive control cannot be intelligently exercised without the use of the power afforded in determining on appropriations and the opportunity which the investigation of requests presents for obtaining precise information regarding departmental needs, methods and activities.

As a practical matter, no formulation of a program of service is feasible in a great government which does not concern itself primarily with the community's ability to finance that program. The budget, therefore, is the basis upon which administrative planning and control must be predicated. A department of health must scheme out a complete program for health service, but it will never be able to execute that program until it is first able to persuade the appropriating authorities to grant funds with which to carry on the activities which the program demands. A growing city is continually presenting increasing demands for service. To meet these demands there are only two alternatives open:

1. Provision of increased funds, or
2. The more effective utilization of funds already granted.

An intelligent appropriating body will seek to demonstrate to an administrator his ability to perform increased service without adequate appropriations by more effective utilization of existing appropriations. To make such a demonstration it is necessary for the appropriating body to be informed in detail of the organization and administrative practices of the department in question, as well as of the service needs of the community. Recognizing this need, the present mayor of New York has sought in various ways to anticipate the demands of the board of estimate not only by directing department heads to refrain from asking for additional funds until every means apparent to them for effecting economies are exhausted. In addition to this he has opened the door to continuous investigation of departments by the board of estimate agencies, and has supplemented these investigations with studies

made by special staffs reporting directly to him. The results of these efforts to achieve economy are reflected in the annual estimates of the departments and in the authorizations of funds based upon them. The budget, therefore, in New York City has become not only a means available to the legislative department of the city of New York,—the board of estimate and the board of aldermen,—for control of departmental expenditures, but furnishes as well the basis for executive supervision.

This is the purpose of a complete budget procedure. It should not merely be the expression of authorizations, but should be the summation of executive direction with respect to the scope of municipal activities and the methods of their administration.

THE GERMAN MUNICIPAL BUDGET AND ITS RELATION TO THE GENERAL GOVERNMENT

BY KARL F. GEISER,

Professor of Political Science, Oberlin College.

To a proper understanding of our subject it seems necessary to reverse the order suggested by the title and first explain the relation of the local to the general government. No attempt will be made to explain in detail the complicated relations of the German municipality to the various governmental units of administrative areas within the German Empire, though a complete study of the municipal budget would require it; for every taxpayer living within a rural or urban commune contributes directly or indirectly to several governmental organizations above the municipality. Obviously many of the sources of revenue of both the state and the imperial governments lie within the city. The income tax, for example, is a source of both state and municipal revenue, while the unearned increment tax, introduced into Frankfort in 1904, was adopted by the Imperial Government in 1911. It is now provided by law that this tax shall be collected and administered by the various states and the proceeds are to be divided between the imperial, state, and municipal treasuries. In practice, however, this tax is collected by the municipal authorities who may, by sanction of the state, levy a supplemental unearned increment tax not to exceed 100 per cent of the imperial tax. I mention these facts here merely to show the complicated financial relations between the local and general governments that we may better appreciate the problems presented to the budget makers.

Before entering upon details, other facts of a general nature should also be kept in mind. In considering German municipal practices it should be remembered that the German Empire is composed of twenty-six more or less independent states, that each of these states has its own legislative body, its own administrative officials, its own political subdivisions and its own system of local government. A mere glance at the history of Germany—its former

numerous petty states, its local customs, its independent cities, its leagues and confederations and its comparatively recent Empire—will enable us to understand why there are still differences in the administration of local affairs in different parts of the Empire. The administration of finance forms no exception to this general statement. Whatever may be said, therefore, concerning the policy of one state should not necessarily be assumed to apply to all states. However, it should be observed in this connection that there is coming to be more and more uniformity, in the administration of local matters, through the influence of the central government, through national municipal congresses, through numerous journals devoted to local government and through the readiness of one state to adopt a superior system that has proved successful in another state.

Since Prussia comprises about three-fifths of the area of the Empire and contains, in round numbers, 40,000,000 of the Empire's total population of 65,000,000, we may properly regard that state as not only dominant in the Empire but as typical of German local administration. At the same time, against the tendencies toward local uniformity through the forces mentioned, especially through the dominance of Prussia, must be placed the fact—the most cardinal fact of local finance—that there is a wide latitude of local autonomy. The German city is a city of general, not delegated powers and may do everything not specifically denied it by the state or the imperial government. This fact operates against uniformity. But whatever degree of difference or uniformity exists, from the standpoint of the individual the municipal budget must take into account the fact that every taxpayer within the municipality must or may contribute in some form, directly or indirectly, to the following governmental or administrative organizations: (1) The Empire, (2) the State, (3) the Province, (4) the Government District, a subdivision of the province, (5) the Circle and (6) the Commune, of which there are two kinds—rural and urban.

From first to last, each one of these jurisdictions,—whether organized for purposes of general or local government, whether a subdivision of a larger government used for purely administrative purposes or a government largely independent in itself, such as a city—has a set of administrative officials, assistants, clerks, and employees, some of whom, in connection with their general

work of administration, are also specially organized for the administration of finance. While the finance administration of both the Empire and of the state is carried on by a division of the respective ministries of finance and charged with only financial matters, there is in the cities no special municipal budget commission or board of estimate. Every phase of budget making is in the hands of the regularly constituted city officials. A word should, therefore, be said concerning the general city organization. This consists of two general organs of government. First, there is the council, elected by a popular vote, a body with functions similar to those of an American municipal council. The second organ of city government is an administrative board, at the head of which stands the *bürgermeister* or mayor. This board, called the magistrat, acting in a collective capacity controls and directs the city government; but the individual members also serve as heads of departments and in various other capacities. They are elected by the council, the number being usually one-fourth to one-third of that of the council.

The magistrat prepares the business for the council, and supervises municipal enterprises; it has custody of the revenues and documents; it cares for the civic property, appoints employes, represents the municipality as a corporation and acts as an agent for the state and imperial governments in matters assigned to them by law or by the higher officials. Among the most important duties thus assigned are those pertaining to finance. Certain forms of taxation are of course classed as federal taxes, such as imposts and excises, the latter including postage stamps, bill-stamps, the inheritance tax, a tax upon spirits, beer, tobacco, sugar, and salt. The collection and administration of these taxes come entirely within the jurisdiction of the federal government but in practice many of them are levied by means of the state and local authorities, and in some instances the general government divides a portion of these revenues with the state or with the state and municipality, as in the case of the unearned increment tax, already noted, which, by the way, is both an imperial and a municipal tax.

As in America, there is a growing tendency in Germany, on the part of the general government, to encroach upon the original sources of state and municipal revenue. The inheritance tax is a good example of this tendency. As the unearned increment tax,

though first used in one of the German colonies, was first used on the continent in Frankfort where its successful operation suggested itself as also a convenient source of federal revenue, so the inheritance tax was first a Prussian tax being provided by an elaborate law of that state in 1891. In 1906, in connection with a movement for the reform of imperial finance, the Prussian law was incorporated into a federal statute and the inheritance tax became a federal tax with the provision, however, that one-fourth of the gross receipts from this source should be turned over to the various states. Such changes in the sources of revenues obviously necessitated the combination of national, state and local functions and the mutual administration of finance is a natural consequence. It should not, however, be assumed that the encroachment of the general government upon the field of local finance has seriously crippled the municipalities, for they have been quite free to adopt new methods and they have readily found new sources of income. The high order of German municipal statesmanship and the wide latitude of local autonomy have furnished the motive and the occasion to solve the problems involved.

Having considered some of the relations between general and local finance, we may, it is hoped with a better understanding, consider some of the chief features of the municipal budget in particular.

While the laws of Prussia permit a city to plan its budget for one, two or three years, the yearly budget is the rule, the financial year beginning April 1, and ending March 31. The leading facts in budgetary procedure are as follows: From the reports and estimates of revenues and expenditures presented to it by the various administrative departments, the magistrat, *i. e.*, the administrative board, already described, makes an annual estimate not later than January 1 preceding the fiscal year. This estimate must be published for public examination and criticism for a period of eight days after which it is formally presented to the city council whose approval is necessary before it becomes the established budget. At the time of the preliminary estimate a copy is sent to the authorities superior to the municipality. Their "sanction," however, which the law requires, is not necessary unless new taxes are imposed or old ones changed. If there is no objection by the superior authorities and the city council approves it, the estimates thus

finally established become the budget for the fiscal year following. In a word it becomes the financial law of the municipality and, after its final approval, it becomes the duty of the magistrat to see that all officials having any connection with its administration strictly adhere to the prescribed budget. Special budgets may, however, at any time be presented if unforeseen events arise to demand it; but this is seldom the case. When it is necessary, however, the procedure followed is the same as that of the regular budget. The mere fact, however, that a special budget is permitted by law is more important to us than its details, for it suggests one of the most cardinal principles of local finance as well as of local government—the freedom allowed by the state to cities in the management of their local affairs.

The form and details of a municipal budget are not prescribed by general law; that is left to the local officials, yet certain general and well defined practices, common to all budgets, enable us to set forth their main features. It may be added in this connection that there are numerous standard works dealing with municipal budget-making that have done much to unify their form and content.¹ Municipal tax congresses and frequent recommendations and suggestions from the ministries of the interior and of finance also tend toward local uniformity.

The municipal budget (*Haushaltsetat*) is made up of two general classes of minor or subsidiary budgets, viz., (1) budgets which affect taxation, *i. e.*, either increase or decrease it; and (2) budgets which do not, such as savings bank-budgets, foundation-budgets, etc. Each of these general classes is again divided into two heads, comprising (a) *ordinary administration* (*Ordentliche Verwaltung*) and (b) *extraordinary administration* (*Ausserordentliche Verwaltung*); then follow, as occasion demands, the minor subdivisions or special items of administration whence the original or primary estimates are made; that is to say, the needs of the ultimate administrative divisions must be known to the makers of the general budget before it is drafted. In the order of presentation, however, the general budget precedes the separate estimates. It assigns to the various departments and administrative subdivisions the amount

¹ An excellent work upon this subject is A. Machowicz, *Grundsätze für das Etats-, Kassen-, Rechnungs-, Revisions- und Anleihewesen der Stadtgemeinden*. Dritte Auflage. Berlin, 1908.

which in the judgment of the magistrat may be expended during the following year. The general budget merely contains the results of the estimates of the separate departments, which estimates must be independently approved by the magistrat and council. The *ordinary* part of the budget includes the regular current incomes from communal property, the portion granted to the municipality by the state, province and circle; it also includes taxes and exemptions, dues, fees and miscellaneous contributions. The *extraordinary* part includes incomes from exceptional or special sources, as gifts, legacies, sales from land and loans. The divisions of a general budget as illustrated by Machowicz² are as in table on page 198.

Each of the divisions is again subdivided under the general headings of "Income" and "Expenditures" into minor divisions and items, and, needless to say, in an orderly manner, with references and cross-reference to audits, approvals and vouchers, until the minutest detail of revenue and expenditure is traced to its original or ultimate source.

While there is no state audit of local finance in Germany, as in some of our American states, there is little danger of mismanagement of funds, since a "revision" of the local treasury is made by the executive every month, on specified days, notice of which is given to the council beforehand so that it may appoint members to be present; and at least once a year there is a surprise "revision" of which no notice is given, at which either the chairman of the council or a member appointed by that body must be present. Further control of the budget is provided by requiring the magistrat to keep and publish a register (*Lagerbuch*) of the municipal property, both real and personal. This register, which is open to public inspection, is periodically revised and must be so prepared as to present a clear account of the tangible municipal assets.³

It would be impossible to place within the limits of this paper a comprehensive outline of the various sources of municipal revenues, since German cities are quite free to choose not only the kind of tax but also the objects of taxation. I will, therefore, confine my remarks upon this phase of the subject to a limited number of observations and to a summary of general results.

² P. 141.

³ W. H. Dawson, *Municipal Life and Government in Germany*, 1914, pp. 344-45. This work contains the best account in English of German municipal finance.

The Prussian municipal ordinance of 1853 made no provision for limiting cities either in the rate or the objects of taxation. But a law of July 14, 1893, amended the former law by providing that taxes could only be imposed in so far as the revenues from city property, plus state grants, did not provide an income sufficient to meet the expenses of government. In general it may be said that the restrictions by the general government upon local finance administration are all indirect, suggesting means of avoiding excessive taxation and accumulation of debt rather than preventing the carrying on of communal enterprises and undertakings. Thus, for example, in 1907 the Prussian ministers of finance and of the interior issued a joint rescript commanding rural and urban authorities to redeem loans at a higher rate than had been the custom. The rate for the redemption of general loans was increased from 1 per cent to $1\frac{1}{4}$ per cent; loans for streets and similar work were now to be redeemed at $2\frac{1}{2}$ per cent and sewerage loans at 2 per cent. In 1912 another rescript advised greater caution on the part of the state authorities in sanctioning loans. To meet extra expenditures the general government also advised municipalities to establish emergency and new building funds; and Düsseldorf has for some time set aside an annual amount for a fund for new buildings; Cologne and other cities do the same. The superior authorities have also ordered one-third of the cost of new buildings to be defrayed otherwise than by loans. This restriction, it should be noted, applies only to expenditures for non-productive purposes; there are no objections on the part of the central authorities to establishing land-purchase funds by means of initial loans; nor are there any general restrictions upon the local tax rates, such, for example, as we have in some of our American states, which prevent cities from meeting the necessary expenses of government or from reaching out into new activities which would really benefit the whole community. In a word, the state says to a city, in effect:

Develop your own sources of revenue, but tax your citizens as little as possible; you may engage freely in any kind of enterprise you please, providing you make these enterprises pay their own expenses and, in some instances, even pay a profit;⁴ we shall be glad to advise you, but we trust you to govern yourselves well.

⁴ The Prussian law of communal taxation makes a distinction between enterprises which may be carried on for gain and those which are described as *Anstalten* or "communal institutions" which are to benefit the whole public and are not intended primarily for profit.

This attitude of the state toward the local community throws the responsibility for efficient management upon the city, and, therefore, with the consciousness that its destiny is in its own hands, the city develops a high order of municipal statesmanship. Officials are chosen for their respective positions, not because they belong to a particular party, but for the same reason that American private corporations choose their officials, namely, efficiency. Indeed this is the chief explanation of why German public corporations and American private corporations are both successful. It would however be unjust to many American cities not to acknowledge in extenuation of mismanagement the fact of ill-advised and often unjust state interference, for no man can serve two masters. This interference on the part of the American state, of course, prevents the use of many profitable sources of income. Our short tenure of service also prevents our officials from planning a continuous, long-sighted municipal policy.

What this freedom from state interference means to a German city may be shown by a few examples. The present mayor of Ulm has held his position for a quarter of a century. When he entered upon the duties of office he advocated the purchase of land to carry forward an extensive housing policy, and during his administration about 1,500 acres of land have been added to the corporate wealth at an expense of \$2,650,000. Of this amount 500 acres have been sold at a price exceeding the total cost of all lands purchased, thus leaving 1,000 acres free of debt which are now yielding a net revenue of \$18,750 annually.⁵ Here was a colossal undertaking which, instead of being a burden upon the city, has been its chief source of revenue. A similar example of municipal enterprise, though rather unusual in its results, is furnished by the little town of Klingenberg in Bavaria. It has a population of only 2,000, yet it owns forest, and other lands including a clay pit, from which it pays, not only all expenses of government, but also an annual cash bonus to its freemen. During a recent fiscal year, after paying all expenses of government and adding \$500,000, to its reserve fund, it presented a cash dividend of \$100 to every freeman. It would be a mistake, however, to suppose that German municipalities are, as a rule, free from debt; the illustration, just mentioned, has been given rather to suggest the freedom with which German cities may engage

⁵ This statement applied to year 1912.

in profitable enterprises and thus relieve their budgets of excessive tax rates. As a matter of fact German cities have, as a rule, a large debt and the cost of government is, as in America, on the increase, owing in part to the high cost of living and in part to the large number of public enterprises and undertakings which in America would be in private hands. Thus the rural and communal debt in the Empire in 1907 was \$26.50 per capita, while in 1910, the debt of eighty-four of the largest cities of the Empire, representing a population of fifteen and a half millions, was \$74.25 per capita. But a large portion of this debt represents an outlay of capital engaged in profitable enterprises, and is therefore an actual surplus, a net gain to the municipality.

The relation of public enterprises to the German municipal budget, it will thus be seen, is an important one; in fact it constitutes the chief problem in budget making and I have given it special consideration because it is the distinguishing feature which differentiates a German municipal budget from an American municipal budget. What it means to the total revenues of a German city, and incidentally to taxation, may best be seen by comparing the incomes of the various sources of revenues with the expenditures for their cost, maintenance and administration. This comparison applies to all German cities and rural communes having a population of over 10,000, and is based upon a report of the imperial government made in 1907 and published in 1908.

Of the total gross revenue 33.2 per cent came from taxation, 25.9 per cent from communal enterprises and undertakings of all kinds, 5.9 per cent from the administration of communal estates and investments, 5.1 per cent from educational and art institutions, 3 per cent on account of poor relief, orphans and hospitals, 4.7 per cent from the building administration, and the remainder, 22.2 per cent, from the general, police and other branches of administration.

Of the gross expenditures, 23 per cent were for the administration of communal enterprises and undertakings, 17.4 per cent for educational and art institutions, 14.3 per cent for the administration of debts, 11.8 per cent for general and police administration, 9.9 per cent for building administration, 7.6 per cent for the administration of charities and hospitals, and the remainder, 16 per cent, for miscellaneous branches of administration.⁶

* These results are quoted from Dawson, pp. 341-342.

Limitations of space forbid an analysis and discussion of the various sources of revenue and the final distribution of that revenue, the results of which are summarized on page 201. It will be noted that of all of the sources of income mentioned, that from taxation yields almost exactly one-third of the total. The various forms of taxation, both direct and indirect, their history and application to budget making, form an instructive study in municipal finance. But I am compelled to content myself by appending two tables showing the kinds of direct and indirect taxes, the total income from each of these in various classes of cities grouped according to population, the per capita income from each group, and the percentage each group bears to the total of the total income from each source. These tables apply to Prussian cities and are taken from the *Kommunales Jahrbuch*⁷ of 1913-14:

INCOME FROM DIRECT MUNICIPAL TAXES IN PRUSSIA REPORTED MARCH 31,
1912

Class of cities having a population	Total income		Percentage of total income from each source			
	Aggregate	Per capita	Income tax	Real estate tax	Trade tax	
Berlin.....	\$22,587,500	\$11.10	51.8	31.8	16.0	0.3
Above 200,000 (excl. of Ber- lin).....	41,410,000	9.225	61.1	27.1	11.4	0.4
From 100,000-200,000.....	23,360,000	8.85	60.4	27.9	11.3	0.5
From 50,000-100,000.....	15,687,500	7.35	60.3	25.6	13.7	0.5
From 25,000-50,000.....	12,797,500	6.60	61.4	25.5	12.6	0.5
From 10,000-25,000.....	15,215,000	6.025	62.1	24.6	12.9	0.4
From 7,000-10,000.....	3,657,500	4.725	60.2	26.9	12.3	0.6
From 5,000-7,000.....	3,382,500	4.45	57.8	29.0	12.6	0.6
From 3,000-5,000.....	4,017,500	4.20	56.3	30.4	12.6	0.8
From 2,000-3,000.....	2,170,000	3.65	53.1	33.7	12.3	0.9
Less than 2,000.....	1,160,000	2.90	51.5	36.0	11.3	1.2
Total.....	\$145,450,000	\$7.55	59.1	27.7	12.7	0.5

⁷ In translating the German "Mark" into the American denomination I have, for convenience, called the Mark equivalent to 25 cents; it is a little less.

INCOME FROM INDIRECT MUNICIPAL TAXES IN PRUSSIA REPORTED MARCH 31, 1912

Class of cities having a population	Total income		Percentage of total income from each source						
	Aggregate	Per capita	Conveyance tax	Unearned increment tax	Retail liquor licences	Beer brew and distillation tax	Amusement tax	Dog tax	Miscellaneous taxes
Berlin	\$2,112,500	\$1.05	52.1	25.4	—	8.6	—	13.9	—
Above 200,000 (excl. of Berlin)	5,217,500	1.175	44.5	18.4	2.2	10.4	15.4	7.3	1.8
From 100,000-200,000 . .	2,760,000	1.05	39.9	15.6	5.1	14.1	13.3	8.3	3.6
From 50,000-100,000 . .	1,630,000	.775	35.2	14.9	5.5	18.9	15.0	9.4	1.1
From 25,000-50,000 . . .	1,132,500	.575	37.3	14.2	4.8	16.3	15.2	10.8	1.2
From 10,000-25,000 . . .	1,177,500	.475	36.7	8.5	2.1	22.9	16.1	12.3	1.4
From 7,000-10,000	300,000	.40	41.1	9.9	1.0	20.9	12.3	12.9	1.9
From 5,000-7,000	252,000	.325	43.3	3.6	0.9	22.7	13.6	14.7	1.2
From 3,000-5,000	320,000	.325	41.9	5.7	1.1	24.3	11.9	13.0	2.1
From 2,000-3,000	190,000	.325	47.1	5.0	1.0	20.7	11.5	12.7	2.0
Less than 2,000	102,500	.25	44.0	3.2	0.6	22.9	11.6	14.0	4.2
Total	\$15,197,500	\$0.80	42.5	16.3	2.9	14.1	12.6	9.7	1.7

THE BUDGET PROCEDURE OF ENGLISH AND FRENCH CITIES

BY D. C. BALDWIN, A. B.,

Student, Graduate School, University of Pennsylvania.

The most vital facts concerning municipal budgetary procedure in England and France are the methodical manner in which these instruments are drawn up and voted upon, the careful balancing of proposed expenditures and estimated receipts, the rigid distinction drawn between capital and revenue accounts, and the earnest desire everywhere apparent to get a dollar's worth for every dollar spent.

While any comparison with similar conditions in America is discouraging, there is no doubt that two factors should receive some notice. The mere momentum of precedent and of long established custom has a steadying influence, while the more or less static conditions attending development in the older countries would have caused extravagant expenditure to be keenly felt. On the other hand our large areas of unsettled or sparsely settled territory, much of it rich in material resources, combined with a steady stream of mature, hard-working immigrants, all possessed with ambition for economic independence, have produced conditions so dynamic as to constantly react on the older portions of our country and to permit of only a qualified comparison with Europe.

But with the passing of the period of settlement and abnormal expansion, American cities, too, have felt the economic necessity of "counting their pennies," and serious attempts at municipal reform have followed rapidly. Of the varied experiments in city government of the closing decade, the fundamental element has been the determined attitude of the average elector, largely, no doubt, because his "pocket nerve" has been touched. Once possessed of an awakened citizenship, the specific system used to attain the end is of minor importance.

The city of Philadelphia, under a recent administration, repeatedly used the proceeds of thirty-year bonds to meet large deficits in current expenses. Even a cursory acquaintance with

the financial reports of their municipalities lets one feel that such a thing in England or France would be unthinkable. On the other hand, under the caption of "Refuse Disposal," Birmingham lists fifteen items for the past year. One or two may be of interest. The sale of old ash-pans brought in £233 and scrap iron realized £1,163.¹

In the methods of financial control the English and the French city are in marked contrast, due largely to difference in political temperament. The English municipality is practically autonomous, and even the small measure of control exercised by the central authorities, the Local Government Board and the National Exchequer, are conceded grudgingly. The right of local self-government has become traditional and any contemplated extensions of central authority are viewed with suspicion and hostility.

In France, on the other hand, a large measure of local control has been sacrificed to the efficiency of centralized authority. The French municipality is largely a cog in a wheel, a unit in a graduated hierarchy leading directly to the Minister of the Interior, representing the President of the Republic. French municipal law is almost wholly comprehended in the code of April 5, 1884. This is a blanket grant of powers, extending to all cities alike. French cities may do anything not forbidden in its provisions, and for which they can obtain administrative approval.

English cities, however, may exercise only those powers expressly granted by Parliament. As a result they are constantly petitioning for special acts granting additional powers. Hence English municipal law is an indeterminate affair, a growth somewhat analogous to the English constitution itself.

For instance, the Birmingham Council, in its instructions to its Finance Committee, bases its authority upon seven general municipal acts, twelve special acts, "and so much of any other existing act of Parliament as relates to any of the said matters."² The English mayor is a figurehead and power is almost wholly centred in the Town Council. The latter does the bulk of its work through committees, of which Birmingham happens to have twenty-one.

Of these the most important is the Finance Committee. All other committees must run the gauntlet of its survey as regards

¹ *Financial Statement*, City of Birmingham, 1914-15, Estimates section, p. 40.

² City of Birmingham, *Municipal Diary*, 1914-15, p. 115.

the financial aspects of their activities, and the Finance Committee in turn is held to strict account for the finances of all committees, including its own. Through the Finance Committee must be made all warrants for payment of authorized appropriations. Upon it devolves the negotiation of all loans; the investing of sinking funds; the preparation of the annual Financial Statement submitted to Council; and the management of tax collections. It must permit no payments on revenues accounts to be transferred to capital account, except by its own approval. It has general charge of the Accounts and Financial Departments of the city. Most important of all, it acts as a Consultative Committee on Rate Estimates, considering with each of the other committees³ (excepting those in charge of the public utilities) their financial needs for the coming year, and revising their estimates, if necessary, in the light of the expenditures as a whole. It then presents the revised estimates to Council together with the precept (tax-rate) considered necessary to meet such a budget. It must consider especially, any committee proposals which involve excess expenditure for new loans and report to Council upon the financial aspect of such proposal concurrently with such committee.

In the general instructions to all committees, there are similar provisions regarding their relations to the Finance Committee, thereby clinching the supervisory powers of the latter committee.⁴

Thus, upon the Finance Committee devolves the budget in its three phases of preparation, execution, and audit in a general way. Though the Finance Committee presents the estimates to the Council, the several committees of the Council are responsible for the expenditure with regard to the purposes entrusted to them, and it is expected that they will use every endeavor to keep the expenditure under each head of account within the amount voted by the Council.

The Budgets in French Cities

In the French city⁵ it devolves upon the Mayor to prepare the budget and have it ready for Council's consideration in the May

³ City of Birmingham, *Municipal Diary*, 1914-15, pp. 110-11-13-15.

⁴ *Ibid.*, pp. 147-48.

⁵ A large part of the material regarding French procedure has been drawn from Maurice Block, *Dict. de Administration Française*.

meeting. This is known as the original budget and is succeeded toward the close of the year by a supplementary budget.

The budget is divided into receipts and expenditures. The former is subdivided into receipts ordinary and receipts extraordinary. In other words, those that are stable and permanent and those which are irregular and occasional in their nature. The expenditures are subdivided into optional and obligatory. The former vest in the discretion of the local authorities: in the Mayor, if he can persuade Council to authorize his views.

The obligatory expenditures must be provided for, and provided, too, out of established income. They include, in general, such items as the maintenance of municipal property, the preservation of municipal archives, the salary of the city treasurer, the maintenance of the police force, the pensions of local officials, education, repair of local highways, etc. The Code of 1884 contains a provision making the maintenance of the personnel of the police in cities whose population exceeds 40,000 an absolutely obligatory item. The Code of 1884 lists over twenty such items. If they are not adequately provided for, the higher authorities will make forcible provision by a procedure known as *inscription d'office*, or official entry upon the budget. Cities whose annual receipts are below three million francs must submit their budgets to the prefect of their department (France is divided into 86 departments or provinces); those whose revenue is above this sum are subject to the Ministry of the Interior, representing the President of the Republic. If the Mayor and Council should prove obstinate in the matter of obligatory expenditures, the central authorities have power to suspend them from office. Once the French municipal budget is finally approved, it cannot be altered in the slightest degree.

The additional credits found necessary since the opening of the year, together with any new developments in the way of income, are incorporated in the supplementary budget. This, too, is drawn up by the Mayor and is considered by the Council at the May session of the year to which it applies, that is, a year after the budget whose transactions it completes. It is authorized in the same manner as the latter.

In addition to the supplementary budget, the Mayor draws up an administrative account extending from January 1 to March

31, that is, including the three complementary months during which settlement may go on. This statement shows actual receipts and expenditures to date. A similar report is prepared by the city treasurer and also an account showing the amounts of regular receipts and expenditures not yet collected or not yet paid out.

With these documents at hand, the Council proceeds to consider the supplementary budget, inserting as the first item the surplus or deficit which may appear from a comparison of the Mayor's report and that of the treasurer. Then come the regular receipts and expenditures not yet completed, as they appear in the treasurer's statement. They are followed by the extraordinary receipts⁶ and expenditures, and under the latter division the Mayor can insert, to the extent of the available balance, those unforeseen expenditures which appear in his report.

If a supplementary budget faces an inevitable deficit, a new source of income must be provided for immediately to cover the same. The supplementary budget differs from the original in that the obligatory expenses have already been met. As Professor Fairlie has pointed out, these form the greater part of the original budget, thereby greatly reducing the discretionary power of the mayor.⁷ If the contemplated expenditures seem to the higher authorities to be unwarranted, they may be rejected or reduced by a decree of the President or by a resolution of the prefect in charge of the department; but such authorities are not permitted to increase expenditures or to introduce new ones, except in so far as the same may be obligatory.

Fixing the Rate in English Cities

English cities, as a rule, are large property-holders and derive regular incomes from long-term leases. In addition, they receive substantial amounts from the management of their own public utility undertakings.

Birmingham⁸ during the past year received a total of 145,162 pounds from utilities, in a total expenditure of 4,903,408. Leeds⁹ received a total of 80,000 pounds toward a total expenditure of

⁶ The proceeds of a special tax for the purpose of building a school-house or some municipal building would be classed as extraordinary income.

⁷ National Municipal League, *Proceedings*, 1901, pp. 282-301.

⁸ Birmingham, *Financial Statement*, 1914-15, p. iv.

⁹ City of Leeds, *Annual Accounts*, p. xv.

868,257, while Manchester¹⁰ received 100,000 pounds from its tramways alone during the present year.

The estimated needs for the coming year are drawn up. Then all income from property owned, profits from municipal undertakings and any other sources are estimated. The difference is the deficit to be met by taxation. The necessary "precept" or rate is calculated and recommended to Council by the Finance Committee. The chairman of the latter in submitting the estimates to Council usually draws attention to the past year's results, especially to those of committees which have either greatly exceeded their estimates or those who have worked below them.

The manner of levying the precept differs in different cities. Leeds has a city rate, a consolidated rate, and a highway rate levied by town council. In addition there is a poor rate levied by the Overseers of the Poor, but all are collected in one.

Birmingham levies but one, the borough rate, which covers the whole expenditure of the corporation which can be charged on the rate. The Overseers are by precept required to levy a rate necessary to produce the amount required. Of course, here as in Leeds, there is an additional poor rate to meet expenditure on Poor Law proper. These two purposes, together with the necessary expense of collecting, form the whole of the charges made in Birmingham. The two, when levied, are technically called the poor rate. The Overseers collect the rate half-yearly and pay over the councils precept by installments as the money comes in.

Audit in French and English Cities

The system of audit in English cities is very unsatisfactory. There are three auditors, of whom two are elective, and the third, known as the Mayor's auditor, is a councillor appointed by the Mayor. They all act independently of each other. They are supposed to serve without pay, and most of them do, and they generally perform their task in a hasty and perfunctory manner. It is rarely that a trained accountant occupies the position. Many cities of late years have made a practice of employing professional accountants, and have adopted provisions to this effect in their by-laws. This professional auditing is in addition to that done by the usual method, as the latter is not taken seriously in large cities.

¹⁰ City of Manchester, *Estimates*, 1916, p. xvii.

In pursuance of the Education Act of 1902, the educational expenditures of the cities are subject to audit by representatives of the central authorities, and a goodly number of the small cities have preferred to have all the rest of their accounts audited in the same way, paying, of course, for the additional service. This practice is looked upon with much approval by the central authorities, as tending toward a needed increase of centralization, without arousing the hostility which such attempts usually precipitate. In fact, several cities such as Folkstone and Bournemouth have agreed to such a provision as the price of getting from Parliament the kind of a charter they wanted.

In France, on the other hand, we have a great national institution called the National Court of Accounts, a department under whose survey and audit must pass the whole of the accounts of national revenue and expenditure of the departments (provinces) and of all towns, districts and public institutions whose revenues annually exceed 30,000 francs. If a town's revenues fall below this limit all accounts must be sent to the Prefectoral Council for audit. In either case they are subject to a corps of trained experts maintained by the central authorities.

THE MOVEMENT FOR IMPROVED FINANCING AND ACCOUNTING PRACTICE IN TORONTO

BY HORACE L. BRITAIN,

Director, Toronto Bureau of Municipal Research.

The city of Toronto has increased in population from 238,642 in 1905 to 470,144 in 1914, or over 97 per cent. During the same period its assessed valuation increased from \$149,159,206 to \$509,366,151, or over 240 per cent, and the city taxes from \$2,834,025 to \$9,865,068, or over 248 per cent. During the last five years the necessities of a rapidly growing city have raised general taxation per capita from \$14.71 to \$24.84, or over 68 per cent, and special taxation per capita from \$2.32 to \$2.96, or over 27 per cent.

The rapid growth of the city demanded rapid extensions of public works and services, which in turn greatly increased the problems of city financing and municipal accounting and reporting. It is not strange on the one hand that the city's accounting and budgetary system should have been more or less outgrown during the last two decades or, on the other hand, that a popular movement looking toward better methods of fact-producing, of fact-reporting and of financing should have sprung up and gained considerable force under the unpleasant stimulus of the increasing financial burden of government.

In 1913, largely through the energy of one public-spirited citizen a committee of over one hundred citizens was formed to study improved municipal methods. This committee, known as the Civic Survey Committee, raised among its members a sum of \$6,000 to pay for a first-hand study of administration at the City Hall. Having obtained the consent of the Mayor and City Council, a contract was made with the New York Bureau of Municipal Research for a report on five important city departments, *viz.*: The City Treasurer's Department, the Department of Works, the Fire Department, the Assessment Department and the Property Department. It is the first of these that particularly concerns us in this article as the City Treasurer is not only the chief financial officer of the city but pays the city's bills, receives directly or indirectly all the city's revenues

and is the chief accounting officer of the city, subject, with other city department heads, to the accounting control of the City Auditor.

The report of the Civic Survey Committee, prepared by the New York Bureau of Municipal Research, found much to commend in the accounting and financial system of the city. It states:

In contrast to many American cities, the books of the department were found to be neatly and clearly kept and balanced with periodical regularity. . . . In the main the accounting technique employed in the Treasurer's office is superior to that in most cities where surveys have been made. . . . The records and accounts maintained in the arrears of taxes division are exceedingly well kept. They are balanced and proven periodically with the general ledger and it is possible at all times to ascertain the status of each individual item. As at present administered the office of the City Auditor (an independent official not in the Treasury Department) has many commendable features. The periodical regularity of its inspection of revenue-producing offices, its reconciliation and audit of current and arrears of taxes accounts, and the detailed audit of the Treasurer's general cash accounts are especially commended. The salutary effect of an independent audit of outside departmental accounts from time to time must of necessity be good.

As the report was intended primarily, however, to point out places where improvements could and should be made, time and money were not wasted in listing in detail the many good points of the system. The report concerns itself chiefly with constructive criticisms and recommendations concerning:

1. The administration of the city's finances;
2. The methods of accounting and reporting used by the city—methods which should make available at all times to administrative officers, members of council and citizens information about the city's financial conditions and the results of financial transactions.

Defects in the Administration of the City's Finances

Legal Obstructions Requiring Legislation. The revenue year does not correspond with the fiscal year. The fiscal year is the calendar year, but tax payments are made in July, September and November. This necessitates the payment of large sums in interest as the requirements of the city during the first six months cannot be met out of miscellaneous revenue.

The penalty for delay in paying taxes is inadequate and in fact encourages prolonged delay. As a flat rate of 5 per cent only is charged on unpaid taxes no matter how long they may have been

in arrears, and as tax-rolls have in the past been held open for five or six years taxpayers have, in effect, been able to borrow from the city at rates varying between $\frac{5}{6}$ per cent per annum and 5 per cent. As the city at present has to pay from 5 per cent to 6 per cent for loans, this involves a heavy penalty in interest. In this connection it is worthy of note that the reforms recently introduced into the tax collection division in one year and a quarter have closed up all tax-rolls for 1909, 1910, 1911 and 1912, so that at present no arrears of taxes are on the books save those for 1913 and 1914. In future tax-rolls will be closed "at the end of the year succeeding the year in which they become due"¹—a step in advance which will save tens of thousands of dollars to the taxpayers annually.²

The water revenue collection period does not correspond with the fiscal year. Water rates are payable semi-annually in advance on April 1 and October 1. If payments were made on January 1 and July 1 large sums of money would be available to the city much earlier in the fiscal year.

Lack of Effective Control Over the City's Finances. The Board of Control which is elected annually is supposed to be the city's administrative body. At present the formulation of a financial program is left to the incoming board with the result that the estimates are not passed until April or May and the first installment of taxes cannot be collected before July. This system means that the city has practically to operate without a program for five months in the year, the interest bill of the city is greatly increased, and the electorate is handicapped by having, for the most part, to pass on financial policies after the fact rather than before the fact.

The departmental estimates at present in use are inadequate although very considerable improvements have been effected during the past year. Standard forms for the preparation of departmental estimates are not used giving information with respect to cost and unit costs for each function, and costs for each organization unit, separating current expenses from capital outlay, and showing cost of all objects of expenditure. A few departments do supply such information but the majority have not accounts which could produce the necessary information to supply a basis for such estimates.

¹ *Civic Survey Report*, p. 20.

² These reforms were due largely to the continued recommendations of the City Auditor in his annual reports.

There is inadequate publicity in the whole budget-making procedure. Departmental estimates are given no publicity whatever, and the draft estimates, prepared from these, have a very narrow distribution. While depositions may be heard on particular features, there is no regular method provided for the taxpayers' cooperation in budget making.

While the draft estimates are prepared under the direction of the Mayor and Board of Control and submitted to Council in its name, it is hardly submitted as a definite recommendation of the Mayor or the board, although practice is perhaps tending toward this consummation so devoutly to be wished. The Mayor and Council have no opportunity to go before the people on a proposed program but only on a record of accomplishments. Even here, the division of responsibility, the lack of significant details supporting the estimates, and the lapse of time make it difficult to locate or enforce responsibility.

Although a city by-law provides for the establishment of grades in the city's service, as a matter of actual fact a civil list with carefully outlined grades and rates of pay does not exist. This makes it difficult to make intelligible that part of the estimates which deals with personal services.

Discussions of personal service items are apt to degenerate into discussions of the personal or official fitness of particular individuals in the city's employ.

At present the Toronto Council, like dozens of others on the continent, gravely attempts to control expenditure by passing vouchers before payment. This is evidently not only a waste of time, as the Council must act without sufficient knowledge, but it delays the passing of bills to such an extent as to cause the loss of large sums in discounts offered for prompt payment.

Methods Employed in Financing. The almost universal tendency to over-estimate miscellaneous income and under-estimate necessary expenses for the purpose of keeping down the tax rate has not passed by Toronto. The temptation to pass on the resulting deficit to posterity has usually been too strong to resist. It is an encouraging sign of the times that a decided check has been administered to both these practices and that there seems to be a determination to allow no overdrafts this year the excuse for which, in previous years, has

been an alleged or real under-estimate of necessary expenditure. Overdrafts have always been illegal.

It would be strange, indeed, if Toronto has sidestepped the pitfall of charging to capital account legitimate current expenditures. The outstanding Toronto example of this practice is the custom of issuing debentures to pay for repairs of the track allowance areas of the streets. As the franchise of the Toronto Street Railway expires in 1921, the terms of debentures issued have been decreased a year at a time so that the life of all debentures will expire in that year. This will make the final payments extremely large but will, undoubtedly, lead to the abandonment of the practice now in vogue.

In the past Toronto, in common with most municipalities, has not been at sufficient pains to coördinate the term of the bonds it sold with the life of improvements. The necessary facts were not available for the determination of the actual life of improvements. It is natural therefore that in many cases long term bonds were issued for short-lived improvements. An improvement in this respect is very noticeable and has been facilitated by the reorganization of such departments as Works and Street Cleaning which have developed or are developing modern systems of cost accounting.

Legal and other difficulties make local improvements costly. Contrary to general belief, however, special local improvement rates have not increased as rapidly as general taxation. The situation is best described in the words of the *Civic Survey Report*:

Because of the present practice of having to wait until the entire cost of local improvement work is ascertained and all disputes are settled, and because the city must borrow the necessary funds to carry on the work, heavy interest charges for bank loans are incurred. Considerable delay in determining final costs is made necessary by expropriating more property than is ultimately found necessary in street widening operations. For that reason the city must wait until the surplus property is sold before actual costs are obtainable. Debentures cannot be issued until such costs are determined and the collection of assessments made against the property benefitted is necessarily deferred.

Lack of Adequate Supervision over the Administration of Finances

In the past it has been the practice to apportion from time to time debenture discounts to the various capital expenditure accounts with the result that very important facts necessary to sound financing were hidden or so obscured as to be of no effect.

At the time of making the survey the banks allowed 3 per cent on all existing city balances and charged the city $4\frac{1}{2}$ per cent on all overdrafts up to the amount of city sinking fund deposits in the banks, "which means that the city was paying $1\frac{1}{2}$ per cent interest for the use of its own money represented by cash in the sinking funds." The relation of this to the time set for paying the first installment of taxes is obvious.

The Treasurer, at the time of the survey, had no means of exercising effective supervisory control over miscellaneous revenue collection. This is the condition in most cities.

As, at the same period, the City Auditor had no means for performing an independent inspection of deliveries, and as he did not have in his possession copies of contracts or specifications, there was insufficient basis for the audit of claims. This condition still exists to some extent.

A year or two ago it was the practice of the City Auditor to sign all checks drawn upon the City Treasury, but recently arrangements have been made with several departments by which pay-rolls are covered by a single cheque, the individual payments being made by paymasters' cheque or otherwise. Much time, however, is still wasted on unnecessary details, time which the auditor is anxious to use in assisting in various necessary departmental accounts installations.

In 1913, it was customary to invest sinking funds in Toronto city debentures. One sale from the sinking fund at 17 points below par led to a large loss. Both these facts represent undesirable or even dangerous tendencies, especially when, as in Toronto, the sinking funds are not administered by an independent commission, but by the same authorities who have to raise money by the issue of debentures.

Recommendations re the Administration of the City's Finances

The following is a short statement of the recommendations of the *Civic Survey Report* with regard to city financing:

1. That the Mayor and Board of Control assume full responsibility for financial proposals to be submitted to the taxpayers just before the election at the beginning of each year. It appears that this method is at present legally impossible, but there is no legal

obstacle to the preparation of the estimates between October and December of each year so that they can be acted upon by the Council immediately after the first meeting in January. While this compromise would not establish responsible leadership to such an extent it would enable the city to operate under a program for ten months in the year instead of six and would save the city large sums of money in interest.

2. That forms of annual estimates be established which will show comparative expenditure data and estimates. These would set forth "actual as well as estimated expenses and capital outlay for each function or activity performed by each department or other organization unit, as well as overhead cost, including fixed charges." These should be further analyzed so as to show cost or estimated cost in terms of objects of expenditure, that is:

- Personal Services
- Contractual Services
- Materials
- Supplies
- Equipment, etc.

3. That a budget be prepared which would show:

- a. A comparative balance sheet showing current assets and liabilities and surpluses or deficits;
- b. A comparative operation account;
- c. A comparative capital account;
- d. A consolidated fund statement, showing the condition of the general fund, capital account funds, special and trust funds, sinking funds;
- e. A request for appropriations;
- f. Detailed departmental estimates.

While it has been found impossible to secure all these reforms in budget procedure the draft estimates for this year were a great improvement on any submitted previously. The following quotation from the *Annual Report of the Toronto Bureau of Municipal Research* gives a clear idea of the present situation:

A completely scientific budget is, of course, impossible before the establishment of accounts which produce the facts upon which a scientific budget can be based. This fact has been persistently drawn to the attention of the city government and receives the heartiest assent of the City Auditor and City Treasurer, as well as other prominent officials of the city. That the City Treasurer and

the Assistant City Treasurer will work effectively along the right lines in respect to budget reform, is shown conclusively by the draft estimates for 1915 recently submitted to the Board of Control and the Council. For the first time the estimates contain, in addition to a column showing the actual expenditures for the preceding year and the estimates for the current year, a column showing the estimates for the preceding year. This is, therefore, the first budget issued by the city of Toronto which makes intelligent comparison possible.

Another excellent feature of the draft estimates is that expenditures and receipts, not directly affecting taxation, are placed on opposite pages, with corresponding items in corresponding situations on the pages. The previous practice was to place all the expenditures together and after them all the receipts. This made the process of analysis so formidable that the average citizen could not afford the time to make a study of the annual estimates. For the first time also the draft estimates are indexed, by letters and numbers of pages. In fine, the estimates are prepared not only with the end in view of giving information to those most familiar with the facts, but to make the getting of information easier by any citizen who has sufficient interest to study the city's program for the year.

Defects in Methods of Accounting and Reporting Used by the City

While considerable improvement has been made in the annual financial report of the city of Toronto, the following statements of the *Civic Survey Report* with regard to the financial statements issued before 1913, in the main, still hold good:

1. The balance sheet, or the most summary picture of financial conditions, is buried in a mass of detail where it is all but lost. The report is not indexed and it is only the man who has the tenacity of purpose and interest to turn through 570 pages who will find the balance sheet at all.³

2. In the "condensed statement of receipts and disbursements," there has been an attempt to combine in one form both an operation account (revenues and expenditures) and an account-current (statement of cash receipts and disbursements) with beginning and ending balances.

3. The "abstract of receipts and disbursements" has the same defect as the "summary" that precedes it, with a different classification.

³ Since this criticism was written the 1913 Treasury Report has been issued which shows the following improvements: The detailed statements of receipts and disbursements have been cut down until they occupy only 72 pages instead of 558 pages as in 1912. The detailed schedule of insurance on property has been condensed so that it now occupies but two pages and forms a valuable summary. The report is also indexed and reference to any statement is thus made comparatively easy. But the accounts are still prepared on a purely cash basis, no particulars of income and expenditure being given unless same was received or paid in *cash* during the current year and the balance sheet still conveys but little information to the average citizen.

4. The "detailed statements of receipts and disbursements" are little more than a printed register or lists of individual or detailed transactions of the city for a year.

5. The statement of "current assets and liabilities" is misleading in certain respects and fails to bring out essential financial relations. It does not give a clear picture of conditions about which officers and citizens are called upon to think.

With regard to the city's published balance sheet the *Civic Survey Report* states that it

cannot be of much assistance in thinking about Toronto's financial and business problems for the reasons that

1. It goes into too much detail for a summary statement—so much so that it does not help one to grasp at a glance significant relations which should be brought to public attention.

2. In so far as it presents a picture of financial conditions, it is confused.

3. There is a commingling of current assets and liabilities with capital assets and liabilities and the resources and obligations of the sinking fund.

4. From the statement presented, it cannot be determined whether there is a current surplus or a deficit, nor even what is the present condition of the cash account.

5. Current cash, capital cash, and trust cash are thrown together without taking into consideration cash reserves.

6. Neither the balance sheet nor the summary of current assets and liabilities is supported in all its items by the details of the report.

7. Questions raised by the balance sheet cannot be answered without special inquiry through the department of finance.

8. The only conclusion to be drawn is that the balance sheet now used is a makeshift and not an integral part of the reporting system.

9. In several instances, estimated figures are used which do not appear on the books of account.

Accounting and Reporting Recommendations

The defects in the Annual Report, of course, reflect defects in the system of accounting upon which the report is based. In order to remedy these defects the *Civic Survey Report* recommended as follows:

1. That a new form of annual report be adopted which will more clearly set forth financial conditions and results.

2. That a new general ledger be installed which will contain such accounts and only such as are needed in the preparation of summary statements showing assets and liabilities, revenues and expenditures, surplus and deficit and the condition of the city's funds.

3. That all supporting details of information, which are needed for purpose

of administration and for furnishing such analysis of summary accounts kept on the general ledger, be carried in detailed records.

4. That the supporting and detailed accounts be so classified that information in any detail or summary desired may be drawn off without re-analysis or duplication of work.

5. That the accounts of the general ledger and the detailed ledgers be independently posted so that the accuracy of statements when taken off the detailed records may be proved by being checked by totals to the general ledger control accounts.

6. That a summary statement of assets and liabilities in balance sheet form, revenue and expense account and statement of the condition of the city's funds be drawn off of the general ledger and published monthly; and that, quarterly, a detailed comparative statement of departmental expenditures be made available to the mayor, council and public press.

7. That the quarterly statements of expenditure be accompanied by comparative operation statistics furnished by departments in such form that units of cost may be shown whenever practicable.

8. That the statistics of expenditures be kept in such analysis as may be needed in the preparation of the annual estimates.

In making its constructive criticisms and recommendations the *Civic Survey Report* recognized that the heads of city departments were not personally responsible for defects shown. The following paragraphs from the report are significant:

In pointing to some of the obvious defects in methods of reporting of the treasury department, officers of this department are not charged with incompetence or neglect. Toronto officials are in the same situation as are the officials of other fast-growing cities. The current work increases rapidly, the daily routine demands on official attention are such that persons in responsible positions have little time or opportunity left to study the business system as a whole, much less to take the time needed to work out constructive plans and obtain the coöperation essential to a successful installation of new methods and procedures. Each day's work must be done or the business will stop. Each day is a full day. The larger the city the more difficult it becomes to make a change (1) by reason of the increasing demands on the responsible officers; (2) by reason of the large number of institutional adjustments which must be brought about to make any change effective. The working out of some systematic method of doing business and the installation of new procedure must necessarily be performed by persons who are relatively free from the grinding details of administration. The only solution is either in a temporary or permanent staff which is not charged with making the decisions essential to direction and control. As a matter of organization, Toronto, like most public corporations, has its full quota of "line" officers and men but is lacking on the "staff" side. So long as matters of this kind are left to men who must keep the wheels of business moving, those in command must find themselves at an increasing disadvantage. Changes may be made, and frequently as a matter of adaptation, but unless the whole subject of

institutional needs is taken up systematically, change after change in method will be made under circumstances such that while they may be adapted to getting better results, each change may increase the cost and red tape of doing business.

Toronto has been peculiarly fortunate in having had many years of continuous service of the principal officers in its departments. But the best thing that these officers can do for Toronto and for themselves is to focus public attention on the difficulties of the problem before them in order that they may have the support of public opinion in bringing about an adaptation of organization and methods to service requirements.

In the later months of 1914 the two chief accounting officers of the city, namely, the City Auditor and the City Treasurer, together with the head of the chief spending department of the city, namely, the Commissioner of Works, whose department has more accounting to do than any other operating department in the city, were appointed a committee to report on a reformed system of accounting for the city of Toronto. They visited personally several cities and later sent their chief accountants to go carefully into the details of the methods used in Philadelphia and New York City. They spent three weeks in the work. As a result of their study they issued a report to the Mayor and Board of Control making recommendations which if followed would supply practically all the elements necessary for a thoroughly modern accounting system.

At time of writing (June, 1915) definite action has not been taken upon this report by the city authorities but there is every reason to hope that such action will be taken before the time comes for the preparation of the 1916 estimates in the fall. In the meantime the departments concerned are continuing the making of detailed improvements which do not involve a uniform system of accounting for the city. For example: A distribution cash book has been established by the Treasurer's Department in accordance with a recommendation contained in the report above mentioned, while the improvements which have been under way in the Works Department and the City Auditor's Department for some considerable time are progressing rapidly.

If adopted, the plan will make the City Auditor actually, what he is now potentially, the controller or commissioner of accounts, while the City Treasurer will become practically a commissioner of finance. The rearrangement and clear definition of the functions of these two officials on the lines advocated by the report will constitute an immense step in advance.

As in the past, Toronto will meet her problems courageously. Her officials welcome any hints she can gain from the experience of other cities. This article is written with the hope that the history of Toronto's movement for financing, accounting and reporting reform may be suggestive to other municipalities.

COUNTY BUDGETS AND THEIR CONSTRUCTION

BY OTHO GRANDFORD CARTWRIGHT,

Director of Westchester County Research Bureau.

As one's thoughts concentrate upon the subject of budgets and budget procedure for counties, the question projects itself insistently into the foreground: What bearing upon democracy has the preparation of a budget for the management of county government? Coerced to find an answer to this query before proceeding with discussion of the budget itself, I can do no better than to state here certain extracts from a report of Dr. Carroll Dunham, of Irvington, Vice-President of the Westchester County Research Bureau, in behalf of a committee appointed by the Bureau's board of directors to prepare a model county charter.

Dr. Dunham states the basic principles of democratic government briefly as follows:

1. Sovereignty resides in the people.
2. In a republic, government should be by those whom the people choose.
3. Government must be for the people.
4. Government administers a certain part only of the people's affairs (public affairs, and not private).
5. Its scope changes gradually, as time progresses.
6. Government must be efficient and responsible.
 - a. To be efficient, the administrators must have authority.
 - b. To be responsible, they must be answerable for their authority to the sovereign people.
7. To build a government logically and soundly upon these fundamentals, elect few officers. Do not handicap them by multitudes of other officers, departments and bureaus, with checking and balancing powers; but give those few officers power to appoint and remove subordinates.
8. Secure responsibility by publicity. Complete publicity, as to the details of public business and the acts of public officers, destroys opportunity for graft.
9. Enforce the keeping of full, simple, accurate records, open at all times to all people.
10. Let the officers responsible for the conduct of the government prepare in advance a complete budget, with full financial programs and full statement of financial condition.
11. Have fixed dates for the publication of the complete budget, and fixed dates for full public hearings thereon, open to all people.

12. In enacting the budget, provide that it shall be lived up to strictly during the period which it is to cover.

13. A sovereign must always be able to learn how his work is being done. When the people is the sovereign, as in American government, the people must have such full knowledge.

Dr. Dunham's fundamentals constitute the elixir of life of municipalities. The budget is the thing that keeps the blood coursing fresh and vigorous through the veins of government. When the elixir is low, the administration is impoverished and weak. When it is lavish, gluttony and coarseness result,—the administration becomes selfish and heedless.

Nothing is fool-proof. A budget, however scientific and complete, does not guarantee good government. Neither does keeping the weeds out of a garden guarantee good crops. But as it is certain that there will be very slim crops where weeds overrun, so it is likewise certain that the absence of proper financial provision will greatly reduce, if not completely nullify, the efficiency of an administration.

A government without a financial plan is as badly off as an army without munitions. Consequently it is not waste of space for *The Annals* to give to this subject the prominence of an entire volume, nor to emphasize therein the importance of the county budget in the grand tactics of financing public service.

Like the old parson in the *Wonderful One Hoss Shay*, I am given to firstlys, secondlys, etc. In discussing this subject, I shall try first to picture to the readers of *The Annals* the ordinary way of financing a county government; then to state some improvements of method accomplished in recent years; and thereafter to portray what a proper budget should be, and how it should be arrived at and its operation assured.

The Ordinary Way

From such incursions as, in the course of my experience, I have been able to make into the minds of men who are either concerned in any way in budget-making, or have from other causes given any thought to the matter, I have concluded that to the majority of men the term "budget" does not convey any definite meaning. A hazy concept, as of something pertaining to a bag of documents that contain a lot of bills to be paid, and a lot of other items that

will call later for the expenditure of a lot of money, if the governing body or council votes to authorize them, is what the word "budget" suggests to most people.

One afternoon I addressed a ladies' club of a nearby city on the need of a local budget exhibit. After I had ended, and was taking tea with the ladies, the president of the society remarked, with a puzzled look:

"You have explained perfectly the great advantages of a budget exhibit. Now I wish that before you go you would tell us just what a *budget* is, and then we will understand the whole subject."

Excluding students of finance and of public service, I think the usual understanding of a budget is almost as indefinite as that indicated on the part of the worthy lady president referred to.

But the term "budget," as used in this volume and in this discussion, is meant to include the entire financial plan made by a government for the work of its fiscal year. The detailed discussion of a full scientific budget will be taken up later.

In most municipalities, the elected or appointed rulers have not thought much further than the statute law requires them to think. Their financing, therefore, consists of providing for those things that the law says must be provided for. In county governments this is more than generally true, though some states are more advanced than others as to their statutory requirements. An example like Indiana, where the law permits the employment of a wide-awake accountant who keeps pushing into county financing successive advanced ideas and improvements, shows up immensely by contrast.

The usual procedure in making the county budget is resistance to "procedure" of any sort. It is rather inertia than procedure. It consists of yielding to the enforcement of the law that taxes levied on the county by the state, money borrowed by the county to meet emergencies and carry current expenses, and legal claims accumulated against the county, must be paid. If it were not for the law compelling these things, and for the urgent reminder of people who want the money which the county owes them, I am not sure that there would ever be a county budget in most states. The county goes much on the principle of the lazy man who gets trusted for everything he needs as long as possible, and only bestirs

himself to obtain money to pay accumulated obligations when he is urgently pressed by creditors.

When all items that have to be paid are gathered together, it is usual to put off as much as possible by borrowing on county bonds all that it is legal to borrow, and by refunding, where possible, bonds that have matured. Then the irreducible minimum is placed into the tax levy. There is nothing less scientific, less economical, and more inefficient or more extravagant than such a method of procedure.

In the county budget the board of supervisors, or county commission, or tax levying authority, must provide for two classes of expenditures, and may provide for a third class. The first class includes those disbursements over which the tax levying authority has no discretion. Such are taxes levied by the state upon the county, judgments pronounced against the county by a court of competent jurisdiction, salaries of county officers established by legislative enactment, and similar items. The second class includes expenditures which have to be provided for, but over which the tax levying authority has discretion as to the amount. The third class includes expenditures over which the tax levying body has complete control, both as to their existence and their amount. Such expenditures would include items of public service not specifically required by law, but which the county governing body might deem wise and necessary for the benefit of the county at large. The possibility of expenditures of this type, however, is commonly cramped by the narrowness of the powers conferred by law upon the county authorities.

Things ordinarily not provided for are industrial and social needs, which properly call for public management and public regulation, but which have hitherto been left to individual control, and the consequent management of which has been good or bad according as individual greed and selfishness or individual benevolence has predominated.

Some of these matters are regulated in some counties, but none of them in all counties, and all of them in no county. In determining what elements of such nature shall be turned over to public management or regulation, it is necessary to decide where the border line lies in Dr. Dunham's fourth fundamental, that government administers only the public part of people's affairs, and not the private.

Improvements in Recent Years

Some improvements have been made in recent years in a few states where they have adopted something in the line of budgetary provision. New York state has a law (General Municipal Law, §§30-38) empowering the state comptroller to prescribe a uniform scheme of appropriations for all counties of the state, but gives him no means to enforce its adoption or use. It rests largely with individual counties, therefore, whether the comptroller's budget plan will be used at all or not. Some chief essentials of a budget are lacking in the comptroller's plan. It does not prescribe a balance sheet; nor a working plan; nor current periodical reports; nor a statement of estimated funds available for budget purposes in the reduction of taxation; nor budget hearings; nor any safeguards upon the appropriations.

Indiana has an accounting law which prescribes budget estimates by each department head, to be presented on forms furnished by the county auditor. These forms are sufficiently detailed to provide for a fairly complete list of appropriations for the conduct of various county departments, but many of the elements of a budget which are lacking in New York state law are also lacking here.

Los Angeles County, California, with its new charter, has also made a great advance in budgetary provision within the last three years.

Perhaps one of the best types of county budget procedure at present in operation is shown in Westchester County, where the heads of departments are required to submit in advance requisitions for all the needs which they are required to serve during the fiscal year, the requisitions are passed upon by the finance committee, and the budget is then prepared and submitted to the board of supervisors in the following order:

In the first column, the amount of the requisition by the department head;

In the second column, the total amount required by each department;

In the third column, the amount allowed by the board to be expended by each department;

In the fourth column, the unencumbered balance of the fund remaining from the previous year, and applicable to such department.

In the fifth column, the amount of unpaid obligations of the previous year for the payment of which money is still on hand in the treasury; and

In the sixth column, the total amount of money to be provided in addition to the funds on hand.

These summaries are followed by estimates of municipal earnings,—that is, amounts to be received as current revenue from the earnings of the various departments; revenues due as refunds for advances made by the county, and revenues from other sources; and by a statement of the details of the requisitions for each county department, and each function and line of operation thereof.

The Westchester County budget lacks the following elements: (1) a balance sheet, or statement of the financial condition of the county; (2) a working plan; (3) provision for reports as to the condition of funds, and the comparison of operating cost periodically with budgetary provision; (4) provision for full publicity; and (5) certain safeguard provisions in the enacting statute or resolution of the board of supervisors. Moreover there is no investigation as to social or industrial needs of the county, and there is no provision for public hearings, the most democratic of all features of a budget procedure.

Ontario County, New York, has improved its budget and accounting and audit system by taking advantage of as much of the existing law as it found possible permitting such improvement.

Monroe County, New York, operating under the direction of a newly established bureau of municipal research, has adopted something approaching a more scientific budget, but still some of the above elements are lacking there.

Cities, particularly those that have acted under the guidance of the New York Bureau of Municipal Research, have advanced much farther, and have established very complete budget provision, attended by all the necessary provisions and safeguards to make it workable, and to prevent it from falling down in operation; but cities have centralized responsibilities, where counties have nothing of the sort.

The County Budget as It Should Be

In order to arrive at the direct and scientific way of approaching the preparation of a budget for a county, it is necessary to make sure that we understand the full significance of all that is comprehended under the term "annual budget," and we shall readily see that it is by no means a simple matter, to be put off until the latter part of a fiscal year, and then hastily constructed. It needs ad-

vanced study and provision, including extended and thorough examination into all the needed service to be financed.

The budget is a definite plan or proposal for financing present and future needs of the government. As there is a national budget for the national government, and a state budget for the state government, etc., so there must be a county budget for the county government, and it must be built much upon the same general plan as prescribed elsewhere in this volume for nation, state, or city.

In making the budget, the first thing to do is to find out what needs must be served, and we learn, as pointed out above, that there are three general groups, resulting entirely from the character of the laws, which confront the governing body of the county. The first is that of statutory levies. The state law provides that a county must pay its pro rata share of the state's expenses. The county is simply informed by the state authorities as to what such an amount is to be, and must include it in its tax levy. The county usually has maturing bonds to be paid. Such bonds must be placed in the tax levy, together with interest due on them. Occasionally there are judgments rendered by a court of competent jurisdiction against the county. Such judgments must be paid, and placed in the tax levy. Over matters like the foregoing, the county governing body has no choice. It simply must pay them.

The second group comprises statutory levies, over which the governing body has no discretion as to whether such needs shall be served, but does exercise control over the amount to be provided. Instances of such are the maintenance and operation of the various county departments established by law, and the salaries of various county officers and employees not fixed by statute. Salaries fixed by statute cannot be controlled by the county governing body, but such are few.

As yet, we have considered only statutory needs. There is another group of needs, which we have already indicated, that are never provided for in county government, and I would go further, I believe, than any of my fellow-advocates of a proper budget procedure, and besides having department heads, required to submit advance estimates of what they need to support their departments, I would advocate urgently the enactment of a state law to the effect that some means be provided for asking the public, in all the communities of the county, for statements of all things that they con-

ceive to be public needs, which should be served by county government.

This information might be obtained by public advertising. In such case, civic societies would urge various needs: one, that the county enforce industrial safeguards; another, that the county enforce sanitary housing regulations; another, that it control the sanitation of schoolhouses and medical inspection of children; another, that the county regulate local health ordinances and uniformity of health administration; another, that the county control municipal accounting, so that it shall be uniform in all the towns, cities, and villages of the county; another, that the county administer uniform collection of taxes; another, that it regulate the administration of justice, by substituting courts of inferior jurisdiction, with trained lawyers as judges, instead of the local justices of the peace, who are apt to become mere fee-chasers, and are frequently ignorant of the law.

Individual citizens would recommend other public services that should be performed by the county. These needs would then be considered by the governing body, and weighed thoroughly, and such as were deemed to be of sufficient importance would be incorporated into the budget provisions, as far as the county governing body might have power conferred upon it by law to make such incorporations. For others, held to be of sufficient importance, it would then ask further powers from the legislature. We should then have a budget serving community needs in a way I have never yet known them to be provided for.

It would be a misfortune, however, to have to rely entirely upon the county governing body for the judgment of the merit of the various needs. Consequently, each one who suggests any item of public service, not hitherto provided for and recognized as such, should be invited by the appropriate government authority to appear before it and extend his recommendations with all the supporting arguments that he might be able to prepare. Otherwise, his recommendations might be undervalued, and misjudged, and undeservedly set aside.

After all is weighed, assorted, classified, and fully prepared, of course the final proposals for public service are to be passed upon by the governing body which has power to enact.

Who should prepare the budget is a question of the gravest

importance. In state and national government there is no doubt that the chief executive is the proper person to perform this service, upon consultation with and the advice of his cabinet or department heads and such members of the legislative body as are most conversant with the needs of legislative, judicial, and other departments of government.

In the county government in most states, however, there is no such head, and the budget is usually prepared by a committee of members of the governing board, whether a board of supervisors, or commissioners, or what not. Such a committee cannot have either the understanding of the full meaning of a budget, or the personal interest in properly performing the work of budget preparation, that an executive head should have who is personally responsible in very large degree for the success or failure of the entire county administration. The man who is officially responsible ought personally to lay the plans, summoning to his aid such advisers as he deems best suited to give him counsel. This principle has been recognized in the amendments recently approved by the constitutional convention of the state of New York, which provide that the governor shall finally prepare and present the entire budget to the legislature, after a maximum of sixty days' consideration of estimates and appropriation bills.

Next in order must be considered the accounting features of the budget. Having established our catalogue of community needs, which it is supposed to serve, they will be classified and codified, under proper heads and titles, as a series of appropriations, to be made from county funds, when provided, and to be expended for the specific purposes named and for those only.

But the proposed appropriations for the current financial period are by no means all there is to a budget. The appropriations must be supported by several auxiliary statements, each in itself entailing more or less accounting analysis. The first of such statements would be a comparison of appropriations made in previous years (at least the two next preceding the year to be financed) for similar purposes, and explanations of the reasons for appropriations made for the current year for needs not hitherto provided for. Such a statement shows increases or decreases, and permits comparison of such increase or decrease with the growth of the county and the wealth and population.

The second statement which must be submitted is a balance sheet,—that is, a tabulation of the values of all properties tangible or intangible, which the county owns, and a corresponding tabulation of all the debts outstanding against the county, which must be paid either currently or in the future. The balance sheet should be so arranged as to contrast bonded debt with the value of the improvements for which it was incurred, and current liabilities with current assets in hand or available for their liquidation. The balance sheet would then show the surplus in hand or available, applicable to the support of the appropriations asked for the current year, which surplus should be divided into two elements, (1) capital surplus, and (2) current surplus. If there results a deficit, it should be shown in the same characters.

The third supporting statement should be a tabulation of all funds of previous years, of which there is either a balance or a deficit. The statement should be so arranged as to show what part, if any, of the balance of each fund is unincumbered and free for re-appropriation towards the budget of the current year, or if the total amounts to a deficit, what deficit should be added to each of the appropriations asked for for the current year, and what the total deficit so added should be. The total surplus, or the total deficit of the fund statement, should be identical with the current surplus or deficit as shown in the balance sheet.

The fourth statement should show the estimated amount to be received from indirect sources, such as municipal earnings, amounts paid into the county treasury from the state treasury, from the state school fund, the state highway fund, etc., and from other indirect sources.

The fifth statement should recapitulate:

- a. The total amount of the budget appropriations;
- b. The total amount of receipts from unincumbered fund balances, and from estimates from indirect sources which should be deducted from the total amount of the budget;
- c. The difference which would be the amount to be raised by a direct tax.

This amount, re-grouped in such a way as to show the amount to be paid by each of the tax districts in the county (because in county government the tax rate does not fall evenly upon all parts of the county, as explained below) and the tax rate for each tax district, is then levied by the county governing body. With ref-

erence to the unevenness of tax incidence, it is only necessary to explain as follows: highway taxes are for districts outside of villages, and do not fall within the village corporation limits, because each village takes care of its own streets and highways; education taxes are for proportionately different amounts for the different superintendency districts and the different school districts, and these are locally levied, and not spread upon the whole county evenly; etc.

An auxiliary statement, accompanying the budget, should show the amount to be borrowed for capital outlays, so that taxpayers may know the entire amount which is being spent in the county for the current year. In New York State counties we never are informed of this total. Different bond issues are authorized by the board of supervisors at different times during the year for public improvements. For example, in Westchester County we are issuing bonds this year for purchase of properties lying within the Bronx Valley parkway; for the erection of various new county buildings, such as court house, penitentiary, and almshouse; for various highway purposes, as occasions may arise, and possibly for one or two bridges. At the close of the fiscal year only the county treasurer or the county comptroller is able to state just what amount of long-term indebtedness has been incurred by the county during the course of the year. The only item about which the citizens are broadly informed, regarding bonded indebtedness, is the amount of maturing bonds and interest which must be incorporated in the budget itself and paid during the year.

Now we come to the budget ordinance, or the enacting statute, which, in itself, deserves most serious consideration, but is, nevertheless, perhaps worse slighted than any of the other elements of budget making, as bad as they are. This ordinance must perform the following functions:

1. Authorize the appropriations which the governing body decides are to be expended.
2. Re-appropriate, for the purpose of meeting such appropriations, the unincumbered balances of the funds described above.
3. Add to the stated appropriations the deficits from previous years as part of the current year's expenses.
4. Appropriate the estimated receipts from indirect sources, to be used for similar purposes.
5. Levy the taxes necessary to be raised to meet the balance of expenditures.

6. Make all these things mandatory, not simply permissive.
7. Provide for the control of the authorized expenditures, by prohibiting the use of funds for any purpose except that specified.
8. Provide for an accounting system, coördinated in detail with the budget appropriations, so that all operations of the year may be traced in direct comparison with the original financial plan adopted at the beginning.
9. Provide a work plan, as detailed as possible, for carrying out the service planned in the appropriations, and provide for the payment for such service only as rendered, after inspection and certification by the proper county authorities.
10. Provide for full publicity, as to the operations of the plan, as to the service rendered by public employees, and as to the progress of county contracts for improvements and other service. Such publicity may be included periodical reports, at least monthly, and complete records *open at all times to all persons*.

In no other way can intelligent judgment be formed as to the fidelity, competence, and efficiency of public officers and employees, or as to the adequacy of the general financial plan of the administration.

Summary of Important Features

1. All *needed public* service of any nature whatsoever, whether previously included in public service, or previously left to private or individual management, or previously entirely neglected and unprovided for, must be considered and financed; and all silly, fanatical, and in any way unsound proposals, and all merely ornamental and fantastic schemes, and all merely political partisan patronage plots disapproved and rejected.
2. Complete scientific statements of financial conditions, both as to ownership and indebtedness and as to funding operations, must accompany the scheme of appropriations proposed.
3. The enacting statute must provide for complete control of the operation of the proposed plan.
4. The most efficacious way of securing responsibility is by complete publicity, which is, in itself, cheap, simple, and entirely effective, and not by a complicated system of interlocking powers, with checks and balances, which is costly and complex, and has never proven to be efficient.

BUDGET MAKING FOR SMALL CITIES

BY LENT D. UPSON,

Executive Secretary, National Cash Register Company.

Even the most ordinary city has a budget in the sense that there is a periodic authorization to spend public money. However, the new city budget is more—it is a careful estimate of revenues accompanied by a definite program for spending them. In progressive municipalities such a program is only determined upon accurate information of the efficiency of each city activity, the necessity of its continuance, its cost, and its desirability as compared with the other work, that the community may be best served at the least cost. It is desirable to interest the citizens and officials of smaller communities in some methods of budget making, which, while assisting in administration, are not so red tape-ish as to prevent their use by those with neither time nor patience for the technicalities of municipal finance.

Who Should Make the Budget

The first essential to successful budget making is the preparation of the estimates by the administrative officers responsible for the carrying out of the work program. In the city manager form of government, this task naturally falls to the manager, assisted by the financial officer; in the federal plan, where the mayor appoints all departmental heads and is responsible for their proper conduct, the estimating of the city's revenues and their apportionment among the several departments belongs to this head of the government. However, in the average American city, there is unfortunately such decentralization—so many public officers responsible to no one but the electorate—that there is no central authority whose duty it is to correlate the financial requests of the divisions of the corporation. Consequently, the real preparation of a financial program is left unfortunately to a committee of the city council, who are unfamiliar with the relative departmental needs, frequently have political axes to grind, and who are not actually or popularly re-

sponsible for the conduct of government. This committee of council solicits their own statement of anticipated revenues from the city auditor and receives the miscellaneous estimates of needs which have been prepared without regard to available revenues. Out of this material they have the impossible task of creating a homogeneous program which will meet public needs.

Where such lack of centralization exists, it is desirable that the mayor of the municipality—who in the mind of the public is largely responsible for its administration—should bring together the representatives of the independent elements supported from public funds. Before this body he should present the current resources of the city and ask that they be properly apportioned. Here, by a committee of the whole, public needs could be correlated, absolute essentials approved, any surplus distributed, and the entire estimate, with supporting data, be prepared for presentation to the council. With such methods the chances of one activity of the city being over-emphasized at the expense of others are lessened, and the council is relieved of interfering with the detail conduct of the departments. The preparation of budget estimates by a responsible committee outside of the city council, and the approval or disapproval of these estimates by the council itself, would tend to place the responsibility for the government where it actually belongs, removing in some measure the burden of ineffectiveness, inefficiency, and shifting responsibility which cities now bear.

It has been suggested that estimates so prepared should be subject only to revision downward by the council. However, such a proposition is at present illegal in American cities, and draws its support from other than American municipal experience, if New York City be excepted. As a means of further reducing legislative interference, it is perhaps desirable in federal plan cities, particularly as applied to salary schedules. Where the budget committee is a creature of the council, as in the city manager plan, the scheme is not only impractical, but theoretically unsound.

How the Budget Should be Made

1. *Revenues:* An essential requirement for budget making is an accurate estimate of municipal revenues, and a resolution that appropriations shall be limited to such estimate. When the budget is prepared by a council committee, it is sometimes felt a hardship

to reduce the estimates of the various city departments to within the estimated current receipts. Frequently the entire requests are appropriated for, irrespective of the money which will come into the city treasury, leaving the burden of cutting the city's suit to fit the cloth to the city auditor. In such instances, if the auditor is not aggressive, departments will incur liabilities far in excess of the city's ability to pay, with resulting operating deficits.

The distinction of revenues from receipts as a proper basis for apportioning city expenditures has created a movement for the placing of city accounting upon a revenue and expense rather than upon a receipt and expenditure basis. Large cities, unhampered by state legislation, may logically base appropriations upon revenues accruing, issuing short time loans when such revenues are not actually paid into the city treasury during the fiscal period covered. The restrictions on such loans by state authority as well as by local opinion preclude the use of revenues in place of receipts as a basis of budget making in the average American municipality. However, in appropriating receipts, proper allowance should be made for unusual payments which are not normal revenues. For example, licenses may be paid into the treasury during the closing days of the year, although not actually due until the beginning of the new fiscal period. Such funds should be held inviolate for the period for which they are intended.

The estimate of income should accord with a definite classification which is followed continuously by the accounting officers of the municipality. Only such a classification, conscientiously adhered to, will permit the fiscal officers to determine with reasonable confidence the accuracy of the estimate. The variation in sources of revenues makes it impractical to present a suggested classification here, but one which has been given much thought and which has proven serviceable may be found in the budget of Dayton, Ohio.

After a conservative estimate of operating revenues has been made, and the budget committee has definitely resolved that the city appropriation shall be kept within this estimate of current resources, there follows the more detailed task of preparing the estimates of the several departments. This is the real basis of budget making, and upon its being done correctly, depends the success of a budget, either in a small or large city. If the estimates are presented on miscellaneous sheets of paper, salaries sometimes

grouped by themselves, three or four of the larger expenses segregated, and the remainder lumped as miscellaneous expense, and these sheets are used as the basis for the appropriations of the following year, it is a budget as typical of the average American town as it is typical of what a budget ought not to be. If, however, some little care and thought are given to the problem, these estimates will offer to the budget committee a statement of proven departmental needs, and to the public, a comprehensive idea of the work which the city proposes to do during the coming fiscal period.

2. *Appropriations by Activities*: It is essential that the value of city activities should be weighed one against the other, and to do this properly, these activities must be the units of appropriation. In smaller cities, while the desirability of appropriating to activities or functions is important, it is not as imperative as in larger communities. In the small city, the bureau or division usually represents the smallest unit to which it is feasible to appropriate. As cities become larger, it is necessary to break these bureaus into the various functions which they perform; as, for example, under the bureau of street repair, we have the activities of repairing brick streets, repairing macadam streets, repairing asphalt streets, etc. In the small cities, it is neither necessary nor expedient to have these separations in the budget itself. The budget commission, however, should go carefully over their departmental organizations, making such functional separations as are advisable.

3. *Classification by Character of Expenditure*: In order that any change in the assets of the city may be properly reflected in the city's balance sheet, and that the actual operating expenses may be known, it is necessary to separate estimates and appropriations into "Expense" and "Capital Outlay." In some larger budgets it is customary to make this separation according to "Administration," "Operation," "Maintenance," and "Capital Outlay." The first three items are really expense charges and in Dayton a year's experience proved such divisions to be decidedly impractical. The two divisions suggested, however, are easily made if the following definitions are carried in mind:

Expense comprises all items of expenditure necessarily incurred for current administration, operation and maintenance of the several departments; those for which the General Fund is reimbursed; and those for materials and equipment

in the nature of renewals or replacements, which do not add to the capital assets of the corporation.

Capital Outlay comprises expenditure of every character made from the General Fund which increase the capital assets of the corporation.

4. *Classification by Objects Purchased:* After the larger separation of estimates and appropriations into "Expense" and "Capital Outlay," it is necessary to make a further classification by objects of expenditure under each, which will apply to all departments, and which will become a part of the accounting procedure of the municipality. If the budget making authority is to give relative weight to the needs of each of the appropriating units, these needs must be expressed in the same terms. This classification by the kind of thing to be purchased varies in each city, according to the personality of the budget makers, but in broad, general lines, remains practically the same in every instance. While the New York classification is usually followed, it has been modified in Dayton to more nearly meet the needs of a small city. By a further deviation the sub-classifications under supplies are based upon the character of supply itself rather than upon the use to which it is put.

The classification, however, should present no considerable difficulty to the average budget committee. The classifications used in Dayton, Cleveland, Cincinnati, Reading, or any one of a number of cities, will probably prove highly satisfactory. The chief requirements are that some classification be decided upon, that the definitions covering the same be prepared and sent to the departments prior to the preparation of the estimates, and that the finance department follow this classification in the distribution of public expenses, in order that the actual expenses may be made known at the end of any fiscal period.

The Dayton classification has been found satisfactory in a city spending a million and a quarter dollars for operating expenses, but the subdivisions should be fewer in number if used in a municipality with a budget of perhaps less than five hundred thousand dollars. A brief outline of the Dayton classification is given in the article on "Budget Procedure Under the City Manager Form of Government" by Mr. Arch M. Mandel in this volume.

5. *The Salary Schedule:* A further important feature in the preparation of the estimates is the presentation of a salary schedule carrying the number of employees of each class, with the rate of

pay, or in case of labor, the total number of hours at each rate, with the rate per hour, noting increases in each instance. This is more desirable than appropriating a lump sum of money to each city department for salaries, and later passing a salary ordinance which carries the rate of pay of each class of employee.

In connection with the statement of salaries and wages desired, it is of assistance to have a comparison with the condition of the current year. At the top of the estimate sheets may be printed a summary, as follows:

Request for salaries,
Existing conditions,
Net increase in salaries,
Net decrease in salaries,
Net added force,
Net reduction in force,
Net total increase,
Net total decrease.

6. *Uniform Budget Stationery*: It is of no inconsiderable help, in fact it is almost necessary, that the departmental request be presented to the budget committee upon uniform stationery. Sometimes separate sheets are provided for each classification, but this is not necessary in small communities. It is sufficient if the uniform sheets, to be filled out by the departmental head, contain space for the

Code number of the proposed appropriation,
Title and
Rate of wage or price per unit,
Number of employees or quantity of supplies, etc.,
The number of days, or number of months,
Total amount,
Estimated balance at the end of the fiscal year,
Expenditures for corresponding items for the current and last two fiscal years,
Comparison of requests with expenditures for the current year, with increase or decrease,
Estimated stock on hand—quantity, unit, value and amount,
Allowance recommended by the budget committee,
Tentative allowance by the finance committee before the city council,
Final appropriation.

If such stationery is properly used by the departments, with the assistance of the accounting officers, it presents to the budget

makers necessary information for the preparation of a sound financial program. Each increase or decrease in requests is shown, and a decrease is measured, not over the appropriation of the current and previous years, but in comparison with the actual expenditures over these periods. The estimated balance at the end of the fiscal year shows the excess appropriation of the previous period. However, it is desirable that this balance should revert to the general treasury, rather than be made available for expenditure during the coming year by the department for which it was originally appropriated.

The budget committee now have before them in great detail the requests of the city departments. Here are the general work programs of each division, supported by the items of proposed expenditures. The budget committee can weigh the value of one activity as against another; eliminate one portion of an activity without injuring the remainder of the work; can definitely provide that certain activities shall not be followed, and that the whole strength of a division must be concentrated upon others. Salary increases are definite, and explanations can be asked for each. Additions to the force must be accounted for and justified. The departmental heads and their subordinates can be brought before the committee and asked to explain specific requests, specific increases, specific needs, and specific programs instead of generalities. Reductions in requests are much easier made when it is possible to effect the reduction of a dozen different items rather than of a grand total. For example, during 1914 it became necessary in the city of Dayton, owing to a shrinkage of revenue, to reduce appropriations by some \$40,000. Such a cut would have been considered impossible, or at least would have worked great hardship to the various departments, had the appropriations been made upon the lump sum or partial lump sum plan. As it was, the estimates were available, broken up into four or five hundred different items. The several administrative officers were brought before the city manager, and each item studied, the officer stating the minimum which he could receive and still operate his department successfully. As a result, in two days' time there was a \$40,000 reduction in the departments, which had reduced the activities of all without serious hardship to any.

7. *Appropriations vs. Estimates:* It is, of course, undesirable

that these estimates be passed as the budget itself, as such detail would unduly restrict administrative officers in their work. However, the extent to which administrators are tied down varies from city to city. It is usual to place in the budget the number of employees and their rate of pay, as well as the number of hours and rate of compensation for labor. Beyond this, the main estimate classifications are followed, as

Supplies and Material,
Contractual Services,
Fixed Charges, and
Equipment.

In Dayton, where executive authority is concentrated, it has been found an advantage to place the sub-classifications under these more general divisions upon the appropriation ledger, but provision is made for alteration at the order of the city manager. Thus the manager has control of modifications in the plans of departments, while that department is not restricted to the exact detail expressed in the estimates. This scheme works well in Dayton, and probably would in any city manager municipality, but is not to be recommended for the average city.

8. *Appropriation Ordinance*: A further step to successful budget making is the drafting and passing of an appropriation ordinance which will make effective the proposals of the budget makers. While the particular wording of the ordinance must vary according to local legal requirements, there are certain provisions which should be made binding upon the administrative officers of the municipality. Among them are these:

1. Every contract for the purchase of materials, supplies and equipment should require the signature of the city comptroller before it is valid. The estimated amount which will eventually become payable should be entered against the appropriation or fund account for which it is an encumbrance, provided that account has an unencumbered balance. If the account is already fully encumbered, the contract may not be signed.

2. No expense should be incurred by any department, board, or any other officer unless an appropriation has been previously made covering such expense, nor shall liability be incurred during any fiscal period in excess of the sum appropriated.

3. The salary schedules which were part of the original esti-

mates should be attached to and become part of each appropriation for personal services. The number of positions and salaries payable for each are thus fixed, and may not be increased except by action of the legislative body. Some administrative officers are of the opinion, however, that only the salary or other rate should be binding, leaving the number of employees to the discretion of the officer. This is equivalent to granting a lump sum to the officer for salaries and wages with specification of the rate of pay. Dayton employs the former plan, with reasonable success.

4. If the sub-classifications under the main classifications in the estimates are included in the budget, transfer of money from sub-classification to sub-classification within the same group should be permitted upon the request of the administrative officer. To do otherwise, would throw needless red tape around the operation of his department. However, there should be an absolute prohibition of the transfer of money from any appropriation—*i.e.*, main budget classification—to another appropriation, without action of the legislative body. In larger municipalities, notably New York, there is a prohibition on the transfer of money from any appropriation for personal service to any appropriation for other than personal service, and *vice versa*. This check is to prevent a department needlessly increasing its salary or wage roll after the publicity attending the passage of the original budget has passed. Such a provision, however, is not necessary nor desirable in smaller communities.

5. Some appropriation ordinances carry the provision that no more than one-twelfth of the appropriation for salaries shall be spent in one month, nor more than one fifty-second of the appropriation for wages shall be spent in any one week. A glance at the pay roll growth which formerly prevailed in New York and elsewhere immediately before election time indicates the necessity of such a regulation in some instances. It is a feature, however, which is highly undesirable in smaller places. It is an unnecessary restriction upon public officers, and prevents seasonal variation in work programs. It would serve its purpose only in instances where the budget allotments were made up for three months at a time. This latter suggestion has been seriously advanced, but not yet utilized.

6. All books of account, warrants, orders, vouchers, or other official reference to any appropriation should indicate the appropria-

tion and fund involved or to be drawn upon by the proper code number; and provision should be made that the city auditor or comptroller should exercise a keen supervision to insure that such code numbers are properly designated. One of the most difficult features of budget making is to enforce the drawing against proper appropriations after the budget has been made. There is an earnest temptation for an administrator when one appropriation is exhausted, to endeavor to draw upon another appropriation for purposes for which it was not intended.

9. *Preliminary Publication:* Before the budget is considered by the finance committee of the city council, it should be made available to the public in preliminary hearings. It has been aptly said that democracy in government is not as necessarily correlated with methods of representation as with the information which the public has concerning the acts or failures to act of its representatives. Since the city budget outlines nearly all of the city's activities, there has in the past ten years been a marked tendency to popularize the preparation of the city spending program, and make it a more effective instrument for securing results.

Probably in small cities funds would not be available, nor would public interest be sufficiently great, to justify the publication of the entire budget estimate prior to the budget itself. The main outline of the budget estimate can be given to the public press with a statement from the budget committee, indicating the general work program for the coming year, with such modifications as they have thought necessary. In addition, should be presented (1) an estimate of the income by sources compared with the income of several years previous; (2) expenditures by objects purchased, showing the money which it is proposed to spend for salaries, wages, supplies and materials, contractual services, etc., compared with the years previous; (3) expenditures by the different organization units or functional units where it has been thought advisable to divide the organization into functions, and with this should be given the statement of expenditures for several periods past; (4) if the space is available, these last two tables should be compiled jointly, indicating the expenditure for objects purchased for each organization unit.

All or part of these summaries will be gladly carried by the public press, and can be put in typewritten form for presentation

to such organizations or individuals as might be interested. The Dayton charter requires that all of the preliminary estimates, as well as these summaries, should be on deposit with the city clerk several days prior to the public hearing. The cost of printing the summaries, however, is very small, and any group of public officers concerned with interesting the citizen body in the city activities could well afford to have this data published and distributed. If such a course is pursued, and an effort made to stimulate the taxpayer's interest in how the tax dollar is being spent, the public hearings which precede the passage of the document will in most cases be well attended, and profitable to citizen and official alike. The knowledge that a few hundred or a few thousand people care what the city is doing will urge the conscientious official to a higher endeavor, and require of the careless one a desirable minimum of effectiveness.

It is equally desirable that the budget as finally passed by the city council be in printed form, not only that public employees may have ready access to the authorization to incur liabilities, but also that citizens may secure a definite statement of the city's public program. In a small city, this cost of publication would be very small indeed, and it is hardly justifiable in any municipality that the most important accomplishment of its administrative officers and its legislative body should be hidden away in the records of the city clerk, and not presented forcefully to the public.

10. Funds: It is quite common in municipal government that the city revenues do not come into one fund but are segregated for some half a dozen different purposes—one or two departments drawing from each fund. In this case, the method of budget making need be no different from that which has already been outlined. Instead of one estimate of revenues there must be an estimate for each fund. Instead of one estimate of expenditures there must be an estimate for the several departments which draw from each fund. In other words, instead of one budget, the budget committee must make from three to six different budgets, keeping each separate. This makes the drafting of the summary statements somewhat difficult, and complicates the situation, but this complication is more apparent than real.

Such funds are normally a handicap rather than a help to better government, and frequently cities have seen fit to disregard

laws requiring such segregation. There is seldom any taxpayer or public officer who is sufficiently interested in such separation of expenditures to bring the matter to the attention of the courts.

11. *Additional Helps to Budget Making:* In some of the larger cities much more information is given to the budget committee than has been specified in the preceding paragraphs. Nothing has been mentioned in the foregoing which is not available to interested officers of any city in this country. Municipal accounting has not progressed to a point where the average municipality may secure an accurate balance sheet, although that would be of assistance in formulating the city's financial program for the coming year. It is also frequently suggested that a city should have available, in addition to the balance sheet, a statement of the operating revenues and expenses over a series of years, a surplus account, debt statement, and fund statement. In simpler words, the budget makers should know previous years' expenditures by department and classification; the unexpended balance at the end of the year; bills outstanding against such; and a statement of the city's assets and liabilities. The most necessary of these facts (the first two named) could be secured with due diligence, and the others (the last two named) are not absolutely necessary for a long step in advance in municipal budget making. The detail of these features as applied to smaller municipalities is described in the article on budget procedure by Mr. Mandel, previously referred to.

12. *The Allotment Scheme:* It has been advanced by some budget authorities that appropriations should not be made for each function separately, but for objects of expenditure. At certain periods of the year, perhaps quarterly, allotments of these appropriations should be made to the several functional or appropriation units within the municipality. Such allotment should be made by the body responsible for the presentation of the original estimate to the legislative body. It is maintained that such a system would permit the meeting of needs not foreseen at the beginning of the year, and would afford the flexibility which the segregated plan lacks. At the same time an adequate accounting and administrative control is secured. The proposal has been seriously considered for New York City, and was refused by the authorities in Springfield, Mass. In Dayton, as is possible in any city with centralized authority, most of the advantages outlined are secured through a

less formal budgetary control. The proposal will require empirical support before extended adoption may be considered, and most American cities have important preliminary steps yet to take.

13. Bond Budgets: Nothing has been said so far concerning bond budgets, as in the smaller municipalities it is in general unnecessary to consider this feature of city finance from a budgetary standpoint. However unwisely the permanent debt of municipalities has been incurred and liquidated, the fault will probably not be corrected through the budgetary medium. Only a small per cent of cities' operating income is expended for permanent improvements, and while it is desirable to make a division in the budget between operating expense and capital outlay, it would not be recommended that such capital outlay be carried by long term bonds. For example, in every municipality some work done on the streets, sewers, waterworks, fire alarm telegraph, etc., is of a permanent nature, and should be reflected on the city's general ledger as such. It would be foolhardy, however, that all such expenses be eliminated from the general operating expense to be taken care of by the sale of long term securities. Detail budgeting of bond issues has not come into use since such funds are usually spent by contract for specific purposes.

14. Municipal Reports: So far this article has dealt entirely with what may be called the debit side of city financing. There has been explained how in small municipalities city officers may be charged with a definite city program, and with the funds which the taxpayer has advanced for carrying out that program. Of equal importance are the methods by which the public officer becomes aware of the thoroughness with which his subordinates are carrying out the duties allotted to them; and the method by which such officer may report to the public the results of his stewardship. It is only by the developing and standardization of intra-departmental and departmental reports that such credit may be arrived at. Unfortunately, the development of such reports and accounts, particularly those dealing with unit costs have not proceeded to a point where they may play an important part either in budget making or in informing the public concerning the results of budget spending.

Municipal accounting and municipal reporting have not kept pace with budget making, and it is necessary to use the methods

outlined as an indispensable aid in effecting a more economical and effective use of the money resources of the municipality. The segregated budget is a necessary expedient until more perfect departmental administration is assured through the adoption and exercise of other methods.

Happily, these new methods are being rapidly introduced. The modern budget; modern accounting control over public funds; scientific purchasing of city supplies; time sheets and service records; cost accounting; adequate health records are not inherent to any type of government nor to any size of city; are not necessarily secured by a new charter; and may be established in any government if a sufficient number of citizens desire it.

THE PREPARATION OF ESTIMATES AND THE FORMULATION OF THE BUDGET—THE NEW YORK CITY METHOD

BY TILDEN ADAMSON,

Director, Bureau of Contract Supervision, City of New York.

Because of the peculiar problems in New York City, its budget and its budget making methods are more complex than would be necessary in the average American city. Nevertheless, some description of the New York method of securing estimates of departmental needs, formulating the budget, and checking expenditures should prove of value to other cities.

As an appropriation bill, the New York City budget for 1915 authorized the expenditure of \$198,989,786.52. This amount, however, is only the so-called tax levy portion of the budget. In addition to this the budget provides a control over expenditures of millions of dollars other than funds raised by tax levy or by city revenue.

Up to a few years ago the budget comprehended only appropriations for current administration, operation, and maintenance. Today, it covers or controls all appropriations except bond issues for the development of the Catskill water supply and the building of the subway. Not all of these appropriations are actually made in the budget, but the original function of the budget has been expanded to give what is believed to be a necessary control over expenditures from corporate stock and special revenue bond funds. The expenses of administrative operation and maintenance are borne chiefly by funds appropriated in the budget and raised by tax levy. This is supplemented by city revenue from various sources and in cases of deficiency by special revenue bonds which are redeemed in the budget of the year succeeding the year of their issue. The expenses of constructing necessary improvements are borne by the proceeds of bonds known as corporate stock or by assessment upon the owners of property benefited by public improvements.

Until six or seven years ago no one thought of corporate stock funds and the tax levy budget as having any relation. This was a strange blindness on the part of city officials because even as early as 1909 the interest, redemption, and installment on the city debt amounted to \$47,223,078.33. This amount had to be appropriated in the budget. By a singular oversight no one in authority seemed to regard it as necessary to place a restriction upon the issue of corporate stock or long term bonds. Their point of view was that a future generation would have to redeem the bonds. They overlooked the fact that every year they were adding millions to the budget in the form of interest and redemption. About 1910 the rapidly growing tax-budget compelled the attention of city officials. Since that time the lesson has been gradually learned that the annual tax appropriations cannot be controlled unless control is exercised also over expenditures from bond funds.

The segregated form of budget was largely responsible for directing attention to the grave danger from uncontrolled bond appropriations. A comparison between uncontrolled expenditures out of corporate stock and the controlled expenditures out of tax levy emphasized the necessity of a control over all funds.

The budget now in force has four chief purposes, as follows:

1. It determines and appropriates the amounts to be expended for each and all the various objects of governmental activity chargeable to tax levy.
2. It controls by schedules, terms and conditions the expenditure of funds other than tax levy.
3. It provides by segregation, by titles of appropriations, by terms and conditions and by schedules for the control of tax levy appropriations so that they will be expended economically for the necessary purpose of the appropriation.
4. It serves as a document of publicity by informing city officials, city employees and taxpayers of the amounts and the objects of the various appropriations and it charts in simple form the positions, titles, and salaries provided for each function of governmental activity.

The budget of New York City not only appropriates but guides the expenditure of the appropriations. Its scheduled form of detailed appropriation makes it well nigh impossible for department heads to misuse funds or to expend funds wastefully.

But the greatest improvement in budget making in this city in the last five years has not been in the form of the budget itself but chiefly in the methods of gathering facts to be used as a basis for budget making. Under the old method, department heads

would send in their estimates as required by law and just before October 31 there would be a more or less perfunctory examination. In no case was there a thorough inquiry made into the needs of a department. The result was that appropriations were not based on actual necessities.

During the last five years an attempt has been made to develop a budget system based on fundamental facts. Without facts as a basis no improvement can be made in administrative methods and no intelligent or effective control of municipal activities can be exercised by the board of estimate and apportionment which in New York is the controlling body. With this in mind we have attempted to gather facts and present them in such form that they can be applied with best effect to problems of the city government.

A full description of our machinery for gathering budget data would be lengthy. Departmental estimates are prepared on forms based on the theory that the main duty of the budget maker is to ascertain the amount of money that should be appropriated and not to ascertain, as was done in the old days, simply the amount that the department head wants to have appropriated. This is a very difficult task in a city with great departments, each with many and varied functions.

Our problem deals naturally with seven simple essential elements, as follows:

1. Work.
2. Workers.
3. Rate of pay.
4. Tools.
5. Supplies.
6. Materials.
7. Prices of tools, supplies, and materials.

The following elaboration and extension of these seven simple factors expresses perhaps more fully the chief things to be considered.

1. Number of units of work to be done.
2. Classes of employees necessary to do the work.
3. Number of units of work to be done by each class of employees.
4. Number of units of work the average employee of each class ought to perform in a day.
5. Number of days of work for each class of employee.
6. Rate of compensation for each class of employee.

7. The kind, quality, and quantity of supplies, materials, and equipment necessary for the performance of the work to be done.
8. Lowest market prices for all the kinds of supplies, materials, and equipment.
9. The best methods of performing the work.

An intelligent coördination of all these facts forms the soundest basis not only for budget appropriation, but for departmental administration.

The department head who knows the volume of work he has to do, the classes and the number of employees necessary, the proper rate of compensation, the kind and quantity of supplies, materials, and equipment and their lowest market prices, has a simple task. If we can give him these facts it will not be necessary to show him how to do the work. The labor involved in this apparently simple problem is tremendous. In addition to a study of the work performed by many thousand employees, there must be an investigation into all the needs of the various departments for funds to operate and maintain city property.

The first and most important fact we have to ascertain is the volume of work to be done. This cannot be determined in all cases upon departmental estimate forms but requires a detailed study by engineers and examiners. However, our forms are devised to obtain information showing the volume of work to be done wherever it can be conveniently expressed. We then try to express this work in standard units of measure and to classify it according to the nature of the thing to be done. For instance, on the forms for the "Maintenance of Highways" we endeavor to ascertain, among other things, the approximate number of square yards of sheet asphalt with a wearing surface of a given thickness that will have to be replaced in the coming year. On our "Forage" forms we ascertain the number of horses that will have to be fed in the coming year, the quantity of oats, the quantity of hay, and the quantity of straw and other supplies used, the unit cost of each kind of supply, and the daily per capita cost of feeding horses of each class or occupation. A careful classification is necessary, as, for instance, horses used in the fire department and working only occasionally do not require such heavy feeding as the big horses used in the street cleaning department which are usually overworked.

In the last few years there has been a determined effort to

supersede the present scheduled budget with a so-called cost data budget. The chief advantage that has been urged for the cost data budget is that it provides a work program. This form of budget is still being urged but not by anyone who has an intimate practical knowledge of the requirements of the budget. For four years an experimental cost data budget has been made for the Borough of Richmond. This budget has proved a failure and is to be abandoned next year at the request of the Borough President. A report, made September 25, shows an over-expenditure of almost 20 per cent in the highways appropriation in the Borough Richmond, in the first three quarters, leaving a deficit of the same amount in the last quarter. As there was no control in this cost data budget, the money that should have gone into road materials was to a large extent used for salaries, wages, and the unnecessary employment of teams.

The main weakness of the cost data budget is that it fails to control expenditures, and its work program is actually not so intelligent or comprehensive as the work program that forms the basis for a scheduled budget in New York City. Emphasis should be put upon the fact that the schedule budget is a work program cost data budget. A work program is essential as a foundation for any intelligent budget, but to this work program we apply cost data after determining what cost data are proper. The so called work program budget does not analyze cost data but accepts and applies the costs of this year as fixing the proper costs for the same things next year.

The unit cost of a thing done does not always represent the proper cost. In order to get the proper cost, it is necessary to obtain the unit price of the various elements of labor, supervision, supplies, material, and equipment, entering into the thing done. It is this necessity which governs the forms on which departmental estimates are prepared. An example of the weakness of the usual cost data is shown by the cost per square yard for certain paving work done by five different gangs under different foremen. I have in mind a single day's work for these gangs. The work to be done was identical yet the cost ranged from \$1.11 per square yard to \$1.89. This cost data was worthless on its face because it did not analyze the cost into the constituent elements. It accepted the compound unit cost as final. By going back of the unit cost per

square yard we find the reason for the difference in cost for doing the same thing under similar conditions. We base everything on elemental cost data. By this is meant the unit cost of each element that enters into the performance of a thing as, for instance, the laying of a square yard of asphalt pavement. The fact that it costs only \$1.70 for laying a square yard of asphalt pavement is absolutely useless and misleading information unless we know all the facts entering into the cost of laying the pavement. An offhand summary of the various elements to be considered in comparing the cost of asphalt pavement is as follows:

1. Number of linear feet of old curb removed and cost of same.
2. Number of linear feet of new curb set.
3. Number of basins and heads adjusted and cost of same.
4. Character of surface to be stripped and cost of stripping.
5. Character and quantity of foundation to be stripped and cost of stripping.
6. The quantity and cost of adjusting to grade.
7. Cost of rolling of sub-grade.
8. The thickness of new foundation.
9. The proportions of concrete mixture used in the foundation.
10. The thickness of wearing surface.
11. The quality of asphalt.
12. The cost of asphalt.
13. The quality of asphaltic cement.
14. The cost of asphaltic cement.
15. The proportions of asphaltic mixture.
16. The cost of the broken stone.
17. The cost of sand.
18. The cost of cement.
19. The distance of transportation of material.
20. The cost of transportation.
21. The cost of heating materials.
22. The cost of labor.
23. The cost of supervision.
24. The extra cost of maintaining traffic without interruption.
25. The area of work done.
26. The conditions under which the work must be done.
27. The time limit for the completion of the work.
28. The cost of guarantee.
29. The character of traffic that the pavement will have to bear as a means of determining the cost of guarantee.
30. The local conditions affecting the performance of the work.

This looks like a formidable list but, even so, probably three or four elements of cost have been overlooked.

The fact is that one square yard of asphalt may be cheap at \$2, while another square yard may be high priced at \$1.

Another trouble with compound unit cost data is that it compares entirely dissimilar things with each other. For instance, I have seen comparisons between things as dissimilar as the following:

1. The cost of laying a square yard of asphalt pavement on a 6-inch foundation of the richest mixture of concrete with a 3-inch wearing surface of the best mixture and finest quality of asphaltic material laid under the most exacting conditions in a crowded section of the city where trolley and vehicular traffic must be maintained without interruption and where the work must be done in one-half the usual time.

2. The cost of laying a square yard of asphaltic pavement on a 3-inch foundation of the thinnest mixture of concrete with a wearing surface of less than 2 inches of poor asphalt materials laid under the most favorable conditions within a short distance of an asphalt plant with no vehicular traffic or trolley to be maintained or with no exacting time requirements.

This is just as bad as comparing the moon with a radish. The number of square yards to be done has a marked effect upon the unit cost per square yard and the conditions under which the work is done will have an even more marked effect. For instance, a contractor can lay 10,000 square yards of pavement straight away the full width of a street at a much lower price than he can lay 10,000 square yards of pavement on exactly the same street when he is compelled to pave one side of the street while keeping the other side open for traffic.

Moreover, it is essential to a fair comparison that the unit cost of compounds be analyzed into simple elements. If the Health Commissioner receives a report from hospitals showing that in each the daily per capita cost of feeding, treating, and caring for patients is \$2.10, the very uniformity of the unit cost might convince him that \$2.10 was the proper price. Suppose, however, that, instead of receiving the report of the compound unit cost, the commissioner receives a separate report showing the daily per capita cost of feeding patients, the quantity in pounds of food consumed, the quantity of each article of food consumed, and the cost of each separate element of supplies or service. He might find that in one hospital the cost of feeding patients was 45 cents per day per capita, whereas in another hospital caring for exactly the same class of patients, the price was only 19 cents per day. It might be found also on investigation of these reports that the patients fed for 19

cents per day were supplied with better and more nourishing food than the patients fed at the higher cost. The commissioner might then, by comparison of the elemental costs, find low prices for each element and by insisting upon this cost as the standard in all hospitals be able to cut the compound unit cost in half. This is not an entirely suppositious case.

The first year we used budget accounting forms on food supplies we found the daily per capita cost for food ranging from 8 cents up to \$1.20. We found that patients or inmates who were being fed at 30 cents a day were receiving better food in some cases than inmates or employees whose daily per capita cost for food was several times as high. The result was the elimination of many luxuries and a vast saving to the taxpayers. I believe the Commissioner of Correction states that the inmates of institutions under her care are being fed better now on a 16 cent per capita basis than when the per capita cost was much higher. We would never have been able to accomplish any reform in the food supplies if we had not insisted upon getting the daily per capita consumption of all kinds of food. This form of budget accounting points a finger directly at strawberries in January or fresh asparagus at Christmas time. It also shows up the departmental employees when they take the choicest steaks for themselves and leave the poor meat for patients. The great amount of detailed information required on food supplies has been criticized but the tremendous results accomplished have more than justified the method. Not only has there been a very large saving annually but there is now an assurance that patients such as those who suffer from tuberculosis will receive plenty of the most nourishing foods whereas under the old conditions no one seemed to realize that there should be a distinction between the per capita cost of food consumed in a scarlet fever hospital and the per capita cost of food consumed in a tuberculosis hospital.

Going back to the seven simple elemental factors to be considered in budget making, I will use as an example the Otisville Sanatorium, an institution for the care of tuberculosis patients. Our departmental estimate forms show the number of patients to be treated, the number of horses to be fed and the repairs, replacements and other work necessary for the maintenance of the institution. With this as a basis for the work program we determine the number

of workers, that is, the number of nurses, physicians, internes, hospital helpers, drivers, foremen, carpenters and other employees necessary to make the work program effective.

The determination of the number of workers necessary is based upon the volume of work to be done and the number of units of work the average employee of each class ought to perform in a day. With these facts we can determine the number of days' work for each class of employees. The rate of compensation for each class and grade of employees is the next step. In determining this rate we apply standard work specifications which form a part of the general program of the standardization of salaries and grades.

Tools or equipment must be considered in connection with the volume of work and the number of the workers. Our departmental estimates do not permit departments to request simply a lump sum for equipment but require a detailed statement of each kind of equipment. The request is always considered in its relation to the number of workers. The departmental estimate forms provide against waste and over-stocking by a system of inventory and a statement of stock on hand.

The question of the quantity of supplies for the ensuing year depends absolutely upon the work program. For instance, the quantity of food supplies depends upon the number of persons to be fed, the quantity of motor vehicle supplies depends upon the number of automobiles or the mileage, and the quantity of forage supplies depends upon the number of horses and the class of horses to be fed.

Experience has taught us that we cannot make a lump sum appropriation for supplies. Patients used to go hungry in hospitals because money that had been appropriated for food supplies under a general heading of "Supplies and Materials" was actually spent to buy Persian rugs and automobiles. We have found it necessary to control such expenditures by classifying the various forms of supplies and making appropriations as follows:

- Food Supplies.
- Forage and Veterinary Supplies.
- Fuel Supplies.
- Office Supplies.
- Medical and Surgical Supplies.
- Laundry, Cleaning and Disinfecting Supplies.
- Refrigerating Supplies.
- Educational and Recreational Supplies.

Botanical and Agricultural Supplies.
Motor Vehicle Supplies.
General Plant Supplies.

This sub-classification serves not only to control the expenditure of appropriations but makes it easier to analyze departmental requests. There is a form of departmental estimate for each class of supplies and a complete statement with supporting data must be made with every request.

The same principle of subclassification is applied to materials which have been classified as follows:

Highway Materials.
Sewer Materials.
Building Materials.
General Plant Materials.

This insures that materials appropriated for the repair of highways will be used for that purpose instead of being diverted to materials for laying parquet floors in the offices of commissioners or for other purposes that are not necessary.

In like manner it has been found necessary to subdivide the grand division of equipment into nine subdivisions as follows:

Office Equipment.
Household Equipment.
Medical and Surgical Equipment.
Live Stock.
Motorless Vehicles and Equipment.
Motor Vehicles and Equipment.
Wearing Apparel.
Educational and Recreational Equipment.
General Plant Equipment.

The desirability of separating appropriations for equipment into these subdivisions may be illustrated by the fact that money appropriated for hospital "equipment" and intended for operating tables has been used to buy pianos and billiard tables for persons connected with the hospital.

Formerly there was no distinction in the budget between supplies, equipment and materials. In order to make the budget classifications susceptible of practical application it was necessary to make arbitrary definitions. These definitions and the classifications were intended to compel all articles to fall naturally into their proper places. The definitions are as follows:

Supplies: Supplies are articles which can be used but once, or which, after being used once, show a material change in or an appreciable impairment of their physical condition.

Equipment: Equipment includes all apparatus, machinery, vehicles, tools, instruments, furniture, fittings and other articles which can be used over and over again without a material change in or an appreciable impairment of their physical condition.

Materials: Materials are articles and substances in a natural or manufactured state entering into the construction or repair of any building, highway, sewer, apparatus, machinery or other equipment.

The importance of the distinctions is illustrated forcibly in our budget work. The fact that a power plant used 10,000 tons of coal in 365 days of one year indicates that unless there has been some change in conditions, the same quantity of fuel supplies will be required in the following year. This is true of practically all supplies while the reverse is true of equipment. When the departmental estimate forms show that 800 beds were purchased last year for a hospital with an 800 bed capacity, that on its face shows the Budget Committee that there should be no need for the purchase of 800 beds the next year. The failure to make these distinctions in the past was responsible for inflated appropriations that were wasted.

In addition to the several classifications already mentioned we have special departmental estimate forms for the Contract or Open Order Service, as follows:

General Repairs.

Motor Vehicle Repairs.

Light, Heat and Power.

Janitorial Service.

Transportation.

Communication.

General Plant Service.

Lighting Streets and Parks.

Lighting Public Buildings.

Power.

Heat.

Hire of Horses and Vehicles with Drivers.

Hire of Horses and Vehicles without Drivers.

Storage of Motorless Vehicles.

Storage of Motor Vehicles.

Shoeing and Boarding Horses, including Veterinary Service.

Hire of Automobiles.

Carfare.

Expressage and Deliveries.
Telephone.
Telegraph, Cable and Messenger Service.
Contingencies.

Another advantage of the detailed accounting required on the departmental estimate forms is that it shows up departmental sore fingers prominently. When this system of budget accounting was first installed, the head of a certain department was amazed to find that one division in his department was buying kerosene oil at $7\frac{1}{2}$ cents a gallon while another division was buying kerosene oil by the pound at a price of 28 cents. This same department found that one division was paying three or four times as much as other divisions for its engine oils.

The first year of the operation of these forms a certain big department filled out its estimates on the old fashioned basis. The department was required to analyze its request in accordance with the new form. This analysis resulted in showing that the department had deliberately padded its requests by 50 per cent in some divisions and by 25 per cent in others. The required analysis as made by the department itself showed requests for $2\frac{1}{2}$ bicycles, $12\frac{1}{2}$ thermometers, and $1\frac{1}{2}$ wheelbarrows. The very absurdity of these requests served to establish firmly the new system of making departmental estimates. Since that time as a result of these methods the budget of this same department has been reduced almost two million dollars notwithstanding a very large growth in the main functions of the department.

The results to be obtained from a thorough and scientific system of budget making are illustrated by the fact that in making the 1915 budget a comparatively small group of men engaged upon only thirteen of the one hundred and twenty departments and offices reduced the aggregate budget of these thirteen departments approximately \$4,000,000 below the 1914 schedule. One of these thirteen departments had in 1914 a budget of approximately \$4,000,000. By a thorough study and reorganization of this department and by the application of proper methods of work performance we were able to reduce the budget for 1915 by about one and one half million dollars. The commissioner of the department in question insisted that this would ruin his department. The form of departmental estimate used and the method of investigation followed showed so

convincingly the vast waste in this department that despite the very radical recommendations and despite the commissioner's protest, the budget was cut almost in half. Instead of ruining the department there was an actual improvement. The department has done better work this year than for many years in the past and the commissioner himself has requested for 1916 less than half the 1914 appropriation.

Another instance of the New York method of making the budget is given by the appropriation for lighting public streets and public buildings. Year after year it has been necessary to authorize revenue bonds to meet deficits in the lighting appropriation. This appropriation had increased from year to year until it was approximately \$5,000,000 in 1914. We made a physical examination of lighting conditions and investigated the size, character and location of every street light in the city. The result was a saving of almost \$700,000 in the budget for 1915 and an increase of almost 20 per cent in illumination. This was done largely by replacing old fashioned gas lamps and costly arc lights with improved nitrogen and tungsten lights. This year the same methods are expected to reduce the budget for lighting by approximately \$300,000 or a total reduction of about \$1,000,000 in two years.

The greatest difficulty with which we have had to contend has been the general belief that the head of a department knows more about this department than budget examiners. After several years of repeated proof that intelligent and expert examiners who have given close and detailed study to conditions had a better knowledge than commissioners who rarely understand the detail working of their departments, we have at last succeeded in having the budget considered on the basis of facts rather than on that of the opinions of department heads. In preparing the budget we try to introduce in all departments methods that have demonstrated their superiority. One advantage that a centralized force of examiners has over department representatives is that they are in a position to witness the activities of all departments, to contrast the good with the bad and to make profitable use of the mistakes of one department and the high accomplishments of another.

The departmental estimate forms are so devised that current comparisons can be made between departments and between divisions of departments, and the best methods selected. The depart-

mental estimates themselves form what might be considered a negligible part of the work of budget making. With the departmental estimates as a working basis it is necessary for the examiners and engineers to make a very close study of the organization and the work of the departments. This requires considerable tact. We keep in mind always that the departmental engineer who has been building sewers for twenty five years knows the duties of his position probably as well as we know our own but we endeavor tactfully to show him that there are other engineers building sewers and repairing highways with better results at less cost.

The departmental estimates are prepared usually by clerks of the various divisions. These clerks use as a basis for their request the estimates given them by heads of bureaus, heads of divisions, engineers, foremen, and others. The experience data are taken from the records of the department.

Estimates are required by law to be submitted to the Board of Estimate and Apportionment on or before September 10. The final budget must be made on or before October 31. There is such a short time between September 10 and October 31 that it would not be possible to gather all the essential facts to prepare recommendations, hold hearings and print the budget in that time. Accordingly it is necessary to make the budget work continuous throughout the year. Examiners and engineers are already familiar with conditions in departments when the estimates are received. They proceed immediately to apply their knowledge of conditions and to analyze the requests. Usually the examiners go over every item with representatives of the departments and then write in their recommendations in the proper column on the estimate forms.

After the estimates have been analyzed, recommendations are made and a summary placed upon forms known as "committee sheets." These committee sheets carry complete comparative data concerning every account to be considered. On these sheets reasons are given for the various recommendations.

Hearings on the budget are held and the committee sheets are given to the members of the Budget Committee to assist them in a better and quicker understanding of the recommendations than otherwise would be possible. The argument of the department representatives is heard and in cases of disagreement the facts are discussed thoroughly by the committee. After the completion of

committee hearings on all departments a tentative budget is printed and a public hearing held to consider this tentative budget as a whole. Representatives of the various civic associations, taxpayers' associations and others usually appear and argue for and against certain appropriations. If the arguments at the public hearings convince the members of the board of estimate and apportionment that the tentative budget should be changed in any particular the change is made, and, then, after a very careful checking as to the accuracy of the budget, it is adopted and signed on October 31.

BUDGET MAKING IN CLEVELAND

By MAYO FESLER,

Secretary of the Civic League of Cleveland.

In the city charter of Cleveland adopted in 1912, all financial administration is consolidated in one department. Under the director of finance are brought together the formerly separate and independent departments of auditor, treasurer, assessments and purchases. He is given authority to prescribe the methods of keeping accounts in all departments and controls the form of financial reports to be rendered by each. He appoints all bookkeepers and other employees charged with keeping books of account in all departments. He is made responsible for the proper custody of public moneys and is required to see that all expenditures are kept within the appropriation. He prepares the blanks on which the heads of the several departments submit to the Mayor their detailed requests of each year's expenses.

The Mayor's Estimate

While the charter requires the Mayor to prepare and submit to the council the mayor's estimate covering the estimated expenses of all departments and divisions of the city government for the year, in practice the director of finance prepares this estimate. There are, of course, frequent conferences with the Mayor and heads of departments, but the estimate is essentially the work of the director of finance.

The mayor's estimate, according to the charter, must contain:

- (a) An itemized estimate of the expenses of conducting each department.
- (b) Comparison of such estimate with the corresponding items of expenditure of the last two years.
- (c) Reasons for all proposed increases or decreases.
- (d) A separate schedule showing the things which each department must do during the year and things which it would be desirable to do if possible.
- (e) Items of pay roll increase as either additional pay to present employees, or pay for more employees.
- (f) A statement from the director of finance of the total probable income of the city from all sources.

(g) The amount required to meet the interest on city debt and for sinking fund purposes.

(h) The total amount of outstanding debt with a schedule of maturity of bond issues.

This estimate must go to the council by the middle of November. The council is then required by the charter to prepare "at once" the appropriation ordinance based upon the mayor's estimates. This ordinance is printed for general distribution and public hearings must be held. These hearings may be before the regular appropriations committee or before the council sitting as a committee of the whole. The report of the committee which is in effect the second reading of the ordinance, must be printed in the city record with a separate schedule setting forth the items asked for in the mayor's estimate and refused or changed by the council, and the reasons for each such refusal or change. The council is prohibited from passing the ordinance until fifteen days after its publication or before the first Monday in January.

Under the charter, the council has full power to increase, decrease, reapportion or reject items in the mayor's estimate. There is nothing in the charter which compels them to follow closely the mayor's estimate. The only specific limitation on the council in this respect is that in the preparation of the appropriation ordinance, the council shall "use the mayor's estimate as a basis." The council can depart as far as they please from these estimates and recommendations, both in items and amounts.

It will be seen that, in the main, the charter provisions prescribe a well devised plan for modern budget procedure. It enables the mayor of the city to get before the council a clear and concise statement of the year's transactions; a complete and accurate statement of the present financial condition of the city, and a definite and orderly outline of the work to be undertaken during the next fiscal year. It enables him also to present to the public an understandable picture of the city's problems and activities. As a plan of budget procedure, it is fairly complete. The question is: How is the plan working in actual practice?

In answering this question, it is necessary to keep in mind one of the broad general principles established in the Cleveland charter. The charter attempts to make a clear cut division between legislative and administrative functions. Upon the council, of course, is

conferred all legislative powers; but it is strictly limited to legislative duties and is specifically prohibited from interfering with the administrative departments in any way, especially in the matter of appointments and the fixing of salaries, except the salaries of its own members and those of heads of departments. The fixing of salaries is an administrative duty which is specifically conferred upon the Board of Control, consisting of the mayor and the heads of departments.

Early in October of each year, the director of finance sends to the heads of the several departments the regular form blanks with the request that they prepare their estimates on these forms. The blanks are accompanied by a standard code of classification prepared by the finance department, and the several departments are requested to prepare their estimates on the basis of the classification. This insures uniformity of budget requests. These departmental estimates must be in the hands of the director of finance by November 1, when he proceeds with the preparation of the mayor's estimate.

The arrangement of the items in the mayor's estimate by the director of finance has led to a direct violation of the charter provisions. The charter distinctly provides that the board of control shall fix the salaries and compensation of all officers and employees, and the sections covering budgetary procedure purposely omit any suggestion which might give the council authority to fix in the appropriation ordinance the salaries of any officer or employee, except heads of departments and members of the division of police and fire. Yet the council committee in the public hearings on the appropriation ordinance has not only fixed definite salaries, but has considered the supposed efficiency or inefficiency of men in the administrative service. The director of finance is, in the main, responsible for this violation. Instead of following the directions laid down in the city charter, and arranging his code classification so that all appropriations for personal service would be made not in items but in lump sums, he provided in his classification of expenditures not only for the itemization in many cases of salaries under the heading "Supervision," but gave such salary items a number. This makes each such item a specific appropriation which the board of control has no power to increase, decrease or reappropriation without authority of council.

At the public hearings in January before the appropriations committee, councilmen who have not yet given up the practice of seeking to control the administration indirectly, tried to enforce their views by attacking certain of the supervision items. For example, when the question of the appropriations for the division of smoke abatement was under consideration, the chairman of the appropriations committee declared that the chief smoke inspector was not only inefficient, but that he was actually persecuting some of the councilman's constituents in an outlying ward, and for that reason he favored revising the salary item of the chief smoke inspector. The discussion continued for some time, and finally the mayor was compelled to appear before the committee to defend not only the salary item but to make clear to the committee that in his opinion the chief smoke inspector was an efficient officer and was enforcing properly the smoke abatement ordinances. This absurd procedure, of course, was wholly contrary to the clear intentions of the city charter, but the councilman gained his point, the appropriation was greatly reduced and, as a result, the chief smoke inspector resigned his position.

The same course was pursued in the division of public recreation, but the commissioner accepted the reduction and the council failed to secure his resignation.

The disposition of the council committee to meddle with the salaries of individual employees finally became so serious that the mayor asked for a joint meeting of the committee and the board of control in order to arrive at some working basis. The director of law and the mayor at this meeting explained fully the requirements of the city charter and the intention to take from the council the authority to fix salaries, but the director of finance expressed his disapproval of the plan laid down by the city charter, and urged that the appropriation ordinance be framed according to the plans laid down originally in the mayor's estimate. The conference ended without any change being made, the appropriation ordinance was passed in its original form, and thus by the mere arrangement of the items in the mayor's estimate, the council has used the appropriation ordinance as a cloak for interfering with the administration by fixing salaries, although specifically prohibited by the charter.

The fixing of salaries in the appropriation ordinance is not only contrary to the charter, but is contrary to the best practices in

budget making. It takes away from the administrative officer discretion and responsibility, reduces him to a position of dependence upon the council, and leaves the salary items so inflexible that changes which will tend to promote economy and efficiency in the administration cannot be made except by ordinance. The council must, of course, exercise the power of finally determining the amount of money available for the various divisions, but no legislative body can, in the hurry of passing the appropriation ordinance, anticipate all of the conditions which are likely to arise in the actual expenditure of the money. For that reason, the salary items should be in lump sum and not in detail. The schedule should, of course, contain all of the detailed information necessary to give the council a clear conception of the objects of the appropriations, but these need not be a part of the salary items in the appropriation ordinance.

The city has been in unusually straitened financial circumstances since the new charter was adopted, and the chief concern, both of the mayor and the city council, has been to keep the appropriations within the estimated income. The mayor's estimate cuts off a million or more from the departmental estimates, and then the council is forced either to reduce the estimate another million in the appropriation measure or to resort to short time loans. In spite of this pruning, the city's expenditures have exceeded its income by \$1,500,000 in the last two years.

It has been suggested that the charter be amended so as to limit the authority of the council in appropriations to the power to decrease but not to increase or otherwise change the items in the appropriation bill. This, of course, would prevent administrative interference or meddling with salaries, but it would so reduce the function of the council as to make it a governmental body of small importance. Moreover, the duty of making appropriations is essentially a function of the legislative body and belongs to the council. This is especially true in a form of government such as has been adopted in Cleveland, where the policy-determining function has been so fully divorced from the administrative.

The public hearings attending the preparation of the appropriation ordinance are especially illuminating. Each department presents its own needs. The director and his commissioners appear and explain in details the items in the departmental requests and compare the proposed expenditures with the preceding year's

expenditures and activities. A clear and convincing argument must be presented in order to avoid a cut by the committee. The only defect in these public hearings is the absence of an active and vigorous minority on the committee, intent upon probing deeply into the expenditures; but that is not the fault of the system.

On the whole, the budget procedure outlined in the Cleveland charter has worked out satisfactorily in practice with the one exception noted above.

BUDGET MAKING IN CHICAGO

BY CHARLES E. MERRIAM,

Professor of Political Science, University of Chicago; Member of Chicago City Council.

Appropriations for public expenditure in the city of Chicago are made by the city council with the approval of the mayor. The mayor has also a veto power over specific items contained in the appropriation bills. This veto may be overridden by a two-thirds vote. Furthermore, the statute requires that the annual appropriation bill shall be passed during the first quarter of the fiscal year. Preliminary estimates of departmental needs for the ensuing year are presented to the controller on blanks prepared and sent out by him for this purpose. These estimates are received by the comptroller, revised and transmitted by him to the finance committee of the council. This body is composed of fifteen members appointed by the council itself. The chairman receives a salary of five thousand dollars a year and devotes the greater part of his time to the duties of this office. The finance committee, after a series of sessions covering ordinarily a period of about two months, recommends a budget to the entire council. During this period, hearings are held at which heads of departments, bureaus, city employees and interested citizens appear and present arguments. The budget transmitted to the council by the finance committee is considered by the council in committee of the whole and then by the council in regular session. In recent years the budget has been passed practically as recommended by the finance committee, although some additions are usually made by log-rolling methods. And in the last two years, budget increases have been made following the veto of the mayor upon items which he regarded as insufficient for departmental purposes. In the main, however, the budget passed is substantially the budget of the finance committee. In 1911 a log-rolling campaign increased the committee's budget by nearly two million dollars, but on the final vote, the overloaded budget failed to secure the necessary number of votes for passage, and consequently the whole budget was re-referred to the

finance committee and subsequently passed substantially as it was when originally introduced. In 1915 the budget was increased about \$100,000 as a result of various successive motions on the part of different aldermen, but after two days of this procedure, a motion was made to eliminate all such increases and this was carried by a decisive majority.

In 1910 the segregated budget system was adopted by the finance committee of the city council as the result of a recommendation made by the Commission on City Expenditures. The organization of this system and its installation were under direction of Mr. Herbert R. Sands, who was employed by the commission for that purpose. Prior to this time there had been a budget very inadequately subdivided under certain broad general heads. For example, although salaries were set out separately in most instances, they were frequently grouped in large sums. The same thing was true of the amounts allowed for the purpose of supplies and equipment. The following two items will illustrate the old system.

For the bureau of streets, the sum of \$2,017,540 was appropriated under the following title:

For the removal and disposition of garbage, street and alley cleaning, repair of improved and unimproved streets, sidewalk repairs. Salaries of yard men to be \$75.00 per month and the wages of laborers \$2.00 per day. Expenses of repairing improved and unimproved streets to be paid from the wheel taxes.

Again, in the police department \$205,000 was appropriated in the 1909 budget under the following title:

For repairs and renewals of wagons and harness, replacement and livestock, police telegraph expense, rents, renewals repairs equipment hospital service, printing and stationery, secret service, light and heat, twenty-five more horses and equipment for mounted police and for repair Hyde Park station, also for other miscellaneous expense.

The new budget plan provided for a detailed segregation of items previously grouped together. Instead of a lump sum of \$2,000,000 for the bureau of streets, under the new budget system was classified as follows:

1. Ward supervision other than salaries. (Amount allowed each ward set up separately.)
2. Cleaning streets and alleys.
 - a. Wages.
 - b. Hire teams, horses and carts.
 - c. General supplies.

3. Removal of garbage, ashes and refuse.
 - a. Wages.
 - b. Hire teams, horses and carts.
 - c. General supplies.
4. Repairing sidewalks. (Street labor charged to another account.)
 - a. Wages.
 - b. Hire teams, horses and carts. (Amount allowed each ward set up separately.)
 - c. Material for repairs and replacements by departmental repair.

This scheme has subsequently been modified in some particulars as a result of practical experience.

Furthermore a code number was given each separate account, leaving in the hands of the controller the power to make necessary changes in such code numbers. Accounts were set up in the controller's office with corresponding code numbers, thus making it impossible to exceed the amount authorized by the appropriation bill. In this way, it was made possible for the controller to keep an effective check over the particular appropriations. The 1915 budget provides, for example, (section three)

That the comptroller and the heads of the other departments and bureaus and offices of the city government shall administer the amounts appropriated in this bill by standard accounts as specified by the account numbers; designations of which may be amended or altered by the city controller to suit the needs of the particular classification and grading in the financial manual of the department of finance, in which is specified details of commodities, service, benefits and claims chargeable to such standard accounts respectively. And they are hereby prohibited from incurring any liabilities against any account in excess of the amount herein authorized for such account, and from changing any wage item, salary herein, and from incurring any liability which will necessitate a transfer from any appropriations for salaries or wages in their respective departments.

Practical experience has shown the need of modifying this system in some particulars, but in the main, the segregated budget plan of 1910 remains in operation.

One of the first difficulties in any budget system arises from the need of securing a greater flexibility in expenditures. Transfers from one account to another may easily undo the entire intent and purpose of a carefully itemized budget. The original system contemplated such transfers and provided that they could be made upon the recommendation of the comptroller through the finance committee on the approval of the council. In actual practice, however, considerable difficulty is found in effectively checking demands

for transfers of funds. If a particular bureau or department desires to conceal a juggling of the funds, it is at times very difficult to detect the real purpose. The amounts of these transfers are considerable and cover important operations. During the year 1914 they aggregated \$1,002,844. These items are of course scrutinized by the comptroller and by the chairman of the finance committee and approved by the council.

One of the practical difficulties of budget making in Chicago is the formation of an appropriation bill which will not exceed the estimated revenue of the city. It has been the custom for a number of years to appropriate all the probable receipts of the city from taxation, licenses and all other sources, and then to exceed this by a considerable amount. In the year 1914 the amount of over appropriation was \$3,178,644. In 1915 there was an over appropriation of \$2,740,765. This means of course that two million contained in the appropriation bill will not actually be expended unless the city draws upon some surplus existing at the beginning of the year available for that purpose. Some of the items appropriated that will not be expended during the year are very clearly evident, as for example, the formal appropriation for a bridge which undoubtedly will not be completed during the year. In most instances, however, it is not at all clear which items are to be expended and which are to remain paper items. There is what is called "hot air" in the appropriation, but it is never possible to localize it at the time the budget is passed. The effect of this over-appropriation is vicious, since every department head or bureau head knows that there is insufficient money to meet the amounts appropriated, and there ensues inevitable competition between the departments. Those expending their money early are sure of their appropriation allowance. Those who are frugal and saving may discover at the end of the year or towards the close of the year that the amount they have saved has been expended by others. In other words, a premium is put upon hasty action and extravagance on the part of the departments. It is literally true in dealing with over-appropriated budgets that the early bird gets the worm. Those who survive are not the most frugal, but those who are most liberal in anticipating their needs. Of course, the controller's office can and does to some extent check this tendency, otherwise the retreat would become a rout. This check is by no means effective, how-

ever, and leaves much to be desired in the way of public economy. It has been proposed that some limitation be placed upon the amount that is to be expended by a given bureau during any one month or during a quarter of the year, and it is probable some change will be made within a short time. The practical difficulty with this plan lies in the seasonal nature of much of the work of the municipality and the difficulty of accurately forecasting the seasonal needs of all such municipal agencies.

The state statute requires that each municipality in Illinois shall pass an annual appropriation bill during the first quarter of the fiscal year. The practice has been in Chicago to pass the budget late in January or early in February. In 1915, the budget was passed on February 8. However, numerous supplemental appropriations are made. During the year 1914 these amount to \$500,000. These have been justified partly on the ground that they were emergencies and partly on the ground that the law applies only to the appropriation of revenues obtained from taxation and not receipts from licenses, fees, interests, rents and other sources. In 1915 the city treasurer refused to honor warrants based upon these supplemental appropriations and suit has been brought in court to determine the intent of the state law. The lower court has rendered a decision that favors the practice adopted by the city for the many years, that is, of making supplemental appropriations where necessary in the judgment of the city council. If such supplemental appropriations were not permissible, it would be necessary either for the city to make unusually liberal appropriations for specific departments in order to cover possible needs during the year, or to provide a large contingent fund which might be drawn upon from time to time.

In Chicago during the last five years the chief impulse towards economy in appropriation has come from the city council. Singularly enough, the council has taken more interest in administrative efficiency and economy than the administration itself. It has been necessary for the council to investigate the expenditures of various departments and recommend administrative changes, and further for the council to oppose attempts on the mayor's part to increase the annual appropriation. This has made the task of the finance committee doubly great. The various departments undertook to escape what they call the iron rule of the finance committee

and increase their appropriations. As the chairman of the finance committee said one day, a department head asserted to him "I will slip it over on you anyway. If I can't get the money this way, I will find out another way." This is not true of course of all, or perhaps a majority of the departments. In some instances there has been close cooperation between the departments and the appropriating body.

The mayor of Chicago, although not a member of the finance committee, has from time to time been in attendance upon the meetings of the finance committee. This was not done by Mayor Dunne or Mayor Busse, but has always been the practice of Mayor Harrison. His presence in the committee room tended to increase appropriations rather than bring them down. Furthermore, the mayor's vetoes of budget items were made not because they were excessive, but because in his judgment, they were inadequate. In 1914 the mayor increased the budget \$250,000, of which, however, only one hundred thousand was allowed. Ordinarily the executives have endeavored to restrain the extravagant tendencies of the council and this has led in numerous cases to the removal of the appropriating power from the council altogether. In Chicago, however, the council retains in full its original function of an appropriating body, namely, checking demands for expenditure made by the crown,—in this case, by the executive. I remember a few years ago in a budget making debate, an occasion when one of the aldermen suggested that certain items should be passed, because, as he said, you can put those items up to the mayor and he will veto such of them as he considers excessive, if the city's finances will not warrant them. I took the position that the power to make appropriations and supervise them is a function which the city council could not possibly delegate, but which they must most vigorously protect; and in this I was sustained by a large majority of the aldermen.

For many years the council felt the need of expert assistance in making the budget. In 1910 Mr. Sands aided in installing the segregated budget system and in subsequent years, different members of the efficiency division of the Civil Service Commission were helpful in sifting budget items. The finance committee felt, however, that more permanent assistance was necessary and, consequently, recommended last July an ordinance creating a board of standards and apportionment, which was passed by the city council

but has been vetoed by the mayor. This board was to consist of the chairman of the finance committee, the controller and three members of the finance committee selected by that body. The duties of the board would be to sift out the preliminary estimates of the departments and prepare a tentative budget for submission to the finance committee, and after the budget was passed, to supervise appropriations. It would be their duty to make such investigations or inquiries as were necessary for checking expenditures and to make constructive recommendations to the committee for the promotion of economy and efficiency in the use of public funds. There has been much discussion as to whether such an organization would be placed under the civil service commission, under the controller, or under the finance committee. There is probably no exclusive answer to this question, but in Chicago where the impulse to economy and efficiency comes from the council, the need of such a body immediately responsible to the representatives of the people is plain.

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BY HARRY A. RIDER.

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BOOK DEPARTMENT

GENERAL WORKS IN ECONOMICS

Notes

BROOKS, T. J. *Markets and Rural Economics*. Pp. 396. Price, \$1.50. New York: The Shakespeare Press, 1914.

This book ranges the whole gamut of rural economics and marketing. It deals with agencies controlling price; the exchanges; coöperation; selling of different commodities, such as fruits, live stock, tobacco, peanuts, grain and cotton; rural credits; home ownership; and the cost of living. The best chapters are those dealing with the exchanges, coöperation, and sales methods. The book attempts to popularize its contents. This is often done by comparisons, ranging all the way from Greece, "the darling of the ancient world," and Rome, who "founded, built, conquered, ruled—debauched and died," to the Battle of Trafalgar, and Napoleon's conquests. Platitudes hold concourse with fallacies, as to wit, "Analyze these conditions and tendencies, young man of America, and study what they mean. More of the rural population are to be started to farther aggravate over-urbanism. You must face the future whether you wish to or not."

C. L. K.

DURAND, EDWARD D. *The Trust Problem*. Pp. 145. Price, \$1.00. Cambridge: Harvard University Press, 1915.

This book brings together under one cover a series of articles which appeared in the *Quarterly Journal of Economics* during the year 1914, and contains as an appendix all the federal laws relating to trusts. The subject matter is well indicated by the Chapter headings. These are: The Necessity of Prohibition or Regulation; The Possibility of Preventing Combination; Difficulties of Regulating Combinations; The Alleged Advantages of Combination; The Trust Legislation of 1914. The conclusion of the author, who, as secretary of the Industrial Commission, has had unusual opportunities in this field, is that the trust movement is essentially artificial in its nature. By resort to general reasoning (adequate data are lacking for a scientific study of the facts) he endeavors to show that the alleged economies of the trust form of organization are unimportant. Price regulation, in addition, is found to be very difficult. Naturally, therefore, the author finds himself approving the principle of the trust legislation of 1914, though venturing in an able discussion of this measure to criticize it in several particulars.

E. J.

HOBSON, C. K. *The Export of Capital*. Pp. xxv, 264. Price, \$2.00. New York: The Macmillan Company, 1914.

The present European war, with the consequent liquidation on our exchanges of American securities, has stimulated interest in the question of international investments, some aspects of which this volume exhaustively treats. While available figures do not warrant definite statistical conclusions this work is valuable as throwing needed light on the advisability, in a national sense, of the exportation of capital. Its principal value is as a carefully worked out estimate of the extent of British foreign investment during 1870-1912, while its detailed history of this use of capital shows the causes of the rise of London to the position of the world's financial center. Little additional insight is given into the effects of foreign investment.

R. R.

MOORE, HENRY LUDWELL. *Economic Cycles: Their Law and Cause*. Pp. viii, 149. Price, \$2.00. New York: The Macmillan Company, 1914.

In this book Professor Moore has attempted to determine the law and cause of economic cycles by the application of the statistical method. He begins with the hypothesis that there must be some physical cause at work to account for so general a movement as alternate periods of depression and prosperity. The most fundamental need of man being food, it is possible that this physical cause is in some way related to the food supply. He first investigates the question as to whether there is a periodicity in the annual amount of rainfall and chooses data from the Ohio Valley and Illinois as being most representative, among available data, of the crop-producing area of the United States. He discovers cycles of approximately thirty-three and eight years in the annual rainfall of these sections. These cycles are then correlated with crop yields and a close relationship established.

The further analysis of his problem consists in relating the physical yield of the crops with their value and finally with cyclical changes in the activity of business and in general prices. He thus makes the law of cycles of the crops the law of economic cycles.

Professor Moore repeatedly cautions throughout his essay that the laws he states are at first only proximate laws and must wait for their authentication until similar studies have been made for other places and other times.

B. D. M.

NEARING, SCOTT. *Income: an Examination of the Returns for Services Rendered and from Property Owned in the United States*. Pp. xxvii, 238. Price, \$1.25. New York: The Macmillan Company, 1915.

PEDDIE, J. TAYLOR. *First Principles of Production*. Pp. 231. Price, \$1.75. New York: Longmans, Green and Company, 1915.

On page 20, the author names four "factors" of production; (1) material, (2) labour, (3) establishment charges, (4) profit. He does not show clearly, however, the "principles" mentioned in the title. He writes, on page 81, "To

dwell on the aims of Industry would be futile." Possibly so; but it would have been well if he had considered those aims before he wrote most of this work and published the whole. He identifies production and manufacturing technique, also large profits for British manufacturers and national prosperity, thus following popular usage.

The book is a collection of pamphlets, pleading vaguely for the more extended use of chemical research in British industry, and for governmental aid in the training of industrial chemists. The time-worn moral is drawn from German experience. The subject and its treatment have been common enough in the popular magazines of this country—not so common, perhaps, in Great Britain. Appended to the author's work, are several articles and addresses by a few British scientists and a steel manufacturer. All lead to the same general conclusion, that the closer application of chemical research to British industry will bring increased profits to British manufacturers, and, consequently, greater glory to the British Empire. The whole book is a negligible contribution to recent literature of "efficiency" and of mercantile, imperialistic patriotism.

A. A. O.

MONEY, BANKING AND FINANCE

Reviews

MA, YIN CH'U. *The Finances of the City of New York*. Pp. 312. Price, \$2.50. New York: Longmans, Green and Company, 1914.

New Yorkers may not consider themselves complimented by Dr. Ma's comparison of former New York financing with that of China, but they may at any rate appreciate his efforts in analyzing the financial practices now followed. His treatment is divided into four parts, viz., scientific budget making, the system of taxation, the city debt and control of revenues, and expenditures under the new system of accounting.

The author very clearly and effectively emphasizes the necessity of segregation of budgetary estimates "as regards both the function to be performed and the objects of the expenditure," showing its numerous advantages. This is followed by a description of the preparation and examination of budgetary estimates and a discussion of the procedure of hearing, voting, funding and administering the budget.

The chapter on real estate taxation is one of the best brief treatments of the subject that has ever been brought to the reviewer's notice. Other taxes are discussed briefly in a single chapter. Discussion of the city debt occupies three chapters. Control of revenues and expenditures is treated in four.

The first and last sections of the book are the best. In them the collection of subject matter is valuable and the analysis clear and convincing. The same may be said of the chapter on real estate taxation although in it the author adopts too readily the view that there must be a separation of state and local taxation. The section dealing with the city debt presents clearly the two leading classes of loans, shows the evils of past methods of borrowing and describes the new methods of financing. The treatment, however, is not symmetrical, giving, for example,

an undue amount of space to the high standing of New York City bonds in the investment market and to the factors determining bond prices. Throughout the volume secondary references are frequently given when a reference to the sources would have been much more convincing.

E. M. PATTERSON.

University of Pennsylvania.

Notes

DORAISWAMI, S. V. *Indian Finance, Currency and Banking*. Pp. lxxxvi, 176. Price, \$1.00. Mylapore, Madras: Published by author, 1914.

The author describes and criticizes the currency system of India. A gold currency in addition to the present somewhat nominal gold standard and a central bank are the leading changes advocated.

E. M. P.

GOULD, CLARENCE P. *Money and Transportation in Maryland, 1720-1765*. Pp. 176. Price, \$1.00. Baltimore: The Johns Hopkins Press, 1915.

HAIG, ROBERT MURRAY. *A History of the General Property Tax in Illinois*. Pp. 235. Price, \$1.25. Urbana: University of Illinois, 1914.

Dr. Haig surveys the history by periods with special stress on present conditions, closing with a discussion of defects and proposals for reform.

E. M. P.

HERRICK, MYRON T. *Rural Credits*. Pp. xix, 519. Price, \$2.00. New York: D. Appleton and Company, 1914.

Land credit and coöperative credit are the headings of the two main divisions of the book. Under the first topic the authors discuss general principles and then explain in successive chapters land credit organizations in Germany, France, Italy and other countries. More space is very properly given to Germany than to any other country, especial attention being devoted to the Silesian landschaft. France and the Credit Foncier are next in importance. German methods also receive the larger amount of space in the discussion of coöperative credit in the second part of the book, separate chapters being devoted to the Schulze-Delitzsch banks and to the Raiffeisen system.

Occasional repetitions are probably due to the joint authorship and detract but little. The chief merits of the volume are its comprehensiveness, since it covers a very wide field in a relatively small space, and its clarity of statement. Few writers on this particular subject have been so successful in presenting to American readers a clear picture of foreign practice.

E. M. P.

HIGGS, HENRY. *The Financial System of the United Kingdom*. Pp. x, 218. Price, \$1.60. New York: The Macmillan Company, 1914.

There have appeared in recent years a number of valuable studies of the English fiscal system, until now the American student finds it much easier to

inform himself on British finances than those of the United States. This volume is, however, a valuable addition to the available material. The author's intimate acquaintance with the English Treasury has especially qualified him for his task and he has performed it thoroughly. Each branch of the work is handled in a separate chapter.

The author has himself indicated the main criticisms which may be passed upon his work in the statement which he makes in the preface: "The present work is too condensed to be interesting. It must suffice for the present if it is found to be useful."

E. M. P.

Proceedings of the Eighth Annual Conference under the Auspices of the National Tax Association held at Denver, Colo., Sept. 8-11, 1914. Pp. 499. Madison: National Tax Association, 1915.

At this conference the federal income tax and land taxation in western Canada received special attention. Other papers were of a rather miscellaneous nature with the emphasis somewhat on problems in the western states. Important reports were presented by the committee on double taxation and situs for purposes of taxation and by the committee on increase in public expenditures.

E. M. P.

TANGORRA, VINCENZO. *Trattato di Scienza della Finanza.* Vol. I. Pp. xxxii, 884. Price, L. 20. Milano: Societa Editrice Libraria, 1915.

This volume is divided into seven books. The first two consider the general theory of public finance and public expenditures, and the remaining five introduce the subject of public income.

E. M. P.

WEBER, ADOLF. *Depositbanken und Spekulationsbanken.* Pp. xvi, 375. Price, 10 M. München: Verlag von Duncker and Humblot, 1915.

In this second and revised edition relatively few changes have been made. The old arrangement of subject matter has been retained and very few of the author's conclusions have been modified. Further study by the author and the investigations of others have merely confirmed the opinions expressed in 1902.

E. M. P.

SOCIOLOGY AND SOCIAL PROBLEMS

Reviews

BLACKMAR, FRANK W. and GILLIN, JOHN LEWIS. *Outlines of Sociology.* Pp. viii, 586. Price, \$2.00. New York: The Macmillan Company, 1915.

This work is really an enlarged edition of an earlier work, Blackmar's *Elements of Sociology*, which it follows essentially in scheme of division and method of treatment. There are seven parts to the book, treating of the nature and import of sociology, social evolution, socialization and social control, social ideals and social control, social pathology, methods of social investigation, and the

history of sociology in the order named. The divisions suggest roughly the character of the material discussed. The authors have aimed to make the book meet the requirements of a text for college teachers and the needs of the general reader interested in the subject. Each chapter is followed by a small number of references to supplementary reading and a list of questions and exercises.

In designing a text for elementary college requirements and the use of the general reader, the authors have done their work well. There is a good deal of illustrative material, concrete and easily understood by the average student, and it is fairly well arranged. This quality of concreteness is a commendable feature. The book does not meet the needs of the advanced student since it contains nothing distinctively new or original. Giddings' definition of sociology is followed pretty closely and some material is borrowed from Ross. The authors make no claim to completeness of treatment. The reader is directed along the general lines of the development of sociology and certain movements of society and the laws which govern them. The book fulfills in a fairly satisfactory way the stated purpose of the authors, which is a useful and timely one.

JAMES G. STEVENS.

University of Illinois.

Notes

ELDRIDGE, SEBA. *Problems of Community Life*. Pp. ix, 180. Price, \$1.10. New York: Thomas Y. Crowell Company, 1915.

Papers and Proceedings of the Ninth Annual Meeting of the American Sociological Society on Freedom of Communication held at Princeton, N. J., December 28-31, 1914. Pp. vi, 202. Price, \$1.50. Chicago: Chicago University Press, 1915.

REED, SUSAN MARTHA. *Church and the State, 1691-1740*. Pp. 208. Price, \$1.05. Urbana: University of Illinois, 1914.

TRAWICK, A. M. (Ed.) *The New Voice in Race Adjustments*. Pp. vi, 230. Price, 75 cents. New York: Student Volunteer Movement, 1914.

POLITICAL AND GOVERNMENTAL PROBLEMS

Reviews

HAYES, HAMMOND V. *Public Utilities: Their Fair Present Value and Return*. Pp. viii, 207. Price, \$2.00. New York: D. Van Nostrand Company, 1915.

This volume was intended to supplement the work by the same author on *Public Utilities: Their Cost New and Depreciation*. It is not an authoritative discussion as to the principles and methods that have been applied by the railway and public service commissions, with footnote references to their decisions, such as Whitten's *Valuation of Public Service Corporations* or Reeder's *Validity of Rate Regulation*. On the contrary, it is a clear, well-argued, mature presentation of

what the author conceives to be a line of reasoning which should be followed by those whose duty it is to ascertain the fair present value of a property after an appraisal has been made, and all necessary information has been obtained.

The author places much reliance upon a comparative statement of the rates and net returns of other companies doing substantially the same business in the same state. It is refreshing to find an author who is ready to attach to comparative statements the value they merit. But when they are to be used as an important link in the chain of reasoning in valuation, they may be utterly unreliable. Thus it is evident at the present time that either those electric companies and public plants which have as a maximum charge 3 cents per kilowatt hour are wholly wrong, or else the vast majority of private companies which are essaying to maintain a maximum of 10 cents per kilowatt hour are exacting exorbitant prices. If the latter should be the case at all, it is clear that the average rate charged in any state for substantially identical service for electric current is quite in excess of a fair rate, and that net returns are therefore probably also in excess of a fair return. Such being the case, it would certainly be fallacious to use such comparative rates and returns as a basis for determining fair value, however valuable they may be as a basis on which a given city could reach a judgment that its particular rates are exorbitant.

Undue emphasis, however, should not be placed on this point, as such emphasis would tend to destroy confidence in the book. For the book, as a whole, is much sounder than much of the literature that has appeared in this field. Thus, the author very clearly points out that the reproduction-cost-new theory, which has so many impetuous champions among corporate experts; often results in a value wholly unfair to the public. He is likewise quite convinced, and very properly so, as is evident to those who are acquainted with what corporate experts are essaying to prove before public service commissions, that over-head charges are often exorbitant, and that "nothing has brought greater discredit upon otherwise careful work in appraisals than the arbitrary addition of percentages to represent over-head charges. All who have had experience in making valuations to find the replacement cost of a property know upon what little evidence most claims for the percentages added as over-head charges are based." The author does not believe that unearned increment should accrue to the fair value of all undertakings at all times, and the conclusion he adopts pertaining to unearned increment in land particularly would lead ultimately to the recognition that no unearned increment should accrue to the present fair value of any utility property.

On the whole, the discussions of this book are sound, and are eminently worth the consideration of all interested in public utilities. It is probably the fairest and best considered discussion of valuation that has appeared to date.

CLYDE LYNDON KING.

University of Pennsylvania.

HOWE, FREDERIC C. *The Modern City and Its Problems.* Pp. x, 390. Price, \$1.50. New York: Charles Scribner's Sons, 1915.

Dr. Howe's contributions to the study of municipal problems occupy a unique position in the literature on the subject. No writer has contributed so much

toward the development of a fruitful social point of view. The present work is but one of a series of volumes in which the author has developed the new viewpoint in municipal affairs. It is the logical complement to the series of volumes in which *The British City*, *the Beginning of Democracy*, *The City: The Hope of Democracy*, and *European Cities at Work* mark successive steps. In all of these works the author gives a position of secondary importance to questions of administrative organization, and deals primarily with municipal functions and the manner of their performance. Throughout his discussion of municipal activities the author shows the keenest appreciation of the many ways in which the city affects the daily life and welfare of the inhabitants. His deeply-rooted democratic beliefs, combined with his broad democratic sympathies, enable him to portray the possibilities of municipal action when dominated by a spirit of social sympathy.

Although the present work contains chapters on the City and the State, Municipal Home Rule, The City Charter, and The Organization of German and British Municipalities, the most characteristic and valuable chapters of the book are those dealing with Municipal Housing, Recreation, and the Problem of Leisure, and the City as a Social Agency. Although we now have a voluminous literature on most of these subjects, it would be difficult to find any work in which a clearer and more inspiring picture of the possibilities of municipal action is presented.

No better basis for instruction in municipal institutions has been presented than that contained in this work. It combines the merit of accurate presentation of fact with an inspiring picture of the possibilities of social betterment. The effect on the student's mind is not only to arouse an interest in municipal affairs, but to awaken a desire to become an active factor in contributing toward communal welfare.

L. S. ROWE.

University of Pennsylvania.

LYNCH, JOHN R. *The Facts of Reconstruction*. Pp. 325. Price, \$1.50. New York: The Neale Publishing Company.

This account of the reconstruction in the southern states is interesting mainly because of the fact that it is written by a negro, and by one who, like Frederick Douglass, won considerable recognition from the white race and was not an inconspicuous actor in events which have materially influenced his people. He was a member of Congress during the heated presidential contest between Tilden and Hayes and presents a new, and for his race, unexpected view of some features of this struggle. He served as temporary chairman of the Republican National Convention of 1884 and later as a federal employee, Fourth Auditor of the United States Treasury.

The work has decided limitations not indicated in its title in that it is pivoted on the reconstruction experience of Lynch's native state, Mississippi, and can scarcely be said to be typical of other states, such as South Carolina or of the entire South. As far as the author's own knowledge of facts there goes, it makes some contribution to the general story which has been more fully and carefully

recounted by Garner, Dunning and others. The purpose of the book, aside from the facts described, is to show that the enfranchisement of the black men at the South was not a mistake on the part of Congress, that the reconstructed state governments were neither a failure nor a disappointment, and that the fifteenth amendment to the Constitution was neither premature nor unwise. That this is an uphill task the author asserts when he condemns all of the writing of "the last quarter of a century about Reconstruction" as opposed to these dicta, and brands the authors of these writings for making it their "primary purpose" "to prevent the publication of those things that were commendable and meritorious" in this work of reconstruction by Congress. Nevertheless the book deserves to be read for its directness and fearlessness and as another instance of the literary capacity of a people who have already given us the writings of Frederick Douglas, Booker T. Washington, Paul Dunbar and W. E. B. DuBois.

J. C. BALLAGH.

University of Pennsylvania.

UPDYKE, FRANK A. *The Diplomacy of the War of 1812*. Pp. vii, 494. Price, \$2.50. Baltimore: Johns Hopkins Press, 1915.

This volume, consisting of the Albert Shaw Lectures on Diplomatic History, 1914, gives a complete account of the diplomatic controversies with Great Britain preceding the War of 1812 and of the negotiation of the treaty of peace at Ghent in 1814. The similarity of some of the difficulties existing at present between the United States and European nations to the difficulties existing previous to the War of 1812 lend a timely interest to Professor Updyke's work. The book is well written; constant references to source material are given; there is a carefully prepared index.

It is unfortunate that some errors have been made in the chapter on neutral trade, especially with regard to the treatment by the British government of cargoes of foodstuffs shipped from the United States to France. Professor Updyke's statement on page 67 leads one to think that after August 18, 1794, such cargoes were seized indiscriminately without any provision for compensation. As a matter of fact, such seizures were for the time being discontinued. Furthermore the Jay treaty contained an article, which the author fails to mention, that in case foodstuffs were at any time to be seized as contraband, they were to be paid for. The statement on page 71 that the twelfth article of the Jay treaty prohibited American vessels from carrying certain articles produced in the British West Indies to any part of the world except to the United States also contains an error. American vessels were prohibited from carrying these articles (cotton, sugar, etc.) to other parts of the world, not only if they were produced in the British West Indies but also if they were produced in the United States. Jay, of course, did not know that the South was beginning to export cotton. Nevertheless it was this prohibition that made the twelfth article of the treaty absolutely unacceptable.

T. W. VAN METRE.

University of Pennsylvania.

USHER, ROLAND G. *Pan-Americanism*. Pp. xix, 466. Price, \$2.00. New York: The Century Company, 1915.

This is in many respects an extraordinary book. Whether one agrees or disagrees with the conclusions reached, the array of facts and the way in which they are marshalled command attention and hold the interest of the reader from cover to cover. It is impossible even to attempt a summary of the wide range which the author's discussion of the subject has taken. The book is, in brief, as he himself designates it, "a forecast of the inevitable clash between the United States and Europe's victor."

Although Dr. Usher attempts to present the pros and cons of the different aspects of the question, it is evident that he is firmly convinced of the necessity of preparedness for the great conflict which he believes the future has in store for the United States. It is hardly necessary to present the argument in detail, as it is based on the same premises which have been impressed upon the American public time and again by ex-President Roosevelt, Senator Lodge and the writers who have followed their lead.

In his discussion of Pan-Americanism in its relation to American foreign policy, the author does not draw a very encouraging picture. In spite of many acute and accurate observations concerning the attitude of the people of Latin America toward the United States, one cannot help but feel the author's lack of first hand acquaintance with the situation. He attempts to generalize for all of Latin America on a great mass of topics which will not admit of generalization. Racial, economic, political and social conditions are so widely divergent in different parts of Latin America that the attempts at generalization contained in this book are at times misleading. To correct them, however, would require the writing of another book.

The great value of Dr. Usher's book is in its stimulus to serious thought and reflection on the foreign policy of the United States.

L. S. ROWE.

University of Pennsylvania.

Notes

FORD, HENRY JONES. *The Natural History of the State*. Pp. viii, 188. Price, \$1.00. Princeton: Princeton University Press, 1915.

This volume, as its title implies, lies in the border zone between biology and political science, and attempts to apply the Darwinian theory, as modified by later critics, to the origin and development of the state. The general point of view is that the state, as the original form of organized society, precedes the existence of man as a rational human being, the distinctive traits that characterize man being the result of social life. Aristotle's dictum that "man is a political animal" is, therefore, strictly upheld, as is his account of the historical order of development. In support of this theory, data are drawn from biology, psychology, linguistics, and anthropology. The book supports a modified form of the organic theory of the state, and in its implications strongly opposes the individualistic attitude toward state functions and natural rights.

R. G. G.

PHELPS, EDITH M. (compiled by). *Selected Articles on Federal Control of Interstate Corporations* (2d and enlarged edition). Pp. xxx, 240. *Selected Articles on the Monroe Doctrine*. Pp. xxviii, 253. *Selected Articles on The Recall, including the Recall of Judges and Judicial Decisions* (2d edition, revised and enlarged). Pp. xlvi, 273. Price, \$1.00 each. White Plains, New York: The H. W. Wilson Company, 1915.

SHURTLEFF, FLAVEL and OLMSTED, FREDERICK LAW. *Carrying Out the City Plan*. Pp. ix, 349. Price, \$2.00. New York: Survey Associates, Inc., 1914.

This is a reliable, authoritative discussion of the methods actually employed and prescribed by law or legal custom in different parts of the United States in acquiring land for public purposes, in distributing the cost of public improvements, and in other proceedings essential to the proper shaping of our growing cities to the needs of their inhabitants. These matters are discussed under the captions, the public ownership of land, the acquisition of land, the distribution of the cost of land acquirement, excess condemnation, the use of the police power in the execution of a city plan, and the work of administrative agencies in the execution of a city plan. One hundred and twenty-five pages are taken up with the appendix, which gives legislation and decisions, and extracts from a report on English and Continental systems of taking land for public purposes. The volume is well indexed.

This volume will probably take first place among the medium-sized reference works, dealing with the legal phases of land acquisition by the public, city planning, billboards, building regulations, condemnation of land, excess condemnation, excess taking, special assessments, and heights of buildings. As indicative of the need for public ownership a table is cited (p. 15), showing that of 537 public sites, acquired by New York City from 1812 to 1900, 91 had increased in value less than 25 per cent up to 1908, whereas 96 had increased over 500 per cent, 196 from 101 to 501 per cent, and 154, 25 per cent to 101 per cent. The discussions on special assessments are particularly suggestive and valuable. The discussion of excess condemnation is one that will be informing to all students of municipal affairs.

C. L. K.

THOMPSON, C. MILDRED. *Reconstruction in Georgia*. Pp. 418. Price, \$3.00. New York: The Columbia University Press, 1915.

TOULMIN, HARRY AUBREY. *The City Manager*. Pp. xi, 310. Price, \$1.50. New York: D. Appleton and Company, 1915.

This is a clear and interesting presentation of the actual plans for the city manager or commission manager form of government as it has been worked out in those cities where it has been adopted, particularly Dayton, Ohio; Staunton, Va.; Springfield, Ohio, and Hickory, N. C. Some proposed plans such as the Lockport proposal are also discussed.

It is probably the best presentation of this new type of city government that has yet been made. Mr. Toulmin is a resident of the city of Dayton and was instrumental in getting the city plan adopted there. He has availed him-

self of the opportunity to study at first hand both the regulations for and against the plan as well as the actual results that are being and can be secured through it. It is a practical, common-sense type of book.

C. L. K.

INTERNATIONAL QUESTIONS

Reviews

ANGELL, NORMAN. *America and the New World State*. Pp. x, 305. Price, \$1.25. New York: G. P. Putnam's Sons, 1915.

Mr. Angell's chief purpose in this work is to urge the people of the United States to take the lead, at the close of the present war, in the establishment of a new policy of international relations, which shall have for its goal the formation of a Concert of Nations.

The plan is the familiar one of uniting the nations of the world into a society for mutual protection from aggression, the influence of all to be used against any one recalcitrant member. The author suggests that the decrees of such an international society be enforced not by military strength, but by organized non-intercourse with the offending country. The United States, when the war ends, will face the alternative of taking the leadership in the initiation of such a system, or of taking her place in another era of rivalry in increasing armaments.

As a presentation of the need for an international world state, the work is strong and clear. As a plea for American leadership in international organization, it offers no solution of the difficulties in the way of such a plan. The difficulty of enforcing an international boycott against a country, the fact that many nations would have little to fear from such a boycott, the likelihood of the nations breaking up into rival groups, the case of a nation attacking another with military force—all these problems are unanswered.

The purpose is rather to develop public opinion in favor of the plan by pointing out the futility of war. In this lies the value of the work. Every discussion of international peace leads to the conclusion that it will be secured only if all the peoples of the civilized world have come to regard war as useless, reprehensible, and intolerable, and have determined to end it.

W. LEWIS ABBOTT.

University of Pennsylvania.

SETON-WATSON, R. W.; WILSON, J. DOVER; ZIMMERN, ALFRED E. *The War and Democracy*. Pp. xiv, 390. Price, 80 cents. New York: The Macmillan Company, 1915.

This illuminating book is interesting for two reasons: first, because it presents the very one-sided British attitude toward the war, and second, because it is written for the purpose, avowed in the preface, of educating the citizenry of Britain in the causes and issues of the war.

The "nationality" theory of the organization of political states is discussed in the first chapter and defines with excellent clearness one of the issues for which Britain is fighting. It furnishes an interesting contrast to the theory of the eco-

conomic organization of political states and is chiefly valuable for the clearness with which the British case is stated.

The frankly apologetic character of the book is revealed in chapter five on Russia, in which political issues, or political organization, are disregarded and the character of the Russian people is presented as a justification for this peculiar alliance of England and Russia.

The chapters on the Southern Slavs and the Issues of the War are mines of facts and present a great deal of current history not previously available in this readily accessible form.

One of the most interesting parts of the book is chapter nine on German Culture and the British Commonwealth which gives with a rare degree of impartiality, considering other parts of the book, the contrasting ideas of English and German civilization. German "Kultur," or civilization in terms of intellect and efficiency, is contrasted with the British ideal of civilization expressed in terms of character. It is the contrast of the individual personality with the socialized being. The chapter fails only in its confusion of this German ideal of civilization with the Prussian "system." It does not see German civilization as something separate and apart from the military and autocratic régime of Prussia.

BRUCE D. MUDGETT.

University of Pennsylvania.

Notes

GOEBEL, JULIUS. *The Recognition Policy of the United States*. Pp. 228. Price, \$2.00. New York: The Columbia University Press, 1915.

HUTCHINSON, LINCOLN. *The Panama Canal and International Trade Competition*. Pp. x, 283. Price, \$1.75. New York: The Macmillan Company, 1915.

The primary object of Mr. Hutchinson's book is to present commercial data and outline tendencies in a way that will be of assistance to business men who conduct or expect to conduct trade between those countries of the Atlantic and Pacific Oceans within the range of the Panama Canal. Much the greater portion of the volume deals with the foreign commerce and production of the leading Atlantic and Pacific countries reached through the Canal, and are of special interest because of numerous tables which indicate in convenient form the relative positions of the United States and competitive countries in the markets of the Pacific. Chapter IX contains Mr. Hutchinson's conclusions as to what line of action should be pursued by American traders in these countries, and the variety of commodities for which they are especially adapted. Chapter II, which describes the effect of the Panama Canal upon ocean routes and the countries which will be affected by the Canal, is based largely upon data contained in the report on *Panama Traffic and Tolls* by Professor Emory R. Johnson.

G. G. H.

MYRON, PAUL. *Our Chinese Chances through Europe's War*. Pp. 220. Price, \$1.25. Chicago: Linebarger Brothers, 1915.

NIEMEYER, TH. und STRUPP, K. *Jahrbuch des Völkerrechts*. II. Band. I. and II. Hälfte. Pp. 1564. München: Verlag von Duncker and Humblot, 1915.

Professors of German, Austrian, French, Italian, Spanish, Swiss, English, American, Japanese and Greek universities have here contributed various international public documents, covering in Part I the period February 29, 1912 to May 26, 1913. The collection comprises some two hundred and sixty-one numbers, and is of great value to students of foreign relations and diplomacy. Part II contains valuable documents relating to the year 1913 arranged under their respective subjects and nations of Europe, America and Asia.

J. C. B.

MISCELLANEOUS

Reviews

GOETHALS, GEORGE W. *Government of the Canal Zone*. Pp. 106. Price, \$1.00. Princeton: Princeton University Press, 1915.

GORGAS, WILLIAM CRAWFORD. *Sanitation in Panama*. Pp. 297. Price, \$2.00. New York: D. Appleton and Company, 1915.

PEPPERMAN, W. L. *Who Built the Panama Canal*. Pp. xiv, 419. Price, \$2.00. New York: E. P. Dutton and Company, 1915.

BENNETT, IRA E. (Ed.). *History of the Panama Canal*. Pp. xi, 543. Price, \$5.00. Washington: Historical Publishing Company, 1915.

It was natural that the opening of the Panama Canal last year should bring about the preparation and publication of numerous books and papers dealing with different aspects of the construction and history of the canal. Two of the books listed among the four above noted, are by the two men best qualified to speak upon Panama Canal matters—General Goethals and General Gorgas.

In his essay upon the *Government of the Canal Zone*, General Goethals, who, since April 1, 1914, has been governor of the Panama Canal, gives a concise historical account of the government of the Canal Zone from the acquisition of territory in 1904 to the present time. This account is in every way authoritative. As is well known, the Panama Canal was governed by executive orders without special grant of authority from Congress for nine years from the first of April, 1905 until April 1, 1914. The canal was constructed by the President acting through the Secretary of War. The executive orders signed by the President were, as a matter of fact, for the most part—although General Goethals does not mention this—drafted by General, then Colonel, Goethals who was chief engineer and chairman of the canal commission from 1907 until he became governor.

There was much discussion in Congress when the Panama Canal act of August 24, 1912, was under consideration as to the advisability of opening the Canal Zone to settlement and cultivation by Americans, with the idea of establishing a model little republic in the heart of Latin America. The impracticability and un wisdom of that policy was clearly understood and convincingly presented by Colonel Goethals, who advocated the policy that was adopted of making the

Canal Zone a government reservation devoted entirely to canal, military and naval purposes. The United States has acquired all the property within the Canal Zone outside of the limits of the cities of Panama and Colon, and the Zone, by authority of the act of August 24, 1912, is governed and administered by the President acting through a governor of the Panama Canal and such other officials as the President may deem necessary to employ. The administrative organization for the operation of the canal and the government of the Zone has been devised and set in operation by General Goethals, who will soon be able, without detriment to the service, to carry out the wish he has for some time had to retire from the governorship of the canal and turn over the task to his competent assistant, who, it is expected, will be appointed governor of the Panama Canal.

General Gorgas as a writer is as entertaining as he is in conversation, which is saying a great deal. His book on *Sanitation in Panama* is delightful and instructive from beginning to end, and will, no doubt, be as widely read by the general public as by members of the medical profession.

Nearly one-half of the book is devoted to an account of the discovery and proof of the mosquito theory of the transmission of yellow fever and to a description of the sanitation work done at Havana. General Gorgas gives full credit to the heroic work done by Dr. Walter Reed and Doctors Lazear, Carroll and Agramonte—the members of the well-known Reed Board—whose experiments definitely proved the mosquito theory of the transmission of yellow fever. The experiments cost Doctor Lazear his life, and nearly brought Doctor Carroll's career to an end.

Having definitely learned by experience in the sanitation of Havana that yellow fever could be eliminated from any place where it had been endemic by preventing the breeding of the *stegomyia* mosquito, and that malaria could be reduced to small proportions by measures that would limit to a minimum the breeding of the *anopheles* mosquito, Colonel Gorgas, with the support of President Roosevelt and with the assistance of the canal commission, especially of Mr. John F. Stevens, the second chief engineer of the commission, was able to establish sanitary conditions at Panama that wiped out yellow fever in 1905 and kept malaria increasingly under control throughout the period of the construction of the canal.

The work of the sanitation department at Panama under the direction of Colonel Gorgas attracted world-wide attention and is entitled to all the credit it has received. The methods followed in sanitating Panama and the results accomplished are briefly told by General Gorgas in the latter half of his book, and the narrative is not only non-technical in language but is presented in a style that can be understood and enjoyed by all readers.

The book by General Gorgas is the first of a series of three volumes. The second volume, shortly to appear, has been written by Mr. John F. Stevens and Brigadier-General William L. Sibert. It gives an account of the construction of the canal. The third volume of the series will deal with the Panama Canal and commerce.

Mr. W. L. Pepperman served as chief of "the office of administration" at Washington, created April 3, 1905, by the Isthmian Canal Commission, and he

held his position while Mr. John F. Stevens was chief engineer of the Panama Canal. Mr. Pepperman has written his book to emphasize the fact that the canal "was built upon the foundation laid by the railroad administration," i.e., the organization established by Mr. John F. Stevens and Mr. Theodore P. Shonts, the chairman of the Isthmian Canal Commission from April, 1905, until March 4, 1907. Mr. Stevens was chief engineer under Mr. Shonts; and, from the time of the resignation of Mr. Shonts until Mr. Stevens resigned a few weeks later, he was chairman of the commission. The tone of Mr. Pepperman's book throughout gives one the impression that the author feels that due credit has not been given Mr. Stevens and Mr. Shonts for the work they accomplished at Panama. It is quite possible that the later and greater achievements of General Goethals and his assistants have caused the general public to overlook the substantial work done by Mr. Shonts and more particularly by Mr. Stevens. General Goethals and those who were associated with him have always placed a high estimate upon the work of Mr. Stevens who organized the system of transportation of material out of Culebra Cut and from other points along the line of the canal. Mr. Stevens' large experience as a railroad engineer and his executive ability were of great service at Panama, and the work he inaugurated was carried on without much change in methods by those who followed him.

The difficult problems of hydraulics—the designing and location of the locks and dams and the construction of these and other hydraulic works—were worked out by the successors of Messrs. Shonts and Stevens. Little is to be gained by over-emphasis of the work of any of the special leaders who carried through the work of constructing the Panama Canal. The general public does not understand the difficulties that confronted the first commission under Admiral John G. Walker, nor is it generally realized that the preliminary work which the Walker commission did during the year of its existence was essential to the subsequent execution of the project. When Messrs. Shonts and Stevens took hold of the enterprise the time had come to organize and begin the work of excavation. When the second commission, that over which Mr. Shonts presided, gave way to the third commission, under the chairmanship of Colonel Goethals, the hydraulic problems had to be solved, and the general problem of organizing and caring for a much enlarged construction force had to be worked out. Of the various leaders who contributed to the ultimate success of the canal work, unquestionably General Goethals has the greatest executive ability, and to him rather than to the "railroad administration," is due the largest measure of praise, if any preference is to be given to the accomplishments of any one individual.

Mr. Pepperman's book contains a great deal of information well presented. One very excellent feature of the book is the illustrations, which include most of Mr. Joseph Pennell's artistic lithographs of the canal.

Mr. Bennett, with the assistance of a board of associate editors and numerous contributors of special papers, has brought together a large amount of historical material which is well arranged and well presented. No other volume contains so full or so satisfactory an historical account of the canal as does this work written and edited by Mr. Bennett. It may profitably be read, as a whole or in part, by students of the Panama Canal or of particular questions concerning the construction or the military and naval uses of the canal.

Mr. Bennett has endeavored to make his *History of the Panama Canal* cover the contribution which all have made who participated in the work as legislators, administrators or constructors. The volume makes its appeal not only to the historian but also to the student of engineering and of construction work. One interesting feature of the book is a biographical sketch of the various officials who were connected in one capacity or another with the canal. The volume is evidently constructed with the view to sale by subscription, and thus contains certain popular features which, however, do not detract from the substantial merits of the work as a whole.

EMORY R. JOHNSON.

University of Pennsylvania.

KIRKALDY, ADAM W. *British Shipping: Its History, Organization and Importance.* Pp. xx, 655. Price, \$2.00. New York: E. P. Dutton and Company, 1914.

Since the time when men first began to "go down to the sea in ships," no field of endeavor has possessed greater lure than the sea, no branch of industry has held more romance and charm than shipping and navigation. At the same time, few industries can show a greater material development than the shipping industry and none can claim credit for a greater measure of benefit to mankind. The rise of the British power was due largely to the growth of its maritime industries, and the integrity of the great empire has for generations rested on the supremacy of its power at sea. The economic importance of the shipping industry, its political significance, and its romance are the outstanding features of this extremely interesting and well-written volume.

The first part of the work deals with the evolution of the ship from the "flimsy coracle" to the "magnificent liner," giving an account of the changes in the form and size of vessels, the materials of construction, and the motive power; the second part treats of ownership, management and regulation of shipping; the third of the great trade routes of the world, and the fourth of the principal ports and docks of the United Kingdom. A well selected bibliography is given, and a copious appendix containing statistical and other information concerning the development of the speed and size of ships, the changes in ocean freight rates and the growth of the mercantile marine of Great Britain and other countries.

The American reader of this work cannot fail to find interesting the chapters dealing with the rivalry of the United States and Great Britain for maritime supremacy during the period from 1830 to 1860. The account of the remarkable success of American ship-owners in the competitive struggle during the years just preceding the introduction of the iron ship will doubtless occasion surprise to some who begin the decline of the merchant marine of the United States with the enactment of the shipping reciprocity law of 1828.

Chapter IX, Book III, on the economic effects of the opening of the Panama Canal, is an extremely lucid and well-balanced statement of the political and economic changes which are likely to follow the opening of this new trade route. Political and commercial ideals have changed everywhere in the past few years and "the world is on the eve of great things full of great possibilities." The

author's keen insight has been vindicated by many events occurring since his work was published; his conclusions concerning the trend of the near future merit careful consideration.

T. W. VAN METRE.

University of Pennsylvania.

ROSS, EDWARD ALSWORTH. *South of Panama*. Pp. xvi, 396. Price, \$2.40. New York: The Century Company, 1915.

"My first obligation is not to National Policy but to Truth." Prefacing his book of South American travel and research with this statement, Dr. Ross makes good his word. This the reader soon realizes. The main line of thought, visualized by clear-cut descriptions, shows the entrenched power that the authoritative hierarchy of state, church and privileged-class hold over the masses of people. Coupled with such traditional forces are the natural concomitants of class pride, contempt for useful labor, subjection of women and social parasitism. These are the old, hardened mold-forms that shape the lives, thoughts and ideals of the peoples south of Panama. And as the author well puts it, "It will be yet long ere it is transformed by such modern forces as Industry, Democracy and Science."

Through the first five chapters of the book you travel with the writer from the Panama Canal along the western coast of the Continent as far as five hundred miles south of Santiago, Chili. It is on these inland tours that Dr. Ross ferrets out the customs, traditions and local peculiarities. At one place he finds all attempts to introduce the new, steam-rolled by the church and established customs; at another place the races are so low that their sluggish indifference bars out any civilizing tendencies.

From Santiago an eastern cut is made across Argentina to its capital, Buenos Aires; followed by travels into the northern part of the Republic. Argentina shows a wholesome improvement in comparison with the other South American countries. In establishing industry from family life and social legislation we at least find the first stakes driven.

The major part of the book deals with the general economic, educational, moral and religious conditions of the Continent. The economic status brought out by these travels and investigations is pitiable—or better put—is vicious. Class domination grinds labor far beneath contempt. The "hook system" of Peru, the pongos' conditions in Bolivia as well as the trampled inquilinos of Chili, all show degeneracy of those who do the work. Absentee landlordism reigns; there is no thought or care of labor conditions so long as the fruit of the land falls to the landlord.

These basic economic conditions cast black shadows upon politics, government, education and religion. Caste is everywhere. The church—the Catholic Church—controls in the main both religion and education. The church and state are linked, the former receiving financial, legal and moral support from the latter. However, the dawn of church and state separation is coming, and already the light of religious and educational freedom brightens one's hopes for a better day.

The theory of Professor Ward's famous fourteenth chapter of *Pure Sociology* finds facts for its support in South America. The sex morality, the sphere of

woman and the laws and customs regarding the home and children all show masculine control. The whole civilization is "man-made."

Dr. Ross closes this interesting book by a chapter on class domination, which well epitomizes the prevailing forces that determine the people's activities. The author nowhere gives us anything about the Brazilian people or those of the north-eastern provinces. This is the only discordant note, which makes incomplete Dr. Ross's account of the societies living south of Panama.

The author's live and pleasing style sparkles briskly on through the whole book. This in addition to the interesting facts unearthed will make the book widely read and highly appreciated.

CHARLES ERVIN REITZEL.

University of Pennsylvania.

STOKES, ANSON PHELPS. *Memorials of Eminent Yale Men.* 2 vols. Pp. xxii, 820. Price, \$10.00. New Haven: Yale University Press, 1914.

These two volumes, covering eight hundred quarto pages, represent a labor of love on the part of their author. What a delight it must have been to him to have searched through old documents and correspondence as well as early published literature, and to have brought forth these fascinating facts in regard to the men of Yale! An ordinary reader of books would probably be attracted by the prints and some of the narratives recorded in these very interesting volumes; but to the writer of these lines, it scarcely seems possible that any Yale graduate would wish to omit a most careful perusal—yes, a second perusal—of their contents.

Yale, through her graduates, has made lasting contributions to religion, to literature, to education, to scholarship, to science, to invention and art, to statesmanship, to law and to patriotism.

"There is no field of activity in which Yale's influence has been greater than in that of religion." This is made conclusive when one notes the names of Jonathan Edwards, Samuel Hopkins and David Brainerd ("one of the most inspiring figures in America's missionary history"), Samuel Seabury, Lyman Beecher, and many others.

In considering her contributions to education, it is interesting to observe that 157 graduates have been college presidents, and that Yale men have been the earliest presidents of many of our most representative colleges. Eleazer Wheelock, founder and first president of Dartmouth College, was a Yale man; as was sturdy Samuel Johnson of Columbia, Andrew D. White of Cornell, Gilman of Hopkins and Harper of Chicago.

Among her scholars, Worcester and Webster, the great lexicographers, appear. "But," writes the author, "they were far from being warm friends. Their temperaments and attitudes of mind were very different. Webster did his work with the great public and had its judgments always in mind. He wanted to influence the nation. Worcester was a much more modest and retiring scholar. Webster tried to change the language so as to conform with his ideals of what was right. Worcester was satisfied to exhibit his mother tongue as it was." It is in this truly human vein that the author writes of James Hadley, of Trumbull, of Brinton and of Sumner.

In science Yale has contributed in many ways through investigators like Willard Gibbs, teachers like Benjamin Silliman, Sr., writers like Loomis and Chauvenet. Benjamin Silliman is described as the most conspicuous scientific teacher in America in the early part of the nineteenth century. Upon his appointment to a professorship in his Alma Mater, he spent two winters studying in Philadelphia. The mineral collection was so small at that time that Silliman, in order that the specimens might be properly labelled, carried them with him in a small portable box to Philadelphia, where doubtless under the direction of Benjamin Smith Barton, he was able to determine them accurately. It was in Philadelphia, too, that Silliman received his first instruction in chemistry from James Woodhouse and formed that friendship with the great chemist, Robert Hare, which was to continue through life and which meant so much to both of them.

Yale rendered an important aid to the legal profession and to the sacred cause of jurisprudence.

In reading over the various biographical sketches there are so many things which arrest attention and furnish genuine pleasure. For instance, a classmate of the great Chancellor Kent said that the latter "left college universally beloved by his class and ranked as a scholar among the first," although Kent himself wrote "I stood as well as any of my class, but the test of scholarship at that day was contemptible. I was only a very inferior classical scholar, and we were not required and I had never looked into any Greek book but the New Testament. My favorite studies were geography, history, poetry, belle lettres, etc. When the college was broken up and dispersed in July, 1779, by the British, I retired to a country village, and finding Blackstone's *Commentaries*, I read the four volumes. Parts of the work struck my taste and the work inspired me at the age of fifteen with awe and I fondly determined to be a lawyer."

Every biographical sketch in the two volumes contains personal notes or illuminating lines from classmates or friends. For example, it is said that when John C. Calhoun was in college, he "maintained his opinions in the discussions with the President with such vigor of arguments and success," that later the President remarked "the young man had talent enough to be president of the United States, which he accompanied by a prediction that he would one day attain that station." A reminiscence of this prediction is preserved in an old political song which ran about like this:

"John C. Calhoun, my Jo, John!
 When first we were acquaint
 You were my chum at Yale, John,
 And something of a Saint—
 And Dr. Dwight, God bless him, John!
 Predicted as you know
 You'd be the Nation's President,
 John C. Calhoun, My Jo!"

However, to fully appreciate Mr. Stokes' admirable contribution to Yale history, one should read every word in these volumes. It would, indeed, be a splendid thing if other universities had among their number those who would

seek to set forth the contributions of their respective institutions in a spirit similar to that so beautifully and loyally displayed by Mr. Stokes. The reviewer is in absolute accord with the thoughts contained in the following sentences: "Why not have annual commemorative exercises, when the history and achievement of the University are duly recorded? Why not develop college literature—historical, biographic, descriptive, romantic, poetic—to rival on this side of the ocean, at least in quality, that noble collection of works—scores in number—which are 'in praise of Oxford'? Why not institute courses on the institution's life and its contacts with and influence upon the main currents of our history? Why should we not lay more emphasis in the academic year on patriotic days, Washington's Birthday, Lincoln's Birthday, Memorial Day, with appropriate references to the connection of the University with the movements for which these men and events stood?"

And, when all this would be done, each institution setting forth its own achievements in a manly and modest way, if the several results were combined, what a noble presentation it would make of the efforts of the college-bred men of our country in many diverse directions, but all for the benefit of their fellow-men.

EDGAR FAHS SMITH.

University of Pennsylvania.

Notes

BARRINGTON, MRS. RUSSELL. *The Works and Life of Walter Bagehot*. 10 vols. Pp. lxix, 3499. Price, \$25.00. New York: Longmans, Green and Company, 1915.

The only uniform edition of Walter Bagehot's writings to date has been that published in 1889 by the Travellers' Insurance Company of Hartford, Conn. This new edition comprises all of this material with the following additions: The Currency Monopoly and Principles of Political Economy, written in 1848; The Monetary Crisis, 1858; The American Constitution, 1861; Matthew Arnold in The London University, 1868; Senior's Journals, 1871; Count your Enemies and Economize your Expenditure, 1862; The Depreciation of Silver, 1876; three short early essays illustrative of Bagehot's youthful writings. Volume IX contains articles originally contributed to *The Economist*, *The Saturday Review* and *The Spectator*, which are now republished for the first time. The Life of Walter Bagehot forms the tenth volume of this edition.

Bagehot was a versatile writer, whose work reveals keenness and breadth of interest and insight. This sumptuous edition of his writings is not only an adequate memorial to a man of unusual parts, but a mine of social, economic and literary discussion of more than usual interest to those of philosophic mind.

R. C. McC.

BUCK, SOLON J. *The Granger Movement*. Pp. xi, 384. Price, \$2.00. Cambridge: Harvard University Press.

This excellent volume by Dr. Solon J. Buck, Research Associate in History in the University of Illinois, contains a detailed and clearly stated account of the "granger movement" of the decade 1870 to 1880. It deals especially with the

organization and working of the Patrons of Husbandry or "Grange," as it is frequently called, but includes also the general agrarian movement which was wider in scope than the particular order which served "as an efficient means of organization and a convenient rallying point." The first chapter discusses the fundamental conditions which led up to the formation of the Grange and the second describes its organization. Subsequent chapters deal with the Granger movement as a political force, granger railway legislation, business coöperation, and the social and educational features of the Grange. Previous accounts have been confined so largely to the efforts of the Grange to regulate railways that other features were lost sight of. For this reason chapters VII, VIII and IX will be found of particular interest to students of the Agrarian movement.

G. G. H.

DE CONSTANT, PAUL H. B. D'ESTOURNELLES. *America and Her Problems*. Pp. xxii, 545. Price, \$2.00. New York: The Macmillan Company, 1915.

A book giving the impressions of a distinguished and observant foreign traveller. Old world standards naturally afford the basis of judgment whether the thing to be appraised be American architecture, American moral standards or American social and political institutions. Written before the outbreak of the European conflict, the purpose of the book was twofold. "One was to do my best not only to show the United States how fully I appreciated their vast resources, but to make them realize the incalculable service they could render to civilization, as well as to themselves, by remaining faithful to their peace policy, which is the main cause of their prodigious prosperity. Secondly, after defining this peace policy and quoting facts to show that it was inspired neither by short-sightedness nor by cowardice, I have tried to indicate its patriotic grandeur and its advantages for other nations, especially for those who believed in the superiority of militarism. I have given my readers a choice between two forms of actual experience—two models, the first, to be followed, a peace policy, and the second, to be avoided, a policy of adventure and armament."

R. C. McC.

FISH, JOHN CHARLES L. *Engineering Economics*. Pp. xii, 217. Price, \$2.00. New York: McGraw-Hill Book Company, Inc., 1915.

LEWIS, E. ST. ELMO. *Getting the Most Out of Business*. Pp. xx, 483. Price, \$2.00. New York: The Ronald Press Company, 1915.

Getting the Most Out of Business is a book exceedingly rich in its numerous concrete experiences as related to the career of a modern business executive. Mr. E. St. Elmo Lewis has classified the various human factors necessary in the functioning of a successful business organization; in addition he has summarized, analyzed and criticized the present business systems and house policies. The larger spirit of the text insists upon individual efficiency from the office boy to the head of an organization, with experts and scientific data to keep the business out of "ruts" and alive to the progressive tendencies of the day. Mr. Lewis evidently feels that our modern business system is still involved in a creative

process, but withal a business philosophy is developing, the power of which is to create men loyal and persistent to the highest ethical standards. His main thought consists in encouraging initiative and creativeness of the individual and progress of the concern, in order to obtain maximum results with a minimum amount of effort.

Individual executive experiences, citations from numerous co-workers, wage plans, foreign methods, educational plans, and individual standards of efficiency under coöperative influence, afford abundant material inspirational and courageous in its appeal to the creative man serving business as an executive. This book might be classified as among the first to appear which affords data in a form utilizable by the business man in executive capacity.

H. W. H.

RUBINOW, I. M. *A Standard Accident Table*. Pp. 63. Price, \$1.50. New York: The Spectator Company, 1915.

RUSSELL, ELMER BEECHER. *The Review of American Colonial Legislation by the King in Council*. Pp. 227. Price, \$1.75. New York: Columbia University Press, 1915.

An excellent study dealing with a most important phase of colonial history. Manuscript material in the Public Record Office at London has been the author's chief source of information. The method of procedure of the English government in legislative review, the policy adopted in dealing with acts of colonial assemblies, and the results of the system are the chief topics considered.

T. W. V. M.

WELD, L. D. H. *Studies in the Marketing of Farm Products*. Pp. iv, 113. Price, 50 cents. Minneapolis: University of Minnesota, 1915.

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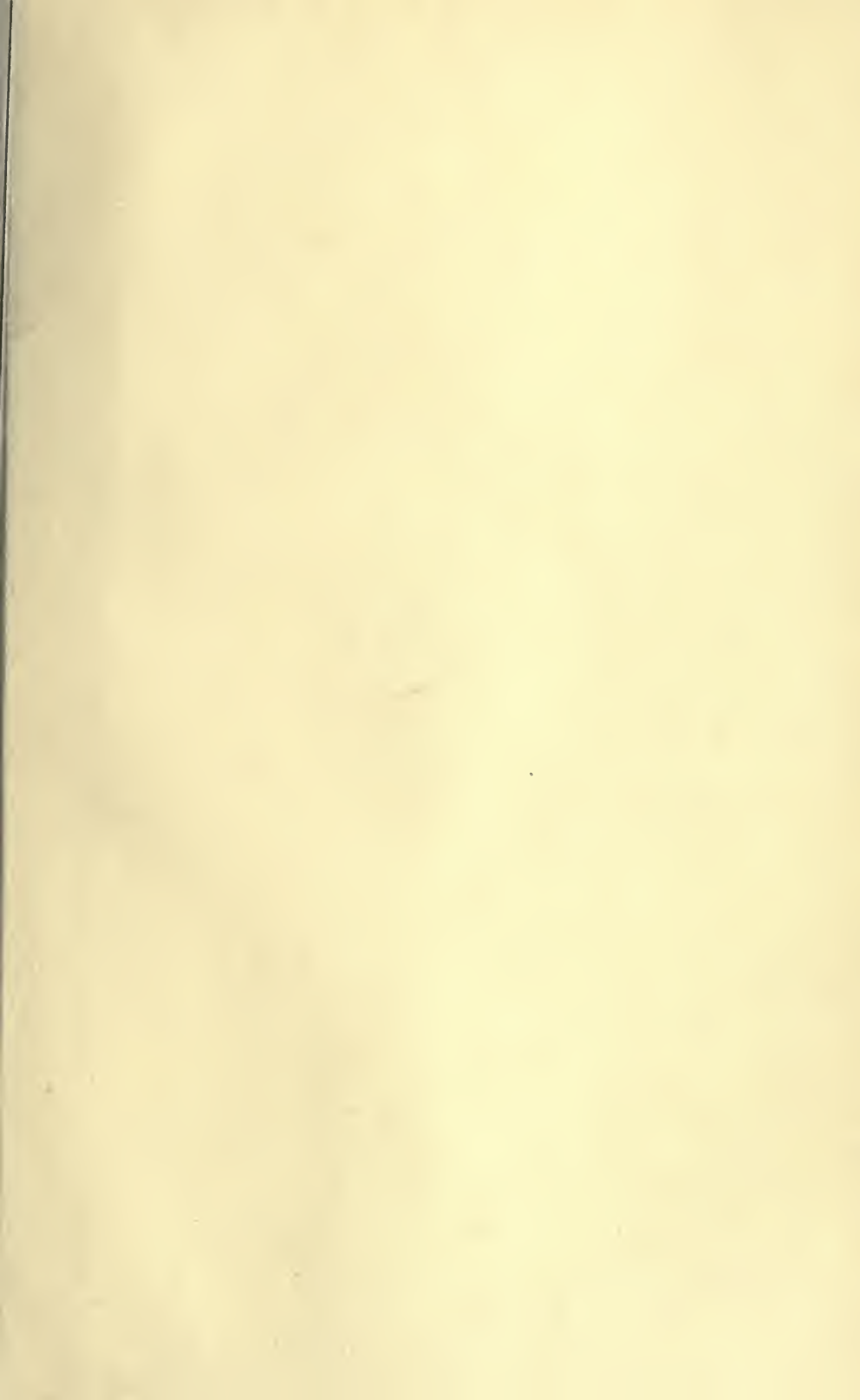
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