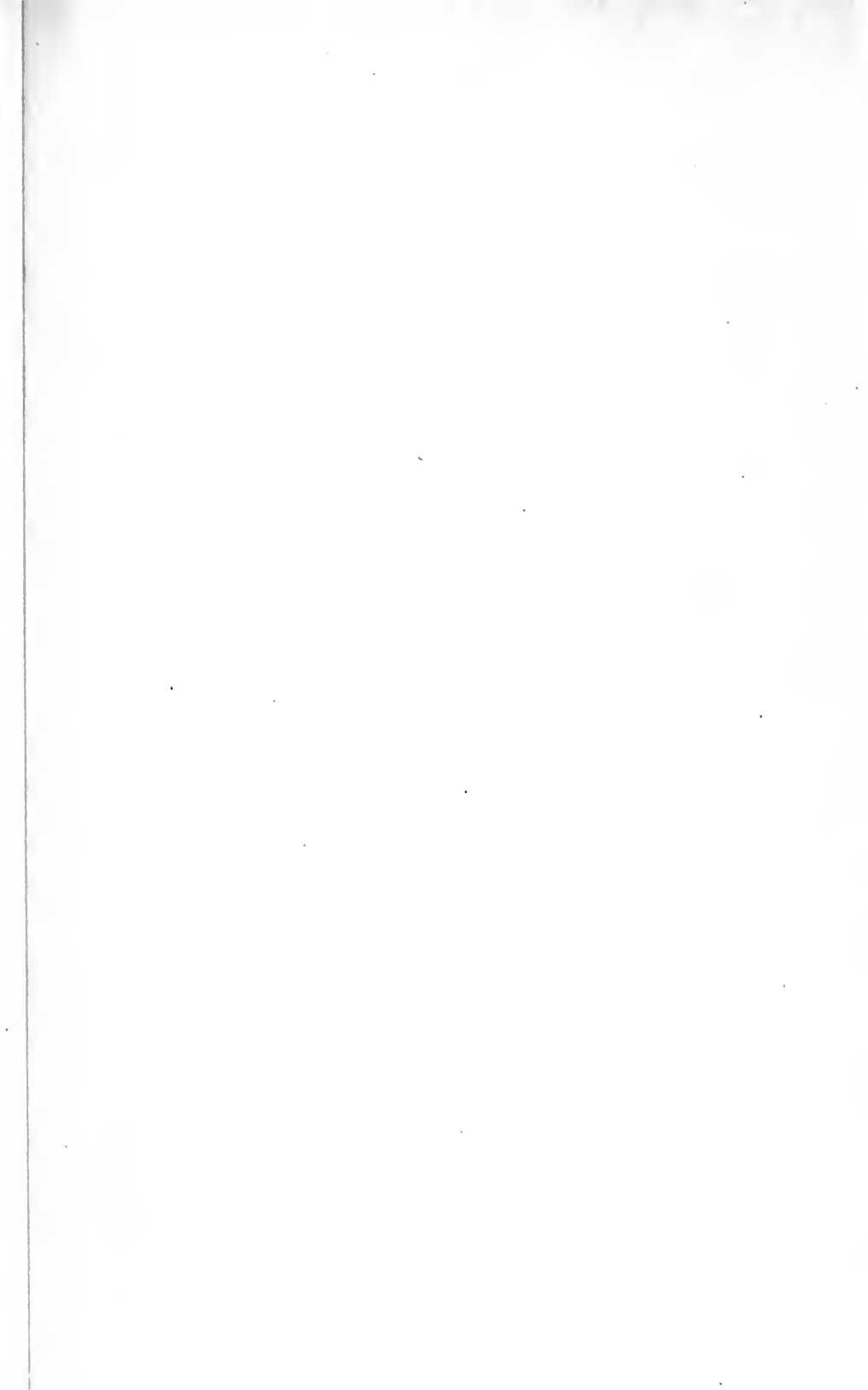


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THE TEMPTATION OF ST. ANTHONY

Hand-painted Photogravure from the Painting by C. E. de Beaumont

Few religio-classical subjects have received so much attention at the hands of painters as "The Temptation of St. Anthony," a theme that possesses the human interest to the utmost, and is fairly a composite of worldly desire and pious abnegation. The picture which is here reproduced is from the brush of the very distinguished painter, de Beaumont, whose treatment of the popular story is not more original than it is impressive and beautiful. The accessories are so appropriate, the figures so characteristic that the composition needs neither description nor interpretation, since every feature perfectly reflects the incident and reveals the sentiment that invests the temptation.

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The first part of the history... The second part... The third part... The fourth part... The fifth part... The sixth part... The seventh part... The eighth part... The ninth part... The tenth part...

INTERNATIONAL CONGRESS
OF
ARTS AND SCIENCE

EDITED BY
HOWARD J. ROGERS, A.M., LL.D.
DIRECTOR OF CONGRESSES

VOLUME XIII

ECONOMICS AND SOCIAL REGULATION

COMPRISING

Lectures on Commerce and Exchange, Transportation,
Money and Credit, Finance, Life Insurance,
Politics, National Administration,
Municipal Administration,
and Diplomacy



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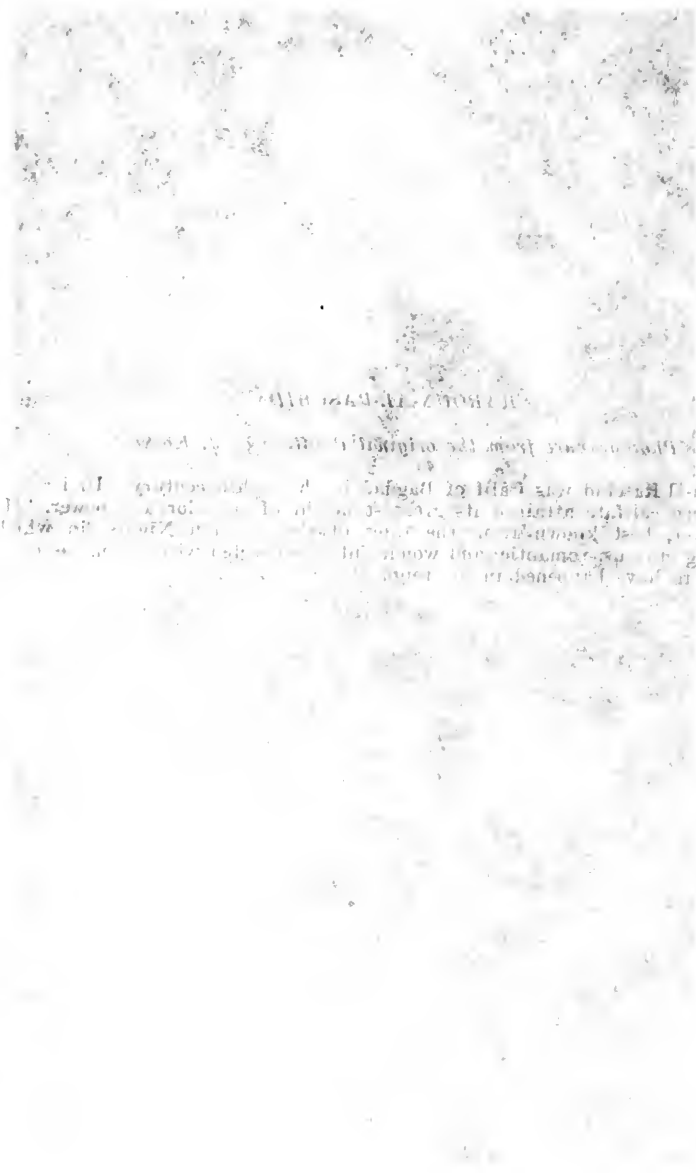
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HAROUN-AL-RASCHID

Photogravure from the original Painting by J. Köckert

Haroun-al-Raschid was Calif of Bagdad in the eighth century. Under him the Eastern califate attained its greatest height of splendor and power. He is, however, best known from the tales of the Arabian Nights, in which everything curious, romantic, and wonderful is connected with his name, or is supposed to have happened in his reign.



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DIVISION E
UTILITARIAN SCIENCES *(continued)*

DEPARTMENT XIX — ECONOMICS

DEPARTMENT XIX — ECONOMICS

(Hall 1, September 20, 11.15 a. m.)

CHAIRMAN: PROFESSOR EMORY R. JOHNSON, University of Pennsylvania.
SPEAKERS: PROFESSOR FRANK A. FETTER, Cornell University.
PROFESSOR ADOLPH C. MILLER, University of California.

IN opening the proceedings of the Department of Economics, the Chairman, Professor Emory R. Johnson, of the University of Pennsylvania, spoke as follows:

“ The purpose of the deliberations of this Department will be to point out the present status of economic thought and to indicate the present trend of economic thinking. There is much evidence that economists are to-day coming to view political economy less as their predecessors of twenty-five and fifty years ago did, and to regard the science as it was conceived by Adam Smith. In Smith’s classic work on the *Wealth of Nations*, the discussion and analysis of production occupies the larger part of the volume. Smith was concerned but little with the distribution of wealth, but endeavored to put in scientific form the principles of the production of wealth.

“ Adam Smith and his successors for over a half-century studied production very largely to the exclusion of other phases of economics, because of the universal necessity for a greater amount of wealth. The intellectual and social progress during the latter part of the eighteenth and during the nineteenth century caused men to realize more clearly than ever before the necessity for more efficient production in order to satisfy the expanding wants of various classes of society.

“ With the industrial development of the nineteenth century and with the rapid accumulation of wealth, the ethical problems of distribution came to occupy the thought of social philosophers and turned the minds of economists toward ethical problems. The problems of distribution received almost exclusive attention for a score of years following 1880. In dealing with the theory of value and with the principles of the distribution of wealth, the most notable contributions were made by the Austrian and American economists, although Jevons and other English writers contributed in no small measure to the theory of distribution. The American people may well be proud of the achievements of their countrymen in the developing of the theory of the distribution of wealth.

“ During the past few years the public has heard but little regarding

the theories of distribution. At the present time the economist as well as the business man is dealing more and more exclusively with the general problem of productive efficiency. The great technical development of the past fifty years and the constant effort of all classes of producers to secure greater economy through a more efficient organization of industry are concrete evidences of the subordination of distribution to production at the present time.

“ The same thought may be stated in another way by saying that men are now realizing more and more clearly that the distribution of wealth among producers is determined by and is dependent upon the relative productive efficiency of various producers. Recognizing the fact that distribution depends upon productive efficiency, wage-earners are striving to increase their efficiency by means of their unions; manufacturers and carriers through their consolidations, and capitalists by the formation of syndicates. The labor question and the trust problem are, at bottom, problems of production, and are being so considered both by the practical man and by economic scientists.

“ One other interesting evidence of the increasing demand for productive efficiency may be seen in the rapid development of business and commercial education. In Germany and certain other European countries technical education has been provided by public authority with excellent industrial results. In the United States, private funds have thus far contributed most of the money spent in the development of facilities for technical, business, and commercial education; but our public school system has already begun to incorporate business education into its curricula. There are numerous evidences of the tendency to look to educational training for the promotion of economic efficiency. If it be true — and I believe it is true — that the distribution of wealth is determined primarily by relative productive efficiency, and that both industrial education of an elementary grade, and business education of a secondary and university grade can add to the economic efficiency of men and women, we may feel hopeful regarding the future welfare of society. There is no doubt about our being able to increase greatly our productive efficiency, and it seems to be the opinion of economic philosophers to-day that increasing economic efficiency will be accompanied by a progressively better distribution of the results of production.”

THE FUNDAMENTAL CONCEPTIONS AND METHODS OF ECONOMICS

BY FRANK ALBERT FETTER

[**Frank Albert Fetter**, Professor of Political Economy and Finance, Cornell University, since 1901. b. Peru, Indiana, March 8, 1863. Graduated, Indiana University, 1891; Ph.M. Cornell University, 1892; Ph.D. Halle, Wittenberg, 1894; The Sorbonne, and École de Droit, Paris, 1892-93; and Halle, 1893-94. Instructor in Political Economy, Cornell, 1894-95; Professor, Indiana University, 1895-98; Professor, Leland Stanford Jr. University, 1898-1900. Secretary and Treasurer of American Economic Association, 1901-05. Author of *Versuch einer Bevoelkerungslehre*, Jena, 1894; *The Principles of Economics*, N. Y., 1904, *Rent and Interest*, 1904; also of many articles, monographs, etc., on economic subjects.]

I. Conceptions

Limitations of the subject. — This paper will necessarily be confined to a few of the important aspects presented by this many-sided subject. We proceed from the thought that economics as a science is primarily concerned with the explanation of the process of evaluating objective things, materials and services, that minister to man's welfare. Every such problem of valuation is an economic problem; every fact helping to an understanding of valuation is, in that aspect, an economic fact. The vast and complex world pours ceaseless streams of impressions into men's minds. As men have striven to correlate these impressions according to various principles, they have come to recognize *value* as one of the recurring and necessary relations, and have come to group things according to the economic principle. Historically viewed, the increasing scope and exactness of men's evaluation of the world about them is seen to be the unfolding process of men's thought. A theory of value logically adequate, therefore, must trace the value conception from its genesis through its successive stages of thought to the highest and most complex value relations.

Good. — The primordial conception at the basis of all choice, economic or other, is that of the good. There can be no conceptions until mind has been evolved; but an embryonic mind was in the first forms of life reacting upon their environment, shrinking from that which harmed and seeking that which helped. Before higher conscious thought-centers existed, nerves in plants and animals reached out toward the favorable and shrank from the unfavorable. Even the protoplasm has its fundamental economic conception. The evolution of higher animal forms is but the development of special organs of selection to choose the good and to flee from the evil. There need be, as to the use of the conception of good, at this

point no subtle controversy over Epicureanism, or of Hedonism, or of Benthamite utilitarianism. " Good " is here any objective condition, thing, or act, which is seen to have a beneficial relation to the man himself, or indirectly to any one, or anything, else to whom he is bound by sympathy. The old discussion of the utilitarian philosophy of morals has almost lost its meaning to modern thought. In the light of the evolutionary theory it may now be said that a conception of good and evil, in a physiological, an economic, a political, a moral, and a religious sense, are rooted alike in this primordial fact of the reaction of animate creatures upon their environment, choosing that which makes for efficiency and life, and avoiding that which destroys the individual and the species. When man at last rises to the stage of conscious and purposeful mastery over the world, when he, at last, in his gropings for a philosophy of things, begins to create also an economic theory, he recognizes in the broad conception of 'the good' the principle that has ruled the destiny of evolving life throughout its struggles upward from the ocean slime to the highest human intelligence.

Scarcity. — Next to the conception of the good the most fundamental economic conception is scarcity; indeed it may be said that economy (which is the study of the good in the objective world) does not truly begin until scarcity sets in. Among the many things surrounding the wriggling bit of protoplasm are some comparatively few things better adapted than others to further its life. It is the appropriation of these *better* things that insures survival, and so nature begins to shape the various species, making them larger, stronger, swifter to get, more able to digest and assimilate. But improvement in one individual and one species is met by improvement in another, and the contest never relaxes. The origin of species, once so mysterious, has, by the revelations of biology, been made a familiar fact. Selection of the fittest is an agency of biologic progress because of the universal prevalence of superfluous life germs, competing for a limited supply of scarce means of life. This profound truth came to Darwin while he was reading Malthus' *Principle of Population*. Malthus had got a partial and distorted glimpse of a great fact of nature: the scarcity of food and the excess of life germs. It may be questioned whether Darwin and his followers in turn have sufficiently recognized that natural selection is but a fragmentary expression of a greater economic principle, — the scarcity of goods compared with wants. The survival and increase of a species is but the ultimate resultant of a multitude of acts and relations determining which of the individuals shall wax strong and prevail in the struggle for the scarce goods of their environment.

The process of adaptation is twofold, — individual and racial, — a contrast implied in the whole question of natural and acquired

characters. Adaptation is likewise twofold, — subjective and objective, — according as the change influencing fitness for survival takes place in the living creature or in its environment. Both modes of adaptation are related to scarcity, the subjective mode enabling the individual to excel his competitors in securing and utilizing the particular goods available; the objective mode concerning the change in the environment itself, by natural means at first, then later by artificial agencies.

Economic gratifications. — Now let us direct our attention to the conscious human stage of developing thought. Among the varying states or processes of mind and feeling, men distinguish some as good, others as indifferent or as evil. The good became linked by experience and training with certain kinds of activity or with certain conditions of the objective world. In the broad sense any good psychic state or process is a gratification, and any objective condition of it is “a good.”

The scarce goods evidently are not all the goods necessary to life, and yet from the beginning of evolution the struggles, the appetites, and the interests center about scarce things. The superfluous things are not in dispute; they are taken for granted. Survival is favored by the concentration of all available energies at the strategic points where the real rivalry lies. Attention becomes intense only when focused upon a small area of thought; effort becomes effective only when narrowed in its task. And thus, throughout the world of animate life, the margin of scarcity bounds the field of economic interest and of economic effort. A distinction, therefore, is to be recognized between free goods, which exist in superfluity, and economic goods, which are scarce in relation to wants. Correspondingly there is a distinction between free gratifications and economic gratifications, but the word “gratification” is generally used in the latter and narrower sense. The quality of arousing gratification is not attributed prodigally to all goods; it is not generally thought of as arising merely from the physiological action of free and superfluous goods; it is the psychological effect credited only to the relatively scarce goods.

As gratification is the subjective aspect of the relation of man to goods, so utility is the impersonal aspect, being the beneficial effect of things, whether felt and recognized or not. The relations of utility and value need further study. The paradoxes are forever recurring, — of intense desire, of strongly felt dependence on things far from vital, and of heedless disregard of things whose loss would be fatal. Gratification and gratitude are closely connected in thought and in life. The relations of man with nature are ruled by the principle of centering effort, interest, and appreciation, upon the scarce things. Relations of exchange are ruled by the principle

of giving scarce goods only in return for scarce goods, measuring the equivalent more or less accurately in accordance with the gratification expected; that is, with the felt and recognized dependence of the want upon a particular supply.

It is to be feared that after all the able recent contributions to the psychological economies, the terminology still bears the marks of an origin in a narrower utilitarian psychology, now much disputed. Fuller studies should clarify this important subject. Economists meantime, however, may (despite the confusion of terms) recognize that, as bearing on the analysis of value, the important factor is gratification expected rather than realized, gratification in acting quite as much as in being acted upon, gratification in the totality of sentiments connected with experience rather than in an absolutely isolated pleasure; that, in short, gratification is an efficient element in the valuation process only in so far as it is expressed in volition.

Psychic income next must be recognized as a conception. The various gratifications form a series of psychic conditions which constitute the motives of economic activity. This subjective form of income logically precedes all objective forms of income, for the importance attributed to any objective goods is but the reflection of the gratification which instinct, memory, and reason tell men those goods are capable of affording.

Consumption goods are the favorable and scarce things about men just being converted into psychic income. These are the immediate points of contact of wants with environment. If men lived their economic life in the immediate present, consumption goods would be the only objects to which utility would be attributed. In a philosophy of goods these present the simplest and most understandable problem of value. The animal economy, with rare exceptions, is concerned only with this phase of value. The child and the savage recognize little dependence on any goods but these. Despite the growing complexity of the value problem, this phase of it remains separable in thought from other phases, and both chronologically and logically is the primary objective aspect. The problem of value in its simplest form is that of the comparison of these immediate objective conditions to gratification.

Usufruct. — It is a slight step to the conception of usufruct. The material things affording gratification are not all perishable and destroyed, but are giving off or affording scarce uses, while little, if any, injured by use. Ever since men began to think of economic questions, this temporary use, apart from the durable bearer of the use, has been recognized more or less vaguely as one of the essential aspects of the value problem. Usufruct always implies a more or less durable agent which is affording a psychic product. The

abstract ideal of usufruct, therefore, is that of an income yielded by an everlasting agent.

Such a typical example is rarely presented by any concrete good. Though the conception of usufruct is always in some measure an abstraction rather than a fact, yet usufruct is a practical abstraction indispensable to the understanding of value problems. In practice a particular concrete agent may partake in varying degrees of the nature of a consumption good whose utility vanishes in affording gratification, and of the nature of a usufruct bearer, whose power to afford a series of gratifications is unimpaired by the successive uses. So essential is this conception in practical business that various devices are adopted, such as repair- and sinking-funds, to give the similitude of durability to agents which are gradually wearing out. The confusion of the conception of usufruct with other conceptions has been especially unfortunate in the treatment of rent.

Time-value. — The conception of the value problem has widened through the centuries. The elemental phase of value, recognized even by animals, is found in a consumption good, of substance and material to afford gratification here and now. Primitive man recognizes in addition to this the factor of form, and sees in a fitting change of shape a rational cause of value. Many thousands of years elapsed before the change of place ceased to be a mysterious factor in value, and still in the late Middle Ages the merchant, the shipper, and other agents of transportation, seemed to the mass of men to be unproductive parasites upon the social organism. Even the overwhelming evidence of the senses and the estimates of all men showing that value was by these agencies imparted to goods did not, until of late, shake the stubbornly materialistic conception that value lay in the form and substance of things rather than in their psychological relations.

The time-relation proved to be still more subtle and difficult for the concrete minds of men to comprehend. The chapter of economic history dealing with the cruder aspect of the time-value problem, the notions of, and opposition to, interest on money loans, is familiar. Let us venture the more novel opinion that even certain subtle current conceptions of the interest problems are mixed with the dross of cruder materialistic thought, in that the theorists persist in finding the essence of the problem of interest in the particular class of concrete agents with which interest is supposed to be connected.

Economic theory is now ripe for the fundamental conception of time-value as the difference in value of goods of any kind in different periods of time. Time-difference is a pervasive factor in the valuation of the simplest goods and the simplest economic societies, but so long as industry is concerned mainly with the present and a

narrow zone of the future, time-value, being exceptional, seems, even more than place-value, to be a trick, a juggle, a thieving fiction of avarice.

Capitalization. — The economic environment has progressively enlarged, and thus has been broadened the zone of time in which a rich and provident society lives its economic life and makes its economic estimates. Time-value is no longer a minute factor; it rises to a prominent place in the thoughts of men. The use of money and the multiplication of exchange makes the value estimates of men more general, conscious, and accurate. The most noteworthy manner in which time-value is recognized is in the capitalization of a series of incomes. When men provide for the future, they desire to get possession of durable agents yielding a series of future uses. Capitalization of a more or less durable agent is thus based upon usufruct. Capital is but the value expression of a sum of incomes reduced to their present worth by reference to a rate of time-discount. Current conceptions may, from this point of view, be seen to halt confused between the subjective conception of capital as the present worth of any durable agent, and the objective conception of it as consisting of certain concrete forms of goods (especially produced goods). The general use of the capital expression of wealth is a novelty, and the prevailing theories are medieval materialism united to modern views, half-man, half-fish, quite untrue to reality.

Utility and Value. — We have made only passing use of the terms utility and value, but these conceptions pervade the whole discussion. Recent psychological economics has not entirely freed the terms from difficulties. The use of "marginal utility" as synonymous with "value" of particular units in specific moments and conditions seems near at times to a merely verbal shift. We may query whether the difference is not deeper, "utility" expressing the *real* benefits, and "value" those felt.¹ Now, as the relation of goods to gratification is recognized to be more or less direct or indirect, so there are different grades, or phases, of value. The theory of marginal units as applied to the exchanges made by groups of buyers and sellers in a given market is but a portion of the whole theory; or rather, the marginal unit theory as usually developed assumes the most difficult parts of the problem, and leaves them unanalyzed and unexplained. The commodities brought to a market are more or less durable, more or less direct gratifiers, more or less immediate or remote, in time, from gratification. Fish and meat exchanged for horses, weapons, or dress are goods of entirely different orders. Immediately consumable goods whose value is the exact reflection of gratification are balanced against durable agents whose usufructs

¹ The doubts expressed above (p. 10) as to the adequacy and consistency of the terminology, apply to these terms also.

are to be distinguished over a series of years, and whose present exchange value is the capitalized sum of all the uses they contain.

Therefore "marginal utility" is not *the* theory of value; it is but the alphabet of the theory of value. Building upon the conception of immediate gratifications the conception of usufructs, and upon the conception of usufructs the conception of capitalization and time-value, the framework of a theory of value may be reared, unified, consistent, and complete.

The conception of proportionality is not mentioned, but is implied throughout the foregoing. In the progress of economic theory it was under the aspect of "the law of diminishing returns" that men first grasped a ragged corner of this broad principle. An historical view helps us to understand how it was possible for the keenest minds to believe at first that "diminishing returns" were peculiar to land used in agriculture, and were due to the peculiar chemical qualities of soil used for food production. Such a view mistook a logical economic principle for a physical fact. Then the same "law" was seen to be true of land in other uses; and of late by some able thinkers has been seen to be true of all indirect agents. We have now but to relate the "law of diminishing returns" in the use of durable agents to the principle of marginal utility in the use of immediately consumable goods for gratification, to arrive at a broad conception of "the diminishing utility of goods" in all conceivable applications, immediate or remote. This is the very heart and essence of the economic problem. It is the proportioning of limited means to useful ends; it is the wise choice and union of limited agents; it is the rule of economy. And this is but a special aspect of a law as broad as life—the law of proportionality. In mechanics it is the adjustment giving the maximum of efficiency; in chemistry it is the union of elements in effective proportions; in politics it is the rule of justice and expediency; in ethics it is the Socratic golden mean between the opposing vices; in economics it is the wise adjustment of goods to wants.

II. Methods

Controversy over the deductive and the inductive methods.—In turning to the subject of the methods of economic inquiry I do not purpose reviving and continuing the well-worn controversy over the rival merits of induction and of deduction. That controversy may have had its uses; in any case it seems to have been inevitable; and yet to the eyes of to-day the issue appears to have arisen out of false analogies with other sciences.

Induction and deduction are different modes of thought, or processes of logic, to arrive at truth. The methods of inductive thought and of deductive thought cannot validly be contrasted

as mutually exclusive alternatives in the study of any of the concrete sciences. Mathematics only, of all the sciences, moves in the realm of purely abstract relations, dependent for the truth of its conclusions only on the inner or logical consistency of its deductive conclusions, not on their correspondence to any specific set of concrete facts. The ideal of shaping the social sciences on the model of mathematics misled for a long time the votaries of the science whose data were, to a greater or less degree, made up of the facts of the concrete world. In every branch of inquiry except mathematics, both inductive and deductive mental processes are constantly employed. They are like the chisel and the hammer to the graver, who must now use one, now another, and again both together. Man's power of thought is not so in excess of its task of understanding the economic world that only half of it need be exerted.

The natural sciences, such as physics, chemistry, and, later, biology, suggested an analogy for economic students which was as misleading, perhaps, as was that of mathematics. The rapid advance of the natural sciences, both in the bulk and in the exactness of their conclusions, seemed to challenge economics and to point the way to progress. Their predominant use of the inductive method served to blind to the fact that deductive processes were also frequently employed, and to offer the false hope that social truths were to be found, if sought, in an exclusive study of the facts of the objective world. And thus, in turn, as other sciences, as psychology and biology, have taken the center of the stage and have played the leading rôle in the drama of human progress, economic studies have been more or less influenced by their examples.

The choice of method in any science must be made in the light of reason, not in the deceptive shadows of analogy. The division between the methods of economics and of the natural sciences is to be found in the nature of the materials dealt with and in the point of departure, whether in the thoughts of men or in the world of things, — the subjective and the objective methods. This distinction appears to correspond with that between induction and deduction, but this correspondence is external and fortuitous rather than essential, as will be seen in considering more fully the special character of the social sciences.

Dual nature of economics. — The social sciences have a character as distinct from pure mathematics on the one hand as from the physical sciences on the other. Mathematics presents the type of most abstract subjects of scientific thought; physics the type of the most concrete subjects; while social science presents a dual aspect. But although it may seem to share the features of the other two types, it is in no sense a mere compound of them. Mathematics is concerned with the logical relations of numbers; physics with the

observed and tested interrelations of material things; economics with the relations of man's thought with the utilitarian aspects of things. In this view the economist's problem as a whole is more complex, shifting, and elusive than either of the other types of problem. In part the problem can be studied in the realm of man's psychical nature, — his feelings and his judgments; in part in the physical world which appeals to and gratifies his desires; and finally in the relations between his psychical nature and the objective world. The value problem always involves this last relationship.

The nature of the economic problem should determine the methods of economic inquiry. According as the ultimate relation is approached from the side of man's nature or from the side of the material world, either the *subjective* or the *objective* method of study is employed. The two are separable in thought and practice, and yet as each is pursued it moves toward the other, and the labors and results of all students should combine at last into one harmonious body of knowledge.

Subjective economics. — The problem of subjective economic analysis is that of interpreting man's psychical nature, his impulses, his wants, his modes of thought, so far as they are concerned with the utilization of the outer world. The subjective analysis should discover and express clearly the economic conceptions which men have regarding things, and it should thus clarify and harmonize the economic categories. In other words it should provide, in place of shifting and individual points of view, certain generally recognized outlooks, from which the whole economic globe can be scientifically charted and surveyed. The subjective study is to discover which among the many shifting points of view are most frequently taken, most essential, most grounded in the logical nature of the case.

The need in clear thinking of keeping the subjective and the objective conceptions distinct may be seen in the confusion that long has continued in the theory of land and rent. It could not escape the earliest economic inquirers that some things appeal to men as durable yielders of usufructs. What is paid for the use of agents considered as indestructible was the "return" or rent for them. In the eighteenth century, when the effort was made to formulate a system of economic thought, it chanced that the only large class of wealth dealt with in the market under the usufruct-contract was land. Not apprehending the distinction between the subjective and the objective basis of economic conception, the early economists linked the idea of usufruct with that of natural resources in a hybrid, illogical conception of rent, which has continued for a century to puzzle and defeat much economic inquiry.

The first form in which the time-aspect of value challenged a theoretical explanation was that of interest on money loans.

Eighteenth century students saw that the same value problem was involved in the case of many agents generally exchanged for money, which chanced to be the products of manufacture in cities; and the term "interest" was thus extended. The concept of interest became thus an illogical cross between a value aspect common to all goods, and the income yielded by a certain objective class of goods. This confusion has been but dimly perceived because of the failure to distinguish consciously the subjective and the objective elements in the so-called "interest problem."

The methods of subjective study. — The specific methods of studying economics subjectively can be hardly more than mentioned. It begins with introspection, and pursues the analysis of man's nature and wants by observing and comparing the impressions, the hopes, and the motives that determine acts in relation to gratifications. The method of psychological analysis requires here no defense, and the service of the marginal utility theory, as developed by various writers, will hardly be denied. That service has, perhaps, been exaggerated, for in the enthusiasm over the discovery of a new and exacter mode of economic inquiry it was believed by some that this was the substance and scope of the economic problem. This study must be extended from the individual consciousness to social sentiments and social institutions, to class feelings, to the psychology of the masses, and to the evolving standards of living. Every degree of relationship of motives to gratification must be followed out, and the whole field of human action must be studied from this subjective standpoint.

Study of the growth of economic theory. — A much neglected but fruitful field of subjective economics is the critical study of the evolution of economic thought; not that students have ignored the writings of their predecessors, but they have approached those writings either in the spirit of implicit faith or of partisan opposition to certain social institutions or plans. The scientific, critical spirit has in both cases been lacking. Almost every chapter of the representative economic works is bristling with logical difficulties and is a challenge to the best critical faculties. As economic thought has unfolded in the past two centuries it has presented errors and mingling of errors in kaleidoscopic variety. Progress of the abstract theory toward truth has been in an empirical manner. The whole problem has not at any one time been investigated fundamentally; rather, each new advance of thought has been inspired by a contemporary need, and has shown, therefore, a temporary character. The analysis of the conceptions employed and close textual criticism give a rare exercise in logical thinking, a conscious mastery of the essential conceptions, and an historical perspective of the highest value to the economic theorist.

Subjective analysis applied to practical problems. — Of what use can the subjective analysis be in the practical aspects of industry represented in this department? In seeking a science of the various arts that make for the fuller life of man, we have to inquire what are the wants that manufactures, transportation, commerce, monetary agencies, public finance, and insurance seek to gratify? How, when called forth by human desires, do these great institutions react upon the estimates and even upon the nature of men? What aspects of value are presented by each of these industrial agents? What abstract conceptions are needed to make possible a logical classification of the phenomena in each of these lines of action? The subjective analysis is indispensable to the task of bringing order out of the chaos of facts. It gives the selective principles around which a scientific treatment of these subjects can be made. The logical starting-point of all economic inquiry is human nature and human wants, as it is also the completion of the circle of economic action and of economic science.

The objective method of study. — In the subjective analysis a recognition of objective conditions is already implied. Owing to the dual nature of economics, the study of the conceptions held by men regarding goods can proceed but a few steps without turning the eyes now and again at the kinds and qualities of goods. Even the study of the economic categories cannot be carried on by the closet philosopher. A knowledge of the ways in which men contemplate goods can be gained only by a study of men under manifold conditions and in manifold relations with goods.

But there are many objective starting-points for economic study. The animal has in its instincts and memory a store of conscious and unconscious associations of goods with gratifications. The savage from necessity roughly classifies the birds, beasts, soils, and materials of his little world. Individual experience has grown at an ever-increasing rate into a social store of accumulated wisdom. Maxims, precepts, oral traditions, religious scruples, injunctions, faiths, and moral codes embody the economic experience of generations. Fragmentary writings grow into systematic chronicles, and these into the history of deeds and into the recorded observations and conclusions of many minds. The growing delicacy of social organization is making possible, and the scientific spirit is demanding, an exacter study of contemporary occurrences. Larger resources are given to the gathering and printing of statistics and to the establishment of commissions of inquiry. Popular interest is encouraging the monographic study of the minutest details of industry, and the publication of these studies in many magazines. The spirit of economic inquiry among industrial leaders is unlocking to the world untouched treasures of practical experience and of wisdom in industrial affairs.

All this knowledge of the objects of economic endeavor not only may be, but must be, made use of by the student who would attain to the fullest understanding of the economic process. Paraphrasing the words of the poet, the economist may well exclaim: I am a man, and nothing that concerns the welfare of mankind is foreign to me.

At this point of view we may wonder whether any one ever could have sincerely doubted the worth of history as an agent of economic inquiry. Are not the fruits of a single generation of studies in economic history sufficiently visible in the broadening perspective of all contemporary inquiry? We wonder, again, whether any one ever could have seriously doubted the scientific worth of the psychological economics. Is it not amply vindicated by the increasing keenness of the critical faculties now attacking every moot point in theory? The subjective and the objective methods are not rivals, but allies; not mutually exclusive, but mutually indispensable. Indeed, they are not so much different *methods* as different hemispheres of the complete globe of economic knowledge.

The Economic Process. — The ideal has found repeated expression among students that economies should, much more truly and fully than now, formulate the laws of industrial development of the economic process. A number of progressive steps have been made toward this end, which yet, however, appears a long way off. Indeed, as yet no thinker has been able to tell us more than vaguely, in terms of analogy with the biologic sciences, what such an economic process is. The suggestion ventured before (p. 15) may be repeated, that it may possibly be developed along the subjective and objective lines of inquiry. We may study historically the conception of value relations as it has unfolded in the minds of men. Parallel with this is the development of the material environment of wealth which reflects and embodies the value concept. The process of valuation is carried to a certain stage in each generation, corresponding to the process of industrial activity pursued by each epoch.

In each individual as he develops from childhood to maturity are retraced the steps of the valuation process, and side by side at a given moment are found within a single country the various family and neighborhood economies at various stages of growth and complexity, analogous to the different forms of plant and animal life. Some such a conception is needed to make possible some unity in the chaotic mass of historical and statistical material already available to the student. The central thoughts may be economic desire and will expressing themselves in acts and institutions, and in the economic agents with which men have surrounded themselves.

Economics as a science. — As here discussed, economics is seen to

be in no peculiar sense utilitarian, not more so than are the sciences of minerals, of animals, or of plants. It is the philosophy of the useful, but it is not necessarily, as a body of knowledge, more useful than any other philosophy. Its highest aim is truth rather than dollars, and theory rather than practice. But this does not imply the popular and misleading contrast of theory as something certain to fail, with practice as something sure to succeed; of theory as the fantastic and impossible, with practice as the sane and useful. Theory is truth-seeking, it is explanation, it is philosophy, and true theory is the highest and best expression of the practical.

Neither is economics as a science to be thought of as useless knowledge, in contrast with art as its useful application. Science is truth, not wealth; it is knowing, not doing. It has been said that the beautiful is as useful as the useful, and it may likewise be said that nothing has higher utility than truth. In economics more perhaps than in any other branch of human knowledge, the desire for results that can be immediately expressed in dollars tempts from the path of truth, and thus here is the greatest need to hold up the ideal of open-minded, disinterested research.

The social conception of economics. — With broad strokes have been sketched the limits of our subject. Throughout the conceptions and methods of economics is the pervading thought that economics is a social science. The complex evaluation process can be carried on only under social conditions. The judgments, feelings, and sentiments of men living in social relations must be studied to get an understanding of the resulting valuation of goods.

As a "social" science, economics must be contrasted with the natural and technical sciences, not so much in the subjects studied, as in the point of view that is taken. When any man, or any group or class of men collate facts for their own benefit, the knowledge gained falls short of science, though it may provide material for the scientist. Each of the subjects in this department must be studied from the nearer standpoint of the technical manager; the economist must view each in turn from the social point of view; he must seek to understand the social functions of the railroad; the motives and the social results of commerce; the origin and social nature of money; the basis and the social effects of public financial measures; the social conditions which have the magic power of transposing a gambling debt into the social boon and blessing of insurance. Economic study is bounded only by the public welfare. The economist must be a devoted servant of the social truth, freeing himself as far as may be from the prejudices of class, and the interests and the passions of the day.

The social conception of economics is growing. The national studies of Ricardo, of List, and of Carey appear now to have been

narrow and temporizing. This international gathering of scholars and of scholarly men of affairs calls to mind the growing international exchange of ideas. We meet as co-workers in the fraternal task of knowing the truth; we shall part with a broader social conception of economic science, and of its pacific part in the progress of the nations.

ECONOMIC SCIENCE IN THE NINETEENTH CENTURY

BY ADOLPH CASPAR MILLER

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THE part assigned to me in the programme of this Congress is an historical review of the science of economics in the nineteenth century; more particularly, as I conceive it, such a review as may serve to set forth the progress that has been made by the science in that time. To compress a century's history of any active science into a fifty-minute discourse is no easy task. But the task of the historian of economics is especially great, for economics has had its troubles in the nineteenth century. It has come by no short and easy path to its present position, whatever this position may be defined to be. And it has left the record of its troubles and wanderings in a literature of unusual extent and vast variety. Of activity at least there has been no end. Economics has made a history for itself if it has not made progress. So much, at least, is certain. But the history of a science must not be confused with its progress. Much that has a place in the history has little relation to progress. Since our interest lies with the progress of economics, it is my purpose to review the history only so far as it seems necessary for an appreciation of its progress. And all that is requisite for this purpose is to take a straight cut through the history, following the line that seems most competent to exhibit those features of the past development that are significant for the understanding of the successive phases that make up the life-history of the science. But what shall be the line of view?

This question is the more difficult to answer because of the absence of a tolerable consensus of opinion among economists as to the proper character and constitution of the science. The *Methodenstreit* has not issued in a common understanding. I cannot agree with Professor Marshall that we have "worked our way through controversy to the extinction of controversy," if that is to be taken to mean a *rapprochement* on the fundamental question of the constitution of the science. If less is said about this question than formerly, it is rather because controversy has taught the futility of controversy and that economists have taken to doing things instead of talking about them. For one has only to compare the procedure of two

such master-works as Marshall's *Principles* and Schmoller's *Grundriss*, to appreciate how considerable the divergence of aims and methods still is. Economic science is still a thing of schools, each contemplating the results of its own work with much understanding and satisfaction, but taking little regard of the others. It was only the other day that a brilliant and dispassionate critic of the present position of economics lamented the persistence of what he called an "archaic habit of thought" ¹ in the methods of the economists working under the guidance of the classical tradition. And but a short time before this, Professor Nicholson ² had characterized the work of the historical school as "impressionism." This evidence and much more of similar effect might be quoted to show that economists are still far from being of one mind, and the reviewer who looks to find in the present state of economics a definite objective standard by which to estimate the work of the past, will find little guidance. We must, therefore, look elsewhere.

The place assigned to economics in the programme of the Congress might seem to suggest a way of handling the matter. Economics is grouped here with the "utilitarian sciences,"—with engineering, medicine, and agriculture. Though it is true that economics, like most of the sciences, began as a utilitarian science, its theoretical formulations being directed by a keen practical interest, and though it is true that the science derives its chief interest from the light it may throw upon the great questions of economic organization and control, and though it is also true that men of high repute claim that the science "is wholly practical" and "has no *raison d'être* except as directing conduct towards a given end," ³ and though others, less frank in their avowal have yet cultivated the science with homiletical intent, yet I believe at this present day it would be a gratuitous innovation to undertake to estimate the progress of economics as a utilitarian science. The trend towards a scientific treatment of its subject-matter as distinct from its application has been one of the most marked symptoms of its growth. This is, in a sense, the progress of the science. Few economists would go the length that Cairnes did, a generation ago, but an increasing number would insist upon the observance of a sharp distinction between economics as science and political economy as art. Indeed, the vogue the term *economics* is coming to enjoy, as against the older term *political*

¹ Dr. Thorstein Veblen, in an article entitled *Why is Economics not an Evolutionary Science*, in the *Quarterly Journal of Economics*, vol. XII, p. 379. See also the remarkable series of articles on *The Preconceptions of Economic Science* by the same writer in the same journal, vols. XIII and XIV. Much help has been derived from these articles in the preparation of this address.

² In his presidential address on *The Reaction in Favor of Classical Political Economy*, given before the economic section of the British Association for the Advancement of Science, 1893.

³ Dr. William Cunningham in his *Politics and Economics*, 1885, p. 12.

economy, is due, in considerable measure, to the widespread desire in the science to have a name for the subject that shall be free from the misleading associations of the old name,— one that will more completely identify its character as a science after the usual meaning of the term. And, therefore, though the shadow of its early days still hangs over the science, it has happily moved too far away from that position to make an estimation of it as a utilitarian science advisable. Some other course must be chosen.

The course that I propose to take is to offer an outside view, to see how economics looks when viewed from the general standpoint of nineteenth century science. It ought not to be overlooked that a leading purpose of this Congress is to bring out the fundamental unity of all sciences, — their mutual relations and advance. The advance of knowledge in the nineteenth century has done much to dispel the notion that the several sciences are independent of one another. Those sciences that have lived unto themselves have lagged. The mutual advance of the progressive sciences has stimulated a belief that, in the midst of seeming diversity of character and interests, there is a fundamental unity of knowledge. Whether this belief will ultimately establish itself as a tested conclusion of experience, it needs no great insight to perceive that economics has a close relationship with other sciences. It must go outside its own boundary for much of its material, and it uses it with poor effect when not habituated to the methods and standpoints of those sciences from which it borrows. It is true that economics has not always acknowledged its dependent character and, in its desire to avoid entangling alliances, has sometimes incontinently isolated itself and led a barren life. Something of this sort is doubtless in the minds of those workers in other fields who tell us that economics is discredited by its old-fashioned habits of thought. Economists cannot afford to be indifferent to criticisms of such import, especially when spoken with the sanction of authority. And this accounts for much of the perplexity in which economists find themselves when viewing the results of the work in their science in comparison with those of the material sciences.

Few things stand out more prominently in the history of nineteenth century thought than the change of attitude that the material sciences have experienced. It is sometimes said that modern science is realistic and sets a greater importance on facts as facts. But the older sciences were surely not indifferent to facts; for all science deals with facts. What distinguishes the later-day sciences is not the insistence on facts, but the dispassionate habit of presenting and construing them. For modern science, the matter-of-fact habit of mind is everywhere decisive. Instead of seeking to find the spiritual meaning which underlies appearances, modern science is

content to present things as causally related in a material sequence. Helped on by the evolutionary concept of process and the notion of cumulative causation, a large part of the discipline of the material sciences has been devoted to purifying the scientific mind of the metaphysical animus. Genetic coherence is sought where formerly a spiritual tie was wanted.

How far our science has adopted the new conceptions is a matter of such vital interest as properly to suggest the course of the review to be undertaken. It must be admitted at the outset that it can give no more than a partial view. An alternative course has much in its favor. But with the echoes of controversy still sounding around us, touching the character, province, and method of economic science, it seems best to ask *how* the science has proceeded, rather than *what*, in point of doctrine, it has taught. Until a science attains a relatively high degree of maturity, a subordinate interest attaches to the development of its particular theories, for development of this sort may take place within, while the progress of the science as a whole is arrested. It is only those developments of theory that correspond to a change of front of the science that can be of consequence when we are trying to measure its advance. It seems best, therefore, in reviewing the science with this purpose, where brevity is necessary, to treat the viewpoint as the paramount concern, and to reach it by the shortest route. Progress in science means more than one thing, but it means no one thing more than the successive conquest of viewpoints that afford a fuller and finer knowledge of the conditions or processes with which the given science is occupied. Just as the history of a country may be read in its highways, and the progress of a people is written in their tools, so the history of a science is most clearly revealed in the paths it has followed and the methods it has used. In such a view of the matter, it is the lower levels rather than the upper levels of the structure of the science that are to be brought under notice. Economics has changed its theoretic constitution from time to time in the course of its modern history, and it will not be a misappropriation of time to inquire under the pressure of what exigencies or the stimulus of what impulses the modifications have taken place, and whether they have been in the direction of progress. It is the foundation, framework, and outfit of the science rather than its specific output that will need to be noticed, the bases of its theoretical formulations rather than the formulations themselves. — what is sometimes called the external history of a science in distinction from its internal history.

For the purpose of understanding the theoretic constitution that economics has had during the greater part of the nineteenth century, it is necessary to go back to some of its eighteenth century antecedents. To the Physiocrats belongs the credit of having attempted

the first great comprehensive synthesis in economics, and though the structure they erected was airy and fantastic, it served as a model for later generations beyond what has ordinarily been admitted. Many a later thinker is of closer kin to them than he would be willing to acknowledge.

Until the Physiocrats entered the field, economics was habitually treated as an art, the chief concern of which was to formulate maxims of public policy. With the Physiocrats the study takes a new direction, or what to all appearances is to be rated as a new direction. They set out to discover the natural laws of wealth, though to the Physiocrats natural law means something different from the empirical generalizations of later science. Theirs is a metaphysical conception of natural law and theirs is the metaphysics of the order-of-nature. Starting from this as their central position, they work outwards to the laws of society. The natural order of society is to them a simple deduction from the physical order of the universe, and the natural laws of society are simply the laws of the physical order applied to social relations. Therefore, the Physiocrats address themselves to a careful scrutiny of nature's processes and purposes. As they conceive the matter, it is the ceaseless exchange of matter and force between nature and man that makes up the natural life of society. That exchange is the phenomenon to be explained, and the order-of-nature explains it. The ultimate term of the Physiocratic formulation of economic truth is, therefore, the order of nature. The habitual effort to reduce all things to terms of nature is the characteristic and dominant feature of their thinking.

To the Physiocrat, the course of human events is under the guidance of nature. Nature is invested with a teleological propensity, working always for the physical welfare of man. She can, however, be hindered or even thwarted, — not only can be, but has been. But as soon as men cease the infractions of her discipline, the natural course is resumed. In the end, nature always has her way, and her way is the best possible way, for she is the interpreter of the Supreme Legislator whose laws are intended to secure the welfare of man.

Such is the Physiocratic view of the order of nature. Starting with this conception, they set about to formulate the laws of wealth, the aim being to construe the economic process in terms of the natural order. And since the great enterprise in which nature is engaged is the support and perpetuation of human life, it follows that the supreme test of economic reality is the relation of any industrial function to this nutritive function of nature. Man's work is to be rated as efficient or otherwise according as it helps or hinders the consummations of nature's substantial end. Thus in the Physiocratic analysis the interest centers chiefly in production, and their economy is, therefore, mainly a theory of production. Specifically the test of

productivity of any activity is its bearing upon the fund of human sustenance — food. Only such activities as enlarged the supply of the material basis of life are accounted productive — all else is beside the mark. Nature is not solicitous for the spiritual welfare of man; hence no alleged spiritual gains coming from diversion of industry from its true channel can compensate for the losses of nutritive material. From this principle follow by logical necessity the Physiocratic theory of the “produit net,” the “impôt unique,” their classification of industries and their predilection for agriculture. The system is one of singular symmetry and nice adjustment of parts.

Their theory of value presents itself as an integral part of this closely compacted system. If value be generically conceived to mean that which avails towards some admittedly adequate end, then, for the Physiocrats, value must mean that which avails towards nature's work. Exchange values, those which result from the conventional rating of things in the market, manifestly could not satisfy the physiocrat's sense of reality. Natural values are the only real values, to be arrived at through an appraisal of things from the point of view of nature's purposes. Only that is accounted of value which contributes to the increase of nutritive material. Nothing could be farther from the Physiocrat's notion of wealth or economy than to make vendibility the attribute of wealth. That would have been a degradation of the science to the position of a mere “market philosophy.”

Other features and details of the physiocratic theory lend themselves readily to a similar construction, but enough has been said to indicate how the metaphysics of natural propensity shaped the theory and to justify the view that economics made its *début* as a systematic science under the patronage of the eighteenth century metaphysics of nature. And it is a mistake to represent this expedient of thought as an invention of the Physiocrats. Their methods and procedure were such as commended themselves to the scientific judgment of the eighteenth century, for the order-of-nature conception played an important part in the philosophical speculations of its moralists and political writers. What was original and striking was the use the Physiocrats made of this conception in constructing a philosophy of wealth, and the new method by which they arrived at it, and the new authority with which they invested it. The postulates of their system were a curious blending of physics and metaphysics, but it is the metaphysics that is of chief significance for the subsequent history of the science.

It gives, however, a very faulty idea of the *significance* of the physiocrats to represent them as mere system-builders. For them the distinction of a later day between art and science has no existence. Theirs is in truth a utilitarian science, — a sort of economic

sociology in which of necessity the *is* and the *ought-to-be* are merged in one. They have no need of going outside the system to point applications of its principle. Under the *ordre naturel* whatever *is* of right *ought* also to be. The laws of the physiocratic economy are not statements of mere historical uniformities or sequences. The sequences are regarded of necessity as describing consummations to be desired, for they are, in a discreet sense, natural sequences. So, while thinking in the spirit of a utilitarian science, the Physiocrat is able to speak in the language of positive science. But, for all that, a positive science of economics, as concerned merely with the explanation of things, had not yet emerged. And what is true of the Physiocrats in this regard is true of much of the later science so far as it worked under the guidance of the metaphysics of natural propensity or any of its derivatives.

The next important advance in economics is connected with the activity of Adam Smith; and it is to be rated the most considerable advance ever accomplished for the science by any single individual. And his work is to be rated as a great achievement whether we regard the body of its specific teachings or whether we regard only its larger features as set forth in the general attitude of the author. The painstaking scholarship that has been brought to bear in recent years on the history of economic science has shown Adam Smith's indebtedness to his contemporaries to be greater than was once supposed. Very real affinities of thought and attitude are now traced where formerly the differences seemed prominent.

Particularly close is Smith's kinship with the Physiocrats; so close that with the lapse of time there seems to be increasing disposition to group him with them, rather than to set either them or him apart from the direct line in tracing the pedigree of the science. Adam Smith stands on much the same plane of culture as the Physiocrats. With both, the fundamental constitution of the science is metaphysical, and with him, as with them, the metaphysics is the metaphysics of natural propensity; with this difference, that in Adam Smith the metaphysics is toned down somewhat and is made to play a less overt part in shaping the formulations of theory, which is, perhaps, only another way of saying, with just about the difference that we would expect between a representative French thinker of the eighteenth century and a representative Scotchman. Indeed, in this respect, Adam Smith may be said to occupy a transitional position in the history of economic thought, if the greater prevalence of the matter-of-fact habit of mind may be taken legitimately, as broadly describing the cultural advance of the nineteenth century. The sources that fed this advance in Adam Smith need not detain us. It is probably to be set down to the credit of no single influence or indi-

vidual. He simply shared in the change of mind that was being operated for British eighteenth century thinking by the slow-working influences of the time, and that found their most definite philosophical expression in the skepticism of David Hume. So that an admirer of Hume might be pardoned for thinking that Hume did for political economy a service somewhat analogous to what he did for philosophy. However that may be, an appreciable change was coming over British thinking, characteristic out-croppings of which meet us on every page of Adam Smith. So far as he was hard-headed and factual he was a child of his time; but so far, again, was he also child of his time as he preserved, along with the new habit, the metaphysical bias from which it was not given his century to shake itself free.

The feature of Adam Smith's thinking that is here under notice as marking an advance in the progress of the science may be viewed in another aspect. There has been not a little discussion as to the method of investigation followed by Adam Smith. Spokesmen for each of the rival methods — "induction" and "deduction" — have claimed Adam Smith on their side. But all that this means is that Adam Smith is in his ways of thinking at a transition. So far as the deductive method goes with the metaphysical way of handling things, the abundant use of it by Adam Smith shows the vitality of the metaphysical animus; and so far as the inductive method is a suitable companion of the more matter-of-fact habit, Adam Smith's frequent resort to it points to the presence of a new item in the conceptual equipment of the science. For this reason it is a matter of some difficulty to define Adam Smith's true attitude in a summary statement.

Adam Smith, like the Physioocrats, is concerned to find the *natural* laws of wealth, and his discussion runs almost habitually on the causal sequences of things; and, so far, justifies the title of his book, *An Inquiry into the Nature and Causes of the Wealth of Nations*. But a closer examination shows that, in his handling of the phenomena of wealth, he is not content to let the inquiry stop with the description of proximate causes. His feeling for reality is not appeased until the causal material situation is resolved or, at any rate, is resolvable, into its ultimate spiritual causes; in other words, for him things must have a meaning beyond what the naked situation yields. For him the causal sequence regularly implies a spiritual sequence, and sometimes a spiritual sequence is discernible where the causal sequence is broken. His plan, therefore, like the Physioocrats', demands a scheme that shall be competent to exhibit the significance of the economic processes. But, while this much may be said with confidence, it is not so easy to say what that scheme is. It is not put forth with the Physioocrats' *naïve* frankness. Adam Smith is a

Scotchman. Suffice it to say that to the older notion of a teleological trend in the course of events, Adam Smith adds the notion of a normal human nature. The human propensity to "truck, barter, and exchange" becomes the mechanism through which the "invisible hand" of nature accomplishes its purposes, and since men are pretty much alike, the mechanism is well-nigh faultless. It is, therefore, the workings of human nature as thus conceived rather than the operations of physical nature that form the object of Adam Smith's analysis. His system, like the Physiocrats', is mainly a theory of production, but man, not nature, is conceived to be the central agent in the process. His system has, therefore, been properly called the *industrial system*, for human industry, labor, is its efficient principle, the term in which economic knowledge is formulated. Though he looks in much the same direction, his outlook is broader than the Physiocrats'. Everything is viewed from the standpoint of production; all the economic processes are construed as aspects of the productive process, but the notion of production is widened so as to include every variety of industry, not alone that which helps the nutritive work of nature. So "natural" value belongs to whatever embodies labor; labor is the *cause* of value, — the "real price" of things.

But while Adam Smith's notion of the natural course is appreciably nearer the truth as the ordinary layman sees it than was the Physiocrats', it is very far from professing to be identical with the actual course. Thus natural values are not the values causally determined by the "higgling of the market." But, for all that, they are the "real," the "necessary" values, and the market values are the "nominal" values, the "accidents," though a cynic might be pardoned for refusing to see wherein they were "necessary" except to establish the logical congruence of economic theory with its postulate. Of course, the gap between nature and the market is bridged, in thought at least, by the workings of self-interest. Where competition is the regulator of values a reasonable correspondence is held to ensue between the "real" and the "nominal" prices of things, and thus is vindicated the economist's claim that nature does all things well, and that, as she does them well, the logical is the "natural."

Quite as characteristic of Adam Smith's attitude is his treatment of distribution, and it is almost equally characteristic, it may be added, of the attitude of many later economists toward the same problem. The shares in distribution are to be accounted for. How is it done? Briefly stated, by construing them in terms of the "necessary" equivalence of effort and effect in production. Nature does not waste. Therefore, when the natural course of things runs off smoothly, that is to say, when competition does its part, effect

must be proportioned to effort, and *vice versa*; and thus the quantitative equivalence between work and pay is neatly established. Man bestirs himself to secure a gain with no intention of assisting the productive processes of nature. But, for all that, the bargains that he drives betray him into an alliance with nature, and therewith is he led by the "invisible hand" to do his part in production and the service of society. The resulting shares in distribution are "natural." But, here again, it must not be supposed that the natural and the actual correspond in Adam Smith, least of all in that state of actual society which follows "the appropriation of land and the accumulation of stock." Nevertheless, the distribution in question is "natural," because it falls in with the author's preconception of the orderly course of industry.

If it be asked whether the term "natural," as employed by Adam Smith, implies the same unmitigated approval as with the Physiocrats, the answer must be "No." In general, the "natural" means "what ought to be," or "what is intended by a benevolent Providence." But some telling passages might be quoted to show that Adam Smith's enthusiasm for the "natural" is considerably tempered by his noting the action of other plain, homely, matter-of-fact causes, even under the "system of natural liberty." The ease of the landlord is one. His "rent costs him neither labor nor care." So, again, "the interest of the dealers in a particular branch of trade or manufactures is always in some respect different from and even opposite to that of the public." The persistence of these and similar cases were troublesome items in Adam Smith's system. They must have offended his nice metaphysical sense of fitness. But it is greatly to his credit that he did not attempt to ignore them, and was willing to sacrifice symmetry to truth. That would have offended his dispassionate practical judgment still more. He is willing to let these blemishes stand as exceptions to the beneficent trend of things. And in this respect he is better than some of his followers.

But yet, looking backwards, the metaphysical animus in Smith is strong. The notion of a natural economic order guided his thinking as it had done the Physiocrats'. But his natural order was the result of the free and spontaneous action of individual interest, acting, of course, under the constraint of Providence. This idea of efficient self-interest was his specific innovation, and his legacy to his followers. They seized upon it, and, informing and strengthening it with a new philosophy of the human mind, made it the basis of the classical system.

With the turning of the century, the constitution of economics experiences a substantial change, adding to its premises and shifting

its attitude, but not in any such thoroughgoing way as to divest it of its metaphysical character. It is still a science dependent on the apparatus of preconceptions and postulates.

The leading figures in economics at the beginning of the century are Malthus and Ricardo, and they, with Adam Smith, are usually represented as the great triumvirate that gave to English political economy the character that it has held ever since. But it seems doubtful if either Malthus or Ricardo has exerted a greater influence than the great Utilitarian who was the tone-giving influence in nearly every department of English thought for at least one half of the century. To the influence of Bentham's teaching the science owes that peculiar constitution which has given rise to its characterization as "the mechanics of natural liberty." To that same influence seems due the shifting of the center of interest from the analysis of production to the theory of value. To him, also, is due the rapid rise to ascendancy of the abstract deductive method. And to his teaching in particular we owe the creation of that bond-man of the science, the economic man. No doubt, other influences also contributed to these changes. The incorporation of the law of diminishing returns and the principle of population into the premises of the science are to be especially noted. As limiting conditions of the environment within which the economic action of man was noted they also served to add emphasis to questions of value and distribution, and, besides, imported a strain of pessimism into economic thinking. But no other influence was paramount to the influence of the new habits of thought, the foundations of which were so convincingly set forth in Bentham's *Principles*. That influence was deep and pervasive.¹ It was during the reign of Benthamite utilitarianism that English political economy achieved its greatest triumphs and worked its way to an authoritative position in Great Britain as a foundation for public policy.

The specific innovation that utilitarianism accomplished for political economy was the substitution of utility for providential design as the basis of theoretical formulations. Bentham gave to that metaphysics of human nature which had already emerged in Adam Smith a matchless statement, an impregnable setting. It became for political economy a first principle. Adam Smith had shown how the actions of individual men, each seeking his own gain, inevitably promoted the public interest. But Adam Smith was no utilitarian. It was to only one class of actions that he assigned

¹ It need scarcely be added that the influence upon the constitution of the science here attributed to Bentham's teaching was not exercised by his own economic writings, important though they were, but sprung from his general philosophic standpoint, which found such ready assimilation and bore such characteristic fruitage in the institutes of economics as developed by Ricardo, Senior, and McCulloch.

self-interest, and even there self-interest was but a wheel in the mechanism through which nature sought her ends. With the school of Bentham, however, "there is no true interest but individual interest," not only in the region of business, but throughout the whole of life. Self-interest is, therefore, not a method of nature; it *is* nature.

To Adam Smith's followers, the *Wealth of Nations* was a sacred text. But like other sacred books, it was not above interpretation. At the opening of the century the succession to Smith was in question. Malthus and Ricardo were aspirants for the leadership. Of the two, Malthus stands much nearer Smith in his philosophical preconceptions. Like Smith, he imputes a purpose and constraining guidance to nature. But the victory went to Ricardo. He is a layman in philosophy, coming by his preconceptions tacitly, like many a later economist, through a simple process of absorption. That is, perhaps, what makes him so significant an exponent of the change in the point of approach that was taking place in the science. Ricardianism is Benthamite utilitarianism turned economic. It was given to Bentham to formulate the new articles of faith; to Ricardo to use them.

In the hands of Ricardo and the disciples of Bentham, economics ceases to be a theory of the natural order and becomes, what was already foreshadowed in Adam Smith, a theory of the workings of human nature, but of human nature construed in hedonistic terms. Human nature is regarded as a competent mechanism for transforming the effects wrought upon it by the forces of the environment into an equivalent amount of conduct. Human action is viewed as inert, mechanical reaction, the effect in conduct being always quantitatively proportionate to the cause. This being the general position of Hedonism, the particular office of each of the sciences living under its dispensation was to show in detail, in its appropriate department of activity, how this reaction takes place. And since the process through which the human agent translates the adequate cause into its appropriate effects is obviously a valuation process, economics ceases to be primarily a theory of production and becomes a theory of valuation. Its principal problem is not to discover the causes of the productiveness of industry, but, as Ricardo puts it, to "determine the laws which regulate distribution." Value ceases to be regarded from the side of production and production becomes a category of value, and political economy takes a long step towards attaining, in appearance at least, what Professor Marshall three quarters of a century later describes as its proper goal, — a theory of the equilibration of economic forces. In keeping with this change of base, value is no longer conceived as that which avails towards production, but as that which avails towards exchange.

Labor falls from being the cause of value to being merely its measure. Value being taken as the earmark of wealth, the Ricardian economics becomes a theory of acquisition, attention being given to the money-making propensities rather than to productive activity. The distinction between industry and business, between making things and "making money," is obscured and neglected. Archbishop Whately designated the essential interest of the utilitarian economics when he proposed the name "Catallactics" — the science of exchanges.

But however considerable the changes thus wrought in the theoretical structure of the science, the adoption of the utilitarian conception did not destroy or seriously damage the belief in a meliorative trend in events. The fact of diminishing productiveness and the law of population made it far from easy for the Ricardians to contemplate the "natural advance of society" with the unmixed satisfaction of the Physiocrats and Adam Smith. But utilitarianism, with its "greatest good of the greatest number" and "every one to count as one," saved the day for the system of natural liberty. Since society is the sum of its individual men, and the collective interest is the sum total of individual interests, it follows for utilitarian economics that each individual, in pursuing his own private interest, is also furthering the social good in the most effective fashion. And consequently the natural laws of the science under its utilitarian organization, though they have lost something of their former coloring and unimpeachable authority, are still uttered in a sense that usually implies approval, even though in a greater degree than before they are expressed in the dry and conventional language of science. Competition makes for the happiness of the greatest number. Therefore, the natural laws of political economy, which are the laws of competition, carry with them the suggestions of precepts.

So long as utilitarianism maintained its position unimpaired, economic science had a clear and easy course to follow, — that is, until about the middle of the nineteenth century. During that time it advanced to a commanding position among the social sciences, because it was, of all of them, the most competent to turn the utilitarian expedient of thought to effective account in explaining the motions of men and society. Its deliverances, frequently uttered in a spirit of dogmatism, were accepted almost unquestioned. Its standing with the public has never been better. There were differences among the Ricardians on questions of theoretical detail, but nothing touching the spiritual stability of the system they had devised. New departures in economics were taken or proposed by Sismondi in France, List in Germany, and Richard Jones in England. But highly valued as the work of these innovators has been by later economists, it made little impression upon the development of the science at the time. The authority of the classical political economy

was not impeached and could not be impeached by any such attacks. The time had not yet come. So long as utilitarianism was in the ascendant, the public credentials of political economy must needs be the best. But let the supremacy of utilitarianism once be threatened, and troubles must begin for economics. The old constitution would no longer avail; a change must follow.

That change began about the middle of the century and, strangely enough, was associated with the intellectual enterprise of the man who frequently has been represented as having given to political economy its most telling exposition from a clarified Ricardian standpoint, — so much so, that the English economics of this middle period has sometimes been called the Ricardo-Mill political economy. But seen in the fuller and truer perspective of time, Mill's *Political Economy* is read to little advantage and his position is badly understood, when he is represented as merely the "*Sécrétaire de la Rédaction*," keeping to his task with the "piety of a disciple." The truth of the matter is that Mill was at a transition in British thinking in a sense which neither he nor his following appreciated. In his hands political economy was shifting its ground, insensibly perhaps, but nevertheless unmistakably. Mill may have echoed the laws and phrases of the earlier generation of thinkers, but he was informing them with a new spirit which reflects the presence of the new influences that were affecting the thinking of his day. This is not the place to attempt an enumeration of these influences. They were several and diverse. It will answer the purpose to mention a single one connected with the decline of utilitarianism and its psychological counterpart. For this decline imported a considerable change in the outlook and status of economic science. The change in question is already foreshadowed in Mill's *Logic* (1843), where the older view that individual conduct and character are but the mechanical product of the molding circumstances of the environment is qualified so far as to allow to the individual himself an influence and responsibility in shaping those circumstances. That is to say, a teleological trend is coming to be claimed for individual conduct where formerly such a trend was looked for and found only in the sequence of events in nature. In other words, the human nature, into the workings of which the economist inquired, is being differently construed under the guidance of a changed psychology. The psychology that was making its way in Mill's time was moving away from the older associationist standpoint and approaching the position of modern functional psychology. Centering its interest in the process of attention, it teaches that cognition or perception as the attentive process always implies the presence of a purpose or interest that elicits and guides the attention; that attention is essentially the process of examining a situation with the view to discovering

what objects and conditions it contains that may be made use of for a given intended purpose. Human conduct, as viewed from this standpoint, ceases to be merely uniform, quantitative, inert reaction to adequate forces, and comes to be regarded as qualitative, purposive response to stimuli. The ethical counterpart of this revamped Hedonism, the utilitarianism of Mill, correspondingly recognizes in the motivation of human conduct differences in kind of pleasures as well as in amount, and imputes to the selective agent in conduct a continuity of purpose that gives a spiritual stability to the life process. And herewith there begins to fall away from political economy that ancient article of faith which had seen in nature, and nature alone, the consummate, beneficent trend which enabled the economist to go to his work with conviction in his heart and confidence on his lips.

It is out of the question to pursue here the modifications wrought by Mill and his following in the received version of economic doctrines as a result of the change in their mental attitude. To one of these, though it is far from being the most significant, Mill himself calls special attention. It is the distinction he draws between the laws of the production of wealth and the laws of its distribution. The first are "real laws of nature dependent upon the properties of objects" and cannot be modified; but the second are only the "necessary consequences of particular social arrangements" and are "liable to be much altered by the progress of social improvement." Any attentive reader of Mill will recall many instances in which the outcome in the economic situation is represented as controlled or modified by other forces than mere pecuniary interest. The economic situation is far from frictionless. The many circumstances that Mill finds impeding the indiscriminate play of human competition as, for example, in his discussion of the causes of differences of value or differences of wages, are cases in point. The "counteracting forces" as well as the "controlling principles" are noticed. It is the "negligible factors" that mar the symmetry and flow of his exposition. For similar reasons the unmitigated results of gain-seeking traffic are not necessarily to be construed as good, and competition loses something of its former virtue as the natural scheme of social salvation. There is a visible shrinkage of the teleological content of the laws of political economy. They imply less of approval than formerly of the competitive process of which they are presumed to offer the explanation. They are still natural laws but with more of the limitations of later-day science, — empirical generalizations, statements of impersonal uniformities, of coexistence, and of sequence. Moreover, they are abstract laws built on assumptions and of hypothetical validity only. They are not entitled to exercise, therefore, a narrowly constraining influence on the economist who undertakes

to apply them. Hence, Mill does not hesitate, in applying the principles of political economy to social philosophy, to propose some very substantial departures from what so many of his predecessors had been disposed to regard as a sovereign, natural principle of the science, — the rule of *laissez-faire*. For Mill the “admitted functions of government embrace a much wider field than can easily be included within the ring-fence of any restrictive definition; and it is hardly possible to find any ground of justification common to them all, except the comprehensive one of general expediency.” Liberty and property cease to be “natural rights” and are treated as human contrivances to be tried on their merits. To the emancipated mind of Mill’s day, Bastiat’s *Harmonies* was an anachronism, a voice from the past. Cairnes’s impatient declaration that “political economy has nothing to do with *laissez-faire*,” shows how changed was the animus of the science.

Clearly, then, the forces of disintegration were at work in political economy, and the constitution of the science, as it left Mill’s hands, was a different affair from what it had been in the confident days of his father. When Cairnes some years later undertook to restore the prestige of political economy by a guarded restatement of its leading principles and an explanation of its character and methods, he believed himself, no doubt, to be walking in the footsteps of the masters. But the net result of his effort was to show how far political economy had drifted from its traditional position. The unpretentious character that Cairnes assigns to economic laws was far from expressing the ambition of the masters. The fact is that Cairnes, in attempting to give to political economy an irreproachable character, was simply sterilizing it. He set out to do for political economy what was being done in the natural sciences. In the overhauling the physical sciences were experiencing in Cairnes’s day, an attempt was being made to read metaphysics out of them; and the physical sciences were in this respect serving as an example to the social sciences. Whatever success the effort to relieve science of the metaphysical taint may have had in the field of the former, the results of the innovation in political economy are not to be accounted as highly effective. Under Cairnes’s dispensation political economy became not so much less metaphysical as less vitally metaphysical. The virile and imposing metaphysics of natural liberty simply gave way to an impersonal and spiritless conception of normality, and political economy becomes what it has remained for many of Cairnes’s followers, — a perfect, hypothetical science, formulations of theory in terms of tendencies, a body of so-called ultimate principles. For the average reader, Cairnes took the discussion of economics out of the older region of reality into an atmosphere so tenuous that it could not preserve the aspect of vital interest. It was a meta-

physical science without a message. Political economy was losing caste among the metaphysical sciences without acquiring the sought-for status among the empirical sciences. It was neither stimulating philosophy nor good observation. Is it then surprising that Cairnes should have complained that political economy had "ceased to be a subject of fruitful speculation" with the educated public, or that Bagehot should have found that "it lies rather dead in the public mind" and "no longer matches with the most living ideas of people"?

It is hardly necessary to add that all this is said with no thought of disparaging the services of Cairnes's school to economic science. His is deservedly an honored position in the history of the science and it may well be that the phase which it has seemed fit to connect with his name was an unavoidable phase in the development of the science. Indeed, there is good reason for thinking that it was. But, at best the constitution that Cairnes proposed to give to economics could in no sense become definitive, if the experience of other sciences that had passed through a somewhat similar phase could be taken as suggestive of what might be expected to occur in economics. Economics, after the middle of the century, was threatening to become a closed circle, and to come to a full stop. Such a condition could not, however, long endure in a subject of such vital concern. A reaction in some form was inevitable. What is matter for surprise in reviewing the history of the past fifty years is that the reaction, in a form competent to deliver the science and give it a modern constitution, should have been so long in coming, and that so many of the economists of the generation that followed Mill and Cairnes should have found themselves able and content to pursue their work in the spirit of the old ideals or of other ideals which, though new, were not much more to the purpose when seen in the light of those requirements which the admittedly progressive sciences of this period had, in a sense, made authoritative. Earnest efforts to regenerate economics and to recover for it something of its lost prestige have surely not been wanting. But the record, if the truth is told, is not one of big achievement or even of measurable progress when we consider the startling advances that have been taking place in other fields.

Looking first at the work of the economists of the last generation, mainly English and American, who have set themselves the special task of formulating economic theory, it will hold true, with some exceptions, that their work has been mainly work of repair and extension, rather than of fresh construction. They are the legitimate heirs of the classical tradition, — the classical school of to-day. Magnify as we will the differences that separate these later theorists from their classical predecessors, the differences are differences of

theoretic detail and emphasis rather than differences in point of approach or method of attack. For them, it would appear, the science has no new mission. The problems they handle are the old ones and they handle them after much the old fashion, though, be it said, with some change in the phrasing of their conclusions. Utility may take the place of cost, and productivity that of sacrifice; a single law of distribution may do the work that once required three; but we still have the problems of the Ricardian economics, and the apparatus for handling them shows little change. It is still deductive economics of the old type, seeking by a skillful manipulation of definitions to explain the normal case. A perfectly balanced system in which everything is reduced to order and symmetry and congruence with itself,—that is the accepted test of truth. Such, for example, is Professor Clark's *Distribution*, a consummate achievement in the art of system-making. And though the phrase "system-making" cannot be applied to Marshall's *Principles* without much qualification, it is largely because the amplitude of accessories with which he invests his treatment divides our interest with the system. Every competent reader of this monumental work knows how much more it contains than a system. But though Professor Marshall's practice is more liberal than his precept, he has made it clear on more than one occasion that the ideal he cherishes for economics is to place it on a firm foundation as a systematic science, seeking to establish a body of general principles — an organon, as he has called it — by those methods which the natural sciences of an earlier generation have made familiar. He aspires to make economics a perfect, quantitative science and would, therefore, keep value in its traditional position as the central problem of the science, to which and from which all else leads. The play of human motives working their way to a position of equilibrium,—that is the thing to be explained. Recourse is therefore taken to the analogies of physics rather than of biology, and so the science remains a mechanics of human action,—a study of balance rather than of growth,—a theory of action, no doubt, but one in which the interest centers in the conditions that limit the play rather than in the factors that vary it. No doubt, neither Professor Marshall nor his colleagues are indifferent to those considerations which the biological and anthropological sciences of our day are pressing upon the attention of the learned world. There are too many evidences in the writings of Professor Marshall, at least, of a sincere and solicitous regard for the viewpoints of these sciences, to charge such neglect. He is read to poor purpose if it is not discovered how the notions of "continuity" and "development" in the movement of things has tempered and broadened his attitude. They are the watchwords of his preface. But for all that, when the analysis is once under way, it is not

the notion of *development*, but rather that of *stability* that shapes the discussion.

The legitimacy of systematic science is clearly not to be impugned. Science it certainly is. The history of scientific endeavors in other fields shows that such work has, at one time or another, engrossed a considerable share of the attention of leading minds; but the later history of many of these same sciences shows a diminishing conviction of its present usefulness. And those that have been most successful in detaching themselves from the discipline of philosophy have given it up as an unprofitable enterprise and have taken to other and less pretentious methods. Systematic science must lose standing, because its tentative conclusions fail to satisfy that desire for concrete knowledge of things as they are which it seems to be the appointed mission of science in our day to provide. It has yet to prove its competency, in the field of social phenomena as mostly elsewhere, to present things in those aspects which modern science has taught us to regard as indispensable for their appreciation. It cuts out of the field of vision, under the name of "disturbing causes" or what not, precisely those things which interest the man on the street.

If this version of the matter be sound, it cannot but be cause for serious misgiving that so much of the intellectual energy of the economists of the present day that is being devoted to theory should have taken such a lead. It lends substance to the criticism sometimes leveled against economics by the adepts of other sciences that it is behind the times in its adherence to outworn methods of handling its subject-matter. There seems to be room, if indeed there is not much need, for work of a different type from that which has been engaging the attention of the Neo-Classical School. Progress demands it.

And much the same may be said of the interesting diversion created by the Austrians. However much they may have done to advance the discussion of a particular detail of economic theory, albeit an important one, their achievement is not to be rated as a serious innovation for the science as a whole. Indeed, the ready assimilation of the doctrines of the Austrians into the body of the classical economics shows how near they were in temperament and standpoint to the school they set out to supplant. The movement has apparently spent its force and the science goes its accustomed way.

What shall be said of the historical movement? To it is usually accorded the place of chief importance in the history of the reaction. It made its appearance about the middle of the century with the intention of saving political economy from its unprofitable career.

The movement has been variously known as the inductive, historical, or German school. It was in fact all three: historical and inductive in its professed method, but German in its essential spirit. The rise of this school is not a self-explanatory phenomenon, but it is not enveloped in much mystery. Just as the classical political economy was shaped by English utilitarianism, so the German historical economics was an outgrowth of German philosophy. In each case economics was building on the current metaphysics of the home country. Each was a distinctive national product, and the historical movement, though it has won adherents in other countries, has preserved till this day a peculiarly German character. Roscher started the movement. Reacting from the excessive *a priorism* of English political economy, stimulated by the example of the new historical jurisprudence, and inspired by the Hegelian notion of development, he set out to reorganize economics on a broader basis. The movement that he inaugurated soon found adherents. Bruno Hildebrand followed in 1848 with his *National Oekonomie der Gegenwart und Zukunft*, and Karl Knies in 1853 with his epoch-making *Die Politische Oekonomie vom Standpunkte der geschichtlichen Methode*. Taken together, these works define the fundamental articles of the constitution of the new historical economics. They were its confession of faith. Knies emphasized the idea of the parallel development of economic ideas and economic institutions, — the idea of historical relativity. But Roscher was more ambitious; he aspired to make of economics a “philosophy of economic history” whose special function should be to discover the laws of cultural development in their economic aspects. Hegel had given to German thought the conception of organic society. According to this, society has a life-history of like kind with organic nature; therefore, the process of organic life supplies the proper analogy for studying the cultural sequence. It was a part of this conception which Roscher seized on, — that the cultural sequence repeats itself in cycles of “youth,” “maturity,” and “old age,” each nation going through much the same course. The history of the past, therefore, is prophetic of the movement of the future; history repeats itself. The laws of historical development are the only “natural laws” of society. It is thus that history became the method of the new departure, — history, that is to say, as officially interpreted by Hegel’s formula. Seen in the light of its derivation, therefore, the historical school was as much metaphysical as historical. History was to be read with a purpose. “He,” says Hildebrand, “can have no right understanding of history to whom the conditions and needs of his own time are unknown.” It is the business of the economist “to discover the link which the present generation is to add to the chain of social development.” The movement, therefore, from the beginning

had an ethical as well as an historical import. Its self-appointed mission was to control, as well as to explain, development. It was an *historisch-ethische Richtung*. As Held stated it, the new school "demands a conception of the science, which includes social policy;" and since, according to the German view, the state is the appropriate organ of social control, the new economics was a theory of the state and its functions quite as much as it was a theory of economy and its changes.

Whether the reaction thus described is to be regarded as a far-reaching and salutary reaction in the field of economic study is not here in question except so far as it has a bearing upon the transformation of the theoretic constitution of the science. Every economist, no matter of what school, knows how much his attitude has been modified and tempered by the criticisms of the "Historiker." The "abstracter economics" has been shown its proper place, its spiritual pride has been reduced, and it has been put, as it were, on its good behavior. Every historian as well as economist knows, too, how much history owes to the activity of the new school. If it has turned out much lumber, of which nothing better can be said than that it is scholarship, it has also given some noteworthy and vital researches of the highest value. But all this and more that might be said to the same effect is beside the mark of our present interest. What has this school done, in a positive way, to give a new formulation of theory? Its earlier champions promised a rapid and radical transformation of economic science. Has that promise been fulfilled?

It may be said at once that so far as the activities of the historical school have moved in the orbit described for it by its founders, it has failed to make good. Economic theory has not experienced at the hands of the exponents of the new method the reorganization of which it stood in need. Institutional history is not economic science. A narrative and descriptive account of things is not a scientific relation. The theory of institutions requires that these should be accounted for in terms of determinable cause and effect. A causal sequence implies very much more than historical succession. So far as the work of the historical school has been a search after the laws of social development, it has seldom eventuated in any more definite articles of theory than such loose and sweeping historical generalizations, as, for example, Wagner's law of the increasing extension of state activity, or Held's law of the evolution of industry through the successive stages of family system, guild system, domestic system, and factory system. Such and similar guesses at "the curve of economic evolution" may be useful for the purposes of the economists who use them, but they do not make good the claim of their inventors that they "see things as they

actually are," "free . . . of all *a priori* theories."¹ The frankly avowed preoccupation of many members of the school with learning the "significance and appropriateness" of things discredits their theoretical work no less decisively than it does that of the Manchester school which they set out to supplant. The doctrines of the one are as unmistakably of metaphysical derivation as those of the other. But since historical induction seems a less competent contrivance than abstract deduction for turning a metaphysical postulate to rapid account in the formulation of theory, the theoretical output of the historical school has been notably small. Indeed, many of the school appear to have given up the profession of theory, being content to use as their working principles, when the occasion arises, the body of doctrines worked out by the later economists of the classical trend. It was such a change of heart, no doubt, that made it possible for Professor Wagner,² some years ago, to express such ready acquiescence in the work of Professor Marshall. It would appear, from this and many other symptoms, that the large group of historical economists for whom Wagner speaks has abandoned the field of theory and taken to other work.

When, however, we turn to the branch of the historical school of which Professor Schmoller may be taken as the representative, we meet a different situation. There is much in the later activity of this branch that is of promise for the future of economic theory, and much that sets it apart from its own past as well as from the conventional line of the historical trend. Taking, at the outset, a position so radical that it drew from his colleagues the characterization of "extreme Historismus," Professor Schmoller yet stands to-day as one of the foremost workers in the field of theoretical construction. Whether or not such an outcome was to have been expected as a result of the interest that has hitherto engaged the activity of Professor Schmoller and his school may be doubted. It is well known that Professor Schmoller began his career by discouraging all attempts at theory as premature and ill-advised until an extensive equipment of historical, statistical, and other material should have been provided; and his utterances on different occasions left no doubt that this preliminary work would need to be done with such exhaustiveness as to absorb the energy of at least one generation. An eventual formulation of results was avowed to be the end in view; but the long-continued and painstaking devotion to history, and the easy avoidance of theory, gave much ground for the belief that history rather than theory would always be their characteristic

¹ So Professor Ashley in the preface to his *English Economic History*. Cf. also the same author's inaugural lecture on the *Study of Economic History* printed in the *Quarterly Journal of Economics*, vol. VII, especially p. 136.

² In a review of Marshall's *Principles of Economics* published in the *Quarterly Journal of Economics*, vol. V, p. 319.

product. Indications, however, have not been wanting in the writings of Bücher, Knapp, Sombart, and others, that history was not to be the last word of the school, but the pathway to construction. Above all, the work of these gave substantial promise that the theory at which they aimed would not rest with empirical, historical generalizations, but would lead to laws of causal sequence. It is this latter aspect that makes German economies, as seen through Schmoller's *Grundriss* or Sombart's *Moderne Capitalismus*, of such significance for economic theory. The function of economic theory, as these men appear to understand it, is very different from the conventional view. Professor Schmoller made it clear some years ago, in a review of the Austrian doctrines, that he could not regard the problem of value as the main preoccupation of economic theory. For him, the economic process includes much more, and much of more significance than the process of valuation. What he aspires to offer is a theory of institutions, more specifically a theory of the factors that have shaped the successive phases that make up the life-history of these institutions, and the outcome, as we have it, in the existing situation. The economic situation, as Professor Schmoller views it, has nothing definitive about it. Institutions are regarded as a part of the conventional apparatus of life. They are still in the making, therefore, and always will be; and they are not accounted for by representing them as functions in an orderly and rationalized eternal scheme of things. They represent the accumulated influence of a complex of forces whose shifting play is to be ascertained by a careful scrutiny of the exigencies under the stress of which the process of institutional adaptation has taken place. The interest centers, therefore, much more in the origin, variation, and survival of institutions and habits, so far as these determine or *are* the economic situation than in their present working or efficiency as rated by some conventional standard. The result is, therefore, to be described as a genetic rather than an historical account of institutions, — a natural history of institutions in their economic aspects, the chronological sequence always giving way to the causal sequence. The point of view is that of evolution rather than of "historical development," the discussion habitually following the lines that evolutionary science has made familiar. Elaborate notice is taken of such features and circumstances of environment as have an appreciable bearing upon the economic life-process, and a no less careful regard is paid to the changing makeup of human nature, for it is the complex interaction of man and his environment that issues in institutions. Neither environment nor human nature is treated as a given fact invested with stability. They each change, both as cause and effect, and their interplay is therefore to be conceived and described in terms of process and not of fixed condition.

For such a survey of the natural growth of institutions, history is of obvious importance. It describes the field of investigation; but more than history is needed. One has only to turn the pages of Professor Schmoller's *Grundriss* to see how widely he has ranged in fields of knowledge that lie beyond the conventional frontier of economic science, as it has usually been cultivated by economists of either the historical or the classical trend. Geography and geology are pressed into service to explain environment, as ethnology and psychology are to explain the human factors. It is the habitual resort to knowledge of this kind, to explain the economic situation, that gives to this latest enterprise of the leader of the historical school its peculiar and striking character. Indeed, this most recent example of Professor Schmoller's method marks so much of an innovation upon the historical method, as it hitherto has been conceived, that it is questionable whether it should be called historical economics. What it is called is, however, of secondary interest. The fact that is of moment, and that is to be signalized in following the progress of our science, is that we have here a new type of economics, a type that attempts, and with appreciable success, to carry into the study of economic institutions something of the spirit and method of the later-day sciences.

SECTION A — ECONOMIC THEORY



SECTION A — ECONOMIC THEORY

(Hall 15, September 22, 10 a. m.)

SPEAKERS: PROFESSOR JOHN B. CLARK, Columbia University.
PROFESSOR JACOB H. HOLLANDER, Johns Hopkins University.
SECRETARY: PROFESSOR JESSE E. POPPE, University of Missouri.

ECONOMIC THEORY IN A NEW CHARACTER AND RELATION

BY JOHN BATES CLARK

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It is the purpose of this paper briefly to indicate a certain enlargement which economic theory is undergoing and a certain new and intimate relation to statistical knowledge which, in the newer portion, it is assuming. It is obvious that general political economy is becoming practical. It is emphasizing statistics and industrial history, gathering from the field of business data which, in themselves, command a measure of respect on the part of employers of labor, influential working-men, and even politicians. The conclusions which may be based on such data constitute a new mass of theoretical knowledge; and concerning this there is doubt as to whether it is winning its full share of the respect which is felt for tabulated statements of bald fact. While the work of the theoretical economist has, at certain epochs, kept pace in recognition and influence with that of the statistician and the historian, there has arisen a suspicion that the recent gains in applied economics are made at the cost of pure theory as such. They are supposed to represent a reaction against its former spirit and method and in favor of a type of research which calls men out of the study into the arena of active business.

It will hardly be admitted by those who rejoice in an intelligent way over the reaction which has taken place that it implies such an exaltation of bald facts as to carry with it a contempt for principles

or a definite abandonment of the search for them. What is claimed in this paper is that the new facts which are appearing will inevitably prompt, not only scientists but practical men who think at all, to try to discover the principles underlying them. The facts will not go without interpretation. What Aristotle said of the general phenomena of the universe applies in a concrete way to industrial developments: "We *must* philosophize." It is not in the nature of the mind to see what is occurring without trying to discover the forces that cause it and the laws which govern their action. The search for such laws holds the investigator in the world of realities, and the modern extension of theory will meet the demand for knowledge which is, before all else, practical.

While much of the investigation of early economists could be carried on without elaborate historical data and even without very elaborate statistics, the special character of the new theoretical problems requires us to go below the recent and startling movements in business life and see, if we can, what forces control them; and of course we cannot do this successfully if we get at all out of touch with the facts themselves. Ultra theoretical indeed will be the pure economic science which is thus to be attained and formulated. It will be as far as possible from catering to a really philistine demand for bare facts and figures and from showing any timidity as to the use of the reasoning powers. It will not fear to analyze and generalize. It will do so boldly and confidently, but not without an intimate acquaintance with markets, the organization of labor, and the consolidation of capital, and not without a study of the new economic influence of the law-making power and of party machinery. Philosophical thought and practical life will thus come into the closest connection, and the man of affairs will be worth most when he has in mind correct theoretical principles, while the theorist, on his part, will get most from the world and give most to it when he pursues more rigorously than he ever pursued before, his analytical and deductive work.

Intricate and difficult are the specific problems that now have to be solved. Changes are in progress, the effects of which go through the very structure of society itself. Population is increasing, capital is accumulating, migrations are going on, revolutionary inventions are in progress, the languid Orient is suffering invasions by the irrepressible Occident and is itself about to undergo a radical transformation and also to act in a powerful way on the destinies of the West. These movements do not go on so completely of themselves as to permit no promoting or interfering by the state. Nations seek to control and guide them in a conscious and purposeful way. Diplomacy, war, and experimental law-making, not to mention more experimental platform-making, range themselves among the

forces with which the economist has to reckon; and if in the midst of the overturnings which result there can be detected the orderly working of economic law, nothing can be more important or practical than discovering it.

The larger part of the work heretofore done in the realm of economic theory has consisted in a search for standards of value, wages, interest, rent, and in attaining truths so general that it is not dependent on the amount of progress which a society has made. There is, for example, the natural price for an article of commerce based on the cost of making it, and towards this standard the actual price of an article, at any stage in the development of a civilized society, is always tending. There is a natural rate of pay for labor of a given quality, to which the wages of actual workmen of this grade steadily tend to conform; and there is a normal standard of rent for each piece of land which the amount that the owner actually gets closely or remotely approximates.

The establishing of scientific standards such as these does not necessarily call one far into the field of history, though statistical tables are eminently useful in assisting in the process and in verifying its results. The theoretical work is chiefly static and it is in the realm of dynamics that the historical data become most essential.

The economists have been quick to admit that this tendency of values, etc., to conform to their theoretical standards is obstructed by adverse influences and that the price of a commodity, the pay of a workman or the rent of a piece of land is seldom, as they would have said, exactly natural or, as we might say, static. They have admitted the inexactness of the working of economic law, but have ascribed it to friction and obstruction rather than to anything more general and legitimate. It has not been clearly perceived that it is organic change in society itself which causes the abiding differences between the traditional standards of value, wages, and rent, and the actual rates. The newer theory will give itself to the study of such organic change and this will tie it closely to practical life and make theory on the one side and statistics and history on the other mutually indispensable. It will not confound theory with fact, but will make theory dependent on fact, and *vice versa*. The assumptions with which it starts will be supposed realities which it is in order to test by practical inquiry, and the conclusions will be subjected to the same testing process. On the other hand, the principles tentatively attained by the use of the assumed premises will become an indispensable guide in the search for facts. They will lead to the discovery of facts which mean something and are capable of orderly arrangement and interpretation. Otherwise there is danger of collecting a mass of information so vast and chaotic that it will be useful chiefly as a means of moral discipline for the baffled student.

Without fully realizing it the economists of an early day were, as has been indicated, trying to establish static standards. Their "natural" price of a commodity, for example, was one that might be realized in practice if society were in a certain changeless state. Stop the disturbance and movement which progress causes and wait long enough to let friction be overcome, and the cost of an article, as scientifically defined, will be the real price for which it will sell. If the outlay involved in making a yard of cotton cloth of a certain weight and fineness were forever fixed, it might be that the price it would sell for would come to vary from the cost very little; but it is quite otherwise when the cost itself is perpetually varying. When such goods were made entirely by hand their makers' outlay afforded for some time a more or less stable basis of price, but with the invention of the spinning-jenny the cost fell. The actual price began to tend toward the reduced level, but before it could reach its new plane further inventions were made and the standard of price again fell. So long as such things occur the price of an article can never stand at the cost-rate, but must forever pursue that rate, as the industrial changes carry it lower and lower.

This is merely one illustration of what is occurring at innumerable points and affecting many economic standards. There are natural rates not only of prices for all articles, but for wages of labor and of interest on capital. There is even a standard form of industrial society itself, and this is continually changing. For the present the standards of value, wages, and interest will serve as adequate illustrations of a general principle, for all these are undergoing perpetual change and drawing actual prices, wages, and rates of interest after them in their movement, though friction keeps the attracting standards and the pursuing practical rates by a certain distance apart.

The economic science of the future will have to deal comprehensively with industrial changes, their causes and their results, and among the results will be alterations of the economic standards as we have spoken of and of very many others. The productive power of labor which constitutes the basis of its pay should, for the good of humanity, grow larger from decade to decade, and the pay should rise, following, at a certain distance, the rising standard. On the other hand, if the gross amount of the social fund of capital increases as much as the welfare of all classes requires that it should do, it may be expected that the productive power of a unit of it will grow smaller and actual interest will fall with this falling standard. The theory of economic dynamics will endeavor to refer these and many other changes to their causes and trace them to their effects and so afford a comprehensive knowledge of the laws of economic movement.

At three of the general changes which are in progress we may briefly glance in order to see how the phenomena of change, as actually

recorded in statistical tables, need to be appealed to. Population is increasing, capital is accumulating, and new methods of production are coming into use. The most important single result of any one of these is a change in the productive power of labor, which sets the standard of its pay. By way of illustration we may notice each of these changes with reference to this single effect.

On the basis afforded by common observation the effect of each of these changes on the rate of pay for labor is now known. An increase of population in itself and apart from any accompanying change tends to reduce the productive power of a unit of labor and thus to lower the standard of its pay. The more men there are working in a field of a given extent and richness, the less each one of them can create, and the less he can expect to get.

On the other hand, an increase in the amount of capital tends to raise the standard of wages. If we enrich the field in which a force of men is at work, leaving the size of the force unchanged, the more each one of the men will create, and the more, in the absence of excessive friction, he will actually get.

An improvement in the methods used in producing commodities works, as far as wages go, in the same direction as an increase of capital, in that it enlarges the amount which a single worker can create and secure. If population grows moderately while capital accumulates and methods improve rapidly, the standard of wages moves upward at an encouraging rate, and the actual pay of working men pursues this rising standard, though lagging somewhat behind it. A check on the growth of population and a stimulus for the accumulation of capital and for industrial discovery and invention would together produce a result that is ideally desirable. By reason of the enlarged total amount of his fund the capitalist would get an enlarged total income, though the *rate* of interest would have somewhat fallen. The entrepreneur, by means of the improved methods of production put at his disposal, would have increased profits, and the laborer, by a compounding of the various influences at work, would get a large increase of pay.

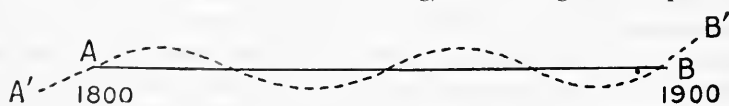
Will these gains be neutralized, as an old view of the law of population would have led us to suppose, or will they be permanent? Will the worker who has gained something be in a position to gain more?

It is already beginning to be evident that the latter effect is a probable one, and there is pressing need of statistics that will fully test this probability. An increase of general prosperity means the promotion of men from an ill-paid class to a better paid one and a numerical shrinking of the worst-paid class. This reduces the proportion of population belonging to the class which shows a high birth-rate and increases the proportion belonging to those which

have a low one. The accumulation of property by workmen is an influence that retards the growth of numbers, and it is, of course, the higher classes of laborers that are the best able to make such accumulations. Education reduces the rate and the higher classes have the more education. Finally, any prosperity which is long-continued has a tendency to establish a progressive standard of living. Men may even become habituated not merely to living on a certain absolute level, but to living, as the years advance, on a higher and higher level. This is the supreme possible result of an era of prosperity, and if it ever becomes an assured and general result, — if men come to require for their personal satisfaction that they shall live in each decade better than they did in the preceding one and shall act accordingly, — all danger that they will sacrifice their gains, and, in so far as laboring-men are concerned, turn the course of progress backward, will be forever removed. Gains for labor will be precursors of no offsetting losses, but rather of further gains, and men will hold their improved stations with an ever-increasing firmness of tenure. The culminating result of progress will be its self-perpetuating tendency — the law that insures that “to him that hath shall be given.” It is the function of the statistician to measure quantitatively the influences which make for this ideal consummation and to measure the grand resultant effect of them all.

Only a study which is profound on the theoretical side and elaborate on the statistical side can settle the issue as to whether the favorable conditions are real and how powerfully they act.¹

¹ What Malthus proved is that when a standard of living is fixed, a quick rise of wages above the amount necessary to sustain this standard causes an increase of the birth-rate and a fall reduces it. If the height of the line AB above a base represents the standard of living, and the length of it represents a



century of time, it may be taken as representing a basis of wages which remains fixed for a hundred years. The dotted line A'B' represents the actual pay of workmen, now rising above the standard and now falling below it. Each time that the pay exceeds its standard the birth-rate is quickened, and each time that it falls below it, the rate is retarded. Now it may be that the permanent average birth-rate is so slow as to permit a steady rise of the standard. There would, in such a case, be the same fluctuations of the rate of wages above its standard and the same alternate quickening and retarding of the birth-rate as in the former case; but the steady rise of the standard itself would tend to retard the birth-rate and so to perpetuate its own upward movement.

Analogous to the issue as to the law of growth of population is that which concerns the law of accumulation of capital, and in this connection less scientific work has been done than has been done in the former field, and a highly questionable conclusion has been lightly accepted. An increase in the amount of productive wealth raises wages as a decrease in the number of workers would do. It is the second of two coördinate causes of an enlarged return for the laboring class, and it has been too readily assumed that an increase in the productive fund of society tends to retard a further increase.

The conclusion is thus easily reached that any gain which labor may make through an enlargement of the social capital will grow smaller, because this enlargement itself will go on more and more slowly. An influx of capital tends to retard rather than to stimulate a further influx. As capital becomes greater, the rate of interest falls; and it has been assumed that this fall reduces the total incentive to accumulation. Abstinence is foregoing something in the present for the sake of something in the future, and if this prospective reward grows smaller, it is taken as a matter of course that the motive for securing further capital will also be smaller.

Now there is a theoretical condition in which the effect of an increase of capital will be the opposite of this. It will stimulate a further increase. It has been conceded that a desire to endow a family with an income of a certain fixed amount may have such an influence. If, in order to maintain an accustomed standard of living, it is necessary that one's children should inherit an annual income of four thousand dollars a year, a hundred thousand dollars will be needed when the rate of interest stands at four per cent; whereas, under a rate of five per cent, eighty thousand would have sufficed. This qualification may have far more importance than has been attached to it, for the reason, first, that a desire to place descendants on a certain plane of life may become a dominant motive of the capitalist class; and secondly, because this class may come to include a larger and larger proportion of the men who labor. Let it once be that workmen become habituated to a rising standard of living, that they wish to see their children live better than they do themselves, and that they rely on costly training and on transmitted capital to enable them to do so, and we have a motive for saving a greater amount of capital, the smaller the percentage of its annual earnings. If, further, the men who reap the net rewards of business — the entrepreneurs' profits — look on such returns more and more as a means of endowing descendants, you have in their cases also a greater motive for saving as the income from a given amount becomes smaller. The two chief sources of increase of capital, namely, wages of labor and the net profits of business, may, as interest falls, enlarge the grand total of wealth more rapidly rather than less so.

Here, again, is an issue of fact which can be decided only by a broad generalization following a difficult study of statistics. The generalization that can so be made will furnish a law of accumulation, — an important part of the theory of economic dynamics.

It is a question whether the march of invention will be accelerated or retarded by the growth of wealth which results from it, and whether this third basis of prosperity is self-accelerating or self-retarding. This problem is even more complex than the former one. The influences that will decide the issue are many and varied and have been little studied. If a great accumulation of wealth involves a growth of monopolies and a gradual extinction of competition, it will work unfavorably on the improvement of economic methods. In the hands of secure monopolies industry would probably stagnate. Does the mechanical progress of the present day in itself tend in this direction? It is an important question, but is only one part of the larger question, Whether the principle of monopoly is becoming supreme, and whether competition is on the road to extinction. The answering of these questions will require that we attain a law of progress in both the technique of industry and in the forms of its organization. Theoretical and practical alike must the study be which will yield it. A tentative conclusion must be verified by an elaborate study in the domain of fact.

We have cited only three of the problems which progress presents and have, therefore, only skirted the edge of the field of economic dynamics within which, I believe, the chief work of the future will lie. The problems which we have cited afford illustrations of the general truth that economic study will, in its new domain, afford no ground for the charge that it breaks away from the domain of fact. Far, indeed, will it be from being a transcendental philosophy, a product of mere ratiocination, or a system evolved from the inner consciousness of a recluse. Facts will lie at the bottom of it, and much needed guidance in dealing with modern problems will be the immediate fruit of it. The new economic science, as statesmen apprehend it, will have some effect on law-making, and as the people will ultimately apprehend it, will have more. Some conception of the laws of progress will, of necessity, take form in the popular mind. Inevitably will each thinking man try to perceive what forces are impelling us, whither we are moving, and whether we can control the movement. The invitation which the age extends to its economic students is to help men of the time to exercise such control and show in what direction the movement should be turned. The age needs charts for its practical guidance. To fail to furnish them would bring economists into merited discredit, and to succeed in doing it will require a great extension of economic theory. Both the value of the science and the recognition it will receive will be in proportion

to this theoretical growth, and its fruit the chart-making. It will be found, as this study of modern changes goes on, that men have their fate more in their own hands than has been supposed. A government can create conditions in which technical advances will be made, new capital accumulated, and rising wages insured. It can do much to save from suppression the vital force of competition, and in this and in other ways it can avert disaster and insure a normal development. It can do this by respecting the principles of economic dynamics as they shall come to be known through the work of many theoretical students, whose conclusions shall be tested by the work of many more statisticians. The economists of the future have their work cut out for them and the plan of it determined. The results will be as valuable as the work is extensive and difficult.

Squarely in the way of the realization of this effect appears to stand the Malthusian law as originally understood; for it appeared to show that whenever wages rise, a quick increase of population takes place and brings down the pay of labor to its former level. Rising wages would thus start an influence that would shortly induce falling wages, and any gain which labor might make would be transient. This is the essence of that dismalness which has been attributed to economic theory.

On the other hand, it is possible to state theoretical conditions in which the gains of laborers tend to perpetuate themselves. In these assumed circumstances the enlarged income of the laborers would not stimulate, but would retard, the growth of population. Instead of causing something to ensue which soon neutralizes transient improvement in the workers' condition, a rise in the earnings of labor may thus have an effect which induces a further rise. The workers' gains would be self-perpetuating.

The studies of Malthus constitute the most valuable work in economic dynamics that was done by the early economists. Though they were prosecuted with no reference to incorporating their results into a systematic science of economic change, they furnished an important fragment of such a science, and illustrate both its value and its practical character. In their developed form Malthusian doctrines do not afford for the laboring class an outlook that is quite hopeless, for they do not lead one to predict a necessarily disastrous world-crowding. They open a possibility of checks on the growth of population which may operate more vigorously as laborers attain a higher mental and moral level. Yet they leave small reason for concluding that, in a merely economic way, a check on the growth of population can give a permanent benefit to workers, since they do not afford any ground for believing that such a check on the growth of numbers tends itself to cause a further check. With no allowance for psychic gains it may be expected that workers, by

a quick increase of numbers, will lose the increments of wages which any cause may bring to them. Whether they will do this or not is a question of fact, and the decision will involve a further and profound study of population.

What we need to know is whether the assumed theoretical case, in which a rise in wages induces a further rise by means of the check which it imposes on the growth of population, is or is not an actual case. This will tell us whether any real increase in workmen's pay tends to induce a condition in which a further rise may be counted on. On this point we may confidently appeal to statistics, past and future. It will be found that laboring humanity holds firmly such gains as it makes and is in a position, by reason of these enlargements of pay, to make further and greater ones. Civilization does not debar labor from the benefits it confers.

THE SCOPE AND METHOD OF POLITICAL ECONOMY

BY JACOB H. HOLLANDER

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THE development of economic thought has been affected at intervals by more or less formal consideration of the relative extent of its subject-matter and the proper scope of its inquiry. Originally conceived as the art of domestic government, political economy became at the hands of the Physiocrats and their immediate precursors a systematic study of the phenomena of wealth. Two influences, emanating from the philosopher-scientists of the early eighteenth century and together summed up in the historic ambiguity of the term "natural," contributed to this end. First, the existence of economic uniformities was asserted; and second, the possibility of basic rules of social conduct was assumed. Similarly, Adam Smith, starting from an academic discussion of "Police," in logical development of the teachings of Pufendorf and Hutcheson, passed, with growing sense of the importance of the subject and under the personal stimulus of the *Economistes*, to a full consideration of national well-being. Professor Sidgwick has pointed out how this transition from political economy as an analysis of wealth phenomena is actually crystallized in the *Wealth of Nations*. Explicitly defining the purpose of economic study as the first, Adam Smith in fact devoted the bulk of his treatise to an analysis of public well-being.

This drift of political economy away from rules of economic administration to an analysis of wealth phenomena was aided by the intellectual reaction that followed the excesses of the French Revolution. Economic doctrines and, preëminently, the doctrines of the new economic liberalism, were identified throughout Europe with French principles and the revolutionary spirit. In 1793 — three years after Adam Smith's death — Dugald Stewart still hesitated to

give, even before a select audience, any detailed account of the *Wealth of Nations*. And Mr. John Rae cites Lord Coekburn's testimony to the fact that, when Stewart first began to give a course of lectures in the University of Edinburgh on "political economy" in the winter of 1801-02, the mere term "political economy" made people start. "They thought," he says, "it included questions touching the constitution of governments, and not a few hoped to catch Stewart in dangerous propositions."

But the determining force in the transition of political economy from a body of precepts to a body of principles was the circumstance that, with the dawn of the nineteenth century, the analysis of wealth phenomena ceased to be exclusively the concern of pamphleteers and special pleaders, and became the subject of deliberate and systematic study by a widening circle of keen and influential minds. The *Wealth of Nations* required too much thought and reflection to be popular, lamented David Hume within a month after its appearance, and the readers of the day, fresh from the pages of the *Decline and Fall*, might well have found the Scotch philosopher turgid and prolix. But by 1800 the work had reached a tenth edition; its influence upon political thought was evident; its impress upon political action was in part realized, in part foreshadowed; Dugald Stewart's lectures at Edinburgh were crowded, and young men like Francis Horner, Samuel Romilly, Sydney Smith, George Grote, James Mill, David Ricardo, and Thomas Robert Malthus were turning from natural science, from legal studies, and from literary activity to earnest pursuit of the subject whose prosecution not only involved keen intellectual pleasure, but whose results stood in intimate relation with urgent practical affairs.

It is doubtful whether economic study has ever been pursued with the same intentness and enthusiasm as in England during the period, roughly speaking, of the Continental War. The reflection is seen in Mrs. Marcet, in Maria Edgeworth, and in Harriet Martineau. "It has now become high fashion with blue ladies to talk of political economy, and make a great jabbering on the subject," wrote Maria Edgeworth in 1822. And again: "Fine ladies require that their daughters' governesses should teach political economy." "Do you teach political economy?" "No, but I can learn it." "Oh dear, no; if you don't teach it, you won't do for me."

Indeed, contemporary evidence abounds. For example, Francis Horner — that brilliant young scholar-publicist whose too early death surely meant grave loss to the progress of economic truth — had read the *Wealth of Nations* before he was seventeen, had followed Dugald Stewart's lectures in Edinburgh thereafter, and was devotedly engaged in economic study while practicing at the bar in the Scotch capital.

He describes in his journal under date of April 30, 1801, his systematic manner of approach: "In the afternoon Lord Webb and I made our second attack upon Smith's *Wealth of Nations*, and finished, for the present, the subject of the division of labor. Our mode of reading is, first to go through each chapter with a minute attention to the accuracy of the argument, endeavoring at the same time to recollect all the illustrations by which we can either confirm, contradict, or modify his general principles; when we have read as many chapters as make a complete subject of itself, we review the whole in a more general manner, and take a note of such subjects of future investigation as seem necessary to complete the theory." From the detailed study of Adam Smith, young Horner passed to the writings of the *Economistes*, finding comfort in Lauderdale's remark that he (Lauderdale) "had repeatedly left the study of the *Tableau Economique*, cursing himself for a block-head." When Adam Smith's perplexing fifth chapter on value and price proved a maze, he sought the clue in the currency tracts of Rice Vaughan, Harris, Bodin, Lowndes, and Locke.

It is to this fact of earnest and enthusiastic study, rather than to any formal principle of schematization or methodology that we must ascribe the Ricardians' easy use of the term "the science of political economy." When Ricardo writes to Hutches Trower: "I am very sorry to be obliged to agree with you that there are a very few who are perfect masters of the science of political economy," or when he states that it is in the domain of taxation that "the most perfect knowledge of the science is required" — the concept of science which he has in mind is a body of principles relating to the production and distribution of wealth, obtained by systematic observation of actual phenomena on the part of a group of capable minds and made useful by affording governments the possibility of wise economic policies.

Sixty years after the *Wealth of Nations* was published, at the very close of the first half of the century and a quarter that go to make up the modern history of economic study, virtual unanimity had been reached as to the changed purpose of economic inquiry. Rules of governmental conduct had passed from primary to secondary endeavor, and conceived as a science, political economy has become the study of the phenomena of wealth, having for its object the formulation of a body of abstract principles which should be capable in their application of shaping public policy in economic affairs.

In 1837, Senior formulated the distinction by differentiating *theoretical political economy*, which "explains the nature, production, and distribution of wealth" from *practical political economy*, which "ascertains what institutions are most favorable to wealth." John Stuart Mill and Cairnes took practically the same view, and with

them, and after them, the majority of English writers of the earlier school.

The tranquil acquiescence into which economic thought had thus fallen in the late thirties with respect to accepted *dicta* of the province and subject-matter of the science, was rudely shaken in the course of the next generation by three distinct influences, about which center the sustained and often acrimonious discussions of the proper scope and method of economic science that constitute a distinguishing feature of the second half of the modern history of economic thought.

From France came the message of the unity of social phenomena and the concept of a master science of sociology. From Germany came protest against the doctrines of economic universalism and perpetualism, and insistence upon the principle of historical relativity. From England came the gospel of economic development and the evolution of industrial organization. Comte, Roscher, and Spencer, with their prototypes Hegel, Savigny, and Darwin, represent the great forces that, in succession, first shook the structure of economic science to its very base, and then inspired its extension and fortification.

We are still too near the scene of conflict to require any review of its events. As so often in the history of science and, preëminently, in the history of economic science, that which had come to overthrow, remained to influence and to be influenced. The principles of industrial evolution, of economic relativity, and of social interdependence entered into the very heart and essence of economic study and left their mark in a changed and bettered condition. If the din of doctrinal battle no longer resounds, it is not because of abandonment or surrender, but because a sane and honorable *modus* has been arranged.

In but one corner of the field does the struggle yet continue. A handful of doughty spirits are still bravely hammering one another in theoretical determination of the precise bounds of economic science. Yesterday it was as to the interrelation of economics and ethics; the day before of economics and mathematics or statistics; to-day it is the respective provinces of economics and sociology on the one hand, and of economics and history on the other.

To this sustained dialectic I shall venture no further contribution. Whatever advantages, in the nature of precision of thought and economy of effort, attend the solemn partition of an undiscovered country must long since have been attained. Further debate suggests the waste of scholastic controversy, barren in result and mischievous in the suspension of positive investigation, in the blunting of mental acumen and in the diminution of public respect.

A far more promising service than the text-book demarkation of the kingdom of knowledge seems to lie in a comparative survey of what,

in default of a more exact phrase, might be termed the "pace" of economic science. Political economy has for a hundred years or more been "a going concern" the subject of sustained and deliberate study. It seems high time to pause and inquire as to the relative efficiency of its devotees. In what relation does the achievement of the economist stand to that of his fellow scientists? According as he has forged ahead or fallen behind, the economist must teach to or he must learn from those who are speeding to the same goal, although by other courses.

If recourse be had to the readiest empirical measure — public estimate — we are left in no manner of doubt that the progress of political economy, as tested by the practicability of its application, has been incomparably slower in degree and less in result than that of coördinate sciences. For example, at the present moment there are three great economic problems disturbing the consciousness of the American people: Trusts, Tariffs, and Trade-unions. It should be as natural and proper for the public mind to turn to the scientific economist for specific and definite guidance with regard thereto as for the farmers of the arid regions to harken to the physicist as to the efficacy of concussion as a means of rain-making, or for a municipal administration to turn to a pathologist for counsel as to the best method of dealing with epidemic smallpox. Each of the three economic problems can be simplified, if not solved, by the determination of an underlying principle. The public will know how to deal with industrial combinations when an answer has been given to the query: "Is there an assignable limit to the size of the modern industrial unit, and if so, what determines it?" The tariff question will speedily enter upon a new era if clear light be thrown upon the precise relation of labor-cost and industrial efficiency. The *crux* of trade-unionism is the determination of a natural law of wages and, no less important, a practicable method of ascertaining it. In each of these directions the economist might properly be expected to meet, indeed to anticipate, the public appeal for counsel; and in each of these directions the economist, within the ken of the ordinary man of affairs, has been mute.

Unless, therefore, the economist is to acquiesce with a resigned fatalism in a condition of affairs, of which my illustrations are, I believe, fairly typical, it is imperative that there be profounder searching of heart and more accurate scrutiny of fact for explanation of the loss of popular respect for economic study, and for the decline, at best partially arrested in our own day, of the economist's influence in public affairs.

A generation ago, Arnold Toynbee asserted that "the wage-fund theory was the great cause of the unpopularity of political economy among working-men." More recently, President Hadley,

after deliberate inquiry, explained the smaller practical influence of the economist in government and administration as due, first, to the transition of political economy from an art to a science with a corresponding loss of clearness and precision in its propositions; second, to the use of precedent rather than scientific analysis by the courts as the basis of the adjudication of modern economic problems; third, to the neglect of collective interests and to the checks upon administrative power in the organization of modern representative government.

But whatever truth resides in these analyses — and there is much — fundamentally and in the last instance, the distinctly, nay, the distinctively unfavorable attitude of the public mind towards economic theory can only be due to one or more of four causes:

First, the public mind may be inherently opposed to accept scientific leadership in the formation of its economic opinions in something of the same sense that the late Mr. Spencer noted that men who would instantly disclaim judgment in problems of the natural sciences, would, without correspondingly greater equipment, give out-of-hand verdict upon complex questions of social policy. Or, second, it may be that economic phenomena in their complexity, variety, and inaccessibility defy, beyond a certain point, that productive systematic inquiry which we term successful scientific study. Or, third, the tribe of economists may be intellectually inferior to their fellow scientists, or at least less well equipped in those particular mental requisites which go to make up the successful scientist. Or, finally, the methods and the apparatus employed by the political economist may be relatively inefficient.

If political economy as a subject of scientific study has any right to be, we must of necessity reject the first three of these hypotheses and concentrate our attention upon the fourth. Such a procedure is, moreover, encouraged by the complexion of existing facts. It requires the barest observation to realize a startling contrast in method between political economy and any of the actively pursued natural sciences. Let us turn for a moment to chemistry, where within recent years the bounds of organized knowledge have been extended with the most brilliant results. In so far as the layman may speak, it appears that modern chemical—or for that matter, physical or biological—study involves three consecutive stages: (1) Inquiry and research; (2) experiment; (3) theorization. Associated with these essential activities are the complementary processes of initial conjecture affording a tentative working-plan; formation of trial hypotheses in result of investigation and for submission to experiment; and conversion, by demonstration, of theory into law. But, in the main, chemical science advances from truth to truth, from probability to certainty, because a body of mature workers,

equipped with intimate knowledge of the achieved, are busy marshaling and classifying facts, searching for and formulating uniformities, testing hypotheses, and demonstrating laws.

If we return now to the domain of economic science and to the scene of economic study, the contrast is fairly startling. We find a body of capable and devoted workers, and a definite and inviting subject-matter. But here, to any appreciable degree, the parallelism stops. There is in collecting and classifying related data, no tentative selection of economic uniformities, no verification of hypotheses by reference and experiment. As against the chemical investigator in his laboratory, deliberately and systematically gathering a particular group of facts, and formally submitting the sequences which they suggest to comparison and test, with a reasonably well-established hypothesis as the ultimate endeavor, we have a corps of student apprentices busy upon historical and institutional monographs, a group of younger scientists absorbed in academic duties, and a body of sages engrossed in doctrinal discussion. A single category has rarely been used to include two things less identical than the term "scientific" in reference to chemical and economic study, respectively. If the one be, the other is not. It is a difference in kind, not in degree of which the contrasted terms "deductive" and "inductive," "experimental" and "*a priori*" suggest the consequence, not the cause. Some further interpretation of this remarkable distinction is demanded.

A score of years have elapsed since the coincidence, roughly speaking, of economic investigators and economic issues effected a renaissance of economic study in the United States, synchronized, let us say, by the organization of the American Economic Association in 1885. Within that period every important university of the country has found it necessary to provide more or less abundant opportunities for economic instruction, increasing numbers of capable students have gathered for training in economic investigation, and economic science in the United States has come to be studied with a vigor and an activity unequalled in any European country and unsurpassed in the case of any of the natural sciences in this. But the method of investigation has been narrow. On the one hand we have permitted the Comptian influence and the "extreme Historismus" of the German school to justify economic microscopies; and on the other hand, dismayed by the vast area, the extensive activities, and the scattered data subject to economic inquiry, and poorly equipped both on the score of requisite resources and opportunities, we have deliberately refrained from attempting comprehensive induction.

In consequence, economic investigation in the United States, although pursued with unexampled activity, has been in the last

twenty years almost exclusively historical or institutional on the one hand, and local or intensive on the other. Of extensive economic investigation, economic description in the proper sense of the term, little has been attempted and less achieved. The historical evolution of economic institutions as revealed in more or less accessible records, the functional activity of economic organizations as displayed in limited areas — these have defined the scientific activity of the ordinary economist. Of the comprehensive study of the history, structure, and functions of any actual part of the economic organism, we have had infrequent examples.

In the field of local finance, for example, we have had, on the one hand, faithful historical studies of the finances of particular states and cities and of particular fiscal institutions, and, on the other hand, we have been given intelligent analyses of the present financial status of specific localities. But the investigator has probably not yet attempted — understand, I do not say *completed* — an exhaustive study of local finance in the United States, in the spirit in which we may conceive the chemist or the physicist approaching a kindred problem. Similarly, the institutional history of the Negro in certain states has been traced and his present status in certain limited localities has been described. But the larger subject, the Negro in the United States, taken in its scientific entirety, is still untouched.

Turn where we will, a similar condition prevails. Railroad transportation, trade-unionism, taxation, industrial combinations, tariffs, as fields of investigation, have been approached only fragmentarily, historically, or locally. Brought face to face with extensive subject-matter, economists have shown the white feather and solaced their souls in the thought that comprehensive study of any important economic institution might properly be postponed until such number of detailed monographs, dealing with specific aspects of the subject, have been completed as will permit full exposition and safe generalization.

Monographs have multiplied; doctoral dissertations have accumulated, and the progress of economic science, as judged by results, has been inadequate. The experience of twenty years seems to suggest that the prime usefulness of intensive economic studies is educational and local, and that variety of approach, distinctness of treatment, and change of environment are grave qualifications, under existing conditions, of the value, and certainly of the economy, of large reliance upon this monographic method of economic investigation.

The proposition which I venture to submit is that the time has now arrived when, without any necessary cessation of historical and local studies, the economic investigator, — and in particular the economic investigator in the United States, — if he is to attain his

highest scientific possibility, must adopt a larger mode of inquiry, a mode analogous to that employed by the natural sciences, and described as extensive or experimental rather than intensive or historical. He must derive his subject-matter not from past history alone, nor from the present experience of restricted localities; but he must observe and collate the phenomena under consideration from an area practically coextensive with their manifestation; he must interpret each group of facts in the light of the conditions prevailing in that particular place, and he must test the uniformities revealed by reference, as tentative hypotheses, to conditions in still other localities.

If he is attempting safe and useful generalizations, he must consider, for example, the taxation of corporations not by one state but by every state. He must study the structure and functions of trade-unions, not with respect to a handful of labor organizations and a few convenient cities, but in the light of the policy and practice, declared and actual, of every important national labor-union as displayed in many representative localities. In a word, the basis of economic induction must henceforth be, to a much greater degree than heretofore, qualitative data, amassed as deliberately and laboriously as chemical or physical data are collected by the natural scientist in his laboratory, and at least approximating in comprehensiveness the quantitative material which the public statistician makes available with increasing efficiency.

The successful conduct of economic investigation along the extensive or experimental course thus outlined involves the use of a group of workers, instead of the individual student, as the unit of research. Until such time as the number of independent investigators shall have greatly multiplied, the well-equipped department of political economy in the university will, naturally, be the prime agent of scientific activity. Such an economic laboratory or seminary will include not only a directing and teaching staff and a body of students actually in residence, but affiliated workers in the field and associated beneficiaries of subventions, desirous of operating from an academic base. A particular body of contemporary economic phenomena will be selected for collective rather than coöperative investigation; and specific aspects thereof will be assigned to individual workers for research in accordance with an organic plan. A student showing special interest in or capacity for investigation along lines other than that selected for collective effort will be encouraged to follow his particular bent; otherwise his energies will be directed, by deliberate assignment, to the seminary topic. Class instruction and the use of bibliographical and documentary materials will serve as the preparation for systematic laboratory and field work.

In regard to books and documents, the investigator must be able

to command, in addition to ordinary library apparatus, all primary documentary material relevant to his inquiry, whether it be as ephemeral as municipal reports and trade-union journals, or as unobtainable by formal request as trade agreements and corporation record. Similarly, he must be able to publish the results of his investigations in the precise form which scientific fidelity or practical usefulness demands, without regard to their commercial attractiveness or to the limited resources of existing scientific agencies. A more liberal policy of library administration and a more intelligent appreciation of the proper relation of publication to investigation in the social sciences, have notably improved conditions in the past few years with respect to these two requisites.

It is with respect to field and experimental work that the occasion for largest change exists. Descriptive investigation, as distinct from historical study and local inquiry, must bear the same relation to political economy that field work does to geology and the clinic does to medicine. The immediate environment should first be utilized as an economic laboratory for the development of scientific spirit in economic study and sound method in economic research, and as the field from which bases of working hypotheses may be derived. Thereafter the investigator must extend the range of his inquiry by visits to and even residence in representative localities, with a view to collecting wider and more varied data and to testing tentative conclusions.

Such a procedure involves two essentials, — leisure and resources. The investigator's time and energy, if not entirely available for scientific inquiry, must certainly not be unduly absorbed by the routine engagements of the student or the teacher. To the extent that he is still a student or instructor in academic attendance, opportunity for extensive inquiry must come with greater prominence of field-work and laboratory exercise in economic instruction. Economic teaching can properly harken to the message of the physical sciences, that the ideal of student training is less the accumulation of detail than the development of a mode of thought. An association of courses, a reduction of lecture attendance, a unification of seminars, and, most important of all, the utilization of the long summer recess for field-work, will ordinarily effect an economy of time, making possible that amount of experimental inquiry demanded both by student development and scientific progress.

With respect to resources, the investigator must be in command of funds sufficient to enable him to visit, and upon certain occasions temporarily to reside in representative localities, for the purpose of gathering additional evidence and of testing and verifying tentative conclusions. To some extent, such funds can be made available by a modification of the fellowship system, the original purpose of

which, the attraction of students to post-graduate study, has ceased to be necessary, and the further extension of which along existing lines threatens serious evils. Beyond this, aid may be anticipated from coöperation with governmental agencies and with endowed institutions of research. But most of all, university authorities must recognize that "investigation funds" are as essential to scientific activity in political economy as laboratory apparatus is to chemistry and clinical provision to medicine. I have elsewhere ventured the opinion that "less and less will lack of material resources operate as a handicap," and that "as long as the method be sound and truth light the way, economic investigation will probably receive as generous an equipment as the economic investigator deserves."

In short, I urge a complete parallelism in method of investigation between political economy and natural science. Comparative study can fairly well replace deliberate experiment — certainly in a country as varied in resources and institutions as the United States. Beyond this, we need but a larger equipment and a common spirit. Heretofore the economist has adapted his method to his resources. Let him now demand resources, made necessary by his method.

The significance of this great Congress is that every branch of science is but a facet of truth, and that every aspirant is in motive and endeavor as his fellow. No wise man will say, "I have the true path and every other is false." But just as surely is he a blind and foolish traveler who trudges along with eyes intent upon the worn stone, neglectful of the shorter course and the smoother way of him whose starting-point and whose goal are as his own.



SECTION B — TRANSPORTATION



SECTION B — TRANSPORTATION

(Hall 10, September 23, 10 a. m.)

CHAIRMAN: PROFESSOR J. LAWRENCE LAUGHLIN, University of Chicago.
SPEAKERS: PROFESSOR EUGEN VON PHILIPPOVICH, University of Vienna.
PROFESSOR WILLIAM Z. RIPLEY, Harvard University.
SECRETARY: GEORGE F. TUMMELL, Chicago.

TRANSPORTATION

BY EUGEN VON PHILIPPOVICH

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MARSHALL says, in his *Principles of Economics*, "The dominant economic fact of our own age is the development, not of the manufacturing, but of the transport industries."¹ Indeed, hardly any other facts illustrate the enormous changes of the conditions of human life effected during the nineteenth century as clearly as the development of transportation during recent years. In former days of greater stableness the transportation of great numbers of persons appeared rather occasionally, at festivals, movement of troops, and pilgrims' journeys; but nowadays we see a multitude of men in daily repeated flow, in the centers of transportation, arriving and departing.

To supply considerable masses of men, heavy freight was necessary, for one or the other center, in former days; but in comparison with the transportation of provisions, of raw material for industry, and of industrial products which are shipped nowadays to all parts of the globe, this freight is insignificant. And how limited was formerly the sending of news which, in old times, was a privilege of princes and financiers, in the Middle Ages also of the convents, universities, and places of trade, but which benefits now the millions of inhabitants of the large states and secures for every one, even the poorest, the possibility of direct connection with all parts of the earth.

The system of the Roman roads is said to have comprehended

¹ Second ed., 1891, p. 724. Cf. Lorenz von Stein, *Handbuch der Verwaltungslehre*, 2. Aufl. 1876, S. 361; and Schaffle, *Bau und Leben des sozialen Körpers*. 3. Band, 1878, S. 180.

about one hundred thousand kilometers; its highways have never been equaled up to to-day.

The development of transportation has been limited to improvements of the construction of vehicles up to the nineteenth century; in the eighteenth century even the most highly cultivated countries did not possess any regular system of roads. Until 1750 the large highways leading from London to the north were constructed solidly only at the first one hundred miles; further north they were changed to a narrow road which was admissible for but a few horses. At the same time most of the roads in the central and northern parts of England were still unbounded.¹ What enormous progress have the European nations made in the period of economic liberalism! In as many decades as the Romans used centuries to construct their much admired roads, the European nations have spread a net of railroads over the countries which possess the threefold extent of the Roman system of roads. Travelers upon Roman roads usually made forty to fifty kilometers in one day; only at the beginning of the nineteenth century this rate was changed and the fast mail reached finally a rate of two hundred and fifty kilometers. To-day the trains run with an average velocity of fifty to sixty kilometers in one hour; hence, one thousand two hundred to one thousand four hundred kilometers in one day. Thus men have been moved nearer to each other, and the earth has, so to say, been diminished in the same proportion as the velocity of transportation has increased. However, not only on land, but also at sea we have surpassed all former centuries.

The greatest progress in navigation since the invention of the compass is marked by the application of steam, not only on account of the greater velocity of transportation, but especially because thus the construction of larger vessels was made possible and the ships became less dependent upon wind and weather; thus gradually a regular communication on sea was instituted over the whole globe.

In 1843 the first regular transatlantic line between Europe (England) and America was opened, and now five hundred and seventeen seaports are reached from Europe by regular voyages. How great the importance of this fact is may be shown by the fact that the sea covers five sevenths of the surface of the earth, so that all world's commerce and all world's transportation is done by sea. Seventy to eighty per cent of the world's commerce is effected on sea. At the beginning of the forties it took English troops who sailed to India around the Cape of Good Hope seven months (with bad weather) from Falmouth to Bombay; emigrants who at this time sailed to North American ports traveled (against the wind) four weeks. But when, in 1881, Francis Galton published the first

¹ Spencer, *Principles of Sociology*, vol. III, p. 73.

isochronic passage charts (on which the average time is indicated to navigate from a given point to certain other points in the shortest way and with the fastest means of transportation), it was shown that one could reach from the English Channel all ports of the earth in less than forty-five days. The normal ship of the thirties had a tonnage of 200, rarely 300; to-day 6000 to 7000 tons are considered the average.

A steamer like *Kaiser Wilhelm II* of the North German Lloyd, with a register tonnage of 19,500, is as large as the entire commercial fleet of Bremen or Hamburg at certain times in the beginning of the nineteenth century. At present the oceans of the earth are carrying about 30,000 vessels, with an aggregate tonnage of 30,000,000 tons. The combined railroad lines are nearly one million kilometers long; the telegraph cables, one third of which are submarine lines, have a length of 2,000,000 kilometers.

History of mankind has no example for any such achievement in former times, not even in the smallest measure. Only in the nineteenth century man has subdued space, diminished the globe, and moved nearer to each other the nations with their mutual, hostile, or brotherly relations, so that nowadays our mind must obliterate the national boundaries and must comprehend continents, if it will judge the forces innate to peoples and measure their effects. The consequences of these changes in transportation are, to-day, still rather felt than clearly recognized. We know that these changes influence all conditions of social life, economics, politics, the production of manufactures as well as of agriculture, of commerce, science and art and military organization, national feeling and individual life; but, as Gustav Cohn¹ remarks correctly, even if the theme is limited to the economic effects, most work of its investigation is yet to be done. This must not be wondered at; the most decisive progress has been made only in the last twenty-five to thirty years, so that we find ourselves still in midst of a process of transformation whose limits cannot be drawn. The more interesting is the question which I am asked to answer, in which wise science in its different branches has treated this powerfully great subject.

Scientific treatment of transportation has been very insignificant till late in the nineteenth century. Only the first greater organization of transportation, the mail, invited historical reflections and juristic investigations, while the social importance was not regarded.² The development of the construction of streets and the improvements of the waterways have been treated, in the eighteenth century, in technical writings; later the new means of transportation, the rail-

¹ *Nationalökonomie des Handels und des Verkehrswesens*, 1898, S. 976.

² Cf. Huber, *Die geschichtliche Entwicklung des modernen Verkehrs*. Tübingen, 1893.

roads, gave rise to a special technical literature. The authors foresee the importance of the means of transportation and communication for the economic, intellectual, political, and strategical life of the nations, but they do not comprehend it to its full extent. Only political economy has a presentiment of the effect of the improvements of transportation in behalf of human society. But also political economy shows a narrow conception and does not go beyond general considerations of the economical effects and of the consequences of the organization of post-roads and railroads. James Stewart mentions, in his *Inquiry into the Principles of Political Economy*, 1767, only the influence which the improvement of the country roads exerts upon agriculture on account of the facilitated sale of its products.

Adam Smith, in his *Wealth of Nations* (b. I, chap. 3), has a deeper insight into the relations between space and national economy. He recognizes the dependency of all economics upon the extent of markets; this is augmented by good roads, channels, navigable rivers. These means of transportation open the distant sections of the country, which always are the most extended, and bring them into connection with the consuming cities. Therefore, they are the greatest progress of all; where they are missing, all production is limited to the market which the surrounding country offers. For this reason the entire interior of Africa and the whole northern part of Asia is still in the same condition of barbarism as since the beginning of the world. Smith was unable to foresee the possibility of a great development of the ways and means of transportation. His recognition of the ways of communication is therefore limited to emphasizing the greater advantages which the waterways possess in comparison with the highways.

International transportation over extended spaces appears to him as something impossible; what wares could, by their value, compensate the expenses of the transportation overland between London and Calcutta; or, if some were so precious that they could counterbalance the costs of transportation, with what security could they be carried through the territories of so many barbarous tribes?

The English followers of Smith, Ricardo and Malthus, do not consider transportation at all; his French followers, Jean Baptiste Say and Storch, have again taken up his idea, but have not developed it further. Also these authors limit themselves to mention the greater advantages of the waterways and to point to the importance of the diminution of the freight expenses for production.¹

Among the German economists Lotz and especially Karl Heinrich Rau have paid special attention to transportation. Lotz² does not

¹ Say, *Traité d'économie politique*, 1803, vol. 1; appendix, chap. 16; and Storch, *Cours d'économie politique*, 1818, part 1, liv. 1, chap. 9.

² *Handbuch der Staatswirtschaftslehre*, 2. Aufl. 1837, S. 352.

go any farther than Smith, Say, and Storch, although he was able to observe the railroads. But he mentions them in an annotation, as standing between highways and waterways; the latter he considers still the most important and the best. Raŭ has accomplished, for Germany, the separation of the theoretical *Volkswirtschaftslehre* from the *Volkswirtschaftspolitik*, i. e., the separation of the knowledge of the laws of economic life from the knowledge of the duties of the state with regard to economics; he treats transportation in the *Volkswirtschaftspolitik*¹ originally as an aid to certain kinds of commercial affairs. Thus still in 1844; later among the measures by which the state furthers commercial intercourse. In accordance with this systematic position he does not deal with a theoretical conception or with considerations of transportation which would go beyond the economic deliberations. He describes the existing means of transportation (highways, waterways, post-roads, railroads) rather as organizations of public administration than as members of the social organism. Thus he is led to a penetrating investigation of the state's relation to these institutions, but for this reason his treatises lose the universal character. Adolf Wagner, who has revised the books of Raŭ, has still further considered this administrative, political, economic side of treating transportation,² while Gustav Cohn opened, with great success, the series of the historical and economic monographs with his English railroad studies.³

Friedrich List and Knies have demonstrated, in monographs, the importance of transportation. List has, above all, recognized the great influence of the railroads upon the expansion of agricultural and industrial production, but also far beyond this he saw the importance for the national life of the nations.⁴ In his monograph⁵ Knies has investigated the railroads and their influences in different directions; he has correctly recognized, not only their economic, but also cultural, political, and strategical significance, and pointed, in a later treatise⁶ especially, to the increased international communication and to the transportation of raw products *en masse* as decisive results of the improved means of transportation. Taken all in all, even up to 1875, the investigation of transportation has advanced but little. Schaeffle and Sax have given utterance to this. Schaeffle pointed to the far-reaching relations connected with transportation, to which the former connection of the ways, institutions of transportation, and means of communication with the economic

¹ *Lehrbuch der politischen Oekonomie*, 2. Band; *Grundsätze der Volkswirtschaftspolitik*, 1. Aufl. 1828, 5. Aufl. 1863.

² *Lehrbuch der Finanzwissenschaft*, 1. Abteil, *Privateswerb des Staates*, 1877.

³ *Untersuchungen über die englische Eisenbahnpolitik*, 1874, 1875.

⁴ *Ueber ein sächsisches Eisenbahnsystem als Grundlage des allgemeinen deutschen Eisenbahnsystems*, 1833; *das deutsche Eisenbahnsystem*, 1841.

⁵ *Die Eisenbahnen und ihre Wirkungen*, 1853.

⁶ *Die politische Oekonomie von geschichtlichen Standpunkt*, 1883, S. 444.

institutions cannot do justice. "For the ways of transportation and communication are not only the base of the material and ideal communication, but they serve also the transportation of persons, of material, and ideal articles for all other purposes; they are a constant fundamental element for the social, scientific, juristic, esthetic, pedagogic, and political-strategic conditions of life."¹ After having placed, in his social system of "human economics,"² the economic systems of transportation in opposition to those of original production, of the trade and commerce, as equivalent, he was the first to investigate, in his great work, these further effects of transportation from the point of view of their importance for society as unity. Sax has devoted to transportation the first comprehensive monograph. In his introduction he declares that national economy neglects this point. While the qualities of other means of transportation and their influence upon the formation of economics are discussed in each systematic representation of the economic fundamental doctrines, and have even found, so to say, their distinct place in these doctrines, the same is not the case with regard to the means of communication. One is satisfied usually with a few rather superficial remarks which, besides, are inserted occasionally and dispersedly, instead of being discussed "*ex professo*," connectedly.

The work of Sax is a very complete analysis of the institutions of transportation from the point of view of technical organization and of economy. He has not answered the question which place shall be assigned to transportation in the system of national economy, how it is to be used for the theory of national economy. Thus it has remained to this very day. Only Thuenen makes an exception; in his "isolated state" (1826), he discussed the importance of the distances and of transportation for the selection of the places of agricultural productions. Thus he has furnished the first contribution to a theoretical valuation of space. Besides him we must name Dühring. He is the only one who places transportation in the system of national economy in a position determining the whole economy. He considers the importance of transportation equivalent to that of the organization of human forces, to the size of population, and to the endowment of a country with natural resources; all these are general conditions of increased productivity. Dühring stands under the influence of the American Carey who, without treating transportation itself, sees the determining principle for the progress or regress of the national organization of production in the dependency of the production upon the distance from the market and who strives

¹ *Bau und Leben des sozialen Körpers*, 1. Band, *Allgemeiner Teil*, 1875, S. 328; 3. Band, 1. Hälfte, *die Gesellschaft in Zeit und Raum*, S. 113.

² *Gesellschaft System der menschlichen Wirtschaft*; namentlich in der 3. Aufl. 1873.

to restrain the changes of place of the material to the possibly least measure.¹

In all other treatises of transportation by economists especially the relation of the state to transportation stands in the foreground. Only lately Schmoller, in his *Grundriss der allgemeinen Volkswirtschaftslehre*, recognized the real significance of transportation as the base of the social process of productivity and distribution of income.

It cannot be said that the position of transportation in the political economic science is generally recognized and assured. It is certain that transportation is treated exhaustively in treatises in which the relations of the state to economy are the object of scientific research, as in the separate treatment of political economy customary in Germany. Here the organization and the juridic conditions of the institutions of transportation are examined. The theory of national economy has, however, not yet obtained any sure gain from these studies, though relations to it are not lacking. But an independent science of transportation had not yet been founded till now. The last decades have, indeed, called forth an extraordinarily copious and comprehensive literature of the railroad, and special railroad-schools were established in Austria, Germany, Switzerland, and England; during the last few years also the scientific treatment of navigation has been advanced remarkably, yet no attempt has been made to investigate the inner connection of the decisive facts and to found them upon a general theoretical base. But transportation is so closely connected with the entire life that its modern development in a number of sciences has produced strong suggestions which, in different cases, offer a clear image of the mutual relations of the sciences. Above all, the close connection of transportation with the physical features of the surface of the earth, with the courses of rivers, and the extent of seas has effected that geography occupies itself with these objects in a penetrating manner.

When, in the epoch of commercialism, about the middle of the eighteenth century, the interest in the investigation of the economic conditions of the state and of the rival countries awoke, as a part of the great systematic science of commerce, the representation of the expansion of commercial politics, of the articles of traffic, and of the commercial roads arose, which became then an integral part of political geography, and, finally, also, of the kindred statistics and political science, systematized by Achenwall. In modern times it has been integrated, and besides, the conception of economical geography has been formed, which would have to show the influence of "the physis of space upon the transportation and production of

¹ *Principles of Political Economy*, 1837-40; *Principles of Social Science*, 1858-59.

material."¹ Distinguished from this economic geography is the "geography of communication," about whose extent, limits, and methods the opinions still differ at present. There are two tendencies, opposed to each other. First, the applied or practical geography of communication which starts from the given facts in order to investigate their influences upon the economic, intellectual, or political life, and in order to deduce therefrom the transformation and improvement of the conditions of communication. It is evident how closely this way of treating transportation must touch to the political economic treatment.

The second tendency aims at the theoretical investigation of the causes of the conditions of communication; here, again, a twofold conception of its tasks can be formed: The investigation of the influence of nature upon the actual communication and the explanation of its natural causes; and an historical consideration which pursues the diminution of distances of time and space in the historical development. According to Hettner's conception, it has to show how in each space on earth and upon the surface of the earth the system of communication taken as a whole is connected with human settlements and places of production, and how it is dependent upon the distribution of land and sea, the courses of rivers, the direction of mountains. On the other hand, there must be represented how within each space or most spaces of the earth the communication is effected on the main and side lines in quite a different manner, and how the spaces are distinguished from each other through the different kinds of communication.

The first who investigated the natural dependency of communication was Kohl.² But he tried to make the communication of men too much mechanically dependent upon natural conditions; in this he has found many followers.³ Contrary to this view Hettner emphasizes that the opening of each way originates from acts of human will, which are influenced by distinct motives and must be subjected to psychological analysis. Thus the way is shown on which the connection between geographical and social research can be traced. At which extent of reflection one can thus arrive,

¹The first work aiming at "economic geography" is Andree's *Geographie des Welthandels*, 1867. The French works are considered of greater value by geographers, e. g., the *Précis de géographie économique*, by N. Dubois and I. C. Hergeonard, Paris, 1897. The definition given in the text is that of Goetz in the *Zeitschrift der Gesellschaft der Erdkunde*, Berlin, 1882; cf. Sieger, *Forschungsmethoden in der Wirtschaftsgeographie, Verhandlungen des Deutschen Geographentages*, 1903, p. 93.

²*Der Verkehr und die Ansiedlungen des Menschen in ihrer Abhängigkeit von der Gestaltung der Erdoberfläche*, Dresden, 1841.

³Cotta, *Deutschlands Boden, sein geographischer Bau und dessen einwirkungen auf das Leben des Menschen*, 1851, I. Band, S. 18; and Jansen, *Die Bedingtheit des Verkehrs und die Ansiedlungen des Menschen durch die Gestaltung der Erdoberfläche*, Kiel, 1861.

Ratzel shows in his *Political Geography*.¹ He is able to pursue the natural dependency of communication as regards its influence upon the political organization of men in the formation of states and upon their position in the world. The kernel of his discussion is that the main features of the surface of the earth direct the chief currents of communication. The communication by sea is determined by the distribution of land and water, climate, and physical condition of the sea-water; the communication by land depends upon climate, quality of the soil formation of the surface, irrigation, and the vegetative properties of the soil. Therefore, there is no random distribution of the communication on the globe, but a normal, geographical division into main and subordinate lines determined by the character of the surface of the earth. They bestow upon each part of the earth an individual character which is determined by the tendency of each communication to grow, to get around obstacles, to cross from one border to the other, from the habitable to the inhospitable regions, and from those more favored by nature to the less favored.²

No science is so closely connected with transportation as the technical science. It sprang up, together with the development of transportation, in the course of the nineteenth century, and grew directly with its progress. A prominent German technologist sees four stages in the development of transportation. It begins with finding the best way, the natural tracing formed by valleys, fords of rivers, mountain passes, etc. The second stage is the development of vehicles. Another progress is made by the improvement of the road. The perfection attained by the Romans had been lost and was reached again only in the nineteenth century. But the system of roads had been little extended when a new stage of development began with the application of steam power. Only in this latter period the empirically founded activity yields to the scientifically established. The scientific treatment of constructing roads can be traced back to the technical construction of roads, which was introduced since Macadam (1820), but the science of engineering took its rise only with the invention of railroads. The railroad engineers found themselves in a difficult position in the first half of the nineteenth century. Without personal experience and scientific foundation of their task, they had to rely mostly upon their technical instinct, by which they were not rarely led astray.³ Only the variety of experiences and the new tasks of construction have become the cause that the different technical theories, as those of the earthwork, the vaults, the properties of material, of the wooden and iron

¹ 2. Aufl., München, 1903.

² Ratzel, *Politische Geographie*, 2. Aufl., S. 473-475.

³ Birk und Krauter, *Der Eisenbahnban, Einleitung und Allgemeines*, 1897, S. 27.

bridges, were furthered considerably, and that quite new theoretical considerations arose¹ as concerning the superstructure.

Freiherr von Weber, one of the most brilliant technologists, believes that all branches of the science of engineering arrived thus at an extraordinary height, while with the ordinary course of events only centuries could have accomplished the same.² Even the earth-work is performed not any more in an empirical way, but based upon scientific principles. The solidity, possibility of slides, the rate and costs of the work, the method of excavating and building embankments are nowadays founded upon science.³ The building of tunnels, which formerly were driven only through firm, steadfast rock, has become possible also in heavily pressed ground only through the scientific development of tunneling; thus at the present time extraordinary success has been reached.⁴ Dredging machines, drills, the foundation of shafts by means of compressed air, the iron bridges, have become complete parts of modern technical building only in connection with railroad construction. The finer geodetic instruments have been invented with the problem of tracing which the railroad construction required. Metallurgy has entered into a wholly new stage; iron, so important for the construction of buildings, bridges, machines, vehicles, has been introduced into life. If the railroad engineers have made copious use of the results of geological research in judging the formation of the soil or the construction of tunnels, they surely have, on the other hand, also assisted this science to an inspection into the structure of the surface of the earth, which under other circumstances could not have been attained without great difficulties. Also the electrotechnic is a child of the railroad period. Without it the magnificent development of the railroads would not have become possible; but, without the continuous demands by the railroads, the electrotechnic would not have reached its present high degree. Enormous progress has been made within the few decades from the first application of electricity to giving signals (1840, Great Western in England, and 1847, Buckau-Magdeburg) to the first vessel driven by electricity (*Werner Siemens*, 1879), and the first electric railroad (1887, in America). To appreciate the powerful incentives which the railroads proved to be to the construction of machines, it suffices to compare the renowned locomotive *Rocket*, with which Stephenson gained the first prize, in 1829, a vehicle of 4.5 tons, with the locomotive of our days, whose colossal weight amounts to 240 tons. The construction of the means of transportation has been raised for some decades from

¹ Rztfa, *Eisenbahn-Unter-und Oberbau*, 1. Band, Wien, 1876, S. 90.

² Freiherr von Weber, *Die Schule des Eisenbahnwesens*, 1857, S. 18.

³ Rztfa, S. 91.

⁴ Mackensen, *Tunnelbau*, 2. Aufl. 1902, S. 4.

the craft bequeathed by an empiric master to his apprentice into the province of scientific research and application of technology. Sombart has correctly pointed to this feature as decisive and characteristic for the machinal equipment of the presence. The admirable development of the technical sciences in their application to transportation owes very much to natural philosophy, but very little to the social sciences, whose object is given by the regulated association of men. Also here it is evident that the connection of the sciences which occupy themselves with transportation is formed not by a mutual dependency in the manner of investigation and method, but by the homogeneity of the object. But, on the other hand, all changes which one science causes in the object produce an effect in all other sciences. The attainments of scientific technology create new forms of communication and new relations in the exchange of wares as well as in the intellectual connection of mankind, which must be taken into consideration by the social sciences. And these show to technology the direction in which it must master the natural forces in order to respond to the demands of society. Therefore, the technical sciences are always related to the social conditions. Freiherr von Weber has ingeniously shown the national character of the railroad systems in different states and explained it from their dependency upon the natural, economic, political conditions of the life of the different nations. This dependency is also felt by every technologist at the execution of his tasks; it is the reason for which also the technical sciences make their problems depend upon the economic conditions and the juristic conditions of the state. As to the economic consideration of the technical problems, we owe to the technologists very valuable incentives to transportation, of which political economy makes use.

So the question of the feasibility of constructing a railroad has been treated until now in a scientific way only by the technologists. They have developed a theory of "commercial tracing" besides the theory of technical tracing, and searched after formulæ which shall enable political economy to decide the arrangement of street systems and of railroads, and the kind of their construction. The commercial tracing must establish the capacity of the different technically possible lines of a system of railroads or of streets, and must select the most favorable line. Instead of the old method followed at the construction of railroads and based upon the estimation of the traffic on the highways, the French engineer Michel was the first to employ a more perfect and, at the same time, more simple method. In his investigations, which he extended to a large part of the French railroads, he started from the assumption that the transportation must be closely connected with the number of inhabitants of a certain region, and he found that the transportation

was proportional to the number of inhabitants of the railroad station, to which the inhabitants of the surrounding country must be added; but also the different grades of economic importance of the region must be distinguished, and very large as well as very small places be omitted. According to the statistics of 1866, he found that each day 6.5 passengers and 2.1 tons of freight correspond to each head of the population concerned with transportation. These numbers were changed in agricultural districts to 4 passengers and 1.5 tons of freight, and in the more densely populated industrial districts to 9 passengers and 3 tons.¹ This method has been perfected by Launhardt, who added to it a general theory of tracing. In Launhardt's view, the characteristic of the universal development of transportation consists in the fact that the work of preparing for the single case of transportation constantly increases in order to diminish thereby the executing work necessary for utilization. Evidently the technologist has thus discovered independently for transportation the law observed in production by the economists of increasing substitution of circulating by standing capital.

The diminution of the executing is equivalent to the lowering of the expenses. In order to proceed economically, one must endeavor, when determining the direction and construction of a road for transportation, to make the expenses for the unit ("ton-kilometer" or Parson-kilometer) as small as possible, these expenses being a function of the yearly interest of the capital stock, the yearly number of transported objects, and the expenses for operating the transportation; at the same time the consumers' advantages must be considered, which are due to velocity, security, regularity, frequency, and efficiency of the transportation. On this general basis Launhardt has construed different theories about tracing of streets and railroads with regard to the markets, accessibility, connection with other ways, and construction of centers of intersection; these theories strongly support the economic conception of technical problems, and have been extended to all branches of engineering. An important consequence was the individualization of the railroads by the engineers, their division into main lines, branches, local lines, secondary lines, etc.

In many regards transportation has touched upon jurisprudence. Each developed community must create regulations for the right of ways. Although real estate is private property, yet the want of communication presupposes the usage of at least certain roads by all. Through this, numerous legal questions, often very complicated ones, arise. Moreover, transportation involves many dangers for the security of persons and of property and of the maintenance

¹ *Annales de ponts, chaussées*, 1866, p. 145.

of public order; to avert and suppress these dangers becomes a public duty. Finally, any transportation passes beyond the boundaries of the single states and causes international relations which must be treated in legal form. Thus the public right, the right of transportation, and the international right of institutions of transportation, has grown in the same measure as the increased communication.

Scientific treatment of the public right of transportation began in Germany by the Cameralists of the eighteenth century, placing besides, many older technical treatises on ways and communication, new discussions in which this topic is considered from the point of view of the administration of the state.

So did Justi in 1760¹ and Sonnenfels in 1798.² In the first half of the nineteenth century transportation is treated as subject of public administration, partly in the works on public administration, partly in those on state's right, partly in those on political economy. Only since 1850 the right of administration has become an independent science under the influence of the great German authors, Mohl, Gneist, and Stein. This science has to establish the laws on whose observation the solution of the problems of the state are based.³ One of these problems is the care of the necessary ways and institutions of transportation, as far as these cannot be cared for by private economic activity without detriment to the whole.

But also where this is the case, it agrees with our modern conception of the duties of the state, that it controls and supervises transportation. The maintenance of roads was forever the duty of the public corporations. Already the Franconian kings, especially the Carolingians, displayed an energetic activity in building highways, and the law-books of the Middle Ages contain regulations concerning their width and the conduct of travelers on the highways. The communities and *markgenossenschaften* provided the roads for immediate neighborly intercourse. The large roads, the king's highways, passed over to the ruler of the country, who used them in fiscal interests and acquired in them a "regal," the privilege to employ them for fiscal purposes.⁴ It was a great progress in the development of right that the idea of the supremacy of the state took the place of the "regal," and thus the administration of the roads was performed in the interest of the community.⁵ The great juristic ideas on which this administration is based are: (1) That the complete transportation satisfies the claims of a many-sided and free cultural

¹ *Aussichtliche Vorstellung der gesammten Polizeiwissenschaft*, S. 427-435.

² *Handbuch der innern Staatsverwaltung*, S. 229-241.

³ A systematic treatise of German right of administration appears not earlier than 1883: G. Meyer, *Lehrbuch des deutschen Verwaltungsrechts*, followed, 1884, by Loening's *Lehrbuch*.

⁴ Georg Meyer, *Verwaltungsrecht*, 1. Band, 2. Aufl. 1893, S. 511.

⁵ Stein, *Verwaltungslehre*, 2. Aufl. 1876, S. 359.

life and the needs of intercourse of all classes of society; (2) that its usage is conceded to all with equal rights; (3) that it must be administered and developed as an integral system.

In regard to the means of communication, first, the mail service was influential upon the development of public rights. From the institutions of messengers, which were, in the Middle Ages, established by cities, universities, trade-unions, a regular mail service by mounted messengers was developed in France and in Germany during the second half of the fifteenth century. It was organized by the rulers of these countries, serving at first only the official communication, but soon after private persons were permitted to make use thereof. A formal concession of the privilege to establish mail service in the Empire, as an imperial right, was made in 1570 in Germany, and in 1615 the office of general postmaster in the Empire was bestowed, as *Reichsregal und Leben*, upon the family of Taxis. They had, from then on, to maintain the mail service by their own means, but were entitled, in return for it, to keep the intakes. This *Reichsregal* was infringed upon by the rulers in favor of establishing government's mail service, and since the seventeenth century it is generally acknowledged that the right of establishing and conducting mail service is a privilege of the Empire or the ruler. In the second half of the seventeenth century the edict was made forbidding the dispatching of letters or persons in any other wise than through the postal service.

A new epoch in the development of the rights of transportation begins with the railroads. While Knies, fifty years ago, expressed his astonishment that the influence of the railroads upon jurisprudence had scarcely been observed, we possess nowadays an extended science of railroad rights. It comprehends the relation of the railroads to the state and to the provinces or communities, the concession and organization of the railroads, the acquisition of railroad estate, railroad service, and transportation, and the change of railroads. Both the private and the public rights are equally influenced by it. Generally the railroad supremacy of the state is recognized as an extension of its supremacy of roads. The railroads are considered as public ways and public institutions. The state has (1) the right of concession; the state decides if the construction of a railroad can be permitted, in case of a certain enterprise. The state cares for the proper construction of the railroad. (2) The right of supervision of the construction, operation, and administration of the railroads. The state grants to the undertaker the right of expropriation to acquire the necessary estate, but the state is also concerned in a just indemnification.

The safety of the buildings and means of operation of a railroad are matters of public interest; construction and operation are subject

to control. The railroads are conceded the right of transportation; thus they gain a certain monopoly, which is counterbalanced by a number of obligations: The obligation of transportation to everybody; the recognition of the state's right to exert its influence upon the rates of transportation; the duty to establish uniform conditions of transportation, hence prohibition of arbitrary preference of certain shippers; the duty to introduce uniform institutions of transportation; the duty to permit other lines to be connected, etc. Not all, but most states of Europe, have regulated upon this basis their relations to the railroads; also those which have not deducted consequences from the right of railroad supremacy of the state in all points mentioned, have done so at least in several points. Considering this far-going regulation of the private operation of railroads, the acquisition of the railroads by the state seems to be the next step; by far the majority of all states have already adopted the idea of a railroad system of the state.¹

The public right of the railway cannot be treated without referring to its economic and generally cultural importance. The measure of economic liberty which the state leaves to the enterprises, the limit which it puts to its influence, will always be defined the conception of free competition, private monopolies, the principles of the formation of price in free and in regulated transportation of the economic and social function of the state.

It lies in the nature of institutions of transportation that they obliterate the boundaries of historical and national peculiarities, as they connect the nations in spite of all differences of nature and of their striving for power; thus they "create a universal image of the world which could not be possible without them, for which his-

¹ Cf. Keller, *Der Staatsbahngedanke bei den verschiedenen Völkern*, Aaran, 1897. That the principle of the supremacy of the state is generally recognized is expressly pronounced by Emery R. Johnson, *American Railway Transportation*, New York, 1903, p. 322. He declares that transportation is a public duty and it is the duty of the government to regulate it. He quotes several very interesting decisions of the United States Supreme Court in which also this principle is recognized: "Whether the use of a railroad is a private one depends in no measure upon the question who constructed it or who owns it. It has never been considered a matter of any importance that the road was built by the agency of a private corporation. No matter who is the agent, the function performed is that of the state. Though the ownership is private, the use is public." Also by other authors the general political importance of the railroads in America is fully recognized. K. H. White, *History of the Pacific Railway*, Chicago, 1895, p. 7, mentions the approval of the first sketch of an Atlantic-Pacific railway by the Street and Canal Commission of the Congress of the United States in 1850. "Such a railway will connect more closely the eastern and western states in economic, social, and political regard. It will become a road of commerce from Europe to Asia. It will further universal peace and transfer a part of England's commercial importance to the United States." In 1870 Charles F. Adams writes in the *North American Review* (1870, 1, p. 125): "Our railway system, connected through the sentiment of equal interests and equal dangers, will once exert the same great influence as the Roman Catholic Church, although it will possess, instead of the religious and moral dominion only, the mighty influence which the desire for material development bestows upon it, which it serves so effectively."

tory possesses no example, and which is to be considered as the living base of all progress.¹ Even the independence of the states has submitted to them, and for the first time in the province of transportation those unions of administration² of the states have originated which establish international regulations for communication; the legislation of the different states will be compelled to recognize these, because universal intercourse demands so. "The state builds ways and bridges for itself and regulates and administrates them after its own will; but the mail-wagon, the locomotive, the electric spark which goes beyond both, does not any more belong to the state alone."³

Probably the first similar international treaties have been made with regard to navigation on rivers. The Vienna Congress Acts of 1814 established first general principles for all rivers common to several states. On these rivers navigation should be permitted to all vessels. The police of the river and taxes should be regulated uniformly. Later treaties have been made concerning the large German rivers: the Rhine, 1831; Elbe, 1821; Weser, 1823; Danube, 1856 and 1857; Po, 1850; Pruth, 1866. Commissions and inspections were established to make and enact regulations for navigation, to determine the punishment for transgressing their norms, so that they exercise acts of an international legislation. By the treaty of Paris of May 17, 1865, the European telegraph union, and by the treaty of Bern of October 9, 1874, the Universal Postal Convention was formed, without board with executive right, as is the case with the above-mentioned river commissions, but with an infinitely farther-reaching effect of international uniformity upon the order of transportation. Never has the international communication been acknowledged more distinctly and precisely than in Article I of this latter convention, which reads: *Les pays entre lesquels est conclu le présent traité formeront sous la désignation de "Union générale des postes" un seul territoire postale pour l'échange réciproque des correspondances entre leurs bureaux de poste.*

This force of communication striving after unity has attained still greater success as to the right of railway freight. As early as 1846 a union of German railway administrations had been formed, which comprised not only the railways of the numerous German states, but also those of Austria-Hungary and later those of Belgium, Holland, Luxembourg. The purpose of this union was to create common regulations of the operation of railways for all connected lines and to subject thereby the freight transport to independent, and in the several states, equal rights. However great the success

¹ Jellinek, *Lehre von den Staatenverbindungen*, 1882, S. 158 ff.

² Stein, *Verwaltungslehre*, p. 361.

³ Stein, *loc. cit.*

of this union was which, in 1879, already comprehended a railroad net of 55,000 kilometers, yet it was by no means complete, inasmuch as large regions of Europe were not included (France, Switzerland, Russia, and Italy), and as the contents of the agreed regulations depended upon the conclusions of a majority and did not sufficiently guarantee its consistency. Therefore Switzerland proposed to create an international freight-right through a juristic convention, which should encircle all states of the European continent. The preliminary work was begun in 1876, and after many conferences the convention concerning the freight transportation by rail was adopted definitively by the delegates of the enumerated states, in the conference at Bern on October 14, 1890; it was ratified on September 30, 1892, and the regulations became valid on January 1, 1893.¹ Although this convention did not establish uniform regulations for the whole rights of transportation, as it concerns only the railroad transportation from one state into another, but not the internal transportation, which is governed by the laws of the single states, yet the facilitation of transportation must be considered a great progress in the organization of the European freight transportation; and Meili correctly demands, in view of this beginning created by praxis of juristic science, "to create a universal right for the world institutions of transportation."²

In the interior of the states the transportation of freight remains still subject to the private law of the several states which have formed a special source of it in the commercial law. Also for this branch of jurisprudence many new legal questions have arisen through the modern institutions of transportation; the scientific treatment of this subject brought about many investigations into the rights of transportation and especially of transportation of freight by rail.

Also the international treatment of the rights of private persons receives its material, increasing in quantity through the facts of modern transportation, and thus the most important points in which jurisprudence comes in contact with transportation have been demonstrated. There does not yet exist any treatise on this development and transformation of juristic material in connection with transportation. Only Goldschmidt declares in his universal history of commercial law³ that a considerable part of the institutions in that province of jurisprudence, of antiquity, and of the Middle Ages have arisen from maritime intercourse, because at times of insufficient communication by land, communication was confined to navigation. Through centuries all temporal and local differences in

¹ Eger, *Das internationale Uebereinkommen über den Eisenbahnfrachtverkehr*, 2. Aufl. 1903.

² Meili, *Das Recht der modernen Verkehrs und Transportanstalten*, 1888; and *Die internationalen nionen Ueber das Recht der Weltverkehrsanstalten*, 1889.

³ 1. Band, 1891, S. 28.

commercial law are closely connected with the transformation of maritime commerce and navigation.¹

It would be of great interest to pursue the effect of transportation on the forms of political organizations and on the utterances of political life, and to investigate to what extent one has already become conscious of these effects in scientific treatment.

Only the connection of transportation with the physical development of power of nations and its valuation from the point of view of modern military science shall be discussed here.

Modern strategy has to take into consideration three new factors which arose in their beginning in the Franco-Prussian War, but were not considered at all in earlier times. They are: The levy of the whole national force for war, the progress of technical science, and the development of transportation. The concentration of the army formed by the entire armed nation, the sending of auxiliary troops, their gathering at certain points, the care for provisions, are conditioned by the organization of transportation. The mercenary armies of the epoch of Frederick the Great must collect and keep the whole amount of provisions that were needed in a campaign before the war in a place as near as possible to the frontier. This *dépôt* contained provisions, supplies of arms and ammunition, materials for artillery, engineering, workshops of all kinds, even barracks for recruits, and formed the basis of operation, which was protected by fortresses. When the armies marched on, in most favorable cases after ten days' march, a new basis had to be established; this was the reason of the long duration of former campaigns and of the lack of display of force and energy in comparison to the present. Although Napoleon brought the system of requisition, the sustenance of his army through the means drawn from the enemy's country, to highest perfection, yet he could not entirely act without establishing such "spaces of basis," as especially his preparations for the war against Russia (1812) demonstrate. In present days these conditions are completely altered by the railway transportation. Storing up supply in a prepared basis has become unnecessary, since reserve forces and any kind of provisions and materials can be moved within a few days from the remotest districts as far as the railroad is operated. The administration of the Prussian army ought to have kept, according to old regulations, a supply of provisions amounting, outside of the fortresses, to one or two years' supply of rye and to one half-year's or one year's supply of oats. Instead of observing this regulation, the supplies had been diminished, during the years preceding the declaration of war against France, so that the supply for the need in time of peace would have been sufficient for but few months; at the time of harvest for an even

¹ I. Band, 1891, S. 336.

still shorter term. And, nevertheless, Prussia could better than only satisfactorily supply its field army in war, inasmuch as not only Germany as a whole, but also foreign countries contributed to the sustenance of the troops; for example, at the beginning of war the Secretary of War had purchased forthwith three million pounds of preserved meat, hard biscuit, oats, and pressed hay in England to be delivered to the Rhine.¹ The centralizing effect of a highly developed system of transportation is shown also there. The entire state, with its industry, production of the soil, with all its auxiliary forces of each kind, had assumed the rôle of the "basis;" the widespread net of railways had become the substitute of that formerly so-called basis. It is evident that this valuation of the railroads in the service of the army was not completely understood at first. The first author who considers the railway seriously, from a military point of view, and has a very clear insight into its importance, Pönitz,² still considers the transportation of one hundred thousand men, with all supplies, improbable for great distances.

The first experiences with transportation of troops was gained by Austria. In the war of 1859 against France and Piedmont, its insufficient system of railways proved to be a disadvantage of serious consequence.³ Only the experiences of the American Civil War, especially on the side of the Northern States, opened a new epoch. There a special corps of troops was formed, equipped with copious material with which railways were built or destroyed. The state alone ruled all railways through a "department of military railroad." General David MacCallum, who was the chief of this department, is the real founder of the military railway system.⁴ In the wars of 1866 and 1870-71, the importance of the railroads became strikingly evident in Germany. Prussia had five railroad lines at its disposal in 1866 for its invasion of Bohemia, while Austria possessed there but one line; in 1870 Germany could send its armies against France by means of nine lines, while France had only three at its disposal. Only thus was it possible that within the short space between July 24 and August 3, in two weeks, 350,000 men, 87,000 horses, 8400 cannon and vehicles were sent to the frontier. Therefore the numerical preponderance upon the battlefield was secured for the German army from the very beginning; this is the factor to which, according to the experiences of the history of war, the most celebrated generals of all times owe their victories.⁵ Upon such experiences military

¹ Engelhardt, *Rückblick auf die Verpflegsverhältnisse im Kriege, 1870-71, Beiheft zum Militärischen Wochenblatt*, 1901.

² Pönitz, *Die Eisenbahnen als Militärische Operationlinien*, 1842.

³ *Geschichte der Eisenbahnen der Oesterreichisch-Ungarischen Monarchie*, 23. Band, 1898: *Die Eisenbahnen im Kriege*.

⁴ Joesten, *Geschichte der Eisenbahnbenutzung im Kriege*, 1896, S. 11.

⁵ Obauer und Guttenberg, *Das Train-Kommunikations-und Verpflegswesen vom operativen Standpunkt*, 1871, S. 50.

science has based its demands concerning the organizations of railways. The development of the railway system shows in the military states of Europe, especially in France, Germany, Austria, in large measure the characteristic type of military railroads which is constructed, not with regard to local transportation of freight, but, in the first line, with regard to transportation of military forces, certain cases of war being presupposed. At the concession of each new railroad to be built, officers of the Ministry of War participate in the council; they decide about the minimum demands, as to ability of transporting, construction of stations, water-supply, etc., which the line has to fulfill before the concession to build and operate the railroad is granted. The average daily supply of provisions for an army of 1,000,000 soldiers and of 250,000 horses is estimated to amount to 4000 tons; the transportation of this mass requires 14 trains with 5000 tons brutto-weight each day, a wagon carrying 8 tons. But as reserve forces, ammunition, material of each kind must be transported besides, the number of trains must be increased. This transportation can, of course, not be effected by any vehicles, and a very well-organized system of railways is necessary to satisfy these claims. Such extended use of railways requires also strong defense and protection of the army's connections with the rear; a new problem has thus arisen for the science of war.¹ As the history of war shows, the chief operations of the army depend greatly upon good natural communications (brooks, rivers, the seacoast).² In the future the railways seem to be destined to a still more important rôle. The war of the future will become rather a war in the province of technic science; who possesses the most complete equipment and institutions will finally be victorious. The armies of to-day are no longer chained to one line as formerly, nor dependent upon the possession or loss of a source of their force. They depend upon the entire railroad region in the rear and are thereby closely connected with their entire country. The railroads will bring about quick and powerful decisions in future wars.³

In this essay on the relations of transportation to the sciences, I have already spoken of political economy, but only in so far as I tried to show at which place and in what way the science of economics has taken up this subject as a whole and how it has embodied it in its system. I shall now return to the relations between transportation and political economy in order to show that the efforts to conquer space have also influenced other realms of political economy and have furnished new problems. I shall not direct the

¹ Cardinal von Widdern, *Der Krieg an den rückwärtigen Verbindungen des deutschen Heere und der Etappendienst, 1870-71*, Berlin, 1893. And of the same author: *Der Kleine Krieg*, I. Theil, 1899.

² Obauer und Guttenberg, *loc. cit.* S. 292.

³ Joesten, *loc. cit.* S. 83.

reader's attention to the great transformations of social life, to subjection of the local markets under the influence of great central markets, to the invasion of European agriculture by transatlantic production, to the extension of capitalistic organization of production under the dominion of European and North American capital, but only to certain phases in this great process of development which have become important for scientific treatment of national economy. The institutions of transportation have created, in the province of pure theory, the law of price. It is a fact that increased communication, within a certain maximum of intensity, does not increase the expenses, and that the expenses of transportation do not grow with the distance over which transportation is operated. Therefore it is to the interest of the undertaker of transportation to invite, by proper rates, the strongest possible use of the means of transportation; hence to set the prices low and uniformly. This principle was followed first with postage (Rowland Hill's penny postage; uniform world's postage); great consequences resulted from it, and finally it was recognized as a special case of a general law of the operation by monopolies.¹ To the theory of formation of capital another most important contribution was made, especially by the railroads. It is often asked whence the monstrous capital has come by means of which in about sixty years the railroads of the earth were built; the expenses of the railroads in Europe which were operated at the end of 1901 amounted to 21.262 millions of dollars; those of all the railroads of the earth, which were certainly all built with European or North American capital, were 40.574 million dollars. English, French, and German authors have declared that this costly means of transportation has, in a certain sense, built itself, inasmuch as the savings from expenses for production, besides the powerful effect upon the increase of production, were more than enough to make the capital free which was needed for the construction.² There is scarcely any more striking example to refute the socialistic theory of the amassment of capital from "depredation of labor." Our knowledge of the form of organization of human society has also been enlarged by the railways. The railways are the first great operations of capitalism. The amount of the amassed capital, the number of working forces, and, above all, the undertaker's uniform authority over a far-stretching operation of railroads with the various branch institutions, are something new as to their great and careful division and to their inner organization. The railroads have been first to introduce the modern form of association of capital, that of stock companies, into wider circles of population, and to create the modern type of operation by large

¹ Huber, *Die geschichtliche Entwicklung der modernen Verkehrs*, 1899, S. 128.

² Emery R. Johnson, *American Railway Transportation*, 1903, S. 228.

concerns. There, for the first time, one has studied a great financial success reached by well-organized coöperation of employees in whom the interest of the owner which shows itself so distinctly in little enterprises, does not appear individually.

But the means of transportation of the present have not only created great organizations; they have also become instrumental to the organization of production in gross. Thus industrial and commercial monopolies were created, and the first example of organized coöperation of independent enterprises without competition was given.

I need only, in first regard, to point to the history of the Standard Oil Trust, which originated by the discrimination granted to Rockefeller by railways; in the latter regard I mention the fusions and combinations of English railways, formed in the forties for the purpose of removing competition, and the great development of the pool system in the United States. The institutions of transportation, which had always a tendency to uniformity, have become the strongest force for centralization of economics, for preponderance of the great industries over the smaller, of the large centers of economic, intellectual, political life over the local districts with individual characteristics of the large cities over the district. The whole modern political economy and the discussion of the socialists about the growing tendency of concentration of capitalistic economics is connected with the institutions of transportation¹ and their effects.

Also the doctrine of free competition has been strongly influenced by the modern formation of transportation, and especially by the railways, not only because the railroads proved by themselves that free competition can lead to monopoly, but especially by the fact that, through their influence, the competition of single private enterprises lost its regulating power. The attraction of low freight rates proves to be stronger than the industry and ability of local producers. Who has the enterprises of transportation on his side needs no longer to be anxious about his victory in competition. But where the influence of such factors which are not within the reach of every single man have turned out to be so determinative, the law of free competition is no longer valid, and science has no longer to examine only the effect of free competition, but, above all, to investigate how the conditions for the competitor can again be equalized. These facts have, in the highest measure, contributed to the fact that the doctrine of free competition is much more complicated nowadays, and that we cling less to the simple formulæ of the past. But from its effects the principle of state intervention has developed.

¹ Knies, *Die Eisenbahnen und ihre Wirkungen*, S. 123. Cohn, *Nationalökonomie des Handels- und Verkehrswezens*, 1898, S. 785 ff.

No technical and economic fact has been more instrumental in representing the state as the living element of each economic organization than the transportation of our days, which could not exist without being supported by the state, and which, on the other hand, would turn out to be, not a creative, but a destructive force in economics without being regulated by the state. The necessity of a principle of common economics as supplemental to one of purely private economics has been illustrated in transportation by the influences of the corporations with common economics, viz., state and community.

Finally, I shall point to the fact that the consideration of commercial organization and commercial politics is no longer possible without simultaneous consideration of transportation. The establishment of roads for universal commerce as the result of the development of transportation, especially the technical and systematical improvements of navigation, the removal of the economic effects of natural obstacles by tariff politics, the separation of the organization of transportation with the organization of commerce, and, in connection with it, the more perfect organization of expedition, have caused most important changes of the world's trade as well as of the interior commercial organization. I mention only the facilitated avoiding of staple places and the increase of direct communication between producers and their customers, which, for instance, brought about the independency of the continental ports from England, the destruction of the basis of existence of the smaller tradesmen in the interior of the countries, the advancement of corporative commercial organization with its own production. An apparent contradiction between the exterior commercial politics and the facts of communication is thus solved. "Railways, and commercial blockade! The outlay of immense capital for the furtherance of trade, and tariff laws for the obstruction of trade!" Thus Prince-Smith has exclaimed, to call attention to the economic politics of the present time. But, in fact, it was the centralizing force of the means of communication which had aroused powerfully the political and economic common spirit; it contributed, as a mighty factor, to the fact that the idea of the national protective tariff rooted deeper in the foreign commercial politics and that it was demanded that the state should similarly influence the international competition, as in the tariff politic in the interior. Presumably the time is not long when uniform tariff politic of transportation for international commerce will be the topic of public discussion, as it indubitably has been used already with success in several cases.¹ The influence of the institutions of transportation upon the cultural life of the nations, independently from their material and political basis,

¹ Cf. Seidler und Freud, *Die Eisenbahntarife. Ihre Beziehungen zur Handelspolitik*, 1904.

reaches beyond their economic effects. This influence is, in the end, the most important; it is, at the same time, least open to the regulating invasions of the states. "There is, in communication, a greater necessity than the political or purely economical, namely, the cultural. Communication survives political changes; not only the states, but also the nations which would separate themselves, are joined against their will, by communication.¹ What will be the last and most powerful effects we cannot yet see to-day; for we do not stand at the end of the development of transportation, but at its beginning. Antiquity and Middle Ages, up to 1500, are considered one epoch from the point of view of transportation. The sea voyages and great discoveries in the space of the globe from 1500 to 1900 fill the second great period, and the third, the period of increased intensity of all means of and relations of transportation begins at the end of the nineteenth century. We are overwhelmed by the progress which the decades have matured; we feel how much they concern not only the life of the nations, but the life of every one of us. And yet we must confess, if we behold the image of the earth and of the lines of communication drawn thereon by man, that the deeds of the future will be infinitely greater than that which we see nowadays and which we may foresee for the next days. For wide regions of the earth still belong, as to their ways and means of transportation and forms of communication, to that period which is for us a matter of the past of five centuries. It is still the smaller part of the earth that has progressed to more intense communication.

The different effects of the attained progress of transportation which we have shown or indicated are only a small part of that which mankind may still expect, when the whole globe will be drawn into the circle of culture of the nations of European origin, in the same way as this is now the case between Europe and North America. Whether then the results will turn out, as heretofore, as a blessing for the peoples of European culture, this cannot be predicted by any science. We must rather confess that science has, till now, pursued facts only hesitatingly and recording what it has experienced; it did not foresee nor determine facts of the future; thus it will probably also be in the future. For a science which would dominate extent of men in space would, in reality, determine the whole life of mankind. So high our fancy and ambition shall not soar! We acquiesce in the hope that our review of the sciences whose object is transportation has at least shown that social science, and especially its most developed branch, political economy, finds important reasons for investigating, with greater attention than before, the influence of space upon the formation and development of the human society.

¹ Ratzel, *Politische Geographie*, S. 529.

PROBLEMS OF TRANSPORTATION

BY WILLIAM ZEBINA RIPLEY

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Trade Areas

A GROWING problem in transportation is the determination of trade areas, or spheres of influence, to borrow a phrase of international law. This is another way of stating that the problem turns upon the importance of distance in any scheme of rate-making. Geographical location is a factor in commercial competition. Most of the cases before the Interstate Commerce Commission concerning the Long and Short Haul Clause raise this issue; wherever within, or even outside, a given territory, lie a number of cities competing for business. Take the Southern States for example. What are the conditions at present as determined by the adjustment of freight rates; that is, by an arrangement patched up between competing carriers, each striving for all the traffic it can hold, irrespective of any abstract rights of competitors or of the community at large? Literally speaking, railway competition does not probably exist in the Southern States to-day; so far has consolidation proceeded. But inasmuch as the system of freight rates in force is an unchanged hold-over from a competitive period, our statement holds good. Large distributing-centers in the East are in the field seeking business. Western cities are also actively bidding for trade, while indigenous centers of primary importance like Atlanta, New Orleans, Nashville, and Memphis are actively seeking to wrest the business of distribution from their older rivals.

This contest for trade may even descend into competition between smaller local centers either struggling against one another or against the larger cities. To be concrete, it may be a case of Atlanta against New York and Chicago, respectively; or of Denver as between San Francisco and the Middle West. Or the struggle may turn upon the rights of a secondary center, such as Montgomery, Alabama, lying between Atlanta and New Orleans. Columbus, Ohio, lying between Cleveland and Cincinnati, is similarly situated. What

would be the ideal distributive system supposing the matter were referred for decision to an omniscient governmental commission with power? Precisely such issues are already before the Interstate Commerce Commission. The immediate question may be a technical one, such as relative rates upon car-load or less than car-load lots, or the relation between rates upon raw and finished products. But underlying these technical details the real question pertains to the relative rights of competing centers in certain territory.

Many elements in settling trade rivalry are, of course, entirely independent of transportation cost. Among such are native or imported enterprise, available capital, and the like; but aside from these the most important artificial factor is the adjustment of freight rates.

There is a larger amount of waste due to a neglect of the element of distance in transportation than most people appreciate. It is wonderful how circuitously freight will travel, in order to reach a certain point, when once loaded on the cars or vessel. More than this, districts may even buy their supplies of the very things which they produce, not from themselves, but through a distant distributing-point. Arkansas is a great fruit-growing state, yet wholesale grocers are selling dried fruits from Chicago throughout its own fruit-growing territory. Some years ago one of the most enterprising shoe jobbing-houses in Virginia, doing business throughout the Southern States, was shipping its shoes made in New England to customers, not as the bird flies, but back through New York. It is not very many years since interior points in the South were supplied with Western produce in part by goods which traveled three quarters of a circle, going east over the trunk lines to New York and then down the coast and away west into the interior.

Such facts illustrating the extreme fluidity of freight are familiar to all students of this subject. As a deplorable waste in transportation, they are usually charged up to the carriers. Less attention has been given to corresponding waste in transportation due to unregulated competition, not of carriers, but of buyers and sellers themselves in the ordinary course of business.

We buy hoes, rakes, and shovels in Massachusetts made in Iowa, while the greatest manufacturers of some of these products, selling goods all over the world, are situated within our own state. Nashville, Tennessee, is selling Northern goods not only as far south as its rival, Chattanooga, but beyond and all around it. Chattanooga, in its turn, would like the privilege of similarly cutting into territory which its rivals enjoy. A great struggle in the Western field illustrates the same difficulty. A bitter competition has long been waged for distributive business between the Middle West and Pacific Coast. St. Louis and Chicago are seeking markets out on

the Pacific; San Francisco and the coast cities are striving to sell not only in their own territory, but as far east as possible, and Denver, between the two millstones, is striving to retain a few rights on account of its geographical situation. What interest in the outcome have the carriers? No adjustment on general grounds of equity or economy can be expected to appeal to them. Every economy in transportation means for them, in fact, a loss of revenue. The only satisfactory issue for them is the one that yields the most returns. The result is an appeal to the state to enforce an equitable adjustment of the matter; or, in other words, to sanction a rate adjustment which shall protect each market in the possession of its own rightful geographical advantages.

Definitions of these rights, so-called, to definite territory are well put in a recent case: "Every commercial city owes its existence to its geographical position, giving it natural advantages which make it a distributing-center or gateway for a territory, the periphery of which is established at points better served by other cities possessed of like natural advantages. As the original tributary territory of a city increases in population and advances in development, competing distributing-centers within this territory, having like natural advantages in regard to the same, responsive to a natural demand, spring into being and share in the business, each city practically getting the trade to which its contiguity entitles it. Such is the history of the cities of the Atlantic Seaboard, the Middle West, and the Pacific Coast." By such reasoning as this we find the commercial zone of a city even more exactly defined in a recent case: "Taking into account the claims of those cities (Nashville and Knoxville), the legitimate trade of Chattanooga covers a strip of territory extending northeast and southwest a distance of about two hundred miles in length by about one hundred and twenty-five miles in width. And a demand results for a rate adjustment which shall 'protect this city in her natural trade rights.'"

At this point rises a difficulty, What are natural rights of location? We may easily recognize these in the case of places like New York, New Orleans, San Francisco, St. Louis, Chicago, or Minneapolis and St. Paul. A whole chain of cities from Richmond skirting the Allegheny chain around to Montgomery, Alabama, determined by the headwaters of navigation on the coastal rivers, are likewise located where they are by act of God, but shall we say the same of places like Indianapolis, Omaha, Denver, and Atlanta? Neither one of them has any rights of natural origin. They are all railroad towns, determined in location by the intersection of carriers. They might have arisen anywhere within fifty or one hundred miles from their present *situs* and have fulfilled their mission equally well. Here, then, are two distinct classes of rights of location. The Inter-

state Commerce Commission, since its earliest Louisville and Nashville interpretation of the Long and Short Haul Clause, doubtless had in view real geographical rights when it consistently refused to recognize the competition of carriers among themselves as justifying a neglect of the element of distance in transportation. On the other hand, the Supreme Court has, perhaps, been predominately influenced by facts bearing upon the condition of our second class of cities, which owe their prosperity not to natural, but to purely artificial causes, along which commercial competition is preëminent. Atlanta, Georgia, is purely a railroad town, without historical antecedents, without a water course or power, without fertile surroundings, remote from the sea, and with no natural charms save climate. The location and prosperity of this most important city in the South was undoubtedly due to the preferential treatment of the many carriers who happened to meet or cross at that point. What "rights" has such a place, — a creature of the railroads, — which railroads are bound to acknowledge; or what rights worthy of respect have any other competing centers which carriers will recognize as equal to the railway rights which they themselves confer?

The waste in cross-freights, competing centers invading each other's territory without regard to distance, is accentuated by the operation of an economic law. Surplus production at low cost is familiar to us in the case of international trade. The United States Steel Corporation or the German Sugar Kartel can profitably sell their surplus product abroad cheaper than at home. Within limits this foreign sale may not injure the domestic consumer, but may help to lower the price of his goods. Precisely the same principle underlies all long and short haul adjustment. It is exemplified in the case of low export and import rates. Given a volume of existing business at remunerative rates, which cover fixed charges, any surplus business which repays direct outlay is worth while. Applying this principle to our case in hand, the farther each center extends its market, the more ruinous becomes its price for the competing city which looks to that trade, not for its infinitesimal surplus profit, but for its staple and basic one. This principle not only influences the merchant in fixing his price, but it also, of course, appeals to the carrier to give lower and lower proportional rates as the distance increases.

Various industrial influences seem to be at work to prevent a part at least of this fruitless waste in transportation. Certain industrial combinations have contributed appreciably by locating their plants with reference to a division of the market and economy of freights. Others attained this end by enforcing scales of prices based on certain distributing-centers. Pittsburg, for example, is made a base for the price of pipe, plates, and other steel products.

Prices for these goods are fixed all over the country at this figure plus the arbitrary approximate cost of transportation. One object is that all traffic may be kept moving outward from the producing-center. For obviously any shipment inward from any other distributing-center is penalized not only by lower and lower prices as Pittsburg is approached, but also by the increasing freight rates in proportion to the distance shipped backward. Still another device for correcting undue competition at ruinous distances is the adoption of a scale of crossed freights between several distributing-points. Thus Cleveland and Cincinnati, competing for business throughout Ohio, may agree, through a Wholesale Grocers and Hardware Association, to quote prices in the intermediate territory at a fixed price, freight paid; or they might agree each to figure freights as based upon a third point equally distant.

In any case the result is to give contiguity its due weight in fixing the outline of trade areas tributary to each.

Agreements between carriers often seek to obviate unnecessary waste in transportation. The division of territory between the eastern and western lines in Southern States is a case in point. Thirty years ago competition for trade throughout the South was very keen between great cities in the East and in the Middle West. Direct lines to the Northwest from Atlanta and Nashville opened up a new avenue of communication with ambitious cities like Chicago, St. Louis, and Cincinnati. The state of Georgia completed the Western and Atlantic Railroad in 1851 for the express purpose of developing this trade as Western manufactures developed. A keen rivalry between routes respectively east and west of the Allegheny Mountains into the South developed. A profitable trade on food-products by a natural direct route from the Ohio west of the mountains was, however, jeopardized by ruinous rates made by warring trunk lines to the Northern seaboard. Corn, oats, wheat, and pork came down the coast and into the South through the back door, so to speak, by way of Savannah and the seaports. On the other hand, the Eastern lines into the South could not earn dividends because of the retaliatory rates on manufactures made by the Western lines on goods from New York and New England. Finally, in 1878, a reasonable remedy was found in a division of the field and an agreement to stop all absurdly circuitous long hauls in each other's natural territory. A line was drawn through the Northern States from Buffalo to Pittsburg and Wheeling; through the South from Chattanooga by Montgomery, Alabama, to Pensacola. Eastern lines were to accept goods only from their side of this line to points in the South also on the same side of the boundary. Western competitors were to do the same. The result was the recognition of the rights of each to its territory on the ground of contiguity.

Such action for the reasonable definition of trade areas and routes as has been outlined is feasible enough for industrial monopolies and for those carriers who by agreement or by consolidation make themselves monopolies, but the remedy is not open to the general competitive or consuming public. Merchants of Denver, Colorado, cannot conclude a treaty with competing cities for the mutual determination of one another's territory. Nor would it be desirable to have it so. Competition is the life of trade and the salvation of the public, so long as it is reasonable. The only possible geographical delimitation of each other's activities is, and must always be, through the adjustment of freight rates. This function has heretofore been performed by more or less beneficent autocracies — the carriers themselves. That so important a public function, however, affecting the origin, development, and continued prosperity of great commercial and industrial centers should remain in purely private hands without power of revision by representatives of the public, is contrary to the tendency of the time, and cannot long persist. This does not mean that the task to be assumed by the state is an easy one, nor, perhaps, that it would be more satisfactorily performed in its larger aspects by the government than by private persons. What the situation demands, however, is not so much an immediately equitable adjustment of rights as a guarantee that the problem shall be worked out at least free from the bias of private interest. Whether more or less satisfactorily performed than at present, satisfaction must be afforded to the public that the decision is free from the bias of private interest.

Territorial Division

All of these influences which we have adduced as making for a wider and more general dispersion of manufactures will, of course, never affect the great and unchanging influences which have placed many of our staple industries where we now see them. The several states of the Union will never probably roll their own steel rails or make their own cotton cloth. Early fruit will still grow in California and Florida better than anywhere else. Spruce trees for paper, and grain for the distillation of liquor will still grow where Nature bids. But, on the other hand, in the vast complex of manufactures, it can scarcely be doubted that a great many industries having no special *situs* foreordained will follow the population which they serve. And neglecting export to foreign countries, the business of transportation will in just that proportion be changed from long carriage for both raw and finished products to and from a specialized center, to a long or perhaps even a short haul for the raw material, and a distinctly short haul for the finished commodity. The only

long haul definitely assured may be the staple food-supply, which to-day, in the form of grain, or its derivative, beef, forms perhaps one third of the traffic of our carriers.

Are any influences yet discernible of the progress of industrial specialization upon the character of transportation in older European countries? It would be of great interest to hear from our foreign delegates.

One of the most interesting general problems for the student of transportation concerns the effect of development of facilities for the carriage of goods upon territorial division of labor, and the relative interdependence of regions or populations upon one another for products. Marshall, the great English economist, thus puts it: "Speaking generally . . . a lowering of freights tends to make each locality buy more largely from a distance what it requires, and this tends to concentrate particular industries in special localities." There should be comfort in this principle for the practical railroad man. It means several things for him. It means with the growth of a country, let us say the United States, not only an increase in the volume of traffic far more rapid than the increase of population, but also at the same time it implies an ever-augmenting proportion, not only of long-distance traffic, but also of high-grade freight. The first of these probabilities seems to be justified by the results of the decade of 1902. The average ton-mileage of the railways of the United States for the three years up to and including 1892 was 82,000,000,000. Ten years later the corresponding figure was 148,600,000,000 tons of freight hauled one mile. The increase in freight traffic was upwards of 80 per cent. During the same time the population increased about 20 per cent. Thus the volume of traffic during a decade increased about four times as fast as the population. That something like this proportionate rate of growth will continue can scarcely be doubted. Let us assume it as assured. The problem for discussion is not as to its volume, but as to the precise character which this increase in traffic will assume. If Marshall, expressing the orthodox view, be right, this increment will progressively rise both in the length of haul and in character, as specialization in agriculture, mining, and manufactures develops.

Two economic forces are in continual opposition in any country. Territorial division of labor, the specialization and localizing of industry, mean an increasing dependence of men and communities upon their neighbors, close at hand, or perhaps on the other side of the globe. The trend in this direction entails an exchange, not only of raw materials, but of a larger and larger proportion of finished products. Even food staples, grain and cattle, are not carried long distances in the raw, as formerly, but largely in the manu-

factured state, as flour and beef products. On the other hand, with the maturer development of every community, comes an increasing desire to be economically independent and to develop resources in a well-rounded way. The Pacific Coast wants to make its own ships; the Middle West to make its own shoes; the South to grind its own flour and spin its own cotton. Every force which operates in this direction toward the decentralization of industry means a reversal of the previous effects of industrial growth in the line of regional division of labor. Every utilization of local raw materials for local manufacture to be consumed at home means a change in the character of freight offered for transport. The problem comes home every day to the traffic manager of a great system. If St. Louis shoes the great Southwest with hides of local Western origin, what becomes of the long-haul business from New England? If Richmond and Atlanta become the seats of thriving local manufactures of furniture, crockery, wagons, and soap, what becomes of the traffic displaced? The answer is, of course, that every such industry has to be fed, clothed, and supplied in a hundred ways which more than compensate the carrier for the direct loss of traffic. This is, of course, true. But the change exemplifies exactly what we have in mind, namely, that the maturer development of a country will profoundly influence not only the amount, but the character of the transportation service demanded as well.

Many forces tending to specialize industry and locate it predominantly in peculiarly favored places are familiar to us all. The oldest, and for our country the most important, historically, is *nearness to the market*. Nearly one half (48 per cent) of the manufactures of the United States, according to the latest data, are located in the six states of Massachusetts, Connecticut, Pennsylvania, New York, New Jersey, and Rhode Island. But this concentration is rapidly yielding before the spread of population, with increased consumption power, through the South and West. Who can say that within a hundred years the center of manufactures will not pass beyond the Alleghenies? It has already almost done so in the case of several industries. A second concentrating influence is, of course, the *location of raw materials* in the ground and of climatic advantages in the air. There are no signs of weakening in the supremacy of Pittsburg or Birmingham as centers of the iron and steel industry.

Yet many of the more highly elaborated products of these staple raw materials, from ships to hardware, will be more and more made near where they are to be consumed. Other factors to be noted presently may readily prove it to be more economical to carry the raw material, pig-iron or steel billets, rather than the finished products over the long haul. Consider the cotton industry. We hear a great

deal in New England about the advantage of having cotton grown at the mill door. Yet those conversant with the subject assure us that freight rates play no part in the differential advantage which the Southern mills enjoy over New England. In fact for many of these mills, until very recently, it cost more to bring their raw material two hundred miles than to carry it fifteen hundred to Boston. The only real advantage for the South lies in its abundance of cheap white labor and its freedom from legislative interference in the interests of decency and humanity. *Water-power* and supply is a powerful factor making for localization in manufactures. It still determines the situation of certain industries, paper-mills for example. But our cotton-mills are more and more relegating water-power to the background in favor of coal. And, moreover, New York and New England possess no monopoly of this gift of nature. Parts of the South and West are overrun with it. Natural gas holds the glass industry within its belt; but the life of this fuel supply is highly uncertain. And, moreover, who can say what possibilities lie before us in the line of electrical transmission of heat and power. The twentieth century is not yet four years old. Niagara and many of our interior rivers may offer great alternatives in the future location of industry. Nor is our list of localizing influences yet exhausted. A local *supply of capital* has been a powerful factor historically in the geographical development of industry. But the South and West have not only demonstrated their rehabilitation as fields for Eastern investment. They have also developed indigenous supplies of capital, big with possibilities for the future. The *supply of available labor* again has often determined territorial division of labor. To be sure, the English cotton industry settled in Lancashire because of its climate and in spite of its sparsity of population; yet it is labor supply, and that alone, which to-day gives our own South its hold on the world. Many highly specialized centers of industry, Gloversville, New York, for hardware; Brockton, Lynn, and Haverhill, Massachusetts, for foot-wear; Attleboro, Massachusetts, with its gilded reputation for jewelry; Troy, New York, for its linen and laundry work; these and a score of other places owe much of their supremacy to their local supply of skilled labor. Yet the migratory habits of our American population show no signs of decline; and, moreover, the dangers of overcentralization in labor-unionism are inducing many manufacturers to long for a little more industrial seclusion. A noticeable decentralization of industry from the latter cause may be detected. And finally every improvement in the *technique of transportation*, making it almost as profitable to carry raw materials in bulk a thousand miles on a commodity rate as to transport the finished product even in carloads at high-class rates, helps along the same process.

Prices

Another important problem at this present time is involved in the relation of freight rates to general prices, as revealed by developments of the last four years in the United States. An almost continuous decline of freight charges characterizes the years since the close of the Civil War down to 1900. The extent of this decline is indicated very roughly by a fall in the average ton-mile revenue of the United States from 1.92 cents in 1867 to less than three quarters of a cent (.729) in 1900; or to take Massachusetts by itself, from 3.11 cents in 1871 to 1.22 cents in 1902. So long and unvarying did this phenomenon appear that even traffic experts seem to have become convinced that the downward impulse was irresistible, only to be compensated for by increased efficiency in operation. Progress during these years certainly seemed to inure to the benefit of the public.

The prosperous years since 1900 have brought a sudden and remarkable change. Carriers combined, tonnage was large, and commercial sentiment against departure from published rates was made enforceable by amendments of the Act to Regulate Commerce. The consequence has been a reversal of the downward tendency in freight charges. Rates have bounded upward, in fact, if not always on paper, to a degree more than commensurate with the general rise of prices characteristic of the time.

It is often difficult to prove these increases concretely. And it is often easy for astute traffic experts to show averages which minimize the real increases effected. The only way oftentimes to ascertain the amount of increase is by going directly to the individual shippers, asking them in fact what they used to pay and are now charged for identical service. The complexity of traffic methods defies statistical analysis. No general statement suffices; each rate must be worked out in detail. Thus for example in the case of grain rates from Chicago to New York, they were ostensibly raised from $17\frac{1}{2}$ to 20 cents per hundred pounds, an increase of $12\frac{1}{2}$ per cent. But only when it is made evident that owing to competition old rates actually paid were always from two to five cents below the quoted tariff of $17\frac{1}{2}$ cents, whereas now the full 20 cents is exacted from all shippers, does the magnitude of a real advance amounting to 30 or 40 per cent become apparent. The stiffening of rates may be more indirect still. Rules of the Southern Railroad Association used to prescribe that for all cars over 42 feet in length a minimum weight of 28,000 pounds should be charged. In a particular case a shipper of wooden pails states that to load 20,000 pounds of his product, wooden pails, requires a longer car than this. Hence, if he be furnished one of these long cars and desires a car-load rating, he must pay a nominal rate

per hundred pounds for 14 tons for every 10 tons actually shipped. Here is a real rate 40 per cent higher than it appears from the tariff.

Or, again to be specific: raising the minimum car-load weight of caustic soda or lye from 20,000 pounds, where it used to be in Official territory, to 24,000 and 30,000 pounds respectively, regardless of the difficulty of filling so large a car with these products, amounts practically to increasing the rates by 50 per cent without changing a type in the tariff sheets. And so, in a thousand little ways, abolishing privileges in demurrage, in switching charges formerly gratuitous, by stiffness in allowances for insurance, etc., the situation may be changed. This is what has happened a number of times during the last four years since January of 1900. The rates have universally been raised and together with these increases a multitude of other changes of the kind mentioned have all accentuated the same result.

The problem which we would raise is not as to the exact extent of this rise in transportation charges, but rather as to its significance in a well-ordered scheme of things economic. The old evil in this field was inequality between individuals. To combat that injustice was one of the main objects of the Act to Regulate Commerce in 1887. This inequality, particularly with the law as fortified by the Elkins Amendment, has now been more nearly obviated than ever before. The present problem is not of inequality, but of the general level of rates absolutely considered in its relation to prices as a whole. In other words, are carriers justified in expecting a sympathetic rise of rates in accordance with a general advance of commodity prices all along the line? We have for thirty years become used to a movement of railroad rates entirely independent of the course of prices, efficiency in operation being correlated with a reduced cost to the public. Are we to witness henceforth a reversal of this phenomenon, characterized, let us say, by a sliding scale of transportation charges following the upward and downward trend of prices of things in general?

The problem must, however, be simplified somewhat further. All expenses of operation have greatly increased as a direct result of rises in wages and the cost of supplies. To be recouped for this final outlay, owners are of course entitled, although they have never heretofore been able to take advantage of any upward turn in cost of operation of this kind since the Civil War. And in so far as it is necessary to repay this added expense, no one will contest their justification for the raising of prices of their own product, — transportation. But the carriers have not alone been content to stop at this point. They seem to have based their claims for increased returns upon the necessity of continuing a high level of earnings and dividends reached at an early part of the period of prosperity. Many of them have in fact through consolidation capitalized the abnormal

prosperity of two or three years. They established an unprecedented level of gross earnings from operation in 1900, of \$1,500,000,000, as compared with an average of less than \$1,200,000,000 for the ten years to 1899, an increase of more than 25 per cent.

It was frequently asserted in 1900 that this new high level of investment returns was henceforth to be maintained with net earnings and dividend rates commensurate with the increased gross receipts. Even this might be conceded could such results have followed at existing rates. No one denies their right to share in the general sunshine of good times. But the crux of the question is met when a decline in general business and prosperity gives rise to a claim, not only to all that they have already received, but also to a continuance of these high returns indefinitely. The means to this end lay close at hand. Having demonstrated their power to turn back the long-continued decline of rates upon itself, they now proceeded to hold this high level of net earnings in the face of declining business by again raising the price of their product. That the enactment of the Elkins Amendment helped to make this possible, by prohibiting individual discrimination and departure from established rates, cannot be doubted. To be sure, the great coal-strike, with its largely enhanced cost of operation, followed by demands for high wages on the part of employees, would, without such increases in freight rates, have made a considerable cut in net earnings. This, together with a cessation of the increase, if not a positive decline in gross earnings, would undoubtedly have brought returns down with the general stagnation and fall of profits in other lines of business.

On the other hand, something was surely to be expected from the enormous outlays made during the fat years for permanent improvements. These ought to have helped to maintain net returns, even in time of stress. In this case both public and investors have been somewhat disappointed. Yet the character of many of these improvements, rightly considered, was not aimed primarily at a reduction of operation cost at all. This point seems to have been largely lost sight of. Many of them, improvement of terminals especially, will never have as much effect upon earnings as upon the monopoly control of the field. Every new station, every freight yard in large cities, every grade-crossing abolished, every tunnel completed, makes the possibility of effective competition more remote. The fact that railway returns have not yielded save inconsiderably until January, 1904, means the establishment of a new ratio for the country at large between transportation charges and the price of commodities, or at any rate it denotes an elasticity between the two which inures greatly to the advantage of the carriers at this time.

Who is to determine this question? At this present time more millions of dollars would be involved and more people affected than

in any fifty cases ever argued before the Supreme Court of the United States. That one party to the issue shall at once be defendant, judge, jury, and court of appeal and last resort, is, in my humble judgment, a condition which an enlightened public opinion will not long tolerate.

Consolidation

A third transportation problem still in the making is that of railroad consolidation. A great movement began on the Eastern trunk lines in 1898, which culminated two years later in a wild outbreak of combinations of railways in all parts of the country. It was freely asserted that all of the carriers in the United States would ultimately fall into four or five groups, each holding a monopoly of a definite section of the country. In other words, that a division of the field similar to that which took place in France many years ago was the only logical outcome. These predictions confidently made three years ago are now being subjected to the test of experience, with the result that an ultimate solution along the lines expected seems much more remote than it did then.

The growth of giant consolidations has not ceased since the culmination of the furor in 1900. The Great Rock Island system, controlling over twelve thousand miles of line, has taken place since 1902. Of the first magnitude, this consolidation extends from Chicago to Denver, to the Mexican line, and into the very heart of the eastern Southern States. The Atlantic Coast Line Company, by purchasing a controlling interest in the Louisville and Nashville Railroad, forms a vast railway loop reaching from Chicago to the Gulf and away up round the Alleghenies on the east to Richmond. The so-called Gould system has reached points on the Atlantic seaboard through control of the Wabash and of the Western Maryland. In fact the *coup* by which it broke the monopoly of the Pennsylvania, by entrance into Pittsburg, is one of the most interesting episodes in modern railway history. Another Eastern company ceased independent existence early in 1903 by the joint control of the Philadelphia & Reading by the Baltimore & Ohio and the Lake Shore companies. Inasmuch as these latter roads are controlled by the great Pennsylvania and New York Central systems, consolidation in trunk-line territory is appreciably advanced by this operation. More recently still a considerable system is presaged by the appearance of the Père Marquette as an absorbing company. And finally, if rumor be true, the Chicago & Alton Railroad is passing at this present time into the great Union Pacific group.

Progress toward consolidation has not, however, been universal. A number of events are contributing toward an increasing independence of many companies. The adverse decision of the Supreme

Court in the Northern Securities case in 1902 can scarcely be over-estimated in importance as affecting the nature of corporate development in this field. A most salutary check is thereby placed upon a malign tendency in the so-called field of high finance, although in this particular case the evils in sight were probably more than counterbalanced by the advantages to be gained. The dissolution of several voting trusts, notably the Erie and Reading, Ontario and Western, and Père Marquette, have thrown these important companies also more into the control of their owners. The Southern Railway is, in fact, the only important voting trust giving control to wholly banking interests, which remains from the period of reorganization of 1893. The dissolution of these trusts may be, perhaps, taken as symptomatic of a general loosening of the hold of Wall Street upon railroads of the country. A large amount of so-called undigested securities, products of the reorganizations of 1893 and consolidations of 1900, were forced from banking control by the great liquidation of 1903. Huge operations conducted upon borrowed money were brought to an end by that wholesome event, so that it may be presumed that a number of railroads once definitely placed in groups named after prominent financiers are now to a far greater degree in the hands of their owners. Whether this increasing independence will render the properties more likely to be seized upon by growing consolidations remains to be seen.

Viewing the nature of the more recent consolidations and the disintegrating tendencies above mentioned, it appears less likely that a parceling out of our territory into monopolistic groups will be the ultimate outcome. Scarcely any of the great systems in reality can lay claim to an absolute monopoly of any considerable territory with the exception of New England, and if some substitute for the Northern Securities Company be found, the Northern transcontinental lines. Certain evidences appear that the process of merger cannot hope to obtain this result. All that a great system can hope for is that it shall connect the great strategic points of our vast territory. They all seek entrances into Chicago, whether their systems lie west, south, or southwest. Most of them aim at an outlet on the seacoast east or south. With this result they must be content. Moreover, the community-of-interest idea is working less smoothly than at the high tide of our industrial prosperity. Several events, such as the warfare between the Gould and Pennsylvania interests for entrance into Pittsburg, and the still more recent struggle between the Gould and Harriman forces concerning the Colorado iron and steel products, cannot fail to be somewhat disquieting. And the supreme test of all, hard times, has not yet arisen. The old prediction may come true that present consolidations will merely transform railroad competition from a multitude of petty conflicts between small com-

panies to titanic contests between consolidations in case of a sufficiently severe and prolonged period of depression.

But whatever the future of competition may bring forth, one thing seems clear. If the carriers are to get together for the advancement of their interests, it behooves the public to do the same. More and more is it being appreciated that ruinous warfare, be it of railroads or between labor and capital, shall not be permitted to jeopardize the welfare of the country at large. And the phenomenal development of consolidation which makes such warfare possible adds yet another forcible reason for the people to provide adequately for safeguarding the public weal through governmental supervision.

Governmental Regulation

It is often urged against a further extension of governmental regulation of transportation that the interests of the carrier and community are identical; in other words, that the interest of the road in charging what the traffic will bear is a safeguard for the public against charging what it will *not* bear. There are three objections to this statement, or, in other words, three reasons why the adjustment of freight rates under the present conditions of legally unrestricted private initiative are unsatisfactory.

These reasons, concisely stated, are: First, that the permanent interest of the carrier is often directly opposed to an adjustment favorable to the commercial or industrial welfare of the community served; second, that even if the permanent interests of the carrier and public are harmonious, yet the *temporary* interest of the carriers may be at variance with a policy favorable to the public; and third, even if, as before, the permanent interests of the carrier and community are one, competitive forces may prevent the management of the railroad from doing what it concedes to be best and what it would do if its hands were free.

Let us illustrate these three possible cases by concrete illustrations:

The clearest instance of a permanent divergence between the interests of the carriers and the public is afforded by the great increase and maintenance of freight rates yielding abnormal returns to the carriers, to which reference has already been made. Let us agree that equality as between competing shippers may obviate any loss of those shippers due to an increase of freight rates; inasmuch as they all being raised at the same time simply shift the burden upon the community by raising the price of their commodity. But this very fact merely changes the contest of rights between the shipper and the road to a divergence of interest between the carrier and the consuming public. The case is so plain that it needs no further elaboration. Another illustration of the same divergence

of interest is also often found in the establishment of a local industry in a new country. Suppose it is a question of establishing a new paper-mill at Denver, Colorado. The carriers serving Denver have enjoyed a remunerative traffic in the carriage of wood-pulp paper over a long haul from Wisconsin or elsewhere. The establishment of this paper-mill will mean the substitution of a short haul to and from Denver of wood pulp from Colorado, and of paper carried to a local market in the same state. Argue as you may that every industry added to Denver inures to the permanent interest of every carrier which serves that city, yet the fact remains that the loss of traffic is direct, while the ultimate gain is indirect and will have to be shared with other roads serving the same territory. That this argument is a cogent one may be illustrated any number of times by the dog-in-the-manger policy which is too often taken by traffic managers.

Our second principle is that, conceding a joint permanent interest of carrier and public in a certain policy, the temporary welfare of the management may often be directly opposed to that of the community.

The best illustrations of this contingency are found in certain phases of speculative finance which, like the poor, are always with us. Of what use is it for the far-sighted traffic manager to seek permanent development of his territory if a gang of speculators are in control of the situation. What care they for the future growth of the territory at large. They may merely hold the control of that road for a few months in order to sell it out at a profit; or, perhaps, to secure profits by speculative manipulation vastly exceeding any legitimate earnings from operation. A huge volume of earnings must be made, let us say, to attain this result. Efficiency or safety does not count. Expenditures for permanent improvements are sidetracked and the country is practically exploited until such time as these speculative interests have accomplished their object by selling out to their rivals, or perhaps, have been forced out of control by bankruptcy.

Results of the experience of the last ten years in the field of high finance emphasize the necessity of some adequate supervision by federal authority, not only of rate-making, but of financiering. This is perfectly evident. Such notorious episodes as the reorganization of the Chicago & Alton in 1899, by which its capital stock was watered four times over; the stock-market raid upon the Louisville & Nashville in 1903, by which its sale to the Atlantic Coast Line was forced; and the entire process of financing of the Great Rock Island system, — all emphasize the need of reasonable control. It is useless to control rate-making so long as juggling with securities in this way is possible. In this respect, both investors and the public

have a joint interest. Consider particularly the last case above mentioned, the financing of the Rock Island system, where less than \$55,000,000 gives entire control of a holding company through its preferred stock, and thereby wields the entire destinies of a railroad system capitalized at over \$500,000,000 and aggregating more than 15,000 miles of line. The commonwealth of Massachusetts did not hesitate many years ago to undertake the control of operations of this sort. That some way will be found for extension of federal power over this sphere is devoutly to be wished.

The third objection to the fixing of freight rates by purely private initiative lies in the rigidity of freight-rate adjustment as between competing carriers. This often makes it impossible for a road to do what it concedes to be in the public interest and what it would do if its hands were free. This case we may best illustrate by experience in the Southern States. Two systems of transportation compete for the carriage of cotton from the great Mississippi delta to the mills in New England. One of these operates east of the Allegheny mountains and the other west. The lines east of the Alleghenies desired some years ago to lower their rates on cotton from the Mississippi Valley to Carolina mills, inasmuch as the rate to those Carolina mills was in fact four cents a hundred pounds higher than the rate through the same territory away up to New England. Naturally the Southern cotton-mill men objected to this discrimination, yet it took repeated pressure to prevail upon the lines operating west of the Alleghenies to acquiesce in the change. A widespread and rigid adjustment had grown up through years, many of whose arbitrary exactions would be endangered by modification. The Western lines would not permit the Eastern lines to make a change without exacting from these Eastern lines similar concessions for which they had struggled in vain. In other words, each competitor insisted upon jacking-up the other's rates regardless of the welfare of the community. Precisely an analogous case was found in 1880, when a committee of the Southern Railway and Steamship Association proposed to put in force an adjustment of rates throughout the South, having reference in some degree to the factor of distance. This proposed improvement was based, to take the words of the committee of traffic experts themselves, upon "necessity for more intelligent and defensible methods of making comparative freight rates than the following figures descending to us from tariffs named on arbitrary bases of conditions now obsolete." Such instances of opposition to reasonable adjustment, not by carriers serving a definite territory, but by competitors often far distant, might be multiplied indefinitely. They emphasize most certainly the need of a regulative force to be applied, not only in the interests of the public, but in the permanent interest of the carriers themselves.

The argument that the community is naturally protected against arbitrary exactions by the carrier, because any excessive charge will kill the traffic, rests, moreover, upon a false assumption in part. While freight rates may directly affect the volume of traffic, this is not true of most high-grade commodities.

The fourth objection which we have stated to freight rates as made without governmental supervision and control consists in the often infinitesimally small proportion of the total price which transportation forms. The rate on clothing from New York to Chicago by less than car-load lot being, say, 75 cents per hundred pounds, a suit of clothes costs for freight perhaps from 7 to 10 cents. The transportation cost for a silk dress for a similar haul of 1000 miles might be possibly 2 or 3 cents. These charges cannot approximately affect the volume of traffic if increased even by a large percentage. And therefore not affecting the volume of traffic, the development of the territory served will not be affected, while a direct revenue to the carrier will materially result. We have said that the territory served will not be affected; that is not, of course, true, because in all probability the extra cost of carriage will be added to the price of the goods; but supposing the rates are similarly raised over the entire United States, no single community will be affected, but the general cost of living for the whole country will be raised. Practically a tax is laid upon the community by private initiative without any power of supervision or control.

Our final problem, then, involves the extension of governmental supervision at the hands of an administrative board or a properly constituted judicial tribunal. No domestic question before the country is of greater significance, involving as it does the welfare of practically every industrial and commercial establishment in the country as well as every individual consumer of goods. The matter is not settled by the enactment of the Elkins Amendment of 1903. That law was granted because it contained something that the carriers desired. The demand of the public for relief remains practically unanswered. Case after case before the Interstate Commerce Commission remains unsettled either because of the refusal of the carriers to conform to the decisions rendered, or because of prolonged and intolerable delay in the final adjudication by the courts. Other countries have never hesitated to embark upon great socialistic enterprises of popular ownership. In my judgment the only way indefinitely to postpone an outcome of this sort, which is to be deprecated in many respects, is that a compromise in the line of more efficient control should be brought about.

SECTION C -- COMMERCE AND EXCHANGE



SECTION C—COMMERCE AND EXCHANGE

(Hall 10, September 24, 10 a. m.)

SPEAKERS: PROFESSOR E. D. JONES, University of Michigan.
PROFESSOR CARL PLEHN, University of California.

THE MANUFACTURER AND THE DOMESTIC MARKET

BY EDWARD D. JONES

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American Domestic Market

THE American domestic market is probably the most complex in the world. It has become so because it occupies the largest economically high-grade area which is under one political control, with a uniform language, system of weights and measures, trade customs, and laws. In America there have been lacking the diversified agriculture, the household industry, the public market-places, and the inertia of custom which, in other countries, have kept the domestic markets simple. Sharp territorial specialization has always characterized our industry. The different forms of agriculture, developed under an essentially manufacturing instinct and compelled to specialization by the distance of the European market, have a clearly differentiated geography. The mining, lumbering, agricultural, and manufacturing regions are singularly distinct. This has compelled an extensive internal exchange, to facilitate which adequate transportation facilities have been forthcoming; and it has necessitated comprehensive methods of performing mercantile functions, which the administrative genius of American industrial leaders has provided. The result of these forces in our national economy, as it finds expression to-day in the organization and processes of the domestic market, is too large a subject for any paper.

I wish, therefore, to choose a theme, and I invite your attention to the wide range of mercantile functions which is being assumed

by American manufacturing concerns and the unusual dominance they are acquiring in the domestic market.

Manufactures Forty Years Ago and To-day

This movement, taken as a whole, is of recent origin. Before the Civil War manufacturers had very restricted control over the movements of internal commerce. There was no need for them to show special enterprise in securing supplies of raw materials, for the seller of the crude bounties of nature pursued the buyer. In the finished products market, articles imported from foreign countries controlled, and the autocrats of commerce, if there were any, were the great importers, the so-called "merchant princes." The home manufacturers started with the humble rôle of supplying the lower grade of products. Prejudice was still strong against home-made style goods and much of the product of American factories went on to the market anonymously or under misleading trade-marks to be sold as imported goods.

The change of forty years has greatly altered the position of the manufacturer in the distribution of mercantile power. In the majority of modern national economies we find the most progressive industrial group to be the manufactures; the least so, the extractive or raw material industries, while the mutually accommodative element is the mercantile. It is not difficult to mention some of the causes of the increased power of manufactures in this country. Manufacture, including railroad transportation, since the internal economy of a railroad resembles a manufacturing rather than a mercantile concern, possesses the advantage of being that form of industry which best utilizes inanimate forces in a country where power is cheap, and best allows an accurate division of labor in a country where labor is expensive. It has enjoyed the special advantage in this country of a high general average of intelligence and an unusual mobility of labor. There has been the negative advantage of entire absence of prejudice against machinery and the positive advantage of the unusual mechanical ability which characterizes Americans. When we couple with this the protective tariff, which has insured a large and profitable market and made all other forms of industry pay tribute to manufacturing, it can be readily understood that our manufactures have resulted in recent years in an enormous production of wealth, a portion of which has sought investment in promising types of industrial enterprise under the direct control of the parent concerns.

Not only wealth, but capable men of constructive genius, have been produced in this branch of industry. In manufacturing, the applications of science are so numerous and convincing as strongly to

develop the scientific frame of mind. The striking combination of factors of production opens the thought to large plans. The changes constantly required in machinery and processes impel the manager to progressive policy, while visions of the economy of production on a large scale attract him. The manager is in a training-school for cultivating quick decision, figuring costs, managing men, freely laying out money where conditions justify, and grouping, combining, and governing the productive factors. The result is that in and through our American manufacturing industries have arisen the "captains of industry," who have laid hands upon the undeveloped or loosely coördinated commercial functions wherever found, and have developed them and assumed the direction of them.

Struggle for the Control of Raw Materials

To take up our specific topic and define the controlling position which the manufacturing industries have secured over the domestic market, it will be convenient to divide the subject into three parts, conforming to three classes of markets and the separate causes operating on each.

Let us first consider the struggle for the control of raw materials. For some time an effort has been made by manufacturers to more effectually control the source of supply of their raw materials. For those materials of which the quantity is relatively fixed, this has resulted from the definite development of sources of supply and the increase of manufacturing demand, carried to such a point that the chances of accommodation on the open market are deemed by business managers to be precarious. As a result, manufacturing concerns in many lines are anticipating their needs and are buying or have bought stocks of undeveloped materials, and are erecting exploitive works and establishments for preliminary manufacture. We find makers of soap and lard substitutes building cotton-seed oil-mills in the South. Pulp-mills invest in pulp-wood lands; fertilizer manufacturers open phosphate-rock quarries; oil-refineries lease and purchase oil-lands. The change is already complete for anthracite coal and Northern pine; it is just now being completed for Bessemer ore and Western timber; it is rapidly going on for coking-coal, non-Bessemer ores, and Southern pine. One of the striking signs of the advent of a new economic condition in this country is the rapid rate at which, during the last fifteen or twenty years, raw materials have passed out of the hands of small holders who offered them upon open markets, into the hands of large corporations closely affiliated with manufacturing and transportation interests. To use an expressive phrase, there has been a scramble to prevent being frozen out. This has not been due so much to exhaustion of supplies as to

the fear of their monopoly. It has, therefore, been immensely stimulated by the formation of great consolidated corporations and by the increased use of holding companies, stock syndicates, and harmony-of-interest arrangements.

With respect to raw materials which are readily reproducible, like wheat, cotton, and wool, the policy of our manufacturers is not to own and manage agricultural and other industries. But the tendency is increasingly shown to pass by the great primary or terminal markets and the visible supply points on which raw materials were formerly secured, and purchase upon the remote local markets at which they first appear in commerce. There are several reasons to account for this.

In the first place, the imperfect and unorganized condition of many raw-material markets has forced it. The effort of our manufacturers to produce finer products, coupled with the increased value of materials and the closer specialization of processes, has compelled a sharper scrutiny of the supplies they purchase to secure purity and uniformity. The offering to manufacturers of poorly graded and mixed lots of materials has necessitated the substitution of professional for amateur local buyers, as in the case of wool. A poorly housed and protected product coming onto the market, water-soaked and stained, as often happens with our cotton, has favored direct shipments as opposed to the passage of materials through several markets with their delays. The agriculturalist is with great difficulty able to take initiative for the improvement of these conditions by commercial organization. As Professor L. H. Bailey has said, "The farmer reacts so slowly to changes in his environment that after all other businesses have become adjusted, he is still out of harmony with commercial conditions. Collective or coöperative movement among the agricultural classes is difficult, because of the lack of common interests. Farming is not one occupation, but many occupations." The American farmer has furthermore been engrossed in other things than the adjustment of markets. He has had laid upon his shoulders the great task of finding out the physical capabilities of a new country. Each region, climate, slope, and soil has required countless experiments to explore. A stupendous investment of labor and capital has been and is being made in these experiments, the results of which will be enjoyed to remote generations.

A second force drawing the manufacturer into the raw-material market is connected with the financing of the products of agriculture. The farmer is hampered by lack of ready money. The period of his turn-over is long; the fixed capital is large in proportion to the circulating. A considerable part of the spare money he has had has been attracted to investment in land. The statistics of un'im-

proved land included in farms show that land is the chief storehouse of surplus agricultural wealth. Approximately one half of the land included in American farms is unimproved. Under these conditions the farmer has sought money crops, and has been obliged to market as soon after production as possible. To secure adequate supplies of materials, therefore, some lines of manufacturing have been obliged to take direct part in the organization of a spot-cash market on which materials would always be sure of sale at fair prices. Such materials are then rendered good money crops and hence attractive to short-handed farmers. An excellent illustration of the way in which this has been done by manufacturers is afforded by the various union stockyards of this country, in most of which the packing interests are prominent. The financial problem of accommodating the even requirements of a manufacturing plant for materials throughout the year to the necessity which the farmer feels of disposing of his crop at once when it is matured, has been solved through the co-operation of several agencies. The early purchases of manufacturers involve them in speculative risks. The profit or loss showing of a cotton or woolen mill or the milling profit of a flouring-mill often depends principally upon the correctness of the buyers' estimate of speculative conditions. There are also independent institutions illustrated by the grain elevator companies which aid in carrying speculative risks and controlling storage conditions. Furthermore, by the organization of produce exchanges it has been made easy for the general public, through speculative investments, to assume a considerable part of the financial burden of carrying food-stuffs and other materials through the year.

A third force drawing the manufacturer upon raw-material markets is railway competition. The result of intense competition for traffic has sometimes been that, in pursuance of a compact, a road has given substantial advantages to a large consumer when he has acquired the ownership of materials at the market of their origin, and is hence able to prevent their being diverted from the line at any competitive point, and insures their routing as desired. The transportation arrangement may include both the outgoing and incoming traffic of a concern in an agreement permitting manufacture in transit. Between a group of competing roads manufacturing interests have occasionally obtained advantages in return for acting as traffic-distributers. The classic case of this is in the early history of the Standard Oil Company. In these transportation struggles the manufacturer has been unable to keep aloof. The old-time free lance, the commission merchant, has been thrust aside; the raw-material producer has been confined increasingly to his local market; the manufacturer has taken up transportation worries and commercial functions unknown years ago.

Elimination of Intermediate Markets

We now turn to a different type of buying and selling center, namely, that group of intermediate markets lying between different stages of manufacture and on which the finished product of one establishment is transferred to another to be further elaborated.

From the beginning of the factory system in America there have been fewer of these intermediate markets than in Europe. In the older countries the introducers of machinery found already in existence a strong household and shop manufacture, including the preparers of materials, those expert in the various intermediate processes, and the finishers. The factory system took possession of one process at a time, and thus independent concerns grew up, each engaged in but one stage of manufacture, and between these there continued to exist many of the intermediate markets. In America the projectors of the first factories usually found the entire field open and the products imported; consequently they were obliged to provide simultaneously for all stages of production. Hence we find, for example, as a characteristic difference between the American and European textile industry, that here the several processes of scouring and combing, or throwing and spinning, weaving and finishing are more often all controlled by one cotton, worsted, or silk concern than in Europe.

Just as it began to be realized that there were disadvantages in the American system, particularly in the adjustment of production to a rapid succession of styles, the trust movement made itself felt and stimulated the process of combination in all branches of industry. The organization of consolidated corporations has had many effects. It has made profits for the organizers through what Mr. Lawson calls "made dollars." It has given us a highly centralized type of business administration to experiment with. It has substituted a system of delegated authority for individual initiative. It has eliminated some competition, substituting therefor emulation and the comparison of records, and it has changed the form in which competition manifests itself. It has secured certain economies of production on a large scale. But among its various effects there is one which has not been sufficiently noticed, and that is the elimination of intermediate markets. Complex manufacturing corporations have been constructed involving not only former competitors, but businesses bound together in the sequence of production, capable of manipulating materials from their first appearance as economic goods until they are ready for the ultimate consumer, without at any time making them the object of purchase or sale. This linking together of processes in great corporations has coerced the independents to similar consolidation through the fear of the monopoly

of raw materials, to which reference has already been made. The movement has been, in this manner, made general, with the result that many series of consecutive establishments can now be found which are working into one another's hands within non-competitive groups. The blast-furnaces have acquired ore properties, and steel manufacturers have in turn absorbed them and transportation facilities. Furniture factories have built saw-mills upon their own timber-lands. Cooperage-works are owned by flour-mills and whisky-distilleries. Pulp-mills and their spruce-timber are owned by paper-mills. The meat-packers establish canning and car-works; the car-builders operate linen-factories; the reaper-works control the manufacture of binder-twine; the breweries engage in the production of malt. These combinations are made possible by the improvement in systems of cost-accounting and internal administrative methods. They give the supplying-plants certainty as to markets, the receiving-plants certainty as to supplies and absolute control over their quality. Shipments to and from intermediate markets are unnecessary, and the expenses of traveling salesmen, dealers, advertising, and the waiting period of the market are all eliminated. In short, for the uncertainty and expense of competition is substituted the economy and exact calculation of a system of bookkeeping.

Before leaving the subject a word should be said about an entirely different operating cause which is at work to withdraw many businesses from intermediate markets. This is the application of science to the utilization of wastes. The growth of large concerns has often made the quantity of mill-supplies and advertising materials, packages, etc., so great that subsidiary industries can be profitably started in the interest of a single corporation. Repairs also become important enough to warrant the erection of well-equipped shops. In a like manner the accumulation of large quantities of waste products in concerns of efficient management, equipped with scientific laboratories and possessing the capital necessary to put through any logical extension of the business, has given rise to a great variety of by-product manufactures. These allied businesses are owned and managed by the principal concerns and receive their materials without purchase from them. They have been able to offer very effective competition on the finished products market and so to command attention to the commercial principles which they illustrate.

Approach of the Manufacturer to the Consumer

Let us pass to the third main division of the subject and consider the attitude of the manufacturer toward the finished-products market. It may be observed that while there is a great difference in the policy

pursued by large concerns, and we may find plate-glass jobbed, meat sold from subsidized shops, and Standard Oil hawked upon the streets, many of the consolidated corporations which have acquired large control over the market do not attempt to invade it directly or supplant dealers in the performance of mercantile functions. These rather content themselves with exercising power over prices and the terms of sale by curtailment agreements, price pools, joint selling agencies, and other more direct means. The greatest invasion of the mercantile field in the distribution and sale of consumers' goods occurs under the influence of strong competition between manufacturers and especially where this meets a more or less obstructive conservatism, not to say inefficiency, in the regularly constituted agencies of distribution. Of the positive force, the competition between manufacturers, it will not be necessary to say anything; of the negative condition found in the inertia of wholesale and retail trade a few words will be in place.

Confining our attention to the retail trade for the sake of brevity, we must at once make an important admission. In this field there has sprung up the remarkable institution known as the department store. These establishments, dealing directly with manufacturers, willing to engage in want-creation and increase the volume of business by advertising and price reduction, willing to accept new goods of merit because understanding the profit of novelties, and having a clear grasp of the principles of merchandising, have not only been able to serve the consuming public well, but have been satisfactory distributive agents for manufacturers. The rank and file of the million or more proprietors of retail stores have, however, been unsatisfactory to such manufacturers as have been chafing for better outlets under the stress of competition. The average retail store proprietor has too easily accepted as unsurmountable the apparent limitation of his local field, and has often been caught in the infinite detail which characterizes the business and rendered by it incapable of constructive commercial policy. Competition has choked many who are lacking in ingenuity, for retailing is a business easily entered on a small scale, and competition in it, almost more than in any other type of business, takes the form of simple multiplication of concerns and division of trade. More than anything else, however, the business of retailing as a whole has been held back by confusion of mind as to the proper policy — the economic laws so to speak — of the business. This confusion may be partly accounted for by the extreme variety of establishments which fall under the general caption of retail institutions, but the chief explanation lies in the recent history of American trade.

During the period of the Civil War and the immediately subsequent years there was such a scarcity of goods that overbuying was

almost impossible and the check upon buying, always so essential in normal retail trade, did not seem so necessary. For a long period prices rose with such rapidity that the profits of a rapid turn-over of capital paled beside the estimated profit of appreciating stocks lying on the shelves. Under these conditions it was natural that the merchant should treat his customers with indifference. The fluctuation of values made price publicity and a policy of fixed price impossible. Dickering and bargaining became a natural accompaniment of all important sales of goods. In the settlement of accounts long credits were not found to be very dangerous. Recent years have reversed all of these conditions, and hence have demanded an entire reversal of policy. The generation which did business in the previous period has been put at sea, and there has been established a confusion of principles penetrated until the last few years only by a few of the stronger minds. The result has been to cramp the growth of the retail industries as a whole and render them unsatisfactory to the manufacturers as the distributors of their products.

The invasion of the realm of the retailer has been made by the manufacturer in several ways; by establishing a mail-order trade and eliminating dealers entirely; by distributing through the dealer, but absorbing many of his functions and controlling his actions; and finally by the ownership of retail establishments.

Direct Selling

When a manufacturer has been met with unwillingness on the part of the dealer to educate new wants in the public and a refusal to stock and introduce new goods, he sometimes appeals directly to the consuming public. Direct selling has always had a considerable field. Natural monopolies of necessity use it. Producers' goods such as leather, billet-steel, and boilers, are usually sold in this manner. Neighborhood manufactures, such as custom mills, and manufacturing retailers, such as bakers and tailors, use it. The country at large is familiar with the canvasser. As important as some of these lines of distribution are, the great modern development of direct selling has come with the perfecting of its chief instrument, advertising. So great is the progress made in the arts of publicity that the entire complexion of trade has been changed by it. Advertising is often spoken of as a science. It is certainly a complex and powerful engine. The development of the arts associated with it, that is, printing, and especially illustration, has increased its potency. The vehicles which convey it to the public are numerous. The weekly newspaper is largely supported by it. The low-priced magazine of our day exists because of it. Through it house organs are built up scarcely distinguishable from independent scientific and

trade publications. It counts in its service the billboard, the dodger, the sample, the catalogue of encyclopedic proportions, the commercial package, and the follow-up system. Its technique has been carefully considered, and the statistical study of circulations has been made the basis of a profession. Even its psychology is being explored in college laboratories. There is no need to enlarge on the extent to which advertising has been applied by manufacturers to direct selling. The examination of any popular magazine will be convincing. As a method of distribution this affords a manufacturer an outlet independent of the will of any dealer. It serves well to introduce new articles, and trade built up by it can be used as a means to bring pressure to bear upon dealers.

Control of the Dealer

It is not always, however, in attacking the market that a manufacturer is willing to cut loose entirely from the established retail distributive agencies. Many articles cannot be readily sold by mail-order. A way has, therefore, been discovered by which the manufacturer can distribute his goods through the dealers and still so control every important part of the distributive process that the dealer is reduced almost to the condition of an automaton. When he is in complete command of his entire field the retailer is perhaps the most universal servant of industrial society. His functions are both varied and intricate, blending a mechanical element with the art of personal service; controlling a flow of goods involving endless detail by a system the correct formulation of which is a masterpiece of commercial statesmanship. The task of the retailer is to furnish the consumer goods wanted, at the time and in the quantity and place desired. He chooses his stock from the infinite variety of manufactured articles. He educates the customer to new wants, making known to him new goods and showing their use. He advises with him in his purchases, that the adjustment of the want, the goods, and the pocket-book may be as perfect as possible. He makes the buying process easy and agreeable for his customers. He protects his merchandise from deterioration. He guarantees it to be as represented, putting his reputation behind it. He measures it out in quantities convenient for the customer, puts a fair price upon it, and delivers it.

Now consider how many of these services can be rendered by a manufacturer. Take the case of the sale of a spool of photographic films. The manufacturer puts the article in a form ready for immediate use. He furnishes a package which protects the goods and shows the size, quantity, and age, besides carrying a guarantee and serving as a memorandum of exposures and a cover for mailing.

A pamphlet of instructions is given away by the manufacturer, who advertises extensively to attract trade. The price is fixed and is everywhere the same. If you look for the goods in a strange city you will probably be guided by a sign furnished to the dealer by the maker and you will be attracted by large photographs, from the same source, to show the range of work possible. As the films must be developed, the company offers to do this, but it also puts on the market a simple apparatus and all the necessary chemicals. The value of films depends largely upon the possibility of obtaining them in travel; consequently the makers have established agencies in almost every important locality in the world. In the solution of this distributive problem, which was unusually complex and difficult, the manufacturer has originated all the plans, done all the work, and controls all the essential conditions. The most ignorant clerk can quickly learn all that remains to the retailer to be done.

The inventive genius and advertising talent shown by leading American manufacturers in putting their goods upon the market are certainly remarkable. By advertising, with the powerful individualizing agency of the trade-mark, by sample distribution, by demonstrations at the consumer's house or the merchant's place of business, by exhibits at universal expositions, such as can be seen in endless numbers and variety upon these grounds, the manufacturer educates new wants in the customer and makes known new goods. By explicit printed directions, in several languages perhaps, and accompanied by ingenious pictures, he so clearly shows the use of the goods that the advice of the dealer is rendered unnecessary to a person of any intelligence. By the use of a package, perhaps airtight or moisture-proof, the dealer loses all credit for keeping goods in presentable condition. As the customer knows, when he opens the package, that it was closed at the factory, he feels that responsibility for its quality is removed from the dealer; and when with the package there is a strong and carefully emphasized guarantee, the dealer sinks into a mere agent for the transfer of any complaints to headquarters. Personal relations of customer with dealer are in this way weakened, and the more so since the customer realizes that in any store where this article with its identifying trade-mark can be had, an absolutely identical ware is found. The package furthermore does away with the necessity of weighing or measuring, and it usually carries prominently marked upon it a price which sets a maximum upon the charges of the dealer.

This incursion of the manufacturer into the province of the dealer has been disadvantageous to the latter in several ways. In the first place it has reduced the portion of the profit which the manufacturer leaves to the dealer, for with every function which the manufacturer takes up he makes a corresponding reduction in the profits allowed

the retailer. Again, it sharpens the competition of dealers in the same line. The use of packages and trade-marks has, in a few years, vastly increased the list of goods which can be recognized by customers as identical in different establishments. The significance of this lies in the use of leaders and other forms of price competition. A leader, in retail trade, is a line of goods put on sale at a very low price to attract the attention of the public and impress upon it the idea that the establishment in question has very low prices in general. There is no direct profit in leaders to the trade, since they must be sold at or near cost. Now those articles serve best as leaders which can be identified by customers as absolutely the same in different establishments, because this identity gives force to the price difference. If there were not identity the customer and the higher-priced dealer could easily claim that the difference in quality accounted for the difference in price. Consequently the widely advertised goods which carry trade-marks everywhere known and which are bought by most dealers, all of them serve more or less as leaders. That is to say many of them do not yield satisfactory profits, unless specially protected, because of the directness of the competition of dealers with respect to them. The manufacturers have also created a new form of competition between dealers in different lines of trade. The majority of retailers have handled a restricted group of merchandise, as drugs, shoes, hardware, or dry goods. There are many articles which cannot well be sold by one not expert in the business. The druggist could probably not explain the operation of certain tools; the dry goods merchant would be dangerous as a compounder of prescriptions. Within certain limits, therefore, stores in different lines have not competed directly. There has always been, however, a class of goods so easy to sell that they have been carried by dealers of all sorts as side lines. The manufacturers have succeeded so well in rendering simple the retailing of many of their wares that they have vastly increased the list of articles which any dealer, regardless of his line, can sell. The consequence is that dealers of all types are introducing side lines taken from each other's field of trade. Reprisals are everywhere made, and so the number of competitors with whom each dealer has to reckon is increased. The manufacturer, by direct selling to large retailers, whether they be department stores or mail-order houses, has put the small dealer, who depends upon the jobber, under a great disadvantage. This compels the jobber and semi-jobber, with the various classes of syndicate buyers, to take part in the confused competitive strife now prevailing in the distributive trades.

In this struggle, for which the manufacturers are largely responsible, it is interesting to see that appeals for help are made to them by the dealers. These appeals, through trade associations and other-

wise, take the form of requests that the manufacturers should control the retail price at which their goods are sold, and in so doing protect and regulate the profit which the dealer is to receive. There has been considerable response to these appeals, since the manufacturer has a direct interest in the soundness and profitableness of the business engaged in distributing his products.

From this has resulted a variety of plans by which the manufacturer can regulate retail prices and profits. One method is through the establishment of Exclusive Agencies. By this I do not mean the practice of giving an extra cash discount to dealers who handle no rival goods, a practice pursued by some concerns which are trying to perfect a monopoly, but I refer to the plan of choosing a dealer as agent in each market and making it impossible for his near-by competitors to secure the goods in question. The retail exclusive agency is the application of an arrangement long common between manufacturers and jobbers. The manufacturer regulates the price at which the goods are sold, and, since the outlets are restricted in number, keeps up an aggressive advertising campaign to drive trade to them. Some articles sold in this way are tools, men's linen, dress-patterns, shoes, and silks. The exclusive agency prevents goods from being made common upon the market as leaders, and this pleases a certain exclusive element of the buying public. Its chief service, however, is to limit competition by providing one dealer only with the goods on each market.

A second way of regulating retail profits is by means of a Price Contract. This involves an agreement regulating the selling prices and signed by manufacturers, jobbers, and retailers. Such agreements have been freely used in the sale of patent medicines under the name of the "N. A. R. D. Plan," named from the National Association of Retail Druggists. When there is printed upon the goods or their labels directions as to retail price and terms of sale, and these are worded to form a contract with any dealer who may purchase the goods, the arrangement is known as the "Worcester Plan." In the attempt to enforce these contracts by law different interpretations have been encountered in various courts. In Massachusetts the Supreme Court has held that the fixing of the price of proprietary medicines is not contrary to public policy and that as between the manufacturer and dealer the acceptance of goods as billed makes the printed contract on their labels regulating distribution binding on the dealer as a part of the contract of purchase. In Rhode Island and Pennsylvania it has been held that the mere purchase or acceptance of goods by a dealer without specific assent to a contract printed on them does not bind him. Price contracts have been used freely in the sale of patent medicines, books, and in the case of at least one celebrated brand of soap.

A third means of regulating prices, known as the Factor or Rebate Plan, is more elastic than the price contract. It has been used chiefly between manufacturers and wholesalers, but is equally applicable to retailers. According to this arrangement, after the proper contracts have been made in writing, a manufacturer sells to a dealer at a certain open price, giving the usual rebates for cash. It is agreed that the dealer shall sell at a given price, and the difference between this and the manufacturer's price involves a small but unsatisfactory profit for the dealer. At the end of a given period, say six months, the dealer makes an affidavit to the manufacturer that he has not sold his goods at less than the mentioned price; thereupon the manufacturer pays to him a per cent of the original purchase price in the form of an extra discount which, added to the direct profits of sale, makes the transaction remunerative to the dealer. The contract establishing these relations is so devised as to take the form of creating the relation of principal and agent between the manufacturer and dealer. The dealer is not bound to sell at a given price, but he is paid a bonus when he does so. The rebate plan has been most prominently applied in the sale of sugar. The so-called Whisky Trust at one time used it. It is now used in a number of the lines handled by grocers, such as soap and baking-powder. The Pittsburg Plate-Glass Company employs it.

Probably the most effective of the means now in use for regulating retail prices is called the Serial Numbering Plan. As used by a prominent manufacturer of medical preparations the plan involves, first, an exclusive system of distribution. Only authorized wholesale houses handle the goods, and they are under contract to sell only to the retail agents of the company. Every retail dealer, before he can purchase the goods, must sign a contract by which he becomes an agent of the manufacturer and agrees not to sell the medicines to any other dealer who is not an agent at any price whatever, and to sell to others only at the authorized retail price. Second, the system provides a means of keeping track of goods. Each dozen of bottles sent to the wholesaler bears a certain consecutive number, and with it is a postal card having stamped upon it the same number. When the goods are sold by the wholesaler he sends the card to the manufacturer with the name and address of the dealer to whom sold and the date. The retailer must not sell or otherwise dispose of a bottle until his firm name has been plainly written or printed across the face of each wrapper. By this means if a bottle of the preparation is anywhere sold at less than regular prices and the manufacturer can ascertain the serial number, he can trace out the responsible agent. The latter, on proof of price-cutting, becomes liable to the company for specified liquidated damages.

Ownership of Retail Establishments

We turn finally to the last of the methods by which the manufacturer is making his power felt upon the finished-products market. This is by the direct ownership and operation of retail establishments. As a method of distribution this innovation is as little subversive of the usual equilibrium of trade as any irregular method. Each establishment takes its place simply as one among other competitors.

Let us consider the actuating motives as they present themselves to various classes of manufacturers. Take, for example, the sewing-machine makers. In the sale of certain kinds of goods a somewhat elaborate demonstration is necessary, and after sale, occasional repairs, both of which require the presence of an expert more skilled than the average storekeeper. Experience shows that the experts are best chosen, trained, and superintended as direct agents of the manufacturer. When sales made in this way are of sufficient density to warrant the permanent location of an agent in a neighborhood, and when the articles are sufficiently attractive to make the opening of a public place of business with a stock-room worth while, the system of traveling agents gives place to permanently located retail agencies. The firm controlling the largest number of retail agencies in this country is probably the Singer Company, which has eight hundred stores in the United States, besides many in other parts of the world. Automobiles, safes, phonographs, and typewriters are sold in part by this system.

The case presented by the sale of carriages, wagons, plows, and agricultural implements generally is very similar to the above. Here an added motive for the direct control of retail agencies lies in the economy of shipment by car-lots. An agency, because it pushes the make for which it was established and carries a full line of the goods, is able to take a larger proportion of its supplies from the factory in car lots than the average independent dealer. If, therefore, the goods to be distributed are very bulky, so that the question of car-lots is important, the establishment of a few agencies in the chief markets may be profitable because they will be able, through their own sales, to take goods in car-lots, and they will also serve as transfer-houses in distributing supplies to smaller markets. If numerous agencies are desired to penetrate and hold a field, the expense may be lessened by selling the goods of other makers on commission. If the establishing concern makes plows, its agencies can add on and sell goods germane to a plow agency, such as reapers, wagons, and carriages. By selling on commission, car-lots of assorted goods can be frequently sent out, keeping the stock fresh without overloading the agencies.

The direct retailing of shoes presents an entirely different case

from that of agricultural implements. The general buying public has recently become familiar with retail establishments owned by manufacturers and which are stores in the usual meaning of the term. They are not as yet very numerous, and their establishment is not stimulated by any of the advantages which we have just considered. They are not practicable except for goods which can be successfully sold by themselves in specialty stores (that is, they are impossible for articles like sugar or saws), and in this fact of depending upon specialty sale they meet their strongest check, for the prevailing tendency which has originated among retailers is integrating in its nature and is expressed in the department store. Furthermore, a system of retail stores operated by a manufacturer cuts him off from distribution through independent dealers, for the dealer will not buy of his rival in trade. There are arguments, however, which have apparently been deemed convincing to many manufacturers. A chain of stores absorbing the output of a factory affords an independent outlet entirely free from the control of jobber or retail dealer. The maker also, by coming into direct contact with the customer through his agencies, has the benefit of the direct criticism of the user. He can from week to week follow the changes in demand as they affect styles. He can to some degree avoid the intensity of rush seasons and the idleness of dull ones in his factory by supplying his stores evenly throughout the season. The dominant argument in most cases is, however, undoubtedly the fact that it is only through the ownership of retail stores that the full profit of an extensive advertising campaign can be realized by the manufacturer. By means of retail stores he takes all of the highest retail price which the force of his advertising will induce the customers to pay. The stores themselves also are an advertisement. The independent dealer always wants his own name over the door. The manufacturer's store exerts its entire force as an harmonious element in the general scheme of publicity which is being followed. This principle, which makes the store one means of realizing the profit out of the modern gigantic campaigns of advertising, helps to account for the shoe-stores of Douglas and Means, the forty-five of Bliss & Co., and the twelve Crawford Shoe stores. It applies to the Knox Hat stores. Together with the desire to intrench a monopoly, it explains the policy of the American Tobacco Company in effecting distribution through the United Cigar-Stores Company and other firms.

It is worthy of notice that there is a tendency at work which in the near future may lead to an increase in the number of stores owned by manufacturers or combinations of them. This is connected with the growth of advertising. When a few manufacturers only are conducting strong advertising campaigns they are conspicuous be-

cause they are the exception. When a large number of competitors besiege the public, the conspicuousness of any one is lessened by the eagerness of all. We have, in this country, in a generation been introduced into an age of advertising. The very great advertisers are yet conspicuous because they are not numerous. But when the time comes, as it appears to be coming rapidly, that the multitude of great advertisers in any single line is so large that the average consumer is bewildered, then the retailer may again perform the service he once performed; he will choose for the customer, and the customer will follow his advice. Under such circumstances, unless monopoly or some other combination of factors intervenes, the manufacturer will feel a strong motive to control directly retail establishments and so get a step closer to the consuming public than advertising will bring him, and, if possible, distance his rivals.

Conclusion

In conclusion, let me recall briefly the chief points in the situation I have tried to picture, which is one phase of our evolution from a raw-material producing to a manufacturing nation. Because of its natural strength as a form of industry, and because of special advantages accorded it in this country, manufacturing has in recent years greatly increased its dominance in domestic commerce. In the raw-material market this is shown first by the increased ownership of materials of fixed quantity, stimulated by the fear of monopoly and the trust movement. Second, for materials easily reproducible, it is shown by the advent of the manufacturer on the market of origin, and the causes which have brought him there are the unsatisfactory condition of materials offered, the necessity of taking part in financing the movement of raw materials, and railway competition. The intermediate markets, we have seen, are being depleted by the withdrawal of manufacturing concerns from them, which either became parts of non-competitive groups during the period of trust formation, or have become attached to other industries as by-product or waste-utilizing manufacturers. On the finished product market the dealer has been eliminated from some lines of distribution by direct selling, which advertising has made possible, or by the ownership of retail stores, the function of which is to secure to the advertiser all of the profit his advertising will create. In other lines of distribution the retail dealer has been deprived of many of his functions by the use of packages, trade-marks, guarantees, printed directions, and advertising. This has resulted in a smaller margin of profit for the dealer and sharper competition because of the increase of leader goods and side lines. In his extremity the dealer has besought the protection of the manu-

facturer, and the latter, in many lines of trade, now dictates the retail profit and protects it by exclusive agencies, price contracts, and the factor and serial numbering plans.

I have no wish to over-emphasize the tendencies I have presented. Many of them are not as yet prevailing tendencies, but if all of them taken collectively establish the fact that manufacturing in this country is assuming mercantile functions, it is a subject worthy of serious study. It involves the internal economy of businesses, because up to this time it has been an axiom of trade that it is dangerous for a business man or a corporation to undertake two kinds of business the fundamental principles of which are entirely distinct. It involves also larger considerations of the national economy, because the three great categories of industry, raw material, production or agriculture, manufacture, and trade, have, in the period previous to this, been distinct, and a change in the domestic market more fundamental than the coalescence of two of these or the dominance of one by the other would be hard to imagine.

FOREIGN MARKETS

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PART I

A Review of Recent Developments in that Part of Economic Theory which relates to Foreign Markets

THAT part of the theory of political economy which relates to foreign markets — the theory of international trade and the theory of foreign exchanges — has had, of late years, an appearance of finality which has been conspicuously absent from some other parts of economic science. This stability has endured while the theory of distribution — the rational explanation of rent, interest, and wages — has been a sea of raging storms; it has endured while the theory of value, which Mill regarded as so nearly perfect, even in his day, has been subjected to extensive revisions, in phraseology if not in substance; and while even the theory of prices, so much more nearly related to that of international markets, has been subjected to attack. During all this time, through all this turmoil, the theory of international trade, as set forth by Mill, and that of foreign exchanges, as expounded by Goschen, have remained well-nigh unaltered and little criticised. A review of the latest text-books and treatises shows us the same old theories, unchanged save in some slight details. For the present, therefore, we may assume that the theory of these two subjects is fairly satisfactory to economists as serving their purposes and explaining the more important features of foreign trade.

Although the generally accepted theory of international trade is in the main the same as it was fifty years ago, there is a tendency among recent writers to make a change in emphasis. The theory of comparative cost, or relative advantage, as the element chiefly determining the direction of trade, is so striking that it is apt to receive more emphasis and to be given seemingly a more important place than it really deserves. It is, of course, true that relative advantage, entirely irrespective of absolute advantage, may, and in many cases does, determine what goods a nation will produce for export and

what it will prefer to import. But by far the larger part of foreign trade moves along the lines of absolute advantage, combined as that is, necessarily, with relative advantage. Our largest exports are of those products in which we have an absolute advantage over all but a few sections of the world, and our largest imports of those things we can scarcely produce at all. It is probable that the theory of comparative cost received undue attention mainly because it is not obvious at first reading and requires careful expounding and elaborate illustrations for its demonstration. But that absolute advantage rules wherever it occurs has always been recognized.

The conflict between free trade and protection still continues with unabated vigor, protection seeming to gain ground in practice. But the chief features of this conflict are political, as they ever have been, rather than economic, and the conditions have not been such as to call forth any new arguments. The proposals of Mr. Chamberlain and his party in England, and the possibility of tariff reform in the United States, will be discussed in their practical aspects in the last part of this paper. There are then no real changes to note in the theory of international trade.

The theory of foreign exchanges or international payments has also, as has been said, remained essentially unchanged, but there has been a notable attack made upon that part of the theory which explains the international movement of money or bullion. The older theory was that whenever an excess of bullion accumulates in any country (or locality, for in this respect national boundaries present no barriers) from any cause whatsoever, it tends to raise prices and that country (or locality) becomes a good place to sell in and a poor place to buy in, and thus the excess is drawn off. This involves the acceptance of the quantity theory of money. Those writers who have abandoned the quantity theory of money have found themselves compelled to criticise this theory of the international movement of money. Their criticism has been supported by two lines of argument. The first is that international prices are fixed by telegraph and other means of rapid communication and cannot differ from country to country even for a short time. They further allege that there is no statistical evidence, when money moves from one country to another, of such changes in the price level as are required by the old theory.

In all of this it appears to me these writers overlook the influence of the discount rates in bringing about virtual changes in prices and, above all, the fact that the rates of exchange are fluctuating constantly. A change in the rate at which a man sells his bill is tantamount to a change in the prices he receives for his goods. The machinery by which foreign trade is governed is so delicate that a very slight change will set it in motion. Those who criticise the older

theory make much of the argument that a uniform "general" rise or fall in prices is never observable, as the prices of some commodities fall when others rise. I am inclined to believe that a "general" rise can and does occur. A change in the discount rates and a change in the rate of exchange is tantamount to a general change in the level of prices; as it affects all bills alike, it affects all sales alike. It is the resultant of those forces which affect all prices uniformly, other forces being at work on the different commodities separately, causing the divergences which have obscured the issue. Such a change in the rates of exchange is the very phenomenon demanded by the old theory as the cause of the international movement of money. The old theory does not require that merchants get out new catalogues or change violently from what would otherwise have been the bids they make or accept on the exchanges. A sale of wheat by a Chicago shipper to London on a day when he can sell his bill at \$4.89 is worth one per cent more than if the sale took place on a day when exchange is \$4.84. Here we have a difference of one per cent which can occur without a single change in quotations. Every such fluctuation is felt at once by the delicate machinery that moves the tides in the ebb and flow of bullion in international payments. As to the argument that we have no evidence in current index numbers, showing clearly that a rise in prices has followed an increase in the stock of bullion, it may be said that we have no statistical device for watching prices which will record such a change with the requisite delicacy, even if we were warranted in looking for the change in the prices current. The change required by the theory is too slight to be detected by any statistical device yet invented. Such a criticism amounts to saying that the governor of a steam engine does not regulate its speed unless the arms and balls are gyrating violently up and down, when, as a matter of fact, the better the governor, the slighter the fluctuations. The weight of the argument in this controversy that has recently grown so hot seems to me to sustain those who have rushed to the defense of the quantity theory, and there seems to be no occasion to qualify the statement made above that the theory of foreign exchanges has undergone no important modification in recent times.

PART II

A Review of Some of the More Important Recent Events in the Economic History of Foreign Markets

Although the economic theories relating to foreign markets have been quiescent enough of late, there has been stir and bustle indeed in the markets themselves, and during the past five years certain great changes affecting them have come to pass which are worthy of

enumeration and which suggest many important problems and considerations. These changes affect primarily the markets for American and also for European goods in the Orient and the routes of travel between the Far East and the markets for Oriental wares. They are: (1) The acquisition of a trading-base in the Orient by the United States; (2) the completion of the Trans-Siberian Railroad; (3) the expansion of steam-carrying trade on the Pacific and the definite determination of the fate of the Panama Canal; (4) the opening of China; (5) certain important changes in the conditions of the production of several of the great commodities of the world's trade.

SECTION 1.

The Acquisition of a Trading-Base in the Orient by the United States

Chief, in many respects, among these changes is the advent of the United States in the Orient by the acquisition of the Philippines, of Hawaii, and of other islands in the Pacific. That this is an event of first-rate importance is easily realized when we consider but for a moment the significance of the Philippines in the past history of Oriental trade. Manila has been in the past, and can again become, a great commercial emporium. In 1573, when the Spanish acquired Manila, there was no safe and economical route from Eastern Europe to the Orient. Long and tedious as was the Spanish route by galleons to Acapulco, across Mexico, and then across the Atlantic, it was far less difficult than the older routes via Archangel or Northern Russia and Central Asia. Moreover, Manila was, by virtue of its location and of the local products of its immediate environment, a natural emporium for the collection of some of the most precious wares then or since known to commerce. Conveniently located between China and the Spice Islands, with India also near at hand, Manila had the additional advantage of being a collecting and distributing point for certain local wares which had, long before the advent of the Spaniard, served as a lure to bring the Chinese and other Asiatic traders to her harbor, and which in turn helped to obtain the wares that Europeans sought. With silver from Mexico, and by way of enforced "tribute," the Spaniard bought or collected from the natives of the Philippines, rice, palm-oil, abaca and other fibers, fine straws and cane, dye-woods and lumber needed in China, and bartered these for the silks of China, the fine woven fabrics of India, and the spices from the islands to the southwest of the Philippines, which the Chinese traders brought.

As a mere *dépôt* for southern Asiatic wares Manila has since lost her original monopoly, and must now compete with Singapore and Bangkok, and what is more important than either or both of these, with the aggregate storage capacity of the many smaller treaty ports

south of Shanghai and the ports in French China. Her nearest European rival, Hongkong, she need not fear, for Hongkong has no warehouses and no local products, and is commercially but a city of office buildings. Her vast shipping trade is a mere paper record of tonnage passing by but rarely discharged. Hongkong, moreover, is at a point slightly off the direct route of the most important lines of trade; Manila at a point where many lines of sail and steam travel naturally converge or pass, and directly on the main route from northern Asia to Australia. Imports into the Philippines via Hongkong dwindled from \$4,600,000 in 1900 to \$500,000 in 1903 under the influence of direct steamer connection with northern Asiatic ports. A day for a ship in Hongkong Harbor waiting for orders usually means a day lost in idleness of men and capital, an item of necessary expense, perhaps, but with nothing directly to offset it on the profit side of the account nevertheless; while a day in Manila Bay, by contrast, is one of busy activity and with a distinct profit to offset expense. With rice and cotton goods inbound, abaca, copra, and sugar outbound, Manila has business for a steady stream of vessels; and as a collecting-point for spices, for Chinese table delicacies, such as *bêche de mer* and birds' nests, and for shell and similar valuable items all northbound, she has no rival save Singapore, and, although for silk, coffee, and spices westbound she has to compete at some disadvantage with Singapore and Bangkok, she has no rival when the same wares are eastbound. Tea is the only great staple of Oriental export in which Manila cannot deal with advantage.

It is obvious that Manila can again be made a very great emporium, and whatever tendency there may be under the flag to turn these valuable wares which can be assembled there over an eastbound instead of a westbound route tends to increase its importance. In this respect it is a great pity that the exigencies of the revenue system have not allowed the United States Government to make Manila a free port like Singapore. To be sure, the methods of modern trade do not demand, to the same extent as in the past, the gathering of wares by small ships at great ports to be finally transported to their destination in larger vessels. The large steamers of to-day have so many ports of call that the territory contributing to any one *dépôt* is limited. But Manila is so situated that the territory naturally tributary to her is large. The *entrepôt* business of Manila at the present time is limited to products of the Philippines, and though large, is but a small fraction of what it should be. The existence of a custom-house, with the necessary inspection, delay, tonnage-duties, port-charges, etc., even though duties are remitted on goods intended for re-exportation, involves such a burden that a port so afflicted cannot become a collecting center, save for goods produced within the tariff wall. To afford Manila a chance to rehabilitate herself

as an emporium for the Orient, a portion of the port and harbor might be set aside as free territory. There are islands in the harbor which would serve this purpose admirably. Within this free territory goods not the products of the Philippines themselves and not destined for importation into the Philippines could be landed, transhipped, etc., and vessels come and go free of restraint. As there is no hope that the custom-houses can be abolished in the islands for years to come, because of the need of revenue, some such plan is necessary to restore Manila to her proper place in Oriental trade.

The importance of Manila in Oriental trade may be illustrated in another way than by the mere enumeration of her advantages of location and the importance of the local products of her contiguous territory. The fact that the Mexican dollar is the standard coin, so far as there is any standard, in the greater part of Oriental trade, shows the extent of Manila's former commercial supremacy. For two centuries a steady stream of these coins flowed through Manila at the rate of from 250,000 to 3,000,000 Mexican dollars per annum into her commercial connections. The extent of their dispersion measures very nearly the extent of Manila's commercial influence. That the United States, the only great Occidental nation still using the dollar, should have entered the Orient over the pathway marked out by that coin, is at least auspicious.

Manila's commerce has responded rapidly to the advantages of American rule. During the first three years of our administration it grew to double that of the best year under Spanish rule, and has grown apace ever since in face of war, with its devastation, pestilence, and terrible agricultural reverses, and in spite of a new tariff and a severe customs administrative law.

SECTION 2

The Trans-Siberian Railway

The completion of the Trans-Siberian Railway took place so shortly before the beginning of Russia's great diplomatic and military struggle for the control of that railroad's best trade termini that no satisfactory data are yet available to show the effects that enormous enterprise will have. Much, too, turns upon the outcome of the present war. It is obvious to the most superficial observer that American and European trade interests in Manchuria and Northern China will be safer under the yellow flag with its blue, green, and red dragon, which, fierce as it looks, stands for the beneficent sway of Sir Robert Hart, than in the claws of the Russian bear, or even under the civilizing empire of the Mikado. But aside from the problematical possible effects of artificial restraints on trade, the Trans-Siberian Railroad will undoubtedly affect the markets and

the trade-routes of several of the great staples of Oriental trade, namely, petroleum, cotton, and cereals for Oriental consumption, and silks and tea for Occidental consumption. For all high-class goods, where the saving in time is essential, the Siberian route will be attractive. Neither the Panama Canal nor the combination of well-equipped steam and rail lines across the Pacific and the United States and Canada, can outrival the Siberian route, save in so far as American Oriental trade is affected. So far as American cotton and cereal interests are concerned, they can be protected, even in Manchuria, barring extreme political interference, by the steamship lines now in operation across the Pacific and so rapidly expanding their capacity. The great disadvantage under which the United States labors in competing for a general trade in the Orient arises from the fact that our manufactures are for the most part located on the Atlantic Coast. This disadvantage will be in some measure overcome by the opening of the Panama Canal. Meanwhile the service of steamships of ever-greater capacity in connection with the transcontinental railways bears witness to the ever-growing importance of that trade.

SECTION 3

The Expansion of Steam-carrying Trade on the Pacific

The sailing-vessel retained an important place on the Pacific long after it had disappeared from any but secondary trade on the Atlantic. The long distances to be traversed, the scarcity of coaling-ports, together with the steadiness of the demand for and the slow-sale character of the more important goods transported on the Pacific, gave the sailing-ship an advantage. But during the past ten years I have watched from the windows of my study, which overlooks the bay and harbor of San Francisco, the progress of a mighty but peaceful revolution,—a revolution typical of the whole Pacific trade. Ten years ago, for every ton that entered or left the harbor of San Francisco by steam, nearly two came and went under sail. In 1898 the steam tonnage exceeded that of sail for the first time, and now the conditions of ten years ago are exactly reversed, and more than twice as much goes under steam as under sail, while the total is over fifty per cent greater than in 1898. The hull of many a fine ship lies rotting on the mud flats and in out-of-the-way estuaries around the Bay of San Francisco, pointing the fate of others still afloat. The grain, coal, and lumber trade alone now offer a field for sailing-vessels, and this is fast narrowing, and will be greatly curtailed when the Panama Canal is opened. These conditions are a fair sample of those which prevail all over the Pacific, and yet the growth of the steamship traffic is but beginning.

The definite determination of the fate of the interoceanic canal has been so recently the subject of wide discussion that little more need be said about it. To attempt to determine accurately, in advance, the exact effect of the canal assumes powers prophetic. Some few things are, however, clear. The canal will greatly assist trade between the manufacturing centers of the Atlantic and the Orient, and also with the west coast of South America; it will afford a cheaper route to market for grain and lumber from the Pacific Coast of North America, and for sugar from the islands of the Pacific; it will force a reduction in the through rates on the transcontinental railroads and still further emphasize the advantage of coast over interior by forcing still larger differentials than now exist in favor of the former. It will mark the end of long-distance transportation in sailing-ships.

SECTION 4

The Opening of China

The Japanese war with China, bringing in its train the cession of many pieces of China's territory to foreign countries, created a whirlwind in world politics of a very violent character. In the dust which this whirlwind raised it looked as though China was threatened with disintegration. When, after the Boxer outbreak, with its accompanying international military pageant at Peking, the storm subsided and it became possible to estimate the results, it was seen that from an economical and commercial point of view China had changed but little. Nine cities had been added to the list of treaty ports as a more or less direct result of the Treaty of Shimonoseki. The inland waters of China had been opened to foreigners, and trading and warehouse privileges extended, on paper at least. But the net result to trade during the following six years was an increase of only ten per cent, a rate of increase — less than two per cent per annum on the average — which might well have come without so much turmoil.

The insistence of Great Britain and of the United States upon the open door in China, while preventing many complications that threatened serious interruptions in trade, had a defensive rather than an aggressive value. It held the doors open, but it stimulated no new trade. In short, the opening of China in any real commercial sense is still a matter of the future. The future, however, is in this respect bright with hope.

The necessity for re-examining the customs duties of China, and of strengthening the hands of its excellent administration, which arose from the arrangements to insure the payment of the indemnity after the Boxer outbreak, afforded an opportunity for lighten-

ing the charges on commerce. The most burdensome of all these charges, not so much on account of the actual taxes imposed as on account of their uncertainty, were the interior or *likin* duties. By the terms of the new commercial treaty with the United States, ratified last January, China "undertakes that all offices, stations, and barriers of whatsoever kind for collecting *likin* duties, or such like dues on goods in transit, shall be permanently abolished on all roads, railways, and waterways in the nineteen provinces of China and the three eastern provinces." This does not affect the regular customs duties which were increased by a surtax of about forty per cent, to offset the decrease in revenue due to the abolition of the *likin*. This consummation of a long struggle for sound trade relations with China promises a real opening of China. The ultimate accomplishment of this undertaking may prove beyond the powers of the Chinese Government, but the endeavor in that direction will be watched with great interest.

The railways of China, except the connection with the Trans-Siberian line and the few roads in the north in operation for some years, are still largely a network of paper concessions and partial surveys. Authoritative announcement has been made of the opening to come this year of about two hundred and seventy miles of new lines.

China is still far from "open" to Occidental trade, rich as are the rewards which come from the interchange of commodities so different in character between peoples so differing in customs.

SECTION 5

Changes affecting the Great Commodities of Foreign Trade

I have space for a consideration of but three of the most notable commodities:

(a) *Sugar*. During the past half-decade there have been changes of considerable importance affecting the production of several of the great commodities of the world's trade. Probably the most notable of these are those affecting sugar. The abolition of the beet-sugar bounties recommended by the Brussels Sugar Convention of March 5, 1902, marks the end of a century's struggle in building up an industry by artificial stimulus. Just before that time reciprocity between Hawaii and the United States and the ultimate annexation of Hawaii by the United States brought a rapid development of great cane-sugar plantations and a marked increase in the output. The restoration of peace in Cuba and the promise of permanent peace under the American protectorate presages a steady increase in that direction also; and, although the Philippines can, for some years to come, produce but a comparatively small amount of sugar,

yet owing to their proximity to China they will probably meet any increase in the demand from Asia without drawing upon the European or American supplies. The cane-sugar producing countries, several of which were, but a few years since, the most disorderly in the world, are now policed in a most satisfactory manner. On every hand there is the promise of a vast increase in the output of sugar. Yet so elastic is the demand that it has responded to the increase in supply thus far without seriously affecting prices. European beet-sugar, after the repeal of the bounties, advanced only about twenty per cent, which was slightly less than the effect expected, while in America, inside the tariff wall, the price of sugar, in spite of the increased supply, has declined only about half a cent a pound. The regularity with which the demand for sugar responds to every decline in price is one of the marvels of modern commerce.

(b) *Hemp*. The United States and the United Kingdom have long been the best customers for Manila hemp. But the United States was formerly content to buy its share from English traders. Owing to the removal of the duty and the payment of what is practically a bounty, namely, the reimbursement of the insular export duties on all hemp imported into the United States, we are now buying our supplies direct. The hemp industry has responded to this stimulus in a very striking manner, the total output in 1903 being nearly threefold that of 1899, and over half of the whole goes to the United States. The only discouraging feature is the fact that the resources of this industry are overtaxed and there is a lamentable lack in the preparation of the fiber, reducing its quality in a very marked degree, the premium on good qualities not being sufficient to induce proper care in its preparation.

(c) *Cotton*. The ravages of the boll-weevil in Texas and the consequent unprecedented speculative fever in the cotton market has caused a great deal of attention to be directed to the changes in the cotton production of the world. Though not so spectacular as the soaring and tumbling of prices, the thing of vital importance in the cotton trade has been the rapid growth in the demand rather than any fluctuation in the supply. The decrease of the output of cotton in Texas from the promised yield suggested by the crop of 1900-01 was more than offset by the increase in other states, notably Arkansas, Georgia, and Louisiana; and the commercial crop as a whole was the largest on record. Yet large as it was, the crop did not nearly meet the demands of the spinners who depend upon American cotton. Mills everywhere have been shut down or run on short time. The most marked feature of this growing demand has been the growth of new mills in the United States. It is claimed that the United States now consumes more raw cotton, by nearly a million bales per annum, than any other country, and that it uses forty per

cent of the American crop. The crop conditions this year promise to be about the same as last year.

The situation is, therefore, a bad one on the whole, a rapidly growing demand not being met by an equally growing supply. The Brazilian output has been greatly stimulated in the past few years, and, unless the American conditions improve, will become a very important factor. So far as the demand can be foreseen, it will continue to grow. The opening of China will largely affect the problem in the future.

PART III

The Political Situation as affecting Foreign Markets

We have passed in review the recent changes in the theory of foreign markets and the more important of the concrete changes in the condition of the markets themselves. It remains to review the political situation, always more or less fraught with meaning for the world's trade so long as "national economics" rule. Space will permit of only a brief glance at two of the most important phases of the present situation; first, the agitation for protection in England; and second, the necessity for tariff reform in the United States. In this we shall necessarily take the American point of view.

SECTION 1

Mr. Chamberlain's Fiscal Policy

After half a century of free trade in England, a strong party is now considering the advisability of resorting to protection. Although it certainly cannot be said that the proposals put forward by Mr. Chamberlain are "viewed with dismay" in the United States, yet it is true that they are matters of serious concern. In industrial circles the feeling seems to be that we shall be able, when the time comes, to adjust our trade to the new conditions; but we are much concerned to know the direction in which the adjustment will be necessary and the time when it will come. It is, at present, extremely difficult to anticipate what is likely to be done. Not only is there the problem of anticipating how far the programme is likely to meet with the support of the people, but the leaders themselves present a somewhat shifting programme. With true English conservatism, Mr. Chamberlain has been careful to disclaim any sympathy with protectionists, and the leaders, to quote Mr. Balfour, "approach the issue from a free-trade standpoint;" and yet, starting from that standpoint, they seem to be proceeding with some rapidity in the direction of protection, judging from the more recent of Mr. Cham-

berlain's utterances at Welbeck that "the effect of free trade on the laborers of this country has been disastrous." The programme put forward each time is characterized as provisional and subject to modification. That part of it, however, which seems to be most widely accepted and which develops most directly from the objects which those who have advanced it have in view, is of vital interest to the United States. The main object of Mr. Chamberlain's proposed policy seems to be to cement a closer union of the Empire and to draw the colonies nearer to the mother country, thus strengthening the Empire for national or imperial defense. If this object is to be attained by preferential tariff legislation in favor of the colonies, it cannot but seriously affect a number of important American industries. And if, as seems almost inevitable, the more general scheme be entered upon and compensatory duties should be allowed British manufacturers, it will involve a considerable amount of actual protection. In the programme outlined by Mr. Chamberlain in his speech at Glasgow, on October 7, 1903, he proposed tentatively to lay a tax of two shillings a quarter upon all foreign grain excepting maize. Joined as this proposal is with a distinct purpose to build up wheat-farming in the colonies, and especially in Canada and Australia, by special exemptions and concessions which shall insure them a market in England for all their surplus grain, it constitutes a certain menace to American agricultural interests. For, although the importations of food-products into Great Britain from the United States fluctuate from year to year with the changes in the crops in different parts of the world, yet, roughly speaking, Great Britain still takes about fifty per cent of her necessary food — wheat, flour, and meats — from the United States, and any curtailment of this market, which, even at the present time, takes about one sixth of the American output, cannot but be a matter of serious concern to the United States.

Wheat-growing in the United States is still so important an industry that its prosperity or the reverse may well-nigh be said to mark the prosperity or depression of all industries throughout the United States. The predominance of wheat-growing is not so great as it was a few years ago, but, nevertheless, any disturbance of that industry would be felt the length and breadth of the country. The wheat-growing industry has already suffered a series of setbacks, especially through the competition of the Argentine Republic, and lately through an increased acreage and output from Russia. Any further curtailment of the market for the surplus wheat of the United States will be felt immediately. These considerations are, however, offset by certain others which may have considerable weight. In the first place, there has been a marked increase in the home demand for wheat and flour products, an increase in the Asiatic demand, and

a promise of a still further increase in the consumption of wheat and flour in China since the removal of *likin*, the duties already referred to. More than that, the area of new wheat land available is somewhat limited, and the possibility of increasing the output upon the acreage now under cultivation is not very large. With the growth of population, land once used for wheat is found to be better adapted to other uses and is removed from the wheat acreage. There is, therefore, to be anticipated an increase in the demand in other places which would partly offset any loss in the English markets, and a tendency in the acreage under cultivation toward stability or possible diminution.

In the earlier speech above referred to, Mr. Chamberlain suggests a duty of five per cent on flour, meats, and dairy products, but he was inclined to exempt bacon on the ground that it was a "popular food for some of the poorest of the population." This proposal is not likely to work serious interference with the market for American meats. Five per cent is scarcely a protective duty, especially with the exemption of so important an item as bacon. The strictly protective features of Mr. Chamberlain's programme, such as the desire to give a "substantial preference" to British flour-mills, to prevent the "dumping" of surplus iron and steel manufactures from America on the English market, are also so moderate as not to be considered dangerous. The unavoidable restraint upon trade which the re-establishment of any system of customs duties in England will impose is more serious, perhaps, than the protectionists' proposals themselves. Rapid as seems to be the growth of favor toward Mr. Chamberlain's financial policy, no one can foresee the result at the present time.

SECTION 2

Tariff Reform in the United States

The preliminary skirmishes for the present presidential campaign in the United States gave rise to the expectation that, whichever party might come into power in the next administration, an attempt would be made at a revision of the tariff in the United States. The temper of both conventions, however, excluded from the platforms any expression upon this important subject which made any definite promises; the Republicans contenting themselves with the general statement that if any tariff reform is to be undertaken, it would be safer to intrust it to the hands of the friends of protection than to its enemies; and the Democrats outlining a no more definite scheme for revision than might develop from their free-trade traditions. As the complexion of the Senate makes Republican control for some time to come a certainty, any revision of the tariff must necessarily be

made along Republican lines. With the apparent willingness of some of the more influential leaders to entertain some plan for a gradual revision, so moderate as not to affect existing industries, there is still a possibility that something may be done in this direction.

As the extent and direction of this revision, should it ever be undertaken, will necessarily be determined by purely political forces, economists are interested mainly in the method by which it may be undertaken. Economic writers have frequently pointed out that the methods pursued in the past for revising the tariff were unsatisfactory because of the failure to collect, in a thorough and systematic manner, the data necessary for a revision. Few, if any, of the leaders now in Congress have even a modicum of the knowledge necessary for a revision of the tariff. This may be said without any disparagement, for, in fact, there are few men in the whole country who have that knowledge. The precise effect of each of the duties on some four thousand different articles covered in the fourteen great schedules of the tariff cannot be ascertained by a hearing conducted by a congressional committee in the hurry of preparing proposed legislation, and at which only interested parties are examined. Only by an extended and painstaking investigation along strictly scientific lines can the effect of the present tariff or of proposed changes be ascertained. The complex interrelations which arise from the changes in the relative importance of different exports and imports as affected by different duties offer problems which are among the most difficult in the whole field of economic science. Temporary commissions appointed to gather data desired for the information of Congress when a tariff revision was under way have failed, not merely because political considerations have forced Congress to disregard their recommendations, but because their recommendations based on a brief study under pressure of temporary demands could not be altogether sound and well matured. The following principles may be laid down as generally admitted by impartial authorities: (1) On account of the vast size of the interests involved, sudden changes in the tariff are dangerous to the welfare of the country; (2) for the same reason violent changes are equally dangerous; (3) changes should, therefore, be gradual and announced long in advance; (4) to ascertain the exact effect of present duties or to estimate the probable effect of proposed changes requires a careful study of each of the industries or branches of trade affected, not only in this country, but in other countries whose goods are affected. If these four points be granted, then no exigencies can arise which should be allowed to prevent what the nature of the work to be done looking to a revision requires, namely, a long and careful investigation of every possible effect of the tariff.

This all points to the conclusion that there should be a permanent bureau connected with the administrative department of the government, whose function it should be constantly to gather and compile, according to the most approved scientific methods, all the data necessary for an intelligent appreciation of the exact working of the tariff. Such a bureau could, when required, extend its investigation so as to cover the probable effect of the proposed changes. Modern economic science is equipped with the methods of research, of analyzing and interpreting statistics, of delving into the forces which control prices, and of ascertaining the cause and meaning of changes in the direction and extent of trade, — in short, it has the methods necessary for dealing safely with the multitudinous and bewildering facts which enter into the problem of the effect of a tariff on the world's markets. There is no reason for groping in the dark, when by a little provision in advance we might walk in the light.



SECTION D — MONEY AND CREDIT



SECTION D—MONEY AND CREDIT

(Hall 5, September 24, 3 p. m.)

CHAIRMAN: MR. B. E. WALKER, Canadian Bank of Commerce, Toronto.

SPEAKERS: MR. HORACE WHITE, New York City.

PROFESSOR J. LAWRENCE LAUGHLIN, University of Chicago.

SECRETARY: PROFESSOR JOHN CUMMINGS, University of Chicago.

OUR MONETARY EQUILIBRIUM

BY HORACE WHITE

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Two months ago a political convention met in this city to nominate candidates for President and Vice-President, and after struggling a day and a night over the monetary plank of its platform, it decided to say nothing whatever on the subject. This action was equivalent to saying that the standard of value is no longer a matter of dispute. Monetary equilibrium has returned to us after a disturbance of more than forty years. This is merely saying that mental equilibrium has been restored on the subject of money, for the disturbance has been psychological and sociological rather than economical. Every person in his individual capacity in his own *οικονομία*, has always preferred gold to irredeemable paper; but multitudes in their collective capacity have preferred the latter to the former, and by carrying this preference into their political action caused the disturbance. The dispute has been a difference of opinion as to the meaning of the word "dollar," some holding that it signified a fixed quantity by weight of the metal gold, while others contended that it meant also the government's stamp impressed upon various things.

In this prolonged contest the borrowing and lending sections of the Union were arrayed on opposite sides, as was shown by the votes which they cast. The states having a relatively dense population and concentration of capital adhered to the gold standard. They accepted irredeemable paper as a temporary necessity, but were inflexibly opposed to any lasting change in the definition of the dollar. Those states in which contrary conditions prevailed were in favor of cheaper materials for the making of money, because

they thought that money would thus be more easily obtainable. A relatively small number of instructed persons, not belonging to any particular section or party, but distributed among all, held a balance of power and a preponderating influence. In all the vicissitudes of the contest they were able to count upon the executive branch of the government, which held the legislative branch in check on some critical occasions.

The Legal Tender Act of 1862, an incident of the Civil War, first unsettled people's minds on the question: What is a dollar? There was no such question under debate previously. We had had controversies in plenty about bank-notes, but nobody had imagined that a piece of paper was real money, or could ever be made such. The distinction between paper promises and real money was sharply defined and was kept alive by frequent bank failures and by the numerous "bank-note reporters," which were used in business circles to distinguish between notes that were at par and those that were at a greater or less discount.

In 1862 there came into the hands of the people a new kind of paper currency called greenbacks, which seemed to be at par, although they were actually at a discount. The average citizen, unless he was a dealer in money or was engaged in foreign trade, did not observe the discount. He perceived that the greenbacks would pay his debts and buy the things he wanted. If the prices of commodities were somewhat higher than before, they affected both his sales and his purchases. If he had a fixed income or was a wage-earner, and if his receipts did not keep pace with his expenses, he thought that the difference was caused by the war. So the definition of the dollar underwent a gradual change in the common mind. Instead of being a fixed quantity of metal, it might be the government's promise to pay the same at an indefinite future time. Five years after the end of the war this new definition received the sanction of the Supreme Court both as a legal and as an economical proposition. When the court declared that 25.8 grains of coined gold was in no sense a standard of a dollar, it gave a footing and a license in Congress and on the hustings to every possible vagary in finance. Congress, in 1874, availed itself of the court's permission to pass a bill increasing the amount of greenbacks then existing. But fortunately it was stopped by a presidential veto, which caused the party in power to turn suddenly about and pass a specie resumption act. This veto was the pivot upon which our financial policy turned; for, although without it we should have found our true path eventually, it would have been after a longer period and a more painful experience.

The Resumption Act was passed to meet a political rather than a financial exigency. The party in power was rent in twain by the

veto of the Inflation Bill, and the only way for the fragments to come together again was for Congress to accept the President's platform. It was a case of Mahomet and the mountain. If the President would not agree to inflation, then Congress must agree to resumption. That it did so with reluctance was proved by subsequent events. General Bristow, then Secretary of the Treasury, informed me that it was with much difficulty that Senator Sherman was brought to the support of a resumption policy. Mr. Sherman was a man of clear and sane ideas on finance, but of extreme timidity in facing hostile votes in his own state. His hesitation in adopting a policy of resumption in 1875 was indicative, not of any misconception in his own mind, but of much misconception in the public mind, which manifested itself in the House two years later by the passage of a bill to repeal the Resumption Act altogether. This bill failed in the Senate by only one vote. Failing to repeal the Resumption Act outright, Congress passed by large majorities a bill to forbid the retirement of the greenbacks, whose redemption the Resumption Act had provided for. It was commonly believed that the retirement of the redeemed greenbacks would cause contraction of the currency. The fact was overlooked that the gold with which the greenbacks were redeemed would take their place in the circulation, in the form of coin or certificates, so that there would be no contraction.

Doubts existed as to the ability of the Treasury to resume on the appointed day, notwithstanding a slow but persistent decline of the gold premium. These doubts were felt even by men in the higher ranks of finance, and some Wall Street capitalists lost large sums of money by speculating on a speedy exhaustion of the government's redemption fund. The saying of an influential banker, who was not a speculator, that he would give a large sum to have the foremost place in the procession at the door of the sub-treasury on resumption day, was widely repeated and generally approved. These doubters had failed to give due weight to events which were lowering the gold premium independently of the action of the Treasury, and which would soon have extinguished it altogether, even if no Resumption Act had been passed. Given a fixed sum of depreciated currency in a growing country, the demand for the circulating medium increases *pari passu* with population and wealth, and augments the value of the currency by the law of supply and demand. Secretary Boutwell was right when he said, in 1871, that the country would grow up to the volume of greenbacks and that the gold premium would disappear in obedience to natural causes. Although he was right, neither he nor anybody else imagined that the growth of business would overtake the volume of the greenbacks within eight years. That it did so may be reasonably inferred from the fact that the gold premium disappeared before the date fixed for resumption and that

when the redemption bureau was actually opened, scarcely any gold was called for. But the danger which menaced the cause of sound money during the interval (1871-1879) was not economical. The real danger was that public opinion would demand, and Congress would vote, an addition to the volume of greenbacks. And if Congress should vote for one such increment, there would be no assignable limit to future additions.

Specie resumption was followed by a period of great prosperity, which would soon have extinguished all differences of opinion touching the definition of the dollar and would have brought about the desired equilibrium in 1879, but for an unexpected circumstance. Between the passage of the Resumption Act and its execution, the gold price of silver fell ten per cent in the market.

This was an unheard-of phenomenon in the modern world. Various causes were assigned for it by experts and ignoramuses, by economists and politicians. Some said that it was due to the great output of silver from the Comstock mines; others, that it was a consequence of the lessened demand for silver in India. Still others thought that it was caused by the demonetization of silver by Germany. Some even contended that our Demonetization Act of 1873 was at the bottom of the trouble. Official investigations were made in various countries, including our own, which yielded scanty results.

We can see now that all of the foregoing reasons were either half-truths or wholly erroneous. Forty per cent of the product of the Comstock mines was gold. The surplus of silver was, therefore, only twenty per cent of the total output. The difference was too small to account for the disturbance.

The demonetization of silver by Germany was not a *vera causa*. It was itself the result of something else. A nation does not take the trouble to change its standard of value without good reason. It does not incur the expense of re-coining and suffer heavy loss by the sale of the discarded metal from mere caprice. The lessened demand for silver in India was likewise an inadequate explanation. If it were due to a gradual substitution of gold for silver, both for money and for ornaments, it was akin to what was going on in Germany, *i. e.*, it signified a change in the public demand and the public taste. If due to a bad harvest and consequent poverty, these were events of frequent occurrence in India. Why had they not affected the relative values of the two metals before? As to our own Demonetization Act, we had no silver at that time to demonetize and throw on the market. Moreover, the passage of the Act was not generally known until after the great decline of silver had taken place. It was the latter event that first drew attention to the former.

Looking at the phenomenon from the superior standpoint of the present day, we can see that the great decline of silver that began

about the year 1871 was due to uncontrollable commercial causes, which the governments of Europe and America could not have resisted even if they had tried. Gold had been the real standard of value in the civilized world long before. As the metal most acceptable and most convenient for the settlement of international balances, it had become the *cynosure* of the trading community. Every drawer and receiver of a bill of exchange had his mind fixed upon gold when drawing or receiving it, even though the bill itself were payable in silver. Hamilton observed this fact as existing in our own country in the latter part of the eighteenth century. England had been under the single gold standard twenty-four years before she became conscious of the fact and gave legal sanction to it. Germany was in the same situation long before 1871, although legally under the single silver standard. Under such conditions it was inevitable that whenever circumstances should impel the nations to overhaul their monetary systems they should adopt the single gold standard, thus making the law conform to the fact. Circumstances impelled Germany to reform hers in 1871, and she took the inevitable step. Her act was not the cause of the decline of silver in the early seventies, but was rather the sign and symptom of a commercial movement which was working with irresistible force in Germany and everywhere, and had been signalized some years earlier by the Paris Monetary Conference of 1867.

But whatever may have been the causes of the phenomenon, it took place in our own country at a most unfortunate time, in the midst of a monetary and political crisis, when it could produce the greatest confusion by freshly unsettling the public mind and breaking the peace that had been nearly won by the passage of the Specie Resumption Act.

Europe did not wholly escape this disturbance; but in Europe the task of dealing with it was assigned to a small group of experts in each country, the mass of the population taking no interest in it even if they were aware that anything unusual had happened. The same course of proceeding would have been followed here if circumstances had been the same. All of our previous coinage legislation, from that of 1792 establishing the Mint to that of 1873 demonetizing silver, had been the work in each instance of a few experts, the mass of the people giving no thought to the matter. The same popular apathy would have existed in 1876-1878 regarding the decline of silver had not public feeling been already inflamed over the greenback question. But for this special and temporary excitement we should have contemplated the decline of silver in the same way that other civilized countries did. We should have congratulated ourselves that we had no stock of that metal on hand upon which a loss must be incurred. We should have been thankful that the Demonetizing

Act of 1873 had been passed in time to prevent us from sharing the embarrassments of France, Germany, and India. Our monetary equilibrium would have been reached when specie payments were resumed in 1879, and we should now have four or five hundred millions more gold and less silver in circulation than we actually possess, since all of our silver certificates might have been gold certificates if Congress had so willed.

Two matters of importance, both incidental to the Civil War and contributing to our monetary equilibrium, remain to be mentioned. First, the national banking system. The public records show that Secretary Chase adopted this plan as a means of selling bonds and procuring money for the war, but that it had no perceptible effect in that way. To recast the banking system of a nation requires time, even when one knows how to go about it and has all power in his hands. Mr. Chase's *modus operandi* was defective, and he did not have unlimited power. The plan contemplated that all banks should secure their circulating notes by government bonds deposited in the Treasury, but the federal tax which eventually compelled them to do so was not enacted until the beginning of 1865, and was not put in force until after the war was ended. Consequently no bonds were bought for this purpose during the progress of the war, except a mere bagatelle taken by the voluntary action of a few banks. Nevertheless the new banking system was and remains a gigantic success for banking purposes and a great bulwark of our monetary stability. So far as it supplies us a currency, it supplies one that is at par everywhere. It organizes credit and vitalizes the productive capital of the country admirably. It does not, however, supply a circulating medium to the extent that its resources and reputation would justify. Of \$2,500,000,000 now circulating, national bank notes are only \$432,000,000, — about one sixth of the whole, and little more than one half of what the law authorizes the banks to issue. The bank-note circulation does not keep pace with the country's growth in population and trade, and since all other fiduciary circulation is limited by law and has reached its limit, further expansion will be mainly by means of gold certificates.

This brings us to another incident of the war period, which has proved to be a great convenience and an aid to monetary equilibrium. The law authorizing the Treasury to receive deposits of gold and to issue certificates therefor of \$20 and upward was passed in 1863. In the panic of 1893 the greenback redemption fund was reduced below \$100,000,000. The law required that the issuing of gold certificates should be suspended whenever that condition existed. For some unexplained reason the Treasury officials thereupon treated the law as though it were repealed, and refused to resume operations

under it when the gold reserve was replenished. Congress accordingly reënacted it in the year 1900, at which time the amount of old certificates outstanding (held mostly by banks for clearing-house purposes) was \$228,000,000. The volume of certificates has since increased by leaps and bounds. It is now above \$500,000,000 and is still growing, and most of the increment has gone into general circulation, in obedience to a demand for a paper medium of exchange that could not otherwise be satisfied.

While nothing of this kind was contemplated by Congress in the original enactment of the law, it must be regarded as most fortunate in two particulars. It has contributed to cure the prime defect in the national banking system — the rigidity of its note issue — and has saturated the currency with gold. Each new certificate is a prop to our monetary equilibrium, since it increases the proportion of gold to the credit circulation. That proportion at the present time, counting only the gold in sight, is as 66 to 100, being about the same as that of the Bank of England. Our proportion would be even greater than it is if gold certificates could be issued of lower denominations than twenty dollars. There is no valid reason why ten-dollar certificates should not be issued. They are greatly needed now, the Treasury being unable under present laws to meet the public demand for the smaller denominations in any kind of paper circulation. Of course, gold eagles, halves, and quarters can be had without limit as to quantity, but our people do not like to carry metal in their pockets, except for small change; moreover, the frequent handling of gold involves waste and loss by abrasion. The very next reform in our money system should be the lowering of the denominations of gold certificates to ten dollars, both as a public convenience and as a further support to our monetary equilibrium.

What we mean by monetary equilibrium is a state of absolute confidence that every dollar in circulation, whether of paper or of metal, is the equivalent in the hands of the holder of 25.8 grains of standard gold. Have we reached that state of confidence? If not, how far do we still come short of it?

Probably ninety-five per cent of our people are perfectly satisfied on that point now. Yet the remaining five per cent think that there is still some room for doubt. They know that the continued redemption of the greenbacks depends upon the will of Congress, and they remember that only ten years ago Congress refused to do anything whatever to replenish the redemption fund when the Treasury was only two days removed from bankruptcy. What protects us against a similar crisis hereafter?

I have already alluded to the action or non-action of the St. Louis Convention, which assures us that no political party now calls in

question the standard of value. This is perhaps the strongest guarantee we could have against a recurrence of the crisis of 1893, but our position has been improved in other ways. The Act of March 14, 1900, increased the gold reserve for the redemption of legal-tender notes by fifty per cent, and provided for its replenishment in case of need, and it made the notes expressly redeemable in gold, whereas they had previously been redeemable in "coin." It separated the fiscal from the currency transactions of the government and prohibited the use of the gold reserve for any other purpose than the redemption of notes. But it authorized the Secretary of the Treasury to pay the notes out again "to purchase or redeem any bonds of the United States, or for any other lawful purpose the public interests may require, except that they shall not be used to meet deficiencies of the public revenues."

Now a deficiency of the public revenues cannot be judicially ascertained without a standard of a full or non-deficient revenue. The law does not supply such a standard. Apparently a deficiency means a shortage of ordinary income as compared with ordinary expenses during one fiscal year, regardless of any preëxisting surplus or deficit in the Treasury. But there are extraordinary expenses and extraordinary receipts in time of peace and still more in time of war. Where is the line to be drawn which shall separate the ordinary from the extraordinary? A little reflection will show that this saving clause in the Act of 1900 is meaningless, or, at most, only advisory. The Secretary of the Treasury must determine for himself whether a deficiency of the public revenues does or does not exist at any time. In other words, the paying out of redeemed greenbacks is optional with him, as it was before. This is a defect in the law which ought to be cured by an explicit proviso that legal-tender notes presented for redemption shall not again be put in circulation except in exchange for gold deposited in the Treasury by private persons. Thus the reissued greenbacks would be gold certificates in fact, although not in form; and in time public opinion would require that the form be changed so as to correspond with the fact.

Are our silver dollars to be considered a source of anxiety? Theoretically they are. They are a part of the fiat money of the country. They are like the greenbacks in all essentials. They circulate by virtue of the government's stamp, and the government accepts them in all payments to itself. There are \$576,000,000 of them, \$70,000,000 being in circulation as coin and the remainder as certificates. The field of retail trade has been practically reserved for them by law, and the growth of the country has been so rapid that the redundancy of 1894 has become a deficiency in 1904. There is not enough currency of denominations under ten dollars now to meet the legitimate demands of trade, and while this condition lasts

silver dollars must be at par, just as the subsidiary coins are. True, the latter are redeemed at the front door of the Treasury, but the dollars are redeemed at the back door, in the custom-house, and in the tax-office. That a real danger once existed from silver coinage was proved by experience, but it seems to have passed away. It should not be forgotten, however, that the government paid \$464,000,000 gold for the bullion from which these needless dollars were manufactured. This was an unnecessary expense. It is possible eventually to recover this \$464,000,000 without throwing any silver on the market. A bill is now pending in Congress, with the approval of the Secretary of the Treasury, to convert silver dollars into subsidiary coins as fast as the latter are needed. The annual increment of subsidiary silver required by the growth of population and of retail trade is about \$5,000,000. If the policy is adopted of re-coining the dollars into smaller pieces instead of buying new bullion therefor, the government will finally get back the money that was expended under the Bland and Sherman Acts. Gold will flow in to fill the vacuum, and Congress can regulate the denominations of gold certificates to meet the public convenience.

May we not have too much gold in our circulation for the economical working of trade and industry? Of course our solvency can never be impaired by having an excess of it, but gold is capital. It is the product of labor, and the country may be compelled to use more of it than is really needed for effecting its exchanges and guaranteeing the soundness of its credit instruments. Credit dispenses with the use of capital to an incalculable extent. It is a labor-saving machine of immense value, and it is not to be supposed that we have yet seen the last of its devices or that we have exhausted its utility. It does not fall within the scope of my theme to consider plans for bettering our bank-note system so that it shall keep pace with the growing demands of trade, but such plans cannot be postponed forever in the face of a decreasing public debt and an increasing price of government bonds. If in the mean time we take more gold than is really needful into our circulation, that certainly involves some waste of energy, but of all financial evils it is the one most easily cured.

Although the greenback and the silver dollar are not a present cause for anxiety, all fiat money is objectionable, because it is a noxious microbe capable of multiplication. It would be best to remove it, so that its evil example may not be before the public eye to lure us astray in some future emergency.

It is needless to say anything to this assemblage about the advantages of monetary peace as contrasted with the turmoil through which the nation has struggled during the past forty years. All the reasons which exist for having any kind of money are reasons

for having a good kind. It is the agreement of mankind which makes it good, and when we disagree about the definition of the dollar, we are plunged in doubts and fears, confidence and credit are impaired, enterprise is chilled, business partakes of the nature of gambling, widows and orphans are defrauded, labor is deprived of its just reward, and civilization sinks to a lower stage. All these conditions have been within the nation's recent experience.

To sum up: We may say that once upon a time the nation lost its financial pathway by accident and after wandering forty years in the wilderness regained it by a process of self-education. During all its wanderings, however, it never repudiated nor failed to keep any contract that it had made. It has met both principal and interest of its bonded debt in the times and manner agreed upon, and has never imposed any tax thereon or allowed any inferior authority to do so. For all this it reaps its reward in the highest credit that any country ever enjoyed. There are some minor problems of finance yet to be solved, but since they may now be approached without passion, we may fairly expect that they will be solved rightly and in good time. Let us hope that we have learned the cardinal principle of finance, viz., that the monetary standard is established in the first instance by the tacit agreement of mankind, which it is the duty of the statute law to recognize, ratify, and enforce, not to resist, counteract, or annul.

May we confidently predict that the lessons of the past will not be forgotten and that the monetary equilibrium will never again be disturbed? Alas, history teaches that such lessons gradually fade from the public mind. Our colonial experience with bills of credit did not prevent the revolutionary fathers from following the same disastrous policy, nor did their example prevent us from repeating the experiment. Moreover, President Grant's veto of the Inflation Bill did not prevent Congress from passing another one sixteen years later, which was not vetoed and which was attended by disastrous consequences. But history teaches also that such disturbances of the monetary equilibrium usually have their beginning in a state of war. The colonies issued bills of credit in the first instance for war purposes and afterwards for other purposes. The revolutionary fathers did the same, and we also did the same. The teaching of history, therefore, is that if we would avoid the grossest financial errors of the past we should avoid as much as possible the direful curse of war. Perhaps no teaching could be more salutary to mankind.

PRESENT MONETARY PROBLEMS

BY JAMES LAWRENCE LAUGHLIN

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I

Present Monetary Problems

THE development of thinking about money is the most interesting portion of the history of political economy. The first dawn of economic principles came with the discussion of monetary phenomena, and monetary science has not only always had a peculiar practical interest of its own, leading to its constant appearance in political campaigns in all countries, but it has also had an organic life persisting in its full vigor to the present day. In the United States the monetary question is not at this very moment, as it has been, the football of the political parties; but there has been very recently an active upheaval in scientific discussion which is healthy and worthy of attention. In Europe, while the active discussions of bimetallism have simmered down to relative quiet, yet the interest in the fundamental monetary questions among scholars is burning with a clear flame. The present monetary problems are not only enlisting the interest of economic scholars and reach the very center of systematic exposition, but they also happen to be those which have to do with the truth or error of convictions which are widespread among great masses of our countrymen.

It is passing strange that the vast literature of money has not been marked by a passionate zeal for the statement of an organic body of principles. Past discussions of money have been usually started in some local, or practical, problem; and interest has centered largely in the acquisition of historical data, without any considerable success in the formulation of the principles explaining such data. Once that the problem of special interest to the public had been settled for good or for ill, the real scientific interest seemed to wane. To-day, in my judgment, the case is entirely different. The attention now being given by scholars in both Europe and America to the vital questions of monetary doctrine is nearly as intense as that given to questions of wages and interest.

II

Functions of Money

Since the time of Ricardo there has been a magnificent confidence that the theory of money has been so well settled that there was little more to be said on the subject. The economic dogma of money, at least, was supposed to be fairly complete. And yet, in my judgment, the systematic treatment of the principles of money has remained undeveloped almost to the present day. There is scarcely any part of the field which can be regarded as thoroughly disposed of. Indeed, the very definition of money itself is to-day under the most critical examination; and with the definition goes the question as to the functions performed by money. On these points, like investigators in other sciences, we must frankly admit our lack of agreement.

First of all it should be emphasized that the dispute about the definition and functions of money is not merely a question of words; it relates, in truth, to fundamental problems of great practical import. Every day the statesman and man of affairs are confronted by difficulties connected with the primary effect of "money" on prices in general; but it is at once patent that the relation of the value, or quantity, of "money" to prices cannot be disposed of until we have determined what we mean by "money." As at present used, "money" has no scientific precision; it is often carelessly employed in many different senses by one and the same author.

Evidently before a rational definition of money can be found, some agreement based upon an analysis and description of the functions actually performed by money must be reached. If several dissimilar services are rendered by monetary instruments; if each of these services is associated by usage with "money," and if it happens that different things are employed in these different services, then, while authors may agree as to many of the functions of money, it may easily happen that they may still disagree as to which shall be regarded as essential to the definition of money. Money may have different meanings according as it is made to include, or exclude, some or any unquestioned services associated by usage with money. In such ways, an important difference might arise between that which is money in an economic, or true sense, and that which is money in a legal sense. In fact, the economic relations of money ought to be scientifically ascertained before legal functions should be assigned to it. If, for instance, the state should apply the quality of legal tender loosely to some instrument which does not completely fulfill all the functions of money, then that money is not, in the economic sense, true money. It thus often happens that incomplete forms of money exist, which give the public

much difficulty to classify and define. The expressions "substitutes for money," or "surrogates," or "representative money" have arisen which depend for exactness upon the primary meaning assigned to the money on which they depend. The very functions of money need careful limitation.

Among writers as late as John Stuart Mill there is practically no separation of these functions. The term "money" was applied indifferently to an instrument which served only as a medium of exchange, or only as a standard, as the case might be. Obviously, it would not be possible here to summarize all the different ways in which the functions of money have been viewed; they vary with each writer. In the main, there is a discussion upon the merits of the following separate functions:

1. A medium of exchange.
2. A standard, or measure of value.
3. A standard of deferred payments.
4. A legal means of payment.
5. A store of value.
6. A means of transferring value, or capital.

The most recent German writer, the distinguished scholar Helfferich, in an epoch-making treatise,¹ holds that there are only two primary functions of money, neither being secondary to the other: (1) Medium of exchange; (2) means of payment. He does not regard the standard function as essential to the conception of money, believing that any such service as may be included under a measure of value has been derived from the two primary functions given above. With several other writers, he finds that the medium of exchange was the thing which first developed, and then came into general use as a standard or measure of value. He practically defines money as everything serving to facilitate exchange between economic factors. Thus Helfferich would hold that the state, by giving legal-tender power to things worthless in themselves, such as irredeemable paper, has created a means of payment for debts, and therefore he would include even such instruments as these under money, because they fall under one of his primary divisions.

Whatever conclusions may be reached in regard to the functions of money, the application to the system of any one country would raise difficult questions as to the classification of money. If one of the necessary functions is lacking to any one form of money, it is not true money; for instance, in the United States no one would hesitate to say that gold coin is true money, and yet it is very little used as an actual medium of exchange. Therefore, we may easily call that true money which does not serve principally as a medium

¹ *Das Geld*, von Karl Helfferich, Leipzig, 1903, 8°, pp. x + 590.

of exchange. Also, silver dollars, and French five-franc pieces, in the so-called "limping gold standard," could not be called true money in all senses, because their value is dependent on a primary form of money. Like national bank notes and greenbacks, they are only "surrogates;" they are, perhaps, legal, but not economic, money.

One may well doubt if the function of a means of payment can be distinguished from that of a medium of exchange. At least, most writers seem to agree that the medium-of-exchange function is essential to money; but if the standard function be neglected, could we possibly define that which acts only as a medium of exchange as true money? Of course not. Deposit-currency (*i. e.*, bank-checks) certainly act as a medium of exchange, and as a means of payment; but we should, in all common sense, be obliged to place such currency in a very different class from gold coin.

Therefore every one must agree that the critical discussion of the meaning and functions of money is fundamental to scientific progress and to all serious treatment of the main problems of money, such as the theory of prices.

III

Credit

In regard to another unsettled problem of money, credit, it is to be said not only that it has been very much misunderstood, but that it has been given very little real study. There is to-day no commonly accepted definition of credit; the element of futurity in a credit transaction is generally admitted, but "confidence" is by some regarded as the essential element; and yet "confidence" can play its rôle only because futurity exists in the credit operation.

Nor is there any received opinion as to the real nature and functions of credit. We seem, in the whole field of credit, to be on the frontier of knowledge. In any true sense, the economic end of society is the possession and use of goods which satisfy wants. Credit has been devised as one of many means to aid in accomplishing this end. In its fundamental relations it has to do with goods and their increase. To some, however, it is related only to money. The truth of this concept, to my mind, depends upon the nature of money. If it be only a means to an end, and if it does not alter the elemental principles of value, but aids and cheapens the exchange of goods, then it is easy to understand that a borrower in reality obtains the use of goods, as the purpose of a loan, and that money and credit are but the instruments devised by society for effectually carrying out that purpose. Hence the credit operation, as regards extension

or contraction, is primarily based on transactions in goods; its relation to money is a secondary, and incidental, connection. Credit being a transfer of goods involving the return of an equivalent in the future, forms of credit appear only as a consequence of transactions in goods. More transactions, not more money, cause an increase of forms of credit; and, by an interesting process of evolution, forms of credit, especially the deposit-currency of banks, act as a medium of exchange, obviating recourse to money. The belief, however, that credit depends on money, and not on goods, is widespread, and much discussion is probably before us on this point.

The relation of credit to the theory of prices is evident; some think that all the money plus all the credit (whatever that may be) act primarily to fix the level of prices; but any sane person will see at a glance that the forms of credit, such as bills, drafts, etc., arising from the movement of the wheat crop, have no effect on the price of that crop, the price having been made antecedent to the creation of the forms of credit which came into existence only because of the actual sales of wheat. Does a farmer wait until he sees how many wheat bills are drawn before fixing the price of his wheat? Evidently not; and the popular conception needs thorough criticism.¹

When men speak of "our expansion of credit," they have a very vague and general idea in their minds. The definite and distinct forces at work are covered with darkness; and when a revulsion of trade comes the results are accepted as coming from some undefined and mysterious force which can only be felt, but not explained. It remains the duty of the economic thinker to outline with scientific exactness the forces uniting in the upward wave of overtrading, and to state with equal definiteness the causes of the receding movement. Principles must be sought for which will explain the differing actualities of each special crisis.

IV

Theory of Prices

Only after the honest student has come to a satisfactory conclusion in regard to the nature of money and credit is he in a position to discuss with profit the pivotal problem of this field — the theory of prices. Perhaps I may be criticised for treating here the present monetary problems from too theoretical a point of view; and it may be urged that I should have presented the practical problems confronting each leading nation, and discussed their relations to the several monetary systems actually in use. But I must respect-

¹ For a full discussion of "Credit," see my *Principles of Money*, chap. 4 (1903).

fully insist that the moment any practical problem in any existing monetary system is taken up, one is instantly faced by the difficulty of agreement upon the terms in use, and in fact upon the simplest monetary principles involved in the examination of each case. Every practical reformer in the field of money is in fact using some theory of prices, true or false, in all the premises laid down in his propositions. One might as well go into practical engineering without a knowledge of thermodynamics as to discuss practical monetary schemes without first settling basic monetary principles. But, unfortunately, the thinking, even among so-called economists, is to-day unsettled on so pivotal a question as the theory of prices. Practical monetary legislation, in more than one country, would be radically modified, accordingly as the so-called "quantity theory" of money is accepted or not. In my humble opinion that theory is indefensible and erroneous; and yet our great politicians in the United States, in their fencing on the monetary problem, have decided that the question of the gold standard has been definitively settled because of the large recent production of gold. The partisans of gold have thus accepted the principle on which the demands for an extension of the circulation of silver and greenbacks have been based, and the position is absolutely untenable.

The issues in this crucial problem are unmistakable, and they must be threshed out to a conclusion before any practical applications can be attempted. These issues may be briefly stated in the following heads:

(1) Is the price of goods the quantity of some standard commodity for which they will exchange, or is it the relation between goods and a variety of several media of exchange?

(2) If true money is a commodity, like gold, then what determines the exchange value between goods and that commodity? Is the problem in any way different from that of obtaining the exchange value of any two commodities?

(3) What is the actual process of evaluation between goods and gold?

(4) If demand and supply regulate the value of money (cost of production apart), what is the exact meaning of demand for money, and of supply of money?

(5) Is the demand for a money-metal only the monetary demand? Is the demand for a commodity *as money* something *sui generis*?

(6) In the theory of prices, what is meant by "money"? Is it only gold, or gold together with everything, such as deposit-currency, which acts as a medium of exchange? In short, what constitutes the supply of money?

(7) If prices are influenced by "purchasing power," is that synonymous with the sum of the existing media of exchange, multi-

plied by its rapidity of circulation? Or, is purchasing power in its ultimate analysis synonymous with the offer of salable goods?

(8) Have the expenses of production, or progress in the arts, no influence on the general level of prices?

(9) What is the effect of credit on general prices?

(10) How do fluctuations in bank reserves actually affect general prices? Does the rate of interest, being paid for capital and not for money, have an effect on prices through its effect on loans?

(11) By what economic process would a great new supply of gold influence general prices? Only by being directly offered for goods as a medium of exchange?

(12) Does the Ricardian reasoning in favor of the quantity theory of prices hold in monetary systems where free coinage of the standard money exists and where other devices are used as media of exchange? If mints are open, how can the coin differ in value from the bullion of which it is made?

It is safe to say that the thorough discussion of these points, and a satisfactory disposal of them, will aid in the solution of the central monetary problem, not only of the past but of the present time. It is one which cannot be blinked. It arises at every step in popular monetary discussions, and the economists have not given it necessary attention. On the settlement of the theory of prices, of the value of money, a host of minor questions which have caused endless and fruitless differences of opinion will disappear. The solution of this matter of theory is of the greatest practical import; it is as important to practical monetary action as a theory of heat is to mechanics. Therefore, let us not be deterred from a struggle with a fundamental matter of theory by any slighting and cheap sarcasm about the futility of theoretical and abstract discussions. As well scoff at the mathematics which lies behind physics and astronomy as theoretical.

Nor will it be wise to minimize the differences between the old and new points of view in the theory of prices. It may be said that the quantity of money would have an influence on general prices in any theory. True; but that does not touch the crucial point at issue. The quantity theorists make the process of evaluation between goods and money dependent on the actual offer of the money and goods for each other; an increase of transactions in goods is an increased demand for money, resulting, unless the quantity of money is increased, in falling prices. It is needless to say that the facts do not agree with these statements. An inductive economist who would be unwilling to state any principle which had not been the outcome of a study of concrete data could never, under any possible circumstances, have arrived at the quantity theory of money. In no case coming under my observation has there ever been any corre-

spondence between the movement of general prices and the known facts as to the quantity of circulation, or the money-work to be done. If I am wrong, it lies in the power of induction to disprove my statement by the facts. In truth, the quantity theory was the product of the metaphysicians, and not of the men of affairs, and it never has been in accord with the data of inductive study so far as I know.

It is true that a great increase in the supply of gold would lower its value, other things remaining the same; but the effect on general prices would be a simple one, such as would be produced by any cheapening of the standard, like a change to a depreciated paper standard. But this change in the value of the standard is a radically different economic process from that by which prices are said to be influenced only by changes in the quantity of the media of exchange actually offered for goods. One or the other must be wrong.

V

Prices and the International Movement of Metallic Money

The settlement of the theory of prices, or the principles determining the value of money (suitably defined), has an importance reaching out into the field of the international movements of specie. We cannot properly formulate the methods by which the shifting of specie and goods act upon each other in international trade without having previously reached a definite conclusion upon the theory of prices. Thus the examination of and agreement upon the theory of prices will largely determine the statements made concerning the relation between the shipments of specie and the level of prices within a country.

With the Ricardian formula, derived from the experience of England in the early part of the last century, writers have attempted to solve this problem by using the quantity of money in a country as the force regulating the general level of prices; if gold is exported, prices must fall; if gold is imported, prices must rise. In brief, the originating cause of a change in the general level of prices, so far as international trade is concerned, is the shipment of specie. The movement of goods is a consequence of the change of prices brought about by the addition or subtraction of specie. That is, the quantity theory has been relied upon to solve this highly important and practical problem of money.

The original statement of Ricardo has, of course, been added to and amended; but, in the main, it is intended to show that any one country obtains a part of the world's circulation of specie in the proportion that its trade bears to that of other countries. This quota of gold, for instance, is retained in a country by influences

working automatically on the price level through changes in the quantity of gold within that nation. If gold is withdrawn, prices fall, exports of goods are increased, and in due time the gold begins to return until the country's quota of gold reaches an equilibrium adjusted to the relative demands of other countries. The movement of goods forms the variable in the process which aims at a correction of the quota of gold, whenever the equilibrium has been disturbed. The shipment of gold is the initial cause; the movement of goods is a consequence.

In support of this view, the orthodox view, it is held that gold will flow wherever its exchange value is highest. The flow of gold will make it abundant in the receiving nation, and thus raise general gold prices there, or, *vice versa*, will lower prices in the countries from which gold is taken. The possession of the proper amount of gold seems to be the main consequence, while commerce is regarded as the means to the end.

This manner of treating the problem, however, reverses the true order of events. Commerce is the real objective which lies behind all other phenomena, such as the methods of payment; the movement of money is a secondary operation, dependent on the direction and extent of the shipment of goods. Moreover, to say that gold, like other goods, flows where its exchange value is highest, is a truism; the real question to be settled is, How does the flow of gold take its effect on prices? To say that because it is abundant, it raises prices, is to assume the whole problem at issue. How does a cheapened mass of gold adjust itself to other goods? What is the price-making process? Are goods priced only by an actual exchange of those goods against the increasing flow of gold? On this point the adherents of the orthodox teaching of Ricardo have offered no light.

The trouble with many symmetrical monetary theories is that they do not agree with the facts. For instance, it has been pointed out that the gold stock of the United States has increased three and one half times from \$326,000,000 in 1880 to \$1,174,000,000 in 1902; and yet that gold prices in the United States in that period have fallen. This discrepancy between fact and theory is dogmatically disposed of by assuming that the growth of our trade has outstripped the supply of gold. This position is far from tenable; there are no statistical data in existence worth a fig which could give us the truth as to the money-work, or demand, for gold. To say that our gold has increased only because of our phenomenal increase in trade relatively to other countries, is to make a statement without proof. Possibly our deplorable silver legislation of the past has forced us to carry more gold than we ought to have held, just as men on the frontier must invest considerable means in firearms for protection

from purely local dangers. Other countries than ours have enormously increased their trade, but they have not added in the same proportion to their gold circulation. In truth, the old-fashioned theory of international price-changes needs restatement in vital parts. It will be found that forces affecting the prices of goods, such as demand and supply of those goods, are of primary influence in affecting prices, quite independent of the action of a medium of exchange, which often comes into existence, in fact, as a consequence of the exchange of goods. The movement of specie is not the end of commerce, but specie moves as an instant consequence of commerce. The monetary changes follow, and do not precede the operations in merchandise.

VI

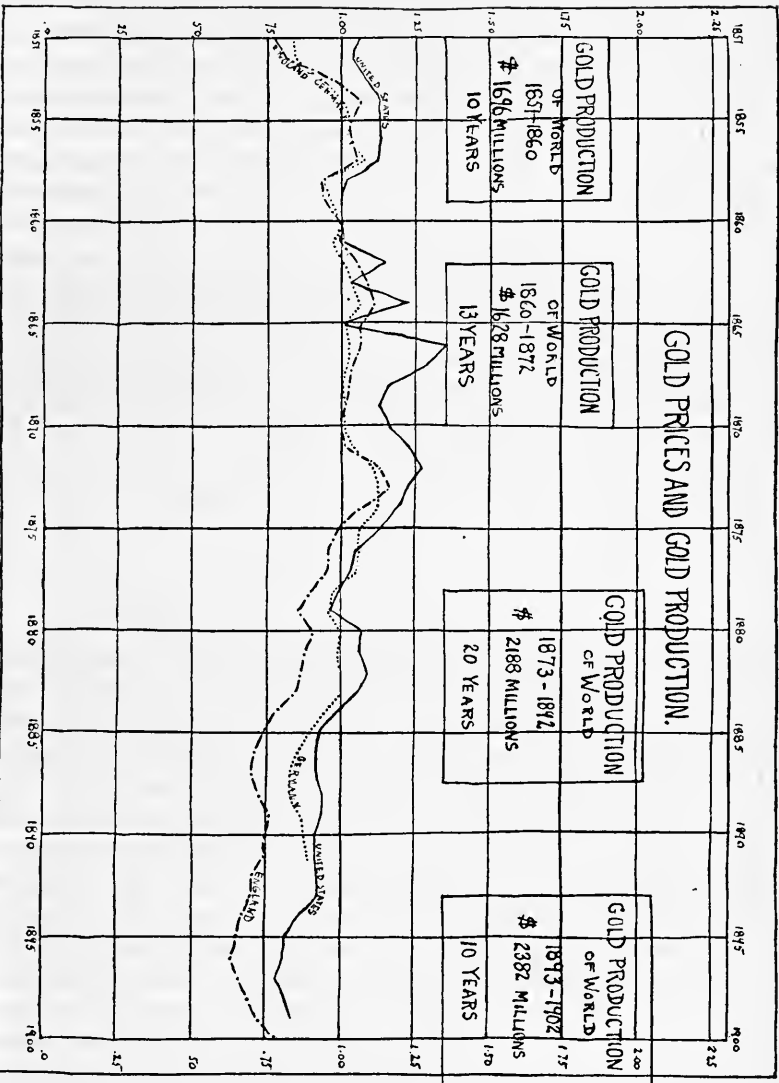
Bimetallism

Bimetallism was eagerly taken up by writers as a means of increasing what was once regarded as a deficient supply of the world's metallic circulation. The decline of prices, which in this country began in 1866 and not in 1873, was attributed to a scarcity of "money" throughout the world. Therefore, if silver could be added to or retained with the circulation of gold, the larger quantity of metallic money would, it was believed, support or even raise the general level of prices. The theory of prices, assumed as a matter of course in this exposition of bimetallism, was the quantity theory.

Throughout the recent writing and speaking on monetary topics, both in Europe and America, if not also in Asia, there has been a very general subsidence of interest in bimetallism. The demand for silver has been believed to be unnecessary because of the enormous production of gold in recent years. That is, by the old quantity theory on which bimetallism was based, some authorities — and more politicians — have saved their consistency by accepting the gold standard.

The logic and character of bimetallism cannot escape so easily. If the quantity theory falls, the whole artificial structure of bimetallic argument falls; and the gold standard cannot possibly be supported by intelligent minds on any such basis of theory. The facts are too ugly. In the diagram which I have constructed here, it must appear to the most casual student that if the fall of prices on or about 1873 was due to a scarcity of gold, then since the supply of silver has been greatly increased, and especially since the supply of gold has been about quadrupled since 1850, we ought to have witnessed a phenomenal rise of prices in the last decade or two. The movement of prices on the diagram has been generally downward, or at least not

GOLD PRICES AND GOLD PRODUCTION.



seriously rising, during all the years when the production of gold has been so astonishingly large. The facts oblige us to question a theory which presents such evident disparities as this; and one is obliged, in all fair-mindedness, to accept the truth that many other and potent influences, besides the quantity of the media of exchange, have a powerful effect upon the price level. When this admission is made, then the investigator is in a position to understand the remarkable influences of the great industrial revolution of the last thirty years upon the expenses of production of all articles, and hence upon their market prices. Thus, the sweep of economic forces, in the natural tide of events, is bringing us to a saner and very different point of view from that of the scientific bimetallist of past years.

VII

Stability of Exchange

Consistency is a jewel; but it may be questioned whether it is always worth the price. The escape from the pitfalls of bimetallism and the quantity theory has led to some new and surprising formulations. It had been the hope of the bimetallists to secure a parity of exchange between countries now using gold and silver standards. If gold could be maintained permanently at a given ratio with silver, this happy result might have been brought about. It is needless to say that bimetallism proved to be a political impossibility, even in the countries of the Latin Union. By force of business requirements, such silver as has remained in general circulation was effectively kept at a value in gold equal to its face value by varying devices in different countries, all of which had a common principle, practically equivalent in a more or less evident form to redemption in gold. In the case of India, it is frankly accepted that the value of the rupee has been maintained at a fixed price in gold by a machinery which amounts to the establishment of the gold standard, involving a quasi-redemption of silver rupees in gold at 16*d*.

If, however, there are some silver-loving sensibilities to placate, such a process is not spoken of as the establishment of the gold standard through the indirect redemption of inferior silver by gold, but it has been discovered that a uniform ratio of exchange between gold and silver-using countries can be established, not by the gold standard, but by a "gold-exchange standard." In the recent proposals laid before Mexico and China this new form of statement has been employed. It is difficult to know what the new term means. A bill of exchange in a silver country drawn on a gold country is nothing but the amount of silver coins of the one nation which must be given to buy a stated sum of gold coins of the other nation. The

silver bill varies relatively to gold coins in proportion to the changes in the value of silver bullion relatively to gold, unless the silver coins, under the laws of token-money, are kept at an artificial value, above the market value of the silver bullion in them, by some method, more or less direct, of redemption in gold. When silver bills are offered in the exchange market, they are simply offers for the sale of so much silver to be paid for in gold. If then the treasury of the silver-using country buys the bills in certain emergencies of the exchange market, it is paying gold for silver; or, in other words, it is to that extent redeeming amounts of silver in gold.

Stripped of its enveloping mystery, the only way in which the new proposals for Mexico and China can establish stability of exchange is to establish the gold standard. For that purpose, if the silver coins in common use are to be rated in gold above the market value of the silver content of the coins, the only way in which parity in daily business or in the exchanges can be maintained is by creating a gold reserve large enough to redeem coins at par, or buy exchange at par, if no direct redemption is allowed. The whole operation, therefore, harks back to the principles regulating the value of such money as token-coins, bearing a seigniorage, or paper money which has no value in itself. The worship of quantity as a regulator of value of money may do for those who are unwilling to test their theories by the facts; but inevitably one is obliged to admit that other forces are far more potent than quantity.

VIII

The Value of Paper Money

I have said that the pivotal problem in the whole field of money is the theory of prices or the value of money. How true this is may be seen by the recurrence of this issue in each of the problems noted in this paper; and in the last one which I shall take up it again reappears. What regulates the value of those forms of money which circulate at a rate above their content is a question which forces itself to the front whenever we study a case of paper money. In times past it has been sufficient to explain the value of paper money by referring its rise or fall to an increase or diminution of its quantity. This blind reliance on quantity as the main force controlling the value of money cannot now, with our knowledge of the facts, be consistently held.

The amount of notes which a merchant can put out, provided he redeems them promptly, is limited only by the extent of his transactions. So it is with a nation. Given a certain set of business operations, as many notes can be kept in circulation as are needed by the

community, and no more; and these notes will remain at par only if there is a recognized system, not of ultimate, but of immediate redemption. No matter what quantity of notes may be put out, if there is no system of immediate redemption, the notes will depreciate. But if there is an effective system of immediate redemption in operation, then no matter what the amount issued, none of it can depreciate, and only that quantity which is needed by the convenience of the business public will remain outstanding. In this way it may be realized that the element of quantity is incidental to the more dominant factor of redemption.

The connection of the value of the standard money with the paper promises to pay in that standard coin is the one important consideration in determining the value of paper money. Redemption is the only sure means of ascertaining automatically what quantity of paper is needed by the public. Redemption determines both the quantity and the value of the paper.

In the case of irredeemable paper, however, it is often assumed that, in the absence of redemption, the value of the paper is determined directly by the amount outstanding as compared with the uses to which such money can be put. There is believed to be an imperative demand for money, as a medium of exchange, which must be satisfied in some way; and in default of anything better, irredeemable paper will be required, and a value will be given to it by this imperative demand. Then, only if issued in excess of this demand, will even irredeemable paper depreciate. This is the usual explanation of the fact that irredeemable paper, worthless in itself, bears any value at all.

But men of affairs are the last persons to exchange valuable goods for valueless paper. They will use any medium only from a business point of view. This paper is a promise to pay; the whole question centers in the probability of keeping that promise sooner or later.

A guess is made on that point, and it is recorded in the value given to the paper, just as in the case of quotations of stocks, not now paying dividends, but believed to have some chance of paying in the future. If the chances of redemption, consciously or unconsciously, become brighter, the value of the yet irredeemable paper rises, without any change whatever in the amount outstanding; or an event which postpones redemption will correspondingly depreciate its value. The history of our United States notes (greenbacks) from 1862 to 1879 furnishes abundant evidence on this point.

There certainly is an imperative demand for a medium of exchange where goods are bought and sold; but there is no monopoly of any one medium by which a monopoly value can be secured for it. As regards metallic money this could appear only in the absence of free coinage; and even with token-coinage it is a question if a value

can be given it by monopoly conditions. But as regards the usual media of exchange, there are so many kinds — government notes, bank-notes, bills of exchange, checks, and deposits — that a demand for a medium of exchange can be satisfied by many alternatives. A scarcity of one could not produce such a want that an unlimited monopoly value could be given to it. Especially is this true when we remember that deposit-currency is perfectly elastic, providing a medium of exchange as a consequence of legitimate transactions in goods whenever desired. Such a machinery, expanding according to the work to be done, makes it impossible that the so-called imperative demand for a medium of exchange should ever give to any one medium an exceptional, or monopoly value, due wholly to a limitation of its quantity.

With coins having a seigniorage, such as the American silver dollar or the French five-franc piece, their value is kept at par with gold only by some method of redemption, more or less direct; and the same general principle applies to the value of paper money, in which the seigniorage may be one hundred per cent.

In this necessarily brief review of the present monetary problems, as known to students of this branch of economics, I have attempted to present the issues in a form which could be understood by the layman as well as by the professional economist. In the nature of things, it has been impossible not to give a setting to these problems colored by my individual judgment. For that I have no apology to make; I assume that it was intended to allow the author to give such an exposition as, by his best lights, would present most clearly the leading points at issue among scholars of money at the present day.



SECTION E — PUBLIC FINANCE



SECTION E—PUBLIC FINANCE

(Hall 1, September 21, 10 a. m.)

SPEAKERS: PROFESSOR HENRY C. ADAMS, University of Michigan.
PROFESSOR EDWIN R. A. SELIGMAN, Columbia University.

RELATION OF THE SCIENCE OF FINANCE TO ALLIED SCIENCES

BY HENRY CARTER ADAMS

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THE science of finance finds its place in the group of sciences to which it pertains through the relation it bears to political organization. This is true because of the nature of the task imposed upon the public financier. He it is who provides for the support of the state. Both public income and public expenditure are intrusted to him. He is the business representative of the body politic regarded as an active corporation. The particular form assumed at any time by the political organization is of slight importance so far as fundamental principles are concerned, but it is of great importance when one undertakes to give formal expression to those principles in a scientific treatise. The science of finance is before all else an analysis and classification of those principles of conduct that the financier finds it expedient to put in practice, from which it follows that as a science not only does it borrow character from the nature of political organization, but the scope of its investigation is limited by the practical necessity of making pecuniary provision for the support of that organization, and the relation which it bears to other social sciences is determined by the manner in which these other sciences affect the amount of money to be raised and the method by which it is raised and expended. I am aware that this is not the philosophical attitude in which the definition of the science of finance and its rela-

tion to allied sciences is usually approached, but it is certainly more concrete and has the merit of being easily understood. I shall at least ask your indulgence while developing along this line the subject assigned by the committee. And first let us consider the relation of the science of finance to political economy.

Relation to Political Economy

The most important fact of political organization for one who seeks to define and limit the science of finance is found in its essentially benevolent character. The state as an organization has no personality of interest. A consideration that centers in itself, or a policy that holds in view the power or prosperity of the state apart from the well-being of the individuals who compose it, is bereft of any sound basis of judgment or safe test of propriety; without such judgment and test it is, of course, impossible for a science to exist. The state feels no pleasure in riches nor ambition for wealth except so far as an ample income ministers to the well-being of the people. It is this fact, namely, the benevolent character of the political organization, that gives to the science of finance its peculiar point of view, and what is of more importance for the purpose of this analysis, it is this fact that draws a clear and enduring line between the science of finance and the science of political economy.

It may be well to dwell for a moment upon this distinction, for it carries with it many formal and theoretical conclusions as well as practical results.

The essential weakness of what is known as English political economy consisted in the assumption that material well-being can be attained only through the agency of a single form of association, that is to say, through voluntary association resting on contract. This assumption is nowhere formally expressed by the writers of the classical school for the reason that its expression would have been superfluous. The establishment of this thesis, and the enactment of laws to secure for the individual the exclusive right of operating within the industrial domain, was the sole purpose of all their analysis and argument. This is not the time to pass in review the line of reasoning which identifies private gain and public welfare, and which seeks to clothe with an ethical philosophy an industrial organization directed by the hope of personal gain. It is sufficient to note that while such a philosophy of industrial relations held sway there was no place for the science of finance as a distinct and independent branch of human knowledge. The course of events has proven the limitations of this philosophy. Its modification covers most of what is important in the development of economics since 1850, and perhaps the most significant of the formal results of

this development is found in the universal recognition by modern economists of a science that has to do with the material well-being of the state as well as a science that has to do with the material well-being of the individual, both of which adopt the same ultimate test of a well-organized society.

The relation which the science of finance bears to political economy, the two sciences that together fill the field of economics, may be more clearly suggested by passing in review the formal changes that have taken place in economics since the time of John Stuart Mill, the greatest as well as the latest expositor of the classical school of economy. Mill was too acute a thinker to ignore the existence of the state in a study of industrial organization, but the philosophy in which he was educated did not permit him to acknowledge the state as a positive factor in industrial organization. It is true that in his *Principles of Political Economy* he considers some of the problems that are now included in the science of finance, but this consideration is introduced in that part of the work which treats of justifiable interference with the normal workings of economic laws.

Manifestly no science of taxation was possible, to say nothing of the science of finance which embraces much beside taxation, as long as the influence of government in industry is regarded as a disturbance of the normal working of natural law; for it is essential to any science that it gives expression to laws that inhere in natural conditions and to principles that are enduring because they are vital to the existence of the subject investigated.

For the correction of this error of the older English economists we are indebted to the economists of Germany, and in Germany the change came rather as a result of the study of jurisprudence and of the application of the historic method of investigation to all kinds of social institutions, than as a formal criticism of individualism in industry. The German economist was educated to the conception of the state as an institution which existed by virtue of the forces that gave it a history. One result of this study of Roman institutions was the idea that the authority of the state rests upon necessity. The material with which he dealt when investigating the industrial life of his own people also obliged him to distinguish between the political and the industrial organization, each with its own principles and its own natural order. It may be true, as some have claimed, that German economists, when treating of the industrial and fiscal character of the state, fall into an error the same in kind as the error of the English classical economists, in that they subordinate the industrial to the political organization. With that, however, we are not concerned. We are endeavoring to thread our way between public finance and political economy as formal expressions of scientific conclusions, and certainly some help is obtained for this task

when we come to understand why German students were able to accomplish what English writers thought it not worth their while to undertake, namely, the development of an independent and self-consistent science of finance and its presentation as one of the many branches of knowledge that have to do with social institutions. The German writer started with a scientific conception of the state; the English writer, on the other hand, notwithstanding the marked success of his people with practical problems of government, had no such conception, nor, indeed, was it possible for him to gain such a conception without confessing the inadequacy of his philosophy of social relations. This he has not yet done in any formal and comprehensive manner, and this is doubtless the explanation of the fact that the English language yet waits for a satisfactory treatise upon the science of finance.

One generalization from the above may not be out of place. Society exists by virtue of two principles of organization which between them divide the field of social relations. These are the principles of voluntary and of coercive association. The former is motived by the proximate interest of the individual and finds expression in contract and agreement; the latter is motived by the welfare of the state and finds expression in fundamental law and legislative enactment. The science of political economy and the science of finance are dealing with the same material, but the former confines itself to the domain of voluntary association and the latter to the domain of coercive organization. It is doubtless this distinction that led Dr. Adolph Wagner of the University of Berlin — he to whom this paper was first assigned by your committee, and whose absence no one regrets more than myself — to begin his encyclopedic work upon finance with the observation that “the state is the sole depository of coercive power.” This fact is the cornerstone of his work, and properly so, for upon it are based the rules by which we are to determine whether a proposition, an argument, or a problem belongs to public finance or to private economics.

Other marks there are that differentiate the field of public finance from the field occupied by political economy, but their mention at the present time is precluded by the necessity of considering the relation of the science of finance to other fields of investigation that touch the interests of society. The responsibility of condensing into a single paper so broad a topic, I am glad to say, rests with the committee in charge of this programme and not with myself. Among the sciences that demand consideration are political science, the science of jurisprudence, and the science of sociology. Each will receive brief consideration.

Relation to Political Science

It is sufficient for our present purpose to know that political science deals with the formal and administrative activities of political organization. It not unfrequently assumes the form of history, but its history is limited by the purpose of understanding administrative forms and of criticising administrative methods. The proximate motive to which judgment is submitted is the same for political science as for the science of finance. Both acknowledge public welfare rather than personal advantage as the appropriate test of all conclusions. It cannot, however, be claimed on this account that political science includes a consideration of financial problems or the search for financial principles. The distinction between the two fields of investigation is more than a matter of convenience; it touches the fundamental character of the two sciences.

There was a time when the science of finance might properly have been regarded as a branch of, or chapter in, political science, but this is no longer the case. With the recognition of voluntary association as a means of correlating social activities, the financier has been obliged to pay closer attention to the business conditions of private agencies than to the business management of public properties. This is true because he is now obliged to rely rather upon taxation as a source of revenue than upon the possession of public property productively employed. Nor can it be said that the modern tendency of giving to the state the exclusive proprietorship over certain profit-bearing securities tends to relieve the financier from the necessity of administering such industries with a view to the enduring prosperity of private industrial enterprise. Voluntary industrial association is an established institution and the administration of coercive association within the domain of industry, that is to say, the nationalization of public-service industries, must be guided, if not absolutely controlled, by what is required for the perpetuation and success of private enterprises. This means that *Kameralwissenschaft*, by some regarded as the forerunner of the science of finance, and which might, perhaps, have been properly claimed as a branch of the political science of its day, has passed, never to return. It disappeared with the rise of the institution of private property, and in its place there has appeared the independent and self-consistent science of finance.

At what point, then, do these two fields of investigation touch, and what is the nature of the influence that passes from the one to the other? I shall answer this question from the point of view of finance only.

There are two important lines of influence that political science exercises upon the science of finance, the one formal, the other funda-

mental in character; the one having to do with procedure, so far as financial legislation and administration are concerned, the other relating to the source from which the financier may hope successfully to obtain revenue.

The question is sometimes asked why the science of finance should include a consideration of budgetary legislation and a chapter upon financial administration, and it is indeed a difficult question to answer. A casual survey of the literature, however, makes it evident that these topics are included along with the topics of taxation, public industries, and public credit, by the financial writers of all nations. The explanation of this is, perhaps, found in the fact that the science of finance is primarily a practical science. It has assumed its modern form very largely as the result of the actual problems presented to the practical financier. The financier is the only public official who, by virtue of his office, is interested in holding legislative appropriations within reasonable bounds. The painful experience of Albert Gallatin, the greatest of American financiers, is ample proof of this assertion. It is natural, therefore, that the financier should emphasize, with all the power at his command, those rules and maxims of legislative procedure which tend to the control of expenditures and which demand from the legislative body due consideration of all appropriations. Whoever feels responsible for public expenditure must, from the very nature of the case, assume a responsibility for the form in which those expenditures are determined and for the manner in which grants of money are expended. Now the science of finance, as already stated, consists in an analysis and classification of those principles of conduct that the financier finds it expedient to put into practice. It is, therefore, inevitable that the publicist who undertakes to write a comprehensive treatise upon financial problems should devote considerable space to budgetary legislation and financial administration.

This brings us to the question with which we started, namely: What is the formal relation that exists between political science and the science of finance? So far as budgets are concerned, this relation is found in the fact that there is no legislative machinery of which the financier can avail himself to check excessive expenditures except such as is provided by political science. The form of government, the relative power of the legislative and executive branches of government, the nature and extent of public responsibility, and all other similar facts relative to political organization, are *given* factors for the science of finance; but for political science they are the material of investigation and the objects of explanation. Such, as it appears to me, is the formal relation between these two fields of investigation.

The vital relation to which reference has been made is much the

same in kind as the formal relation just explained. The financier is not at liberty to choose the sources from which public income is drawn in an arbitrary manner. He is obliged, as he hopes for success, to adjust fiscal machinery to existing industrial, social, and political conditions. The amount of income required by the government raises a question which pertains primarily, if not exclusively, to political science. It is true that many writers within the field of financial investigation enter upon the discussion of the legitimate sphere of government as bearing upon the question of reasonable expenditure, but in so doing they encroach upon the domain of political science. It is for political economy to discuss the problem of governmental function from the point of view of industry and for political science to consider it from the point of view of the state; the science of finance should content itself with a consideration of the proper adjustment of fiscal machinery, in view of established industrial and political conditions. It is thus evident that, from the point of view of public expenditures, political science has a very direct bearing upon the science of finance.

Relation to the Science of Jurisprudence

Closely allied to the science of finance is the science which deals with the fundamental rights and duties of persons and of property in organized society. The relation between these two branches of classified knowledge is clear because it is a relation that exists in the nature of the case. As political science outlines the financial programme, so far as the source of public revenue and the organization of public industry are concerned, so juridical science places a limit to the extent to which that programme may be carried when the question of the amount of income to be drawn from one source as compared with other sources is being discussed, and when the principles that control the administration of public industries are under consideration. There is not a state in the American Union that does not in its constitution give expression to the principle that taxes must be equal and universal. Such exemptions from the duty of paying taxes as exist are clearly expressed and rest upon considerations of general policy. Such specific taxes as are allowed also are explicitly named and find their justification in the quasi-public character of the property affected. In other countries than the United States, also, where written constitutions exist, the same legal conditions relative to the exercise of the taxing power may be observed, nor is the situation different in countries where fundamental law consists in established custom. The foundation of the science of finance is jurisprudence, a statement that is equally true of all the practical sciences that analyze human society in order to learn how it should

be administered, and the success of whose administration depends upon the accuracy of their analysis.

So important is this relation in the characterization of the science of finance that an illustration may not be out of place. The illustration I have chosen is pertinent to a current problem, for it shows how hesitation on the part of jurisprudence to recognize a manifest tendency of the time acts as a hindrance to the further development of the science of finance.

The philosophy of human relations may be expressed in the form of rights to which responsibilities are attached, or in the form of duties that carry with them certain privileges, and society at any time takes its color, if not its character, from the degree of emphasis which jurisprudence in practice places upon the one or the other of these two ways of expressing fundamental law. At present we find ourselves at a point in the world's history when the theory of personal rights is paramount, but when, also, the results that are observed to follow from the extreme application of this theory are forcing men to consider whether or not property and privilege should not be a little more heavily weighted with responsibility and duty. This observation is not submitted with a view to its discussion, but as preparatory to an illustration of the curb that is put upon the development of finance by the disinclination of jurisprudence to consider the consequent as well as the precedent.

The theory of property in harmony with the philosophy of personal rights and restricted governmental functions is well expressed by Thiers when he says [in effect] that a man owns what he makes, and that being its owner he can dispose of it as he sees fit. Upon this assumption respecting the nature of property which may, perhaps, be conceded when confined to primitive industry, the financier has built the general property tax, as it is known to the nineteenth century. This tax may be defined as a tax that accepts value as a homogeneous element in property and which imposes a uniform rate on property irrespective of the amount of property held. No matter what injustice may result from the general property tax, it is unfair to hold the financier responsible. The truth is that no other form of taxation is possible as long as the science of jurisprudence asserts the homogeneity of property and distinguishes public property from private property according as its formal title rests in the state or in the private person. The political economist, the financier, and the sociologist have long passed that point in the theoretical development of their respective sciences. Thus the economist acknowledges frankly that quantity, whether it be of goods to consume or of power in production, is measured by curves of intensity; the financier admits that value varies in its personal as well as its social significance according to the purpose and method of its

use; while the sociologist has finally succeeded in giving vitality to the conception of organic unity in social relations, from which he concludes that any line of conduct that rests solely upon personal or individual considerations will result disastrously for the individual as well as for the state. But jurisprudence, the oldest as well as the most dignified of all the sciences that deal with human relations, is still confined within the narrow limits of the purely personal conception of private property. Such at least is the impression one receives when he considers the present condition of the science of finance, for he observes many suggestions for the readjustment of fiscal conditions, and for the development of financial institutions, that must remain unrealized, if not, indeed, unexpressed, until jurisprudence again becomes a living humanistic science. The writings of financiers are replete with condemnations of the general property tax, but that scheme of imposts will continue to exert its baneful influence as long as jurisprudence maintains that equity between individuals demands equal and universal taxation, and this claim will be maintained as long as the institution of private property continues to be defined in the language now common in our courts of law.

This illustration pertains primarily and perhaps exclusively to conditions as they exist in the United States. We need not consider European conditions. What has been said is ample to make clear the relation that exists between the science of finance and the science of jurisprudence. It is a vital relation, not only as limiting and directing the development of fiscal institutions, but in theory also the relation is vital. Even the nomenclature of finance is largely supplied by jurisprudence.

Relation to Sociology

It is not, perhaps, necessary to make a formal statement of the relation of the science of finance to sociology, partly because this latter science is too new and as yet too indefinite to be in possession of a well-defined field of investigation and a compact body of classified information, and partly because the chief service of sociology to the enlargement of human knowledge has been already referred to, namely, the vitalization of the conception of social unity. In a sense the science of finance has always made use of this conception. Considered philosophically, such a conception is inseparable from financial analysis, while on its administrative side, the science of finance is obliged to assume the fundamental unity of human interests. When, however, the financier came to deal with individuals, partnerships, and corporations under the industrial and juridical conditions of the last half of the nineteenth century, he seems

to have lost this sense of social unity, and, as a consequence, much that he said was confused, and much that he did failed to prosper. There was need of a new statement of these fundamental, ethical relations, and it was reserved to that branch of investigation known as sociology to render this service. Without undertaking to trace the rise of the science of sociology we must, I think, admit that the science exists, and that the organic nature of society is its cornerstone. So far as fundamental ideas are concerned, the science of finance is in perfect sympathy with the aim, purpose, and the methods of the science of sociology. It will prove to be of great advantage to students of finance, as well as to practical financiers, that their point of view is thus emphasized by students and workers in yet another field. No difficulty arises with sociology, but when one comes to consider the point of view of many who assume the name of sociologists and who concern themselves with all kinds and sorts of social reforms rather than with the investigation of the social structure and the discovery of social principles, the attitude of the science of finance is decidedly hostile. This is true because the social reformer is determined to make use of fiscal machinery for all kinds and sorts of social ends. It is superfluous to say that such an attitude of mind fails to appreciate the relative values of social interests. It seems scarcely pertinent, however, to follow this suggestion further. The determination of the extent to which fiscal machinery should be directed for secondary ends rests on considerations that lie outside the scope of this paper. It is likely that the practical result of the relation which at present exists between sociology and the science of finance is that writers of finance will be forced to a clearer and more definite expression of those rules and principles according to which public expenditures are determined and by which the use of the financial organization of the state is limited.

The relation of the science of finance to history and to statistics might perhaps be considered under the title given to this paper, but an analysis of this relation would introduce a point of view quite foreign to that by which it has thus far been characterized. History and statistics are methods of investigation rather than domains of investigation. As methods they are common to all sciences, and for that reason do not call for special treatment.

Conclusion

The impression left by the foregoing analysis must be that the organization of our knowledge relative to human relations is neither arbitrary nor directed by the convenience of the investigator. Each of the sciences passed in review claims for itself a definite field of investigation and rests upon a definite and clearly defined purpose

which no writer is at liberty to disregard. It would be as great a mistake in the domain of research to lay undue stress upon any one class of considerations, or upon an analysis of society from any one point of view, as it would be in the domain of administration, to endeavor to solve all public questions and meet all public demands by a single agency. There are two thoughts to which this analysis seems to me to lead. The first is that social sciences cannot with safety be severed from their practical application; and the second is that, as liberty of action is found in the balance of power, so liberty of thought (I mean liberty, not license) is attained when each investigator in any of the sciences of pertain to human relations recognizes that what he says is true only as it bears harmonious relations to that which other investigators may say.

PENDING PROBLEMS IN PUBLIC FINANCE

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IN addressing myself to the task of presenting a survey of the practical problems of public finance I am naturally confronted by the difficulty that the actual problems assume a different aspect in various countries, an aspect largely colored by fluctuating political, economic, and social conditions. Notwithstanding this diversity, however, there can be discerned an underlying uniformity in the modern fiscal development of civilized nations, and it will be my endeavor to point out some of the different phases of this development.

To discuss all the modern problems of finance would be impossible within the limits of a single paper. Whole groups of subjects manifestly must be omitted. The topic of expenditure, for instance, may be passed over entirely, for the reason that expenditure is chiefly statesmanship; the fiscal principles here are principles of interpretation rather than of construction. Again, the subject of public credit has been so thoroughly elaborated that the scientific problems which await elucidation are comparatively few and unimportant. The budget, also, while susceptible of undoubted improvement, especially in the theory of municipal accounting, is so closely intertwined with administration that it would be hopeless to attempt in this place to disentangle it. Finally, in the great domain of public revenue, the subject of income from government industry is of predominant economic, rather than fiscal, importance, and may thus fitly be excluded from our short survey. There thus remains only the field of taxation, a field broad enough and sufficiently hedged about by difficulties to warrant a closer examination.

There are three considerations which distinguish the modern science of finance in the study of tax problems. These are, in order, the pursuit of justice, the emphasis put upon the modern economic phenomena, and the insistence upon the conformity with economic principle. Let us consider each of these in turn.

I

The first point is well summed up in the alleged conflict between the fiscal and the social principles of finance. I say alleged conflict, because in reality there is, from a deeper point of view, no such conflict at all. It is sometimes asserted that the fiscal object of taxation is simply to secure revenue, while the social object is to effect some desirable change in social relations. This antithesis rests upon a failure to observe that finance, like economics, is a social science, and that even from the narrow political point of view of the relation between the government and the citizen, the government cannot derive any revenue — that is, cannot take any part of the social income — without inevitably affecting social relations. The fact that the government has in mind solely the fiscal aim of securing revenue does not alter the social consequences of the particular revenue system. In modern times social conditions are influenced to a large extent by changes in wealth. Every tax necessarily affects the wealth of individuals, and if we could in all cases trace the final consequences of even a “purely fiscal” tax, all kinds of unforeseen results, social as well as fiscal, or perhaps better, social because fiscal, would disclose themselves. Economics and finance deal not with intentions, but with results. The function of fiscal science is to point out to the legislator the necessary results of his actions.

The distinguishing mark of modern social science is that it endeavors to explain not only what is, but also what should be. All practical action is thus brought to the crucible of justice, and all systems of taxation are put to the test of conformity with this principle, irrespective of the intentions of the legislator. The great problem which still remains, however, is to elucidate the exact nature of this economic justice. Every one agrees that the essential ingredients of this scheme are equality, or uniformity, and universality of taxation. When, however, an attempt is made to interpret them and to outline the practical form which these principles should take, there is considerable disagreement, because the actual nature of the principles has not been thoroughly analyzed. It betokens, however, a step forward in all practical finance that a more or less conscious effort is everywhere being made to bring the tax system into some manner of conformity with the principle, however dim its outlines may be.

II

The second point, which differentiates modern taxation from that of the past, is the emergence of the new economic substratum of society. These new facts of fiscal importance may be summed up under the following heads:

First, the increasing economic significance of the laboring class, with the corresponding growth in the importance of popular consumption. It is not meant by this to imply any depreciation of the rôle played by capital. On the contrary, it is a platitude to say that this is preëminently the capitalistic age. What it is intended to emphasize is that precisely because of the growth of modern economic well-being, the great mass of the community, represented by the laborers, are acquiring an increased consuming capacity and that their demand is the very tap-root of modern progress. The recognition of this fact has brought about vast changes in modern tax systems.

In the second place we have to note the coming to the fore of the corporation as the typical form of modern business enterprise. The evolution from the individual to the early partnership, from the partnership to the joint-stock company, from the joint-stock company to the corporation, and from the corporation to the trust is one of the most instructive lessons in institutional development. Finance has not to study it, but to accept it. Tax systems framed upon the assumptions of the older conditions, where corporate activity was the exception rather than the rule, are manifestly inadequate and belated.

The third change consists in the growing importance of the problem of franchises. This is not the same as the corporate problem, although often confused with it. A franchise may assume many forms. It may be a patent or copyright in the hands of an individual; it may be the privilege of inheriting property, whether that privilege be granted to a single person or a group; it may be a right accorded to corporations to utilize opportunities which originally belonged to the community, and which are for sufficient reasons given away. Such privileges and franchises have indeed existed from of old, but the complexity of modern society and the immense increase of public wealth have vastly enhanced both their extent and their significance. How to analyze them, how to measure them, and how to fit the result into the system of public revenue is becoming one of the most subtle and difficult problems, which will, no doubt, long perplex the trained student as well as the legislator.

The fourth change is the economic revolution affecting the distribution of governmental authority as between the general and the local government. The cause of this change, as is well known, is not only the forging to the front of the interests of peace rather than of war, but above all, the agglomeration of modern population into urban centers. With the segregation of wealth and property into great local masses, there is coming the need of administering to the wants of such complex aggregates. Accordingly, while the last century has shown a great increase of national expenditure and

income, there has been a far larger growth in local expenditures and incomes. And whereas formerly local taxation could be treated as a relatively unimportant appendage to national taxation, it now claims a distinct and separate place of its own.

Side by side, however, with this localization of wealth there has been a counter-movement in the direction of the nationalization of wealth, in the sense of nationalization in the opportunities of securing wealth. The economic activities of to-day have far outgrown the swaddling-clothes of former times. Business enterprise not only covers the whole country, but encircles the globe. Citizenship in the various commonwealths of a federal state, like Germany, Australia, Switzerland, or America, has become in great measure meaningless because its economic basis has been so effectively weakened. In all federal states, therefore, the problem of taxation is complicated by the difficulty of correctly apportioning the burdens among the constituent commonwealths. In every country, federal or not, a similar difficulty exists as between the local government and the state government. Problems of double taxation resting upon interstate and interlocal complications arise to confront us at every turn.

The fifth and final point is that of modern social solidarity. In former times the close relation subsisting between the various branches of productive enterprise in the community was beclouded by the predominant social and political influence secured by some one factor. In an economy based upon slavery the only importance of a slave is that of a working-tool; in an economy based upon the predominance of the large landowner, the function of the moneyed and commercial interests is apt to be overlooked. In the early stages of the factory system, where the mass of the laborers are regarded from the point of view of production rather than from that of consumption, it is natural that the socialistic conception of class conflict should emerge. A more careful study, however, of modern industrial society has shown that while indeed there is no such thing as a natural harmony of interest, there is a distinct and inevitable influence, sometimes for good, sometimes for evil, exerted by each factor of production upon the other, and by each social class upon its neighbor. Laborers and capitalists, landowners and traders, factory owners and financiers, are pursuing their own interests, and in so doing they necessarily react upon the interests of the others.

The distinguishing mark of modern economic life in this respect is the realization of these close economic interrelations. The machinery of production has become so subtle and so complex that the disarrangement of any one part throws the whole out of gear. The overburdening of any one class may have the most unlooked-for consequences upon another. Taxation, as a weapon of retaliation, often proves to be a boomerang. An undue pressure on a

railroad may decrease facilities rather than increase revenue. The assessment of mortgages may hit the farmer rather than the money-lender. The taxation of the laborer may limit the market rather than increase the profits of the capitalist. Whether we desire it or not, modern economic conditions are engendering a situation where every one is in a larger sense his brother's keeper and where at all events it is unsafe to disregard the often hidden and recondite, but none the less active, influence exerted by each economic class upon the others.

All these changes in economic life have affected the practical system of taxation throughout the world. They have created new problems for the scientific student. The justification of finance, however, as a science, rests upon the correlation of fiscal problems with economic principle. We thus come to the third part of the discussion, the influence of economic analysis on fiscal facts.

III

The first result of economic analysis was to show the errors of a tax system resting exclusively or in great part upon consumption. The theory of consumption as the test of faculty or ability to pay was promulgated in the later middle ages by reformers who despaired of reaching the privileged class in any other way. Every man, it was said, must consume, and the more idle a man is, the more luxuries will he consume. A consumption tax thus seemed to be the sole method of securing universality of taxation. To these considerations there was added the thought on the part of some that so far as the working-classes were concerned, taxes on the necessities of life would be admirable, in that they would compel the laborers to work harder.

In opposition to this view, a more careful economic analysis disclosed the fact that a tax on consumption, regarded as a universal system, was unwise and unjust — unwise because a tax on mere luxuries would be most disappointing in the yield; unjust because a tax on necessities would fall with crushing severity on those classes which could least afford to bear the burden. Above all, it was recognized that by checking consumption we were thereby checking production, and that a general tax on consumption would possess most of the disadvantages of a tax on production and few of its advantages. Consumption taxes, therefore, as a sole or chief reliance of the government, have been fast disappearing. One of the first acts of the American Government in Cuba and the Philippines was to abolish the *consumo* tax; and it is well recognized that the continuance of the municipal *octroi* in France and Italy is deplored by all serious students.

The next triumph of economic theory was to disclose the dangers of a system of taxation resting on production and exchange. In one sense indeed every tax that is not a tax on consumption may be regarded as a tax on production, for all wealth consists either of producers' goods or of consumers' goods. It would, therefore, seem to be impossible to avoid the imposition of taxes on production. In the sense in which the term has usually been employed, however, a tax on production has denoted a tax imposed directly, and at a late stage, on the process of completing the finished article. Regarded in this light, such taxes manifestly impede the process of production and are to be deprecated because they affect the able and the shiftless producer alike. Taxes on production often put a premium on inefficiency and are apt to clog the wheel of industrial progress. The tendency of modern statesmanship has accordingly been away from reliance on such methods.

Perhaps the greatest change in fiscal theory during the nineteenth century has been, thirdly, to analyze and to explain the need of taxing shares in distribution rather than consumption or production. A vast amount of ingenuity has been expended upon the attempt to disclose the real meaning of faculty or ability to pay as measured by the property or the income of the individual. When we come to consider the facts, however, there are two striking considerations that confront us. The first is the pitifully small proportion that the income tax bears to the total revenue. In France, for instance, there is no income tax at all, and even in England and Germany the proceeds of the income tax are utterly insignificant when compared to the total revenue, state or local. The scientists may discuss and do discuss the problems of progression and differentiation of taxation, and all of the discussions rest on the assumption that the burdens upon the individual must be in a certain proportion to this income; yet we find as an actual fact that only a most beggarly proportion of the taxes in the civilized countries of to-day stand in any direct relation to the income of the taxpayer.

Not alone do the income taxes form so small a part of the whole, but furthermore, in most countries the so-called income taxes are really not income taxes at all in the sense of taxes on the personal income of the individual. In England, for example, it is well known that the so-called income tax is merely a collection of taxes on the thing which yields the income rather than on the person who receives it. That is, it is a collection of taxes on produce and not on income. The only exception is the famous schedule "D," which is notoriously the least successful of all. It may be claimed indeed that in Prussia the income tax is really what it purports to be, but all who have made a study of the system know that when similar methods were employed in England at the beginning of the nineteenth century,

they proved to be a dismal failure. The English administrators consider the principle of their tax far superior to that of the Prussian; and to the extent that this contention is justified, the superiority rests upon the fact that the tax is not one on personal income. Even in Prussia itself, the home of efficient bureaucracy, the tax is sometimes called the *Lug und Trug System*. The same repugnance to the personal element in the income tax which is found in England explains why it has been impossible to introduce the system into France, with its still lively recollection of the abuses of personal taxation under the *ancien régime*, and explains also why the income tax is beyond the range of practical politics in the United States.

We thus find the remarkable fact that while the science of finance has been elaborating its fundamental principles, it has succeeded in some respects, but has failed in others in imprinting its conclusions upon legislation. It has brought the actual taxes on consumption and production, to a great extent, into line with its conclusions, but it has spent most of its time during the nineteenth century in working out the principles of an income taxation, which is either not accepted in legislation, or which, if accepted, is realized to so small an extent and in such a half-hearted way as to be on the whole of little consequence.

The conclusion is hence forced upon us that the fiscal analysis has not proceeded sufficiently far. We are indeed grateful for what has been accomplished, but we have evidently not yet reached the goal. We need, therefore, a fourth and final economic principle to help us thread our way through the maze of actual fiscal facts.

This fourth principle is that of the social versus the individual basis of taxation. The conception which has dominated fiscal science until lately is the individual conception. Direct taxes have in theory been preferred to indirect taxes, because they were supposed to rest where they were imposed, and thus to help in securing justice as between individuals. The goal of all taxation was the attainment of a method in harmony with individual faculty. The first serious breach in this doctrine was made by the diffusion theory of taxation. The diffusion theory erred, indeed, in that it went too far, attempting to show that every tax is always and inevitably shifted off from the shoulders of the original payer. The value of the diffusion theory, however, consists in the fact that it put the problem in the right way, by presenting the societary aspects of taxation.

Nevertheless, the diffusion theory made the situation too simple. It has quite correctly been termed superficial and one-sided. To make it at all serviceable, it needs to be supplemented by another theory, which I have taken the liberty of calling the absorption theory of taxation. The absorption theory rests upon the doctrine of capitalization. That is to say, where the tax is not shifted from

the seller to the buyer and where the economic good has a rental value as well as a capital value, the tax which remains on the commodity and which, therefore, to that extent diminishes the income to be derived from it, *i. e.*, its rental value, must also proportionally diminish its capital value. The selling or capital value of anything is always the capitalization of the actual and prospective rental or income value. As a consequence, through this familiar principle of capitalization the new purchaser of the commodity will buy it at the reduced price, and will thus virtually buy himself free from taxation. The tax is discounted, or absorbed, in the new and lower price.

A new tax on city real estate, for instance, will either be diffused by increasing the rents of the tenants, or it will be absorbed in the sense that when the property changes hands the new purchaser will pay a price reduced by the capitalization of the tax.

The combination of the diffusion and the absorption theories of taxation explains several things. It explains why the theoretic distinction between direct and indirect taxes based upon the alleged facts of incidence is erroneous. It explains why in spite of this theory the great mass of revenue to-day continues to be raised in the shape of indirect taxes. It explains why in countries like the United States the state and local taxes, although still in principle levied on persons, are slowly coming to be imposed on things rather than on persons; it explains why in France personal taxes have been impossible since the Revolution; it explains why in England, with the exception of a single schedule of a single tax, the whole system of taxation is based on things and not on persons; it explains why, even in Germany, where the personal and individual elements of the problem have been emphasized in theory, the personal share in actual taxation is so very insignificant; it explains, finally, why the legal decisions on taxation in the United States are coming to be in harmony with the truer economic doctrine of universality and equality of taxation. For this does not mean that everybody must be taxed alike, but only that all the members of a given class must be taxed alike, while there may be the greatest diversity between classes. An equal tax on all corporations does not imply that each individual stock- or bond-holder who may have bought after the tax was imposed pays equally, just as little as an equal tax upon real estate implies that each individual land- or house-owner everywhere and necessarily bears the burden of the tax.

In short, the individual point of view in taxation, which assumes that justice can be done by assessing each individual directly and in first instance, rests upon an analysis suited only to primitive economic conditions. The social point of view is that of modern economics, which seeks to trace the workings of general economic law and to

study the forces which affect the distribution of the social income. The individual point of view is not only inadequate in itself, but fails to explain the development of modern taxation. The social point of view, resting upon a combination of the absorption and diffusion theories, is alone in harmony with the facts of fiscal life. It is safe to predict that when once this is accepted, the most fruitful work of the future in the science of finance will consist in the elaboration in detail of the conditions and the limits of the absorption and diffusion theories.

IV .

Regarded from this point of view, a new light is thrown on the practical problems throughout the world. The most important of these pressing problems are as follows: First, the reform of so-called indirect taxation. The social consequences of indirect taxation are now recognized to an ever-increasing extent. So far as taxes on consumption are concerned, it is fairly well appreciated that the commodity taxed must possess the mingled qualities of a necessity and a luxury; if it possess only the characteristics of a luxury the revenue will be insignificant; if it possess only the qualities of a necessity, it will fall with undue severity on the modest consumer; if, however, it combines both characteristics, namely, that of wide use and at the same time that of a certain degree of dispensability, the revenue is apt to be large and elastic and the burden not too severe. The number of consumable commodities that unite both these characteristics is small, and hence we find everywhere throughout the civilized world the tendency to restrict taxes on consumption to very few but very lucrative articles.

In the second place we find well-nigh everywhere the abandonment of the old general property tax regarded as a personal impost. In England and Germany it disappeared during the eighteenth century; in France it was abolished by the Revolution; in America, where the economic conditions brought it into life during the eighteenth century and the early part of the nineteenth, it is beginning to break up in those sections where the agricultural economy is giving way to a commercial and industrial economy.

Thirdly, we notice everywhere the replacing of the general property tax by taxes on the thing rather than on the person. In the local tax on real estate this process has been carried almost to completion. In Europe, for instance, the taxes levied on the land and on the house are assessed irrespective of the owner or of the relations that may be entered into between owner and tenant. Everywhere in Europe the tax is a tax on the produce of the land or house — that is, upon what it yields in the shape of rent or of profits equivalent to rent. In some countries, as in England, the tax is not paid by the owner at

all, but by the occupier. Even in the United States the tax is assessed on the parcel of real estate and not on the individual who owns it. Whether the owner or some one else pays the tax is immaterial, and if the tax is not paid, no regard is paid to the owner and the land itself is sold. We could get scarcely further away from the old idea of individual taxation. The tax is a tax on the thing and not on the person.

In the other so-called direct taxes, a similar development is to be observed. The business taxes in Europe are levied upon the business as such and not upon the owner of the business. The inheritance tax is levied upon the inheritance and not upon the individual who receives the inheritance. The general land tax in England — the last vestige of the medieval general property tax upon individuals — has actually become a redeemable rent charge. Even the income tax, which in theory is assuredly personal, has, as we have already stated, almost completely lost its individual character and has become in great measure, a tax upon the thing affording the income rather than upon the person receiving the income. In the United States the so-called personal tax, that is, the tax on individuals according to their personal property, is fast becoming a farce in all the older centers. It is especially noteworthy that in the one place where a recent intelligent effort has been made to reform the personal property tax — the city of Chicago — it is becoming in effect a tax upon the thing rather than upon the person, and is being limited to the business capital, assessed upon groups or classes of business men rather than upon the individuals composing the classes. The problem is really a deeper one than the German scientists have usually recognized. It is not so much a conflict between a tax upon produce and a tax upon income as it is a conflict between the social and the individual bases of taxation.

In the fourth place, we find everywhere an increasing importance attached to corporations as the source of revenue. In Europe this process is somewhat concealed because of the inclusion of the revenue from corporations in the income tax, just as in many of the younger American commonwealths the revenues figure in the general property tax. In the older states corporation taxes are put into a separate category, and in some states, as in New York, they are even called indirect taxes in contradistinction to the direct or property taxes. Everywhere, however, they form a problem of increasing importance and present an admirable example of what is meant by taxation from a social rather than from an individual point of view. Taxation of the corporation does not mean taxation of the security holder who has purchased the stock or bond from the original holder.

The main outlines of the development of the immediate future, throughout the world, are thus fairly clear. Each country will con-

tinue to have its particular problems based upon its special economic and political needs. Everywhere there will continue to be an attempt to realize the principle of fiscal justice, interpreting it, however, more and more from the point of view of social interrelations rather than from that of individual conditions. The statesmen and scientists alike will find the great difficulty of the future to consist in attaining this due proportion between the undoubted needs of the individual and the consequences of his participation in the social group. For we must not forget that while it is necessary to regard the ultimate results of all fiscal policies, the immediate results are often of primary practical importance. The conflict between immediate and ultimate results is another way of putting the contrast between the individual and social aspects of finance. To realize the truth contained in the latter, without disregarding the legitimate importance of the former, is the problem reserved for the coming decades.

SECTION F — INSURANCE



SECTION F — INSURANCE

(Hall 10, September 21, 3 p. m.)

CHAIRMAN: DR. EMORY McCLINTOCK, Actuary, Mutual Life Insurance Company,
New York.
SPEAKERS: MR. FREDERICK L. HOFFMAN, Statistician, Prudential Insurance
Company, Newark, N. J.
PROFESSOR BALTHASAR H. MEYER, University of Wisconsin.

IN opening the Section of Insurance the Chairman, Dr. Emory McClintock, of New York City, spoke as follows:

“ Our old proverbs embody and represent the experience and wisdom of many generations. One of them warns us not to put all our eggs in one basket. When this idea is carried out logically, it really means that we should not put more eggs in one basket than we can afford to lose in case of a smash. Insurance is a development of civilization which was not known to those wise forefathers who invented these proverbs of ours, and insurance has made this particular proverb, excellent as it is, practically obsolete. The object and effect of insurance is to enable us to put as many eggs as we please in one basket. This is accomplished by an agreement or arrangement, by means of which, whenever one lot of eggs gets broken, the loss is distributed among many owners of other lots. By means of insurance you can safely invest your whole fortune in one ship, or in one building, or in one mortgage; you can devote all your land to a single crop which may be destroyed by hail in half an hour; you can send all your gold across the country in one conveyance; you can leave your whole property in a house unguarded, or in the charge of an employee unwatched; and you can, if need be, live upon and enjoy the use of the bulk of your earnings without anxiety, provided you apply the remainder in such a way as to protect your dependents in case of your death and to secure an income for your own old age.

“ There are few corporations, and still fewer individuals, who have absolutely no occasion for insurance. Indeed, insurance is sometimes expedient even in cases where there is little or no logical reason for it. I confess I should be puzzled if Mr. Carnegie were to ask me why he should insure his life; but there are few business men who, like him, have wound up their affairs while living, and whose executors would, therefore, have no use for life insurance money instantly available upon their death. There are corporations which have their eggs in so many baskets as to enable them mathematically to carry their own risk partly or wholly, yet which carry insurance rather than incur reproach by going without it. There are great

states which insure their public buildings against fire, and of course they do it without real necessity; yet public opinion customarily upholds them in this course, the habit of insurance being so universal, and when the practice is questioned, the answer is ready that the annual payment of regular premiums works more smoothly than the making up of large fire losses at irregular intervals. Take, for instance, the recent burning of the state capitol of Wisconsin. The capitol building had been insured according to custom, but the legislature thought it best to save for the state the profits which the insurance stockholders were making, and ordered the discontinuance of the fire policies. Soon afterwards the capitol burned down, no doubt to the chagrin of the legislators and the wicked joy of the insurance men. Yet the legislature had mathematics on its side when it stopped the insurance, for the fire losses of a great state like Wisconsin, in case they are large enough to increase any one year's taxes unpleasantly, can be defrayed in annual installments by means of temporary loans, and still cost less in the long run than the payment of regular premiums. However logical its course was, public opinion condemned it. If, indeed, it is true that the legislature arranged for the accumulation of an unnecessary insurance fund by appropriating annual premiums to be invested at interest in the name of the state, its course in that respect was deficient in common sense.

“It is unnecessary, before those who are here present, to dwell on the economic benefits of insurance. As a mere matter of dollars and cents insurance is worth all that it costs to those who need it. Those who preside at the various congresses this week are expected to make very brief addresses in opening the proceedings, and I shall confine what I have to say to a single point. The dollar and cent value of insurance is by no means its whole value. Insurance relieves anxiety. It does away with many fears.

“That insurance relieves men of anxiety is well known; so well known, indeed, that we seldom think of it. It would be hardly correct to put it the other way, and to say that anxiety is in these days relieved by insurance, for there is in fact no such anxiety to relieve, since the universal habit of insurance acts beforehand by preventing the possibility of the fears and anxieties which would be severely felt if there were no insurance, fears and anxieties of which we can scarcely realize the magnitude.

“Marine insurance was known in early times, but was not always to be had, and even when available was not always taken, for the system was crude and expensive. In those days the owner of a number of vessels was much better off than the owner of one vessel, because his eggs were not all in one basket. The merchant adventurers who fitted out ships and supplied them with cargo were, of

course, prudent in their day, but the circumstances were such that they could not help making frequent and large losses, with correspondingly large gains when successful. They were enterprising speculators, and were never free from the anxiety which besets speculation. The gambler in stocks lives in an exciting and unnatural atmosphere of hopes and fears, but he can escape from it by closing his accounts. The merchant adventurer of old times lived constantly in such an atmosphere.

“ Again, we may remind ourselves of the fear of fire which for many centuries oppressed the minds of all whose savings or inheritances consisted in houses or merchandise. In those old days cities like London were built of wood, small fires happened frequently, and conflagrations occurred at irregular intervals which were never many years apart. Householders covered their fires at night with the greatest care, and sprang from their beds whenever the cry of fire arose. The fire danger was always imminent, and always a matter of anxious fear.

“ Those of us who are old enough can remember the days when the greatest necessity for saving oppressed the young man with a growing family during those very years when he needed most to live almost up to his small but increasing annual earnings. The more prudent such a young man was, and the more he cared for his wife and children, the more he felt the burdensome necessity of saving, and saving heavily, so as to leave at least a little for their support in case of his early death. Notwithstanding everything that he could do in the way of frugality, with his wife doing the housework and his children going barefoot, his savings before middle life were indeed small as compared with the needs which he was struggling to provide for in case of his death. Insurance has rid the world of the worst of those fears. Frugality is still necessary, but the burden of it no longer comes heaviest in a man's younger days, when his earnings are usually least and his necessary expenses usually greatest.

“ By substantially banishing a whole class of fears insurance has prolonged men's lives and made men happier and more useful. It is one of those agencies of civilization which have in various respects tended to reduce the element of fear in human affairs. Just as we have almost ceased to think of the various kinds of fear from which insurance has relieved mankind, we find it hard to realize all those other fears which have dwindled as a result of civilization. Every kind of danger which has been reduced by modern progress was formerly a source of acute fear. Our early ancestors were in constant fear of wild beasts, of bad neighbors, and of open enemies, passing their days with arms in their hands and their nights with some one on the watch. They feared uprisings of their inferiors, and they feared the tyranny of their superiors. They feared pain,

which as a persistent thing has been almost banished by science. They feared the terrors of the law, human and divine, to an extent not customary with the present generation.

“ This element of fear, affecting human society in old days as we can now hardly realize, has been of enormous value to the race, to look for a moment at the other side of the question. Without fear, there would have been no caution, no prudence, no leadership, no discipline, no laws, no social order, no patriotism; in short, no organization of mankind, if indeed mankind could exist at all without it. It would seem impossible to look back without recognizing fear as one of the most powerful forces which have affected the minds of men and the progress of the race. Punishment of unwise acts by natural law, punishment of criminal acts by the law of society, both have assisted progress to an extent which we can hardly exaggerate. Yet we sometimes hear the theory advanced that the fear of punishment cannot deter any one from crime, and that society has, therefore, no right to punish criminals.

“ In speaking thus of the useful fears which have benefited mankind, I may have seemed to be getting away from the subject of insurance. It cannot, however, have been useless for us, during a few minutes, to recall the enormous effects which fears of all kinds have produced in the past upon the human mind, whether these fears have been useful or injurious. It is a happy thought for us that those fears which have been dissipated by insurance have all belonged to that noxious class which paralyze human energies and shorten human life.”

LIFE INSURANCE AS A SCIENCE

BY FREDERICK L. HOFFMAN

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For the first time insurance is included in an authoritative classification of the sciences and properly so as a branch of the department of economics, which, broadly defined, is "the science of the relation between private property and public wealth." The honor of having been the first to assign a definite place to insurance in the science of economics appears to belong to Mr. Henry Dunning Macleod, whose conception of economics comprehends first, material things; second, personal qualities, both in the form of labor and credit; and third, annuities. Most of the works on political economy and social science are barren of references to the third department which, for want of a better term, Macleod defines as annuities, or "the right to receive a series of future payments." Such rights he terms "negative economic quantities," comprehending all mercantile and banking credits, checks, bills of exchange, terminable annuities, leaseholds, policies of insurance of different kinds, and many other valuable rights, amounting in value to thousands of millions of dollars, of which there is scarcely any notice in the text-books on economics." He very properly remarks that by introducing this class of incorporeal property, he has doubled the field of economics.

To establish the relation of the science of insurance to the other great divisions of accurate and systematized human knowledge is the purpose of this address, and the more definitely this relation is established, the more clearly we shall comprehend the true nature, possibilities, and results of insurance as a vast and indispensable social institution of to-day.

Insurance, reduced to its simplest term, means the application of the principle of association to the equalization of losses resulting from the inherent uncertainty in human affairs. This is the risk of

untimely death, of fire, shipwreck, burglary, windstorms, floods, and many other contingencies outside of the control of man. The uncertainty of human life is modified by social progress, in particular by the advances in medicine and related sciences, but there must always remain the risk of premature death, which insurance alone can equalize through the principle of association. In the classic language of the first Select Committee on Friendly Societies, in 1825, this means that "wherever there is a contingency, the cheapest way of providing against it is by uniting with others; so that each man may subject himself to a small deprivation in order that no man may be subjected to a great loss. He upon whom the contingency falls does not get his money back again, nor does he get for it any visible or tangible benefit, but he obtains security against ruin, and consequent peace of mind."

The theory of risk and insurance has been elaborated and set forth by Mr. Allan H. Willett in a most instructive dissertation published by Columbia University in 1901. He holds, and very properly so, that as a general rule uncertainty exercises a repellent influence in human life and that the existence of risk in an approximate static state causes an economic loss, while, on the other hand, the assumption of risk is a source of gain to society. From this point of view the business of insurance does not differ essentially from general commercial enterprises. Risk is assumed in mining and agriculture in much the same manner as risk is assumed in the business of insurance, but in life insurance, for illustration, the assumption of a risk and the equivalent premium payments required are determined by the theory of probability and the established laws of human mortality and observed experience. In general commercial enterprise the risk assumed is, as a rule, created, while in insurance the risk assumed is preëxisting. This marks the broad division between gambling and insurance. Insurance is not "in the nature of a bet," for in insurance an effort is made to eliminate an existing risk by its assumption on the part of the many, while in gambling a non-existing risk is created with resulting uncertainty and needless loss to society.

The gain resulting to society is the reduction of the uncertainty for the group as a whole, or the substitution of certain loss for uncertain loss. By this process of diminishing the degree of uncertainty, the cost of the risk to society is very largely and considerably reduced, if not entirely eliminated, and thus it follows in the words of Willett that "the risk an insurance company carries is far less than the sum of the risks of the insured, and that as the size of the company increases, the disproportion becomes greater;" or, to use a definition of Roscher: "The aggregate danger is less than the sum of the individual dangers, for the risk of it is more certain, and uncer-

tainty itself is an element of danger." It is of the utmost importance that this point should be thoroughly realized by the statesman and the general public, so that from individual appreciation of insurance as a beneficent social institution may evolve the national appreciation of insurance as an institution making for the security of society and the well-being and effective protection of its members against the uncertainties of human life.

At the outset we must consider the relation of insurance to ethics, for unless the business of insurance has the sanction of private and public morality it would be to no purpose to discuss its social and economic importance. One of the earliest objections to life insurance was the view of its being a form of gambling and that to insure one's life was not quite in harmony with religious duty. Even to-day a religious sect called the Dunkards object to life insurance on the ground that it has not biblical sanction, or at least, is not specifically enjoined as a duty by biblical authority. Few things, however, it would seem, are more readily susceptible of proof than that insurance must of necessity be included in the moral forces which make for the betterment of mankind, and especially for the gradual amelioration of the condition of the poor. Life insurance in particular appeals to man's moral sentiments, making for the protection and support of others at the cost of self-sacrifice and self-denial. So well has this been realized that almost from its earliest history we hear of the *duty* of insurance, until to-day this sentiment has become subconscious and a part of the conscience of civilized man, practically the same under conditions of poverty as under conditions of material well-being.

Much injury has been done to the cause of insurance by the unfortunate and unwarranted assumption that there is a fundamental identity between insurance and gambling. There is this much truth in the assumption, that the fundamental laws of chance and probability have at times and with great skill been applied to efforts at systematic gambling, but speaking generally, without much success. Gambling, lotteries, and kindred attempts to gain by the losses of others are intrinsically immoral in their results, while life insurance is intrinsically moral as a method and means for the advancement of mankind. Insurance advances progress, while gambling retards it. This fact is well brought out by Dymond in his *Essays on Morality*, and is indorsed by Wayland in his *Elements of Moral Science*. Dymond remarks, with particular reference to the duty of insurance against fire, that "the merchant who conducts his business partly or wholly with borrowed capital is not honest if he endangers the loss of an amount of property which, if lost, would disable him from paying his debts." To guard against this possible loss he holds that it would be unjust under such circumstances not to insure, for the majority of

uninsured traders, if their houses and goods were burned, would be unable to pay their creditors. The injustice, in his opinion, consists in the taking of needless or unnecessary risk. Had life insurance in 1836, when this was written, been developed to the present extent of a universal provident institution, the Quaker moralist would, without question, have enjoined with even greater emphasis the duty of insurance protection for widows and orphans and self-protection against want in old age.

The second great division of science in the classification adopted by this Congress is mathematics, itself the foundation stone of insurance theory and development. Without mathematics life insurance could not be thought of as a science, nor could its progress long continue without the application of mathematical checks to intricate processes, the real nature of which can only be explained by mathematical researches. It has, in fact, been common usage for many years to speak of the work of the actuary as actuarial science, and the training of the actuary and the required quality of his judgment is very largely mathematical. It is a primary necessity if he is to possess the ability to master the more subtle problems of insurance theory. It is, however, with much justice that Young and other writers hold that "every problem in life insurance administration — the scope of investments, the ratio of expenditure, and the amount of new business which will probably produce a favorable or disadvantageous effect upon profits — possesses an actuarial aspect of definite significance, and demands the application of professional knowledge and experience." But primarily the work of the actuary is concerned with the mathematical and fundamental nature of life insurance as determined by the laws of human mortality and expectancy, upon which the vast business rests with absolute certainty for the ultimate fulfillment of contract obligations. Some of the greatest names in mathematical science and astronomy are those of men who have rendered signal service to the cause of insurance. From Fermat and Pascal, Newton and Leibnitz, Bernoulli and De Moivre, Laplace and Quételet, we have a long list of mathematical philosophers extending to the present time, whose work has made possible the development of the science of life contingencies. It is upon the science of mathematics that the science of insurance rests, and it is the actuary who applies abstract mathematical principles to the solution of practical problems of business administration. Hence the actuary must be more than a mathematician, and the tendency of the age is constantly to enlarge the function of this office by delegating the purely mathematical side of the work to qualified mathematicians. Much remains to be done in the field of insurance mathematics to develop the science and art of life contingencies to its highest possible degree of perfection. Great indeed as is the work

of Woolhouse, Gompertz, and Makeham, each period presents problems of its own which demand the specialization of expert talent, never needed to such an increasing extent as in the administration of a great and successful life insurance company of to-day.

Biological science, or the science of living things, rests in a larger measure than is commonly assumed upon a statistical foundation. Much, if not most, of what life insurance companies require to know of biology for the medical selection of risks relates to normal and abnormal man from the viewpoint of anatomy and physiology. American anthropometry, while well advanced since the army statistics by Gould were published in 1869, as a memoir of the Sanitary Commission, leaves much to be attained before we shall be in a position to deal in a strictly scientific manner with the problems of normal stature, weight, chest-expansion, pulse-rate, and other elements too numerous to be here referred to. The tables published by the Association of Medical Directors and rearranged by Dr. O. H. Rogers, are an admirable indication of the treasures which the archives of life insurance companies yield when subjected to expert tabulation and critical analysis. For the needs of accurate chest diagnosis we require more determining data than are at present available, while the field of human thermometry as applied to life insurance selection has remained almost neglected since Seguin published his work in 1876.

The larger and more involved problems of human multiplication and normal increase, the marriage-rate, fecundity and sterility, consanguinity, race-mixture and intermarriage are all pending questions, toward the solution of which insurance contributes much information and expert talent. All that is summed up in the problems of heredity, both direct from parent to offspring and through collateral branches of the family, is of the utmost importance to life insurance companies, and in time the vast number of accurate family records in the possession of these companies as a part of the application for insurance, supplemented by the known results of subsequent mortality, with certified causes of death, must needs add much of value and interest to the future development and practical value of biological science. Toward the problem of reproductive selection, so admirably set forth by Karl Pearson, life insurance can contribute much valuable information, particularly on the point of the effect of the age of the parents at the time of the applicant's birth on the subsequent chances of death.

If the mathematical basis of life insurance is derived from the doctrine of probabilities, the medical basis is derived from pathology, or the doctrine of diseases, their causes, mode of occurrence, etc. The position of the medical director is of equal fundamental importance in the administration of a life insurance company to the position of the actuary, in that upon the medical selection of risks proposed for

insurance depends the subsequent mortality experience. With the immense development of life insurance in all countries has gone the advancement of insurance medicine, from the crude methods of the London Equitable Society in 1762, when a health certificate was required bearing the signatures of two witnesses, one of whom had to be a physician, to the uniform blank for medical examiners proposed a few years ago at the International Congress of Medical Directors at Brussels. To-day there are few general practitioners who have not, at one time or another, rendered services to life insurance companies in the examination of proposed risks, and the number of physicians regularly employed by these companies is constantly increasing.

Insurance medicine has a large and valuable literature of its own, to which constant additions are being made as the result of special researches and increasing experience in a vast field with rare opportunities for the development of expert skill. The highly scientific character of this work is due, in a large measure, to the close relation of cause and effect. Errors of judgment in physical diagnosis, or the omission to note symptoms of incipient diseases, are certain to be followed by an unfavorable mortality experience. While errors of judgment on the part of the general practitioner outside of hospitals as a rule remain unknown, such errors on the part of the medical examiner are a matter of permanent record and comparatively easy discovery.

The neurology of the future will render even greater service to insurance science than has been possible in the past. Brain diseases, as a class, are unquestionably on the increase in this and other countries, and there is some trustworthy evidence to support the view that insanity is increasing at a perceptible rate from year to year. No extensive statistical investigation has been made into the alleged increase in insanity, which may be attributed to the complex nature of the problem, the difficulty of exact definition, the undefined borderland of sanity and insanity, and many other causes; most of all, however, to the confusing effect of the improvement in the recovery-rate and the decreasing death-rate in state and private institutions. Actuarial skill can be of great service to the medical profession in determining this question in much the same manner as in the investigation of the alleged increase in cancer by the eminent actuary, Mr. George King, and Dr. Arthur Newsholme.

Suicide may also properly be referred to here as one of the problems of neurology and one of great importance to life insurance companies. Suicide is on the increase in this and other countries. For illustration, in American cities the rate per 100,000 of population has changed from 12.0 during 1890 to 18.4 during 1903. Qualified investigations into the probable causes responsible for this much-to-be-

deplorable increase in self-murder would be of considerable financial value to insurance companies. Of the total mortality of insured males, aged forty-five and over, 4.3 per cent are deaths from self-destruction, and the financial loss to insurance companies is of much larger proportions than is generally assumed to be the case.

The achievements of surgery are one of the glories of modern civilization and of both direct and indirect value to life insurance science in making for an improved longevity and a resulting increase in the chances of a healthy life following a successful surgical operation. Beginning with the two principal factors — the introduction of anesthetics and the introduction of antiseptics — we have a long list of important modern discoveries in surgical methods which have done much to reduce human mortality and do away with needless suffering.

Gynecology has an important relation to insurance science. Woman as an insurance risk is one of the perplexing problems in life insurance practice. In most of the mortality tables for the general population women at nearly all ages experience a lower death-rate than men, and the tendency would seem to be toward a still greater difference in the future and in favor of women under modern conditions of life. In contrast, insured women have often proved a loss to the companies on account of certain subtle elements of adverse selection not readily comprehended or allowed for in the medical examination of women as insurance risks. As a rule, the physical examination of women, for reasons of modesty and general custom, is made with less care than in the case of men; obscure pelvic diseases and diseases of the ovaries and uterus often exist, but they are quite concealed. Many other facts, brought out by extensive experience, tend to complicate the matter, and all companies exercise great caution in the acceptance of women as insurance risks.

During the past thirty years the chances of death have undergone a material modification, and in most civilized countries the general death-rate is much lower to-day than it was during the early seventies. This improvement in human longevity, however, affects almost entirely the younger ages of life and in particular children under ten years of age.

The modern treatment of the diseases of children, or the science of pediatrics, combined with improved measures of public hygiene, has resulted in a great saving of infant life, which goes far to balance the general decline in the birth-rate. Industrial insurance companies in particular are affected by this improvement, and the amounts now paid for a weekly premium of ten cents are twenty per cent greater than they were some twenty-eight years ago, when this method of family insurance was first introduced into the United States by Mr. John F. Dryden. There are, however, general benefits resulting to life

insurance practice as a whole from the gradual diminution of a needless waste of infant life. A healthier type of manhood and womanhood must develop from children free from the after-effects of acute infectious diseases so extremely prevalent in the past.

The improvement in the chances of death is primarily the result of our increasing knowledge of the causes and true nature of diseases, the conditions favoring a high or low death-rate, and the resulting means and methods for their effective control. For want of a better term we use the one of "sanitary science," which includes both *preventive medicine* and *public health* administration. As a first requirement it was necessary to perfect the official registration of deaths and the medical or legal certification of their causes. Vital statistics form the groundwork of sanitary science as it has been developed during the past fifty years in all civilized countries. Time is not available for more than a cursory glance at the history of disease prevalence, or in particular of epidemic diseases. The great work of Creighton on *Epidemics in Great Britain* is an illustration of what is required for other important countries before medical topography and geographical pathology will have reached the high position to which they are destined in due course of time.

The American life insurance companies of the first forty years of the nineteenth century are of little more than historic interest to us of the present time. The Pennsylvania Company for Insurances on Lives and Granting Annuities, the Massachusetts Hospital, the New York Life Insurance and Trust Company, the Baltimore Life Insurance Company, the Girard Life Insurance and Trust Company, the Ohio Life and Trust Company, and others, transacted but comparatively little business, so that by 1850 it is estimated only about thirty thousand life insurance policies were in force in the United States. In 1843, however, the organization of the Mutual Life marks the beginning of a distinct period of life insurance history which extends to 1875, when industrial insurance was introduced by the Prudential. A number of valuable contributions to the literature of public medicine and medical topography had been made, and it gradually became possible to obtain a more correct view of the value of human life in the different sections of the country. Bills of mortality were available for a number of important cities, and Seibert, in his *Statistical Annals of the United States*, published in 1808, could supplement his observations by two life-tables calculated for the use of the Pennsylvania Company for Insurances on Lives and Granting Annuities. One of these tables was derived from the records of the Episcopal Church, the other from the records of the Philadelphia Board of Health. The gradual development of public medicine is exhibited in the volumes of the *Journal of Health*, the first of which was issued in 1830. Ten years later a valuable report on the

Sickness and Mortality of the Army of the United States, embracing a period of twenty years, was published by governmental authority, and contains much interesting and suggestive information relative to the health of different sections. This valuable document was followed by the classical report of Shattuck on the *Vital Statistics of Boston* for the period 1810-1841. In 1842 Forry brought out his treatise on the *Climate of the United States and its Endemic Influences*, which still retains its position as a work of great value. In 1845 Shattuck supplemented his earlier work by a *Census of the City of Boston*, which forms the first comprehensive statistical account of the population of an American city. Dawson and De Saussure, in 1849, published their *Census of Charleston, S. C.*, which includes observations on health and mortality. In the same year the first report of the Committee on Public Hygiene of the American Medical Association was published, which contains much valuable information on the medical topography of the most important sections of the North and South. The American edition of Tilt's *Elements of Health* was published in 1853 in Philadelphia, a book admirably arranged for the use of the period, with special reference to the requirements of life insurance companies. In 1854 Drake issued his medical topography on the *Diseases of North America*, with special reference to the diseases of the Interior Valley, unquestionably the greatest contribution to the medical topography of our country made up to that time. Following Drake, Blodgett, in 1857, issued his well-known treatise on the climate of the United States, which includes a valuable chapter on medical topography. The scientific interest of American life insurance companies in the subject of human mortality is made evident by the publication, in 1857, of a *Report on Vital Statistics*, by James Wynn, M.D., to the Mutual Life Insurance Company, but the expenses for which were shared by seventeen other companies, including all of the more important and representative institutions of the period.

The office practice of the early American life insurance companies during the fifties was, however, in a large measure determined by very fragmentary data. Most of the observations and conclusions of writers of the period on medical topography were derived from extensive travels, carried on under great difficulties and at considerable personal exposure to the ill-health-producing conditions described. The general apprehension was not so much as to the probable unfavorable experience in the country at large as in the Southern and Far Western sections. The general apprehension as to the high death-rate in the South was amply supported by the published mortality statistics of New Orleans, Mobile, and Savannah, and many able articles in the Southern medical publications. Dunglison, in his treatise on *Human Health*, one of the first works on hygiene pub-

lished in this country, connects the science of public medicine with the science of insurance by a chapter on " Atmosphere and Locality." An Englishman by birth, he states that when he was about to leave Great Britain to occupy a situation for which he had been selected in the University of Virginia, a life insurance company of which he was a member declined to continue the insurance unless the premium was doubled. Dunglison states that this requirement compelled him to sacrifice or lapse his policy. Many of the assumptions with regard to health in Southern latitudes were, however, largely exaggerated. Dunglison's treatise did much to correct erroneous views, though on the whole a regard for truth compelled the author to admit the extensive prevalence of health-destructive conditions which it required time and an infinite amount of human labor to change for the better. Even at this early period, however, it could be said with much truth that within the last century the value of life had increased progressively and was rapidly improving, but as long as the primitive conditions of pioneer life obtained it was out of the question for life insurance companies to develop their business on a large scale, especially in the Southern and Western States. Speaking generally, the slow growth of American life insurance during the first half-century was, in a large measure, due to the high mortality, the frequency of epidemic diseases, and the fragmentary nature of the vital statistics of the period.

The selection of risks for insurance, while primarily medical, takes also into careful consideration certain facts, most of which may be included under the general term "environment." These are, locality of residence, housing, occupation, habits, and war, all of which are more or less comprehended in the department of preventive medicine and public and personal hygiene.

The immense development of modern life insurance, approaching that of a universal provident institution, is primarily the result of the insurance education of the public through the solicitor or life insurance agent. Psychology alone explains the mental processes by which so abstract an idea as the theory of risk and insurance is reduced to "insurance consciousness" and made operative on conduct. It is not necessary, in fact not desirable, because tending to confusion of thought, that the abstract idea or even the business methods of insurance should be comprehended by the applicant for insurance protection, any more than we require to know the chemical analysis of food-stuffs and the processes of their manufacture to enjoy and digest our daily meal. What is required is education in the simple elements of insurance protection, emphasized by intelligent suggestion and an effective appeal to the emotions. What the prospective policy-holder requires to know is the annual expense of risk transference, the amount of insurance provided in the event

of certain contingencies, and the special contract provisions of the policy which form the legal basis of the relation of the insured to the company.

The principles of risk and insurance are of too abstract a nature to be comprehended by the average mind, even after a considerable amount of intelligent explanation. The elements of insurance practice and results, however, are readily within the mental grasp of all but a small proportion of the public, and while in consequence of the enormous development of the business there exists a vague general consciousness of the insurance idea, it is but imperfectly understood and not operative on conduct. We are taught by psychology that "an object must be seen many times before it is *rightly* seen," and the abstract idea of insurance does not become concrete and operative on conduct until it has been emphasized and reemphasized by the insurance instructor, who is called the agent or solicitor. The immense success of industrial insurance, with now more than forty million policy-holders in the world, is due largely to the simplicity of the idea itself — so much to be paid each week — so much receivable in the event of death — which is readily within the mental grasp of all the people. In the more complex form of ordinary life insurance, especially when combined with investment, as in the case of endowments, the process of insurance education is much more difficult and results are secured more slowly. What is true of the progress of life at large is equally true of the progress of insurance, that "the adjustment of inner tendencies to outer persistencies must begin with the simple and advance to the complex, seeing that both within and without complex relations, being made up of simple ones, cannot be established before simple ones have been established."

Abnormal psychology has already been briefly referred to under neurology. The psychology of suggestion in its special relation to the occurrence of mental epidemics is of considerable interest to life insurance companies. The present-day frequency of self-destruction and the unquestionable effect of suggestion in causing small epidemics of suicide of a local character is a source of considerable anxiety to the management of conservative insurance companies. What is summed up in a dissertation on *The Wonders of Human Folly* explains the need from time to time to recur to the experience of the past for an explanation of the experiences and occurrences of the present. Mackay's *Memoirs of Popular Delusions*, for illustration, throw much light upon recent experiences, and it has been said with much truth that while "time and progress have changed the manifestation, the spirit of ancient folly lingers still. . . . From time to time the infatuation to acquire wealth speedily by an illegitimate shifting of the cards rather than by safe and equitable methods in the employment of capital and labor, seizes the

people; and thus probably it will ever be until those who possess property shall be acquainted with the principles and laws of trade and shall at the same time be desirous to restore to the commercial character generally an inviolate and inflexible spirit of single-minded honesty."

In the selection of risks for insurance it is necessary to take into consideration certain broad principles of anthropology, in particular the primary distinction of race, or the varieties of mankind. Even the most cursory inquiry reveals important differences between the longevity of different races and peoples which no conservative insurance company can prudently ignore. "The physical peculiarities and geographical distribution of the human family," wrote Pickering, "form one of the most interesting problems in history;" and in the words of Darwin, "There is no doubt that the various races, when carefully compared and *measured*, differ much from each other." Unfortunately, most of the earlier anthropologists took more interest in speculations as to the unity or plurality of the human species than in determining types of mankind by careful and extensive measurements and observations of physical, psychological, and pathological characteristics. Quételet, to whom insurance owes much light on the theory of probability, was also the author of valuable works on normal man and anthropometry, which have done much to suggest the more recent investigations. The methods of Quételet, as to both measurement and description, were followed to advantage in the more elaborate works of Beddoe, Roberts, Gould, Baxter, and many others. We are nearer to the truth to-day than we have been, but yet far from having the required data for a practical anthropology or science of man applicable to the solution of pending problems of insurance.

Every advance in geography and the more accurate mapping of the surface of the earth contributes to the science of insurance. Medical topography and geographical pathology depend primarily upon accurate topographic surveys, and the immense advances which have been made in this direction during the past twenty years have been of great value to insurance science. The geographical distribution of disease is receiving more and more the intelligent consideration of the geographers of to-day. As an admirable illustration of what in time may develop into a distinct science, I may mention Haviland's work on the *Geographical Distribution of Disease in Great Britain*. Even the very early American geographers recognized the relation of physiographic and climatic conditions to health and mortality, and Guthrie, for example, in his geography published in 1795, refers to the subject at some length. Darby, following Guthrie, contributed valuable observations in his various writings, in particular his *View of the United States*, published in 1828, and his *Geo-*

graphical Description of Louisiana, published in 1816. The ultimate tendencies of geographical science in this particular direction are best illustrated in the Appendix of Maps to the Report by Sir H. H. Johnston, as Special Commissioner on the Protectorate of Uganda. These maps illustrate with exceptional clearness the average altitude and the salubrity of each district, and it is not going too far to say that we have really more accurate information regarding this distant section of the globe than we have for many sections of our own country. The importance to insurance companies of similar investigations into our own Southern States, and in particular into our new possessions in tropical countries, cannot be overestimated. The works of Sir Henry Johnston illustrate the methods to be followed and the practical results to be attained.

It is hardly practicable to separate a discussion of geology from the preceding discussion of geography in its relation to insurance science, since every geographical survey contributes to the development of the science of physiography by the mapping of surface geology and general topography. Areal geology often discloses important factors of soil composition, etc., which have a distinct and well-understood relation to health and mortality; as, for illustration, in the clay formations which underlie the Gulf coast of southeastern Texas, and which, in a large measure, are responsible for some perplexing sanitary problems at Houston and Beaumont. The comparatively recent development of scientific soil surveys may here be referred to, for many of the reports which have been published emphasize important points in medical topography. Of special interest, for illustration, are the reports for portions of the Yazoo Delta and the Gulf parishes of Louisiana. In addition, these reports often contain a careful analysis of the elements of climate and other matters of interest and value to life insurance companies.

It is, however, in the field of economic geology and the mineral industries and mining that life insurance companies have, perhaps, the most important interest. The immense development of the mineral resources of the earth give employment to a vast army of men whose occupations are almost without exception of a dangerous or unhealthful nature. Mining accidents are still of great frequency, and the present-day tendency does not appear to be toward a substantial reduction in the rate. The problem of miners' phthisis is attracting much attention, especially in Utah and South Africa, where exceptional conditions present unusual difficulties. The geological formation of coal areas determines in part the accident frequency from falls of roofs and gas explosions. The mineral composition of rocks has a direct relation to the frequency of industrial poisoning in the milling and reduction of copper and other metaliferous ores, while the accident liability of quarrymen depends primarily upon the geologic formation of the strata to be removed.

Meteorology I assume to include both climate and weather service. The field is immense, for, as has been observed by Montesquieu, "The empire of climate is the most powerful of all empires," and the progress made by meteorology has been a material gain to life insurance science. The normal climate of any given locality is a factor of great importance in determining health and longevity. The elements of temperature, barometric pressures, humidity, rainfall, prevailing winds, etc., are of considerable determining value, but as yet we have not the required standards by which accurately to measure the effects of these elements on human health under the varying conditions met with in different portions of the globe. We still speak of the "deadly climate" of the west coast of Africa or of French Guiana, with not much better knowledge of the facts than when these expressions came into use, under entirely different conditions of attempted settlement or colonization. While the climate and weather of India are the same to-day as at the time of the great East India Company, the mortality of European troops has been reduced from seventy-six to sixteen per thousand. While it may be true, as Ripley holds, that "the English of to-day are no nearer to true acclimatization in India than they were in 1840," there can be no doubt but that a more perfect knowledge of the elements of tropical climates and the resulting tropical hygiene have done much toward the ultimate solution of the white man's conquest of the tropics.

The applied sciences I can only discuss in the most general way. All improvements in processes and methods of manufacture, as a rule, benefit the workmen by incidental improvements in the sanitary condition of factories and workshops. The increasing proportion of risks written by life insurance companies on the lives of persons employed in manufacturing industries points to the importance of all improvements in industrial hygiene and their resulting relation to the diseases of occupations. The improvements in the processes of manufacture imply, as a general rule, a decreasing amount of waste in the form of dust, vapor, or gases, many of which are of a health-injurious character. The utilization of waste products, on the other hand, has led to new industries, many of which are injurious to health and life. The consolidation of industries in the form of industrial combinations or trusts, primarily for the purpose of effecting economies, has done much to improve sanitary conditions by providing larger factories with more light and better ventilation, so that it is safe to say that since the introduction of the factory system the average workman has never been employed under healthier conditions than at the present time. To insurance companies the problems involved in industrial technology are, however, extremely complex and a never-ending source of anxiety. For illustration,

the relatively new process of pulp manufacture is carried on by three distinct methods, the mechanical, the soda, and the sulphide, each of which represents different conditions affecting health and longevity, which require to be taken into account in the acceptance of this class of risks. In electrical engineering the truly astonishing progress which has been made during the past few years has resulted in entirely new conditions, which no prudent company can safely ignore. As an illustration I may mention the introduction of electricity into mines which has recently been made the subject of a special official inquiry in England and by state mine inspectors in this country. The enormous development of electrical industries in general has resulted in entirely new conditions, which cannot be considered in the light of past experience. Mining engineering, perhaps most of all, requires serious consideration, and among other new factors affecting health and longevity I may mention the extensive introduction of coal-cutting machinery into the bituminous coal-mines of our Western States. In ore-milling and smelting new processes are constantly supplanting old methods, and here again present-day practices cannot be determined by past experience. As an illustration of the benefits to health arising from the utilization of waste products I may mention the modern appliances in smelters by which many of the health-injurious vapors and gases are converted into profitable by-products.

The general conception of insurance law limits this term to the settlement of legal difficulties arising from the contractual relations of the company and the policy-holder. Most of the works which essay upon the subject, from Park and Marshall to the latest digest and dissertation, treat of insurance law in this narrow and restricted sense. We have not as yet a comprehensive work which includes the relation of the companies to the state and public policy in addition to the relations at law of the company to its policy-holders and agents. The brief consideration which I am allowed to give to this subject precludes proper treatment of so complex a relation as that of insurance to legal science, and at best I can only indicate the more important results of law, jurisprudence, and social regulation affecting insurance interests.

Under modern conditions the conduct of a life insurance business is beyond the reach of individual or private enterprise. It is to-day an accepted principle of government that "life insurance is a business of so sacred a character, and involving issues so important to the national welfare of each country, that it must be the subject of special legislation in order to safeguard the interests of the insured. . . . It is their savings in the shape of premiums and their accumulations which constitute almost the entire resources of every life insurance company, and it cannot be a subject of unconcern to any

government that its citizens should have made provision for the future to so large an extent, and that the security for the eventual payment of the sums assured, as they mature, should be guaranteed by the solvency and sound investments of the companies that underwrite the contracts." Insurance companies derive their existence from charters specially granted, but in conformity to the general corporation laws of the different states. Corporations are by law endowed with perpetual succession, or, in other words, artificial persons having no necessary or natural term of life, and they may be regarded as an extension of individual capacity. The earlier charters of American insurance companies illustrate the crude ideas regarding the business of life insurance prevailing at a time when the term "insurance," in the words of Park, was practically equivalent to "marine insurance." Almost from the beginning of the business of insurance the importance and necessity of some form of state supervision was recognized, and we meet with the inception of the present form of state supervision in a Massachusetts statute of 1827, which required the companies to report annually as to the condition of their business. The growth of the business and the extension of operations to other states developed the present system of state supervision, which had its origin in a law passed by the legislature of Massachusetts, establishing a separate department for the supervision of insurance interests, in 1855. To-day such departments exist in every state and territory, with more or less comprehensive powers for supervision and control. The resulting problems are of most serious concern to the companies.

The insurance laws of the different states are often widely at variance with one another. The remark of Mr. Griggs, ex-Attorney General of the United States, that while "the interpretation of law is a science, law-making is not," applies with special force to the insurance legislation of the last thirty years. When, in 1876, Mr. C. C. Hine issued his volume on *Insurance Statutes*, within six years of the issue of a similar work by Wolford, he could truthfully say that "the insurance laws of five years ago are almost obsolete, and in their stead new statutes have come upon the books of almost every state and territory." The process of grinding out laws has gone on with undiminished energy, and the opinion of a learned judge that "no attorney is bound to know all the laws" may give some comfort to the law officers of insurance companies confronted by the problem of digesting the large number of special statutes passed annually or biennially by forty-nine different states and territories for the ostensible purpose of regulating the insurance business. In marked contrast, we may reflect upon the English legislation affecting insurance interests, which since 1870 has practically remained the same. Mr. Griggs, in his address on "Law-Making," properly

remarks that "this history of the English law reveals change and growth, but growth by slow and deliberate processes." It would be an immense step in advance towards the perfection of American insurance law if a similar habit of mind prevailed in this country.

The taxation of life insurance companies may be referred to here as an important problem of insurance company administration. If it is the duty of the state to encourage thrift or efforts on the part of the people toward economic independence and a secure position above the need of state aid, it is certainly a paradox to meet with an increasing tendency to tax life insurance policy-holders out of a relatively large share of their annual savings.

In many other countries than the United States insurance is supervised and regulated by some central authority;—in England by the Board of Trade, in France by the Minister of Commerce, etc. There must come a time when the burden, expense, and annoyances incident to supervision by some forty-nine different insurance commissioners of states and territories will become intolerable and some form of federal supervision must be the result.

An increasing number of life and fire insurance companies are extending their fields of business operations to foreign countries, and in a few cases companies transact business in most of the civilized countries of the earth. Without wishing to underrate the ratio of progress made by life insurance companies of other countries, it is generally conceded that the American life insurance companies abroad are more aggressive, and as a rule attain more rapidly to a commanding position than the home companies. As a result, there is, at first, much local antagonism to foreign insurance companies, to which, partly, at least, a large share of the burdensome regulations which have been imposed in certain countries upon American insurance companies must be attributed. On the other hand, there can be no doubt but that during the past quarter of a century the tendency has been politically and socially to draw states together by the strong attraction of "common political sentiments, common aspirations, and common interests of a permanent kind." Insurance may rightfully claim to be one of the forces making for international harmony and good will.

All insurance is in the nature of a contract between the company and the insured, who is usually referred to as a policy-holder. The policy is the instrument which defines the respective rights and duties of the contracting parties, who are assumed to be aware of the fact at law that "a contract is a deliberate engagement between competent parties, upon a legal consideration, to do, or to abstain from doing, some act." Out of the contractual relations and its unavoidable disputes, misunderstandings, etc., has resulted a mass

of litigation and court decisions usually comprehended under the term "insurance law." A retrospect over the years since the "Court of Insurance" was established by Queen Elizabeth, and the sixty-odd cases tried during its entire history, to the present time would carry us far beyond our present purpose. Suffice it to say that the development of insurance law has gone forward with the growth of the business until this term now comprehends a variety of subjects unknown and unthought of at the time when Park and Marshall first published their works, about a century ago. Considering the enormous extent and highly complex character of the insurance business, it is a matter of surprise to find that, after all, the amount of litigation should have been so small.

The tendency has been constantly towards a contract free from restrictions likely to lead to litigation, until the insurance policy of to-day is practically a promise to pay a certain sum on the occurrence of a given event, except in the case of fraud. There has always been an unfortunate disposition on the part of the courts to construe a policy of insurance more upon the grounds of sentiment than upon the common law of contract and fraud. Mr. Davies, the eminent solicitor of the Mutual Life, has discoursed upon this matter in so able and interesting a manner that I take the liberty of quoting to some extent from his lectures on the law of life insurance:

"A suit upon a life policy is an especially difficult one to defend for several reasons. In the first place, there exists in this country a very general prejudice against corporations, which inclines a jury to view with favor any claim by an individual against one of them. Then the plaintiff is usually a widow or some other dependent of the deceased, and the contrast is strongly drawn by counsel *arguendo* between her poverty and the heaped-up millions of the defendant, the corresponding liabilities of the latter being carefully kept in the background. . . . And to these considerations must be added another of a much higher character, that natural human instinct which leads us all to speak well, and to endeavor to think well, of the dead. The fall of the curtain upon a human life covers at the same time his faults and vices, and adds enormously to the difficulty of establishing to the satisfaction of a jury facts which are notorious, but which blacken his memory. The very neighbors, who during a man's life denounce him as a worthless sot, will, when called as witnesses in a suit upon a policy on his life, reluctantly admit that he perhaps on rare occasions drank to excess, but not to an extent to impair his usefulness or affect his health. So when a suicide takes place the associates of the deceased at once begin to think that they had previously noticed symptoms of aberration of mind, quite sufficient to justify a strong suspicion of his sanity, although no such idea had ever occurred to them before the catastrophe."

The life insurance agent is, as a rule, an appointed employee of the company and under contract to perform certain services in return for a stipulated compensation. The employment of agents is so universal that but few policies are obtained otherwise than through these representatives of the company. Out of this condition some very important legal questions and problems have arisen, aside from the occasional difficulties and misunderstandings between the company and its employees. The agent, as a rule, is the only personal representative known to the insured, and the agent's position is thus one of very considerable responsibility and importance. The company naturally aims at a narrow limitation of the agent's powers as to the issue or modification of the contract between the company and the insured, and most of the policies issued contain a clause to the effect that "no condition, provision, or privilege of this policy can be waived or modified in any case, except by an indorsement signed by an executive officer of the company."

Insurance in its relation to public policy presents some very interesting problems of law and jurisprudence. A policy of insurance is issued upon the faith of the statements made in the application for insurance, and the applicant is required to warrant the truth of his statements. The effect of warranty is to insure the accuracy of the state of affairs alleged in it; and consequently the greatest care in making a declaration of them is requisite. There has been a considerable amount of litigation and resulting decisions of the courts on the question of concealment and misrepresentation, but as a rule the decisions have been in favor of the insured. It should be manifest that it is contrary to public policy to encourage fraud, concealment, and misrepresentation, by means of which insurance is obtained under conditions which would have precluded the issue of the policy had the facts been truthfully stated to the company. A common form of misrepresentation is as to the present state of health of the insured, where even the most advanced methods of medical diagnosis cannot establish with entire accuracy the facts at the time the application for insurance is made. Losses are thus sustained by the companies to the injury and disadvantage of the honest policyholder, and by this much the true progress of the business is retarded. A strict construction of the statute of frauds is, therefore, one of the most certain means of advancing life insurance interests.

The economic theory of risk and insurance has only received the incidental consideration of writers on economics and social problems, with the notable exceptions of Willett and Macleod. This is unfortunate, for insurance, one way or another, reacts upon the whole economic life of the people, and there is no hope of a rational political economy until *all* the elements of social and economic progress are taken into account. The economic value and utility of insurance

are important and proper subjects of economic inquiry, and the immense progress of the business demands the impartial and critical consideration of qualified experts in economic and social science. The view of Macleod that "annuities or rights to receive a series of future payments" are negative economic quantities, under which term he comprehends all instruments of credit, shares in commercial companies, policies of insurance of different kinds, etc., does not seem to have been accepted by other writers on economic theory.

The earlier writers on the investments of the working-class gave considerable attention to life insurance and its relation to the general welfare. Gregg, among others, wrote in 1851, or three years before the practical beginnings of industrial insurance in England, that "life insurance policies offer one of the most important channels of investment for the savings of all classes;" and he adds, "Of all modes of employing small savings, there is none which we should so earnestly desire to become general among workingmen; none which appears to us so deserving of the fostering care of the legislature; none which, if universal and habitual, would do so much to diminish those cases of utter and helpless destitution which press so heavily on the resources of the community in the shape of poor-rates, and which are the fruitful parents of a long progeny of calamity and crime."

The progress of insurance since this was written challenges the admiration of the world. In the United Kingdom the industrial companies alone, excluding collecting and other friendly societies, have now some twenty-two million policies in force on the lives of workingmen and their families. The question raised by Professor Falkner as to whether "the growth of insurance in recent years has been mainly among the well-to-do," can be emphatically answered in the negative. In fact life insurance, almost from its inception, has met with greater appreciation among those who, for want of a better term, we speak of as the working-class. This aspect of the business is one of economic history rather than theory, but here again we find that, with few exceptions, writers on the progress of economic and social institutions have made little of a fact which is none the less of profound economic importance and significance.

The study of insurance history and the history of associations, guilds, and friendly societies, is a most instructive chapter in economics. Far back into ancient history careful students of commerce and navigation have traced at least a semblance of our present form of marine insurance. Anderson's *History of Commerce* contains some very suggestive illustrations of a possible connection of present-day methods to those of an earlier and almost forgotten time. Turner, in his *History of the Anglo Saxons*, and Eden, in his *State of the Poor*, throw much light on primitive methods of solving social problems

in conformity to the principles of association. Walford, in his work on *Gilds*, and Toulmin Smith, in his great work on *English Gilds*, with the introduction by Brentano, are indispensable sources of information to the student who would rightly understand the foundations upon which the present massive structure of insurance rests.

But other materials of great value are readily available to the student of insurance and economic history. The great work of Walford, unhappily not completed beyond the letter H in the *Insurance Cyclopadia*, published between 1871 and 1880, is a monumental work of human industry and learning. Of more recent works on insurance history I may mention Martin's *History of Lloyds and Marine Insurance in Great Britain*, published in 1876; the century *History of the Insurance Company of North America*, published in 1885; the semi-centennial *History of the New York Life Insurance Company*, published in 1896; the quarter-century *History of the National Fire Insurance Company of Hartford*, published in 1897; the century *History of the Norwich Union Fire Society*, published in 1898; the *History of the Prudential Insurance Company of America*, published in 1900, and finally the half-century *History of the Springfield Fire and Marine Insurance Company*, published in 1901. I must also not fail to mention a reprint of *Documents Relating to the Early History of the Scottish Widows' Fund and Life Assurance Society*, published in 1901. The student of economic history and economic institutions will find much of value in these volumes which will aid him towards a more correct interpretation of the factors which have made for social progress during the nineteenth century.

Any effort to trace the origin and growth of insurance must necessarily take into account the development of navigation and commerce during the last three hundred years. Evidence is not wanting that even among the nations of antiquity marine insurance in some form or other was not wholly unknown. Park and others have traced the beginnings of marine insurance to very early periods, but it has remained for the last three centuries to develop the system to its present state of universal utility. Even the most casual study of the history of navigation and commerce reveals the immense advantages resulting from the practice of marine and fire insurance. In the words of M'Culloch: "Without the aid that it affords, comparatively few individuals would be found disposed to expose their property to the risk of long and hazardous voyages; but by its means insecurity is changed for security, and the capital of the merchant whose ships are dispersed over every sea and exposed to all the perils of the ocean is as secure as that of the agricultural risk. He can combine his measures and arrange his plans as if they could no longer be affected by accident. He has purchased an exemption

from the effects of such casualties; and applies himself to the prosecution of his business with that confidence and energy which nothing but a feeling of security can inspire."

The principle of insurance in its application to commerce is, however, no longer limited to marine and fire insurance. The last fifty years have seen the practical development of the insurance idea in various other directions, of which I may mention the following: Accident, health, and employers' liability insurance; fidelity, surety, bond, mortgage, and title insurance; plate-glass, elevator, and boiler insurance; hail, windstorm, and tornado insurance; and finally, live-stock and burglary insurance. All of these have assumed the character of instruments of commerce and are in theory and fact an indispensable element of the commercial development of the present age.

The present-day tendency to industrial organization and the combination of capital is reflected in the status of the insurance business of the United States, which has followed the general commercial trend of the age. Of the ordinary life insurance business, six companies have 62 per cent of the total insurance in force; of the industrial business, 94 per cent of the policies are with three of the companies transacting this form of insurance; and of fraternal insurance, so-called, 64 per cent of the membership is in five of the principal organizations. The resulting gain has been very considerable, especially in the direction of enhancing the general security of the business and public confidence in this form of individual and family protection. This tendency has not operated injuriously to the development of a healthy spirit of competition, which may be illustrated by the fact that there are to-day seventy-nine ordinary and thirteen industrial insurance companies transacting business in the United States. The problem of wealth and its distribution may be summed up in the statement by Thompson that "the property of the most numerous class, that is, the poorest, is coming evermore to the front as a great problem of modern statesmanship." Life insurance is to-day one of the most important factors in the redistribution of wealth, and perhaps of all methods the most equitable and effective. It reaches every stratum of society and enables the poorest to provide for the future a sum of money which in every sense of the word represents capital obtained by individual efforts as the result of habitual saving and prudent self-denial. The insurance companies collect these savings in small amounts, which range as low as five cents per week, or assume considerable proportions per annum; the accumulations form the assets of the companies and as such they become available for profitable investment in productive industries and trades; they are redistributed through payments to policy-holders as claims or matured endow-

ments or annuities, in sums which range from an amount sufficient to pay for a burial to returns which represent a considerable fortune. As Walter Bagehot said some years ago, "People insure their lives who save in no other way," and the vast sums accumulated by life insurance companies, now exceeding two billion dollars, represent an amount of economic security and evidence of an effective adaptation to the exigencies of modern life without a parallel in economic history.

The field of insurance is primarily the city and surrounding territory, but by degrees the more sparsely populated sections of the country have become available in consequence of the development of the science of transportation. From 92,000 miles in 1880, the railway system of the United States has grown to over 200,000 miles in 1903, opening immense areas to settlement and leading to the subsequent development of cities and towns, which necessarily contribute toward the further extension of every form of insurance. The remarkable development of electric railways has opened large sections of the agricultural regions previously outside of the sphere of profitable business operations. Railway and navigation companies employ a large number of men exposed to a considerable accident liability, which requires special consideration. While great improvements have been made in railway transportation tending to diminish the mortality from fatal accidents, especially in connection with the coupling and uncoupling of cars, the mortality of certain classes of railway employees remains very considerably above the normal of men of corresponding age employed in less dangerous occupations. There has not been the reduction in the death-rate which earlier discussions and the passage of the laws relative to the prevention of accidents seemed to warrant. The problem remains one of serious concern to insurance companies transacting either a life or accident business, or both.

In still another direction are insurance companies interested in transportation science, and that is the opportunities for safe and profitable investment in railway bonds and mortgages. An incidental result of great importance has been the opening of new agricultural areas with a corresponding opportunity for profitable farm loans, which are the most advantageous and satisfactory investment of insurance companies, if made with the necessary knowledge of local conditions of soil and climate. There is, therefore, abundant evidence of the close relation of the science of transportation to the science of insurance.

Banking, currency, and public finance are fundamental factors determining insurance progress. With more than \$2,000,000,000 of assets invested in interest-bearing securities, the companies have a vital stake at issue in all questions of sound money, a stable currency,

and healthful trade conditions. Of the assets of the companies, about 75 per cent are securely invested in bonds, stocks, and mortgages, including every form of approved federal, state, and municipal indebtedness, first-class railroad bonds, farm loans, etc. The necessity of earning a certain rate of interest demands the most experienced judgment in making these investments and a watchful eye on general banking and trade conditions. All of the great financial reform measures by which this country has reached its preëminent position in the world's money market—the National Banking Act of 1863, the resumption of specie payments in 1878, the defeat of the free silver craze in 1896 and 1900, and, finally, the passage of the Gold Standard Act—have contributed to the progress and stability of life insurance during the past forty years. In fact, such progress would have been out of the question as long as there existed “great dissimilarity in the laws governing banks in the several states, precluding uniformity, security, and safety.” Hepburn points out that, in 1861, “there were then some seven thousand kinds and denominations of notes and fully four thousand spurious or altered varieties.” It is not a matter of surprise that under these conditions, between 1851 and 1861, the actual increase in life policies in force should only have been 30,600.

But the influence of life insurance extends to every aspect of finance and trade. With its necessarily intimate relation to banks and trust companies, life insurance assumes the position of a regulating medium to which in no small degree may be attributed the more perfect control of the money market in hours of uncertainty and impending financial disaster. If crises and depressions are to-day a more remote element of business probability, and if this is due, in part at least, to “the greater skill and prudence exercised by bankers as the result of experience,” I do not go too far when I hold that this gain is due in a large measure to the fact that there are few important banks and trust companies which have not on their boards of directors one or more men who are also executive officers of life and other insurance companies. Our financial history of the past ten years shows conclusively the influence of conservative life insurance finance as a restraint and preventive of a recurrence of the disastrous series of panics between 1825 and 1893.

Sociology and social science, including all the more important divisions, is so comprehensive a term as to preclude consideration in detail. Social structure alone, as revealed by the census and other statistical investigations, bears a more or less direct relation to insurance development and progress. Census inquiries are now made with more skill and accuracy than heretofore, and every new investigation brings out new facts and tendencies of society in the process of evolution from homogeneity to heterogeneity. The

mere statistics of past and present population, its distribution by rural and urban communities, its composition by sex, age, color, nativity, and occupation, are all elements of a determining nature which it is necessary to know for the more intelligent control of insurance practice. Without an accurate knowledge of the population and its distribution by age and sex, no life-tables could be worked out for the general population, and without a careful analysis of the facts of physical and social environment, no definite business policy could be established.

We may briefly consider the relation of insurance to the family. Life insurance as a social institution primarily contemplates the *certain* and effective protection of widows and orphans, or, in other words, an extension of conjugal duties resulting from marriage under the existing conditions of modern life. Many of the earlier insurance companies were, in fact, called "Widows' Schemes," or "Widows' and Orphans' Assurance Societies," or, in the words of Price, "Institutions for the Benefit of Widows." The biological problems resulting from marriage and its relation to insurance are of much importance, and I may point out that among the most involved calculations of insurance practice are those of survivorship in marriage. Interesting data and calculations on this subject are to be found among others in a comprehensive work on the *Madras Military Fund*, which includes observations on the mortality of wives, the rate of mortality and remarriage among widows, wives' chance of widowhood, etc. Westermarck has contributed the most important investigations on the "Statistics of Marriage," derived from Danish data, but he has also a discussion on the subject in his treatise on *Mortality and Morbidity* which, unfortunately, has not yet been translated into English.

Considerations of the chances of survivorship in marriage, the well-established lower mortality of wives than of husbands, the practical certainty of surviving children, point to life insurance as the most effective method yet devised to prevent suffering and dependence upon the charity of others. "A family," wrote Professor Sumner, some twenty years ago, "is a charge which is capable of indefinite development," and whatever may be its ultimate evolution, there can be no question but that life insurance acts as a conserving factor in human marriage and develops the altruistic impulse of the husband toward the wife and of the father toward the children. In the homely language of insurance parlance: "Wives often object to insurance, but widows never do," and I may add the glowing tribute of Gilbert Currie, one of the earlier writers on insurance, that "if we only could call from the dusty archives of these venerable institutions the huge piles of molding ledgers, and extract from their records, what tales would be unfolded of miseries pre-

vented, griefs and sorrows soothed, the briny tear wiped from off the cheek, the balm of consolation imparted, the widow's heart made to rejoice with gladness, and the helpless orphan to sing for joy! This is no flight of the imagination, no picture of fancy, no figure of speech; it is sober reality, the voice of experience, and the simplicity of truth."

Of the problems of social well-being there are few of greater importance than the development of voluntary thrift and resulting economic freedom of the masses. What Mill calls "self-regarding actions" and "actions which are not primarily or chiefly self-regarding" admirably illustrates the fundamental difference between insurance and mere saving habits. The hope of an earlier day has been realized, and life insurance at the outset of the twentieth century is a universal provident institution. The view prevails, as expressed by Marshall, that "at last we are setting ourselves seriously to inquire whether it is necessary that there should be any so-called lower class at all." Life insurance precludes the necessity of abject poverty and pauperism. Life insurance eliminates, for all but the lowest and most depraved, the possibility of a pauper burial. It has placed within the reach of the large majority at least a temporary barrier between death and dependence and the poorhouse. We are still far from having realized all that is implied in the insurance idea and we still suffer much from an unsound social philosophy. We are constantly in danger of delusive schemes of social reform not based on individual effort and voluntary adaptation to existing economic conditions. The tendency, however, I believe, is in the right direction, and every year sees an advance toward a higher degree of social well-being. Social reform of the right kind must come from within; must be the result of individual character and individual struggle. This is the social aspect of insurance,— that is, prudently to economize, to save, to invest, to insure for the financial protection of self and others in old age or at death. There is nothing in the annals of the poor more remarkable than the rise and progress of provident institutions, from burial clubs and friendly societies to the different varieties of life insurance adapted to every stratum of society. For wage-earners, or the industrial element of the population, industrial insurance may rightfully claim to meet the requirements of Currie of "its being such a system as the circumstances and conditions imperatively require, namely, the provision of means whereby they are enabled to help themselves and their families without depending upon the assistance of their neighbors or compromising in the smallest degree their independence of character." I may also quote his conclusion, applicable to the conditions of to-day, that "every poor man is now called upon to fulfill his most sacred obligation, an obligation as binding upon the hard-working,

honest man as upon the most opulent individual, parent, or husband in the world — to his wife and his helpless offspring." It is the mission, the aim, and the object of insurance, primarily and chiefly, to diminish dependence and increase by individual effort, frugality, and forethought the social and economic independence of the masses.

While insurance may rightfully claim recognition as a science, as a business pursuit it is still far from being a professional career. The general aspect of insurance as a career or business pursuit has been discussed in much detail by the Honorable John F. Dryden in a paper contributed to a series of articles on the subject to the New York *Tribune*. Of late years insurance education has been introduced into colleges and universities, sometimes in connection with general instruction in commerce and banking, as, for illustration, in the Charter School of Finance, University of Pennsylvania, and in the University of Wisconsin; or occasionally as an independent course of instruction, as, for illustration, at Yale. In a general way, however, it is yet too early to speak of insurance education as professional training. The general method of instruction in insurance is still of too elementary a character, the elements of success in office and field administration are too ill-defined, and the principles of business conduct are too far from being reduced to scientific uniformity to permit us to speak of insurance as a professional career.

But as a business pursuit it is deserving of the most serious consideration, and I may repeat the glowing tribute to the insurance agent by Elizur Wright that "among the honorable workers in the civilized world to whom the public as well as the insured will die indebted, we give faithful and successful life insurance agents a high place. It is hardly possible to believe that a life insurance agent can achieve any long-continued success without bringing into action some of the noblest qualities of a sterling man, and no field that we know of is more inviting to an ambition that would devote the best of talents to the benefit of society at large and individuals in particular."

A prerequisite for an effective university education is the need of comprehensive or approximately complete insurance libraries. All of the more important companies have libraries of more or less extent on insurance, statistics, and related sciences, but the three libraries deserving of special mention are the Walford collection of the Equitable Assurance Society, the Bibliothèque de l'Utrecht, and the library of the Prudential Insurance Company of America. The Prudential Library of insurance and statistics includes over twenty thousand volumes and pamphlets, supplemented by an extensive collection of data on every subject relating to insurance science. The Boston Insurance Society has a good library, of which a catalogue has been published. The Life Insurance Company of Utrecht has published a valuable catalogue, which has been reissued in a

fifth edition in 1903. No comprehensive bibliography of insurance exists, but Pocock, in 1840, published a small volume, which is now extremely rare, including a list of the more important works on insurance, the doctrine of chances, gambling, lotteries, etc., which had been printed up to that time. The list, however, is far from being complete. Probably the most comprehensive collection of works on insurance and related subjects is the library of the Institute of Actuaries of Great Britain.

The relation of insurance science to religious agencies and religious influence, both individual and social, is implied in the earlier discussion of the ethical sanction of insurance as a method of social amelioration. Professor Clark has well said that "certain modern religious problems need to be apprehended as well from the material as from the spiritual side," and of these life insurance has, almost from its inception, received the sanction and active encouragement of the Christian Church. The first name on the list of the incorporators of the Amicable Society for the Insurance of Lives, organized in 1705, is that of the Bishop of Oxford. The first comprehensive and practical work on life insurance theory was published in 1762 by the Rev. Richard Price, a Unitarian clergyman. Some of the earliest works on annuities and reversions developed out of considerations of the value of church leases and inquiries into the tenant rights of church and other foundations. Some of the first steps in the direction of improving the tables and premium rates of burial clubs and friendly societies were made by ministers of the Established Church, and I may mention the Rev. Mr. Becher, whose works are still valuable for instruction and reference. It has been for many years the practice in England to organize burial clubs and insurance societies of children of Sunday-schools, which, as far as I know, have served and continue to serve a useful purpose. The first two active insurance organizations in the United States, one of which is still in existence, were the Presbyterian Ministers' Fund, established in 1759, and the Society for Episcopal Clergymen, established in 1769. An insurance company for clergymen has been in existence in London since 1846, and among the efforts of the Salvation Army I may mention the Industrial Insurance Department, which has made satisfactory progress.

These illustrations will suffice to show that the insurance idea has the sanction of the Church and religious approval generally, although some have held and still hold that "these institutions are conducted on a principle contrary to a trust in Providence." In answer it has properly been argued that "life insurance takes its rise in one of the most respected features of human nature — foresight, or a provision against contingent evils; and having most particularly in view the succor of the widows and fatherless, it is essentially a moral and

humane institution. Life insurance should not, therefore, be considered as an interference in any degree with the course of Providence, which some rashly assume it to be, but, on the contrary, the taking advantage of a means kindly offered by Providence for our benefit." This is the view which prevails at the present time and which gives religious as well as moral sanction to the development of life insurance as a universal provident institution.

I have only given consideration to the most important departments of science in their relation to insurance, but had time permitted, a more comprehensive survey would have disclosed other important relations tending to confirm the view that insurance is by right entitled to the position assigned to it in the classification of the sciences as adopted by this Congress. As a comparatively new department of human inquiry and action, insurance found no place in the earlier classifications by Bacon, Comte, and Spencer, but no scientist of the future and certainly no economist can rightly ignore what, in time, will become a tremendous force making for the material well-being and the economic independence of the vast majority of civilized people in all portions of the earth.

It is equally certain that the insurance manager of the future will give more and more consideration to the teachings of both the abstract and concrete sciences, with the aim to adjust the practical administration of insurance to sound scientific theory derived from extensive investigations into the vast range of related sciences. For the future conduct of the business the demand will be for trained minds, qualified to deal with problems more complex and involved than the problems and difficulties of the past. As it has well been pointed out by the Honorable John F. Dryden in a paper on "Insurance as a Career": "In a general way it may be said that the scientific temperament is most likely to lead to success in home office administration, for scientific training, as well as all higher education, distinctly qualifies a man for administrative responsibility."

Insurance is to-day the foremost social institution of civilized countries. The business has assumed enormous proportions, and the tendency of the "insurance idea" is toward an ever-increasing area of general usefulness. To both the individual and the state, insurance is to-day an indispensable method and means for the maintenance of our standard of social security and progress. In the struggle of the masses for economic freedom and a more equitable distribution of wealth, insurance aids and sustains all other forces making for this much-to-be-desired end. Insurance in its final analysis is simply a business method to make the world a better place to live in, than which no aim or purpose could be a higher or more worthy one.

PRESENT PROBLEMS IN INSURANCE

BY BALTHASAR HENRY MEYER

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PRESENT problems in insurance are both theoretical and practical. In their theoretical aspects they have been treated in the address of my colleague on the relation of insurance to other branches of knowledge. This paper aims to deal chiefly with the more practical aspects of insurance problems in which the policy holder and the public have an interest. The point of view will be the American and only incidentally will references be made to foreign experiences and conditions. Foreign countries offer much that has value for purposes of study, and many an important lesson may be learned from the manner in which the business of insurance has been conducted in other countries and the relations which the various governments have maintained towards this business. Limitations which must obviously be imposed upon this paper make it necessary to confine the discussion primarily to conditions in the United States.

In some respects the problems with which the insurance world has been concerned ever since the institution began to assume definite form and affect a considerable part of the population, are also the insurance problems of to-day. Numerous transformations and additions have been made since the first struggles of the experimental stage, yet the problem of organization is still before us. The perplexities and diversities of the rise of the agency system have disappeared, but the agency system itself requires the attention of the best minds of the day, with the view of bringing about adjustments more in the interest of the policy-holders and of a sound public policy. The gloom of wholesale failure has been dispelled by the light of sound finance; nevertheless the wild-cat organization still prospers and the organization which makes impossible promises is passing from the scene with painful slowness. Policy contracts have been made more uniform, but the multitudinous details of endless options which are spread before the policy-holder befuddle even the

sanest minds. State regulation and supervision have been established the country over. It lies with the future to reduce these many divergent systems of supervision to one uniform and harmonious whole. One branch of insurance after another has been developed, and a number of new ones are at present in an inchoate state. Many more must be added before the entire field has been covered.

These introductory remarks need not be extended to greater length in order to suggest the variety of the problems which exist in the vast field of insurance. Without further preliminaries, attention may be directed towards one of the most important present problems, namely, that of making insurance an all-inclusive institution — all-inclusive with respect to the population insured and all-inclusive regarding the contingencies insured against.

The total number of policies in force in the old line companies has been estimated at nearly 5,000,000, with an average policy of about \$2500. The total number of persons carrying industrial insurance has been estimated at nearly 14,000,000, with an average amount of insurance of \$135. The membership of the fraternal societies is nearly 4,500,000. In addition, the insurance features of labor organizations and relief associations must be considered. The total number of persons who carry protection in one or more of these three great groups aggregates nearly 25,000,000. Considering that this estimated number of policy-holders includes many duplications, and that industrial insurance statistics include not only the bread-winners but all members of the family, it is obvious that many millions are without the protection of insurance. If insurance is a good thing, if it is in the interest of public and private welfare that the individual should be protected in this manner, — and I assume that it is, — then something should be done to draw into the insurance membership every person who has not won a position of economic independence so far as it is possible within the realm of human action and foresight to be independent. The exempted class is relatively insignificant, and what may constitute the tests of exemption from insurance is of little moment in comparison with the problem of ways and means which must be devised for bringing into the insurance fold the millions who are now recklessly, thoughtlessly, or criminally assuming risks for which they lack both economic and moral qualifications. Men frequently take their lives into their own hands. Sometimes this is courageous; sometimes foolhardy; always hazardous; but nothing can atone for the crime of taking into one's hands the lives of others, unless these hands have the support necessary for the successful performance of those duties upon which the safety of the precious charges depends. Over the greater part of Europe the problem before us has been solved through the establishment of systems of compulsory insurance, much of which is state insur-

ance. The people of the United States have thus far shown little inclination towards an extension of state functions comparable to the functions exercised by European states. Except within certain well-defined limits such an extension may not, at present at least, be in the interest of the population at large, whatever the future may bring and irrespective of contemporary symptoms indicative of a possible change regarding public sentiment upon certain phases of this problem. If it is in the interest of the whole population that every head of a family and every one who aspires to become such should consciously and systematically make provision for the uncertainties of life, then it becomes the function of the state to work for this end, for no arbitrary considerations can limit the functions of the state, which are coextensive with human welfare. While the state cannot say to the citizen, "You must insure in this company, and for such an amount," it can say to him, "You shall insure somewhere, and for a minimum amount." The general welfare clauses of our constitutions provide an adequate foundation for such mandates. Under existing conditions, compulsory insurance would mean insurance in established private companies or companies still to be organized. Most men find ample choice among the many excellent companies. Compulsion implies *all* men, and for those who, for one reason or another, might refuse to take out insurance in an existing company the state would obviously be obliged to provide the facilities for insurance. Admit the principle of compulsion and direct state action must be accepted as its corollary. In other words, compulsory insurance means state insurance for those who refuse to take out the legal minimum in existing institutions. This is compulsory insurance, but not insurance compulsion, which would coerce every eligible citizen into a specific organization. The German law expresses this difference admirably in providing for *Zwangversicherung*, but not *Versicherungszwang*. Compulsion is generic, and the limited state action just suggested is specific for that part of the population which requires specific treatment. However divergent men's views may be with respect to the extent of state functions, there can scarcely be much difference of opinion regarding the necessity of some degree of state compulsion if we admit the universality and inclusiveness of the principle of insurance. This necessity exists, and for proof of its existence one may point to the swollen figures of charity and relief societies. There is scarcely a community which has not its poverty-stricken mothers and children left unprotected when the breadwinner was stricken down. Everywhere about us we see the evidences of want and poverty resulting from accidents for which no one may have been directly responsible, but which, nevertheless, cripple and annihilate homes. Whatever the scope of compulsory action may finally be, it must, above all,

include accident insurance. As consumers and as taxpayers the vast majority of men will cheerfully contribute their share towards compensating the wage-earner who has become completely or partially incapacitated in consequence of an accident for which no one may be responsible. Where such responsibility exists, employers' liability and laws governing negligence can be invoked.

In view of the many opportunities offered by existing insurance institutions, it is not probable that the state will be compelled to perform the functions of an insurance company to any very great extent. The principle of compulsion, however, will oblige the state to provide insurance for the uninsured residuum, but for no more. Whatever may be required of the state in order to provide for this residuum is fully justified by the important social and economic consequences of this form of state action.

When arguing in favor of more favorable laws governing taxation, representatives of insurance companies generally allude to the philanthropic element in insurance, because the companies assume a burden which the state would otherwise be called upon to carry in the form of aid and relief for dependents. This argument applies with even greater force to state compulsion and the consequent saving in expenditures for the poor and dependent. Insurance as a preventive and remedial institution cannot be complete without direct action by the state. On a limited scale state action has already been resorted to in municipal insurance of firemen, policemen, and other special classes, and a compulsory law of Maryland has recently been declared unconstitutional.

Without attempting to establish a hierarchy of insurance problems, in which every question shall succeed every other in logical succession and in the order of its relative importance, next to the problem of making insurance an all-inclusive institution may be placed the problem of the better adaptation of the policy to the policy-holder. Jefferson is credited with having said that a fool can put his coat on better than a wise man can do it for him. A first-class agent sees to it that his client selects none but the best-fitting policy; but it is not difficult to demonstrate that for a considerable part of the agency brotherhood it is assumed as a fundamental and determining consideration that the interests of the agent's pocketbook are in absolute harmony with the interests of his client. Hence we find men hopelessly attempting to carry high-priced investment policies, who would be served much better by purely protective policies. If, after a full, accurate, and truthful exposition, a client deliberately selects an ill-fitting policy, the policy-holder must bear the consequences, for no invention has yet eliminated the fool. But when an agent deliberately talks half-truths or falsehoods with a view to influencing a prospective policy-holder in the direction of

the agent's purse, the company which he represents thereby becomes morally responsible for the consequences. Much can be said in favor of establishing legal responsibility in addition to the formal policy contract in all cases where misrepresentations have been made to the client. For illustrations of such misrepresentations one needs only look about in any community of some size. It is probably unjust to express ethical judgments regarding any great number of men taken collectively, and the judgment here indicated does not apply to thousands and thousands of agents. It does apply to others, and a greater feeling of responsibility, leading to proper official action on the part of the administrative authorities of companies, will do much towards purging the insurance fraternity of this harmful element.

An unmistakable indication of the necessity of insisting upon the better adaptation of the policy to the policy-holder is found in the widespread and deep-seated demand for "cheaper insurance." Inquiries among agents who keep in touch with the masses of the common people elicit the reply that this demand is emphatic and imperative. By cheaper insurance these people do not mean insecure insurance, which is no insurance, but insurance which will afford them the greatest protection at the least cost. No reference is made here to so-called insurance or protection which lacks the scientific foundation of all insurance. The cry for cheaper insurance, which is most emphatic during periods of depression, emanates in part from a reaction against the excesses of so-called investment insurance. There exists a great demand for investment insurance, but the demand for pure protection is greater and includes larger numbers of the population. There is no occasion for quarreling with the man who advocates investment insurance and the man who wants to buy it. Each individual may well be left to the dictates of his own judgment with reference to the question. If he prefers to enter into a contract with an insurance company for the care of his funds, there is no reason why he should not be permitted to do so. It is essential, however, that the investment feature of insurance should remain differentiated from the purely protective element, lest the branch ruin the tree. Protection is the institution; investment is an incident of its administration. The incident should not be permitted to obscure the institution.

In further proof of the popular demand for cheaper insurance and for insurance at retail, the marvelous growth of industrial insurance and the enormous expansion of the fraternal system may be cited. The industrial companies abandoned the struggle of three dogs over one bone and pushed out into new fields where there were many bones and no dogs. Industrial insurance extended the fields of protection into the ranks of the humbler but highly self-respecting

and respectable classes. The methods of industrial insurance in collecting small premiums at brief intervals are expensive and wasteful. The army of house-to-house solicitors and collectors must be clothed and fed. But we cannot suddenly unmake the character and habits of mankind. Present methods of industrial insurance are adapted to human nature and the existing state of society. Insurance methods and conditions of society may change together, and with the lapse of time improved methods may exert an increasing beneficial influence upon the attitude of society toward insurance.

Regarding the gains in membership of fraternal societies, the reports of insurance commissioners show that in many parts of this country these gains exceed the gains made by old line life companies. In part, the gains in fraternal membership are doubtless the result of natural growth and the more or less artificial multiplication of orders; in part, they are probably due to the wholesome reforms which many of these societies have instituted; but to a large extent these gains must probably be attributed to the appeal to prospective members, successfully made, as the figures show, that old line insurance is too expensive and that fraternal insurance meets the needs of the man in moderate circumstances. No opinion is here expressed relative to the merits of this appeal. The fact of this appeal, however, must be observed. This fact carries with it a note of warning to the old line companies that they may not lose sight of the great central idea of pure protection; and to the fraternal orders that they may be prepared to assume and faithfully discharge the duties which they have assumed and are desirous of assuming. It is a matter of common knowledge that scores of fraternal orders are to-day openly and persistently violating the most elementary principles of protection. To bring about changes in legislation which shall compel every fraternal order to observe and rigidly obey these elementary principles is one of the greatest problems in the insurance world of to-day. The spectacle of conventions to determine rates of premium and mortality tables by popular vote is as absurd as a popular vote to determine the latitude and longitude of the magnetic pole. It is more than absurd; it is criminal. A popular vote on the location of the magnetic pole is simply nonsense, and science continues to advance in spite of the nonsense. A popular vote for the formulation of mathematical principles upon the accuracy of which the welfare of millions of our population may depend is arrogant ignorance deserving of the penitentiary. To continue to solicit membership at rates which have been condemned by competent authority is at least as culpable, if not worse, than to receive deposits in a bank after the same is known to be insolvent. And the latter has long been a criminal offense. Some fraternal orders have employed competent actuaries; a small number have followed the

advice given by these actuaries; but great numbers of them are still marching on to certain ruin under the impulse of morbid appeals to brotherly love and sentimental twaddle about philanthropy. Everything that has been said thus far regarding fraternal societies is meant to apply only to that portion of the fraternal system which offers definite sums of money to beneficiaries on the occurrence of certain contingencies in return for contributions made irrespective of the terms which the various societies may employ in designating these features of their system. In other words, these remarks apply exclusively to fraternal orders which are also insurance companies, and which no amount of sophistry can make anything else. No reference is made to that other portion of the fraternal world which practices genuine benevolence and brotherly love, and which expends millions of dollars annually in charitable and relief work, but which does not do an insurance business. A root and branch reform of some kind is needed for the first-named class of societies. Possibly a system of voluntary registration similar to that which eventually effected a rejuvenation of British Friendly Societies may be expedient, provided it is distinctly understood that unregistered societies are of uncertain merit. Much can even be said in favor of compulsory registration, provided a reasonable length of time is given to the unsound societies in which to do their house-cleaning. Many leaders among the fraternal orders have recognized the urgency of reform, in evidence of which the proceedings of the fraternal congresses may be offered. In fact, the volume of proceedings of the last congress stands in strong contrast to a similar volume of ten or fifteen years ago in the abundant evidences of a vigorous reform movement. But the organization of the societies is such that reforms are unusually difficult in their execution, and a single effective stroke of the law would suggest itself as the most feasible and certain method of ending a great public wrong. Granting a thorough reform of this phase of the fraternal system, its future prospects appear to be unlimited. Mutuality, self-help, rigid economy, thorough democracy, personal sympathy, genuine protection, are all in the interest of public and private welfare.

The question of mortality experience and rates is not confined exclusively to fraternal societies. On the other hand, some of the criticisms passed by fraternal societies upon the old standard mortality tables can be shown to be partially just by the published experiences of the companies and the studies of actuarial societies. During the year 1903, for instance, the companies doing business in Wisconsin saved approximately \$18,000,000 out of an expected mortality charge of over \$102,000,000, while on three and one half millions of expected annuities they lost \$175,000. These facts show that the assumed mortality was much higher than the actual rate of

mortality. Whether this margin of approximately 20 per cent is necessary in the interests of safety must be left to the actuaries. There are those who believe that so wide a margin is not necessary; and if the fraternal societies, by means of the homogeneity of their membership and the care of selection, can effect much more favorable experiences, so much the better for them. Great credit is due to the Actuarial Society of America for conducting the mortality investigation designed to show the actual risk incurred, on the basis of the past experience of the companies included in the investigation, in case of certain classes of policy-holders. This investigation has not only contributed to the greater accuracy of mortality statistics, but it has emphasized the relative degrees of healthfulness of certain employments, occupations, and habits of life, and thus it may exert a powerful influence upon the conditions under which men live and do their work. The investigation suggests the possibility of separate mortality tables for each important occupation, profession, or trade, with corresponding differences in the rates of premium charges, although the practical difficulties involved in the administration of the various classes may be insuperable. Perhaps this question should be excluded entirely from the scope of the present paper and consigned to the borderland between insurance and speculative philosophy. Equality of treatment among policy-holders cannot exist where men live under widely different sanitary and industrial conditions. It is in the interests of correct habits of life and wholesome surroundings that a special mortality rate be established for the greatest possible number of classes. It will then also be easier to deal equitably and intelligently with the problems of the sub-standard and special risks, and the insurance of women. All these classes must be dealt with if insurance is to become, as it seems it should, an all-inclusive institution.

The inequality among policy-holders due to different habits of life and conditions of employment suggests another source of inequality, namely, the inequalities in the proportion of the total risks assumed and benefits received arising from the different amounts of insurance carried by policy-holders in the same company. A single risk of a hundred thousand dollars is a very different thing from one hundred risks of one thousand dollars each. It has been ascertained that there are forty persons in the United States who carry more than \$500,000 of insurance. A company composed exclusively of policy-holders who carry, say, \$500,000 each, if large enough to enable the law of average to operate, would be perfectly equitable and safe. But no one will claim that forty is a number sufficiently large for the application of the law of average. Since these forty are scattered among different companies, the inequalities resulting from such abnormally large policies become even greater.

Most companies have established a maximum which they will not exceed in case of a single life. These maxima range from \$10,000 up, \$25,000 and \$50,000 being most common. The heavy policies are bound to operate to the disadvantage of the smaller policies in the same company unless the rate of mortality among large policy-holders is proportionately more favorable than the average; nevertheless an insurance man who attempts to convince a client that his company possesses superior merits on the ground that it has a number of heavy policy-holders stands on ground as dangerous as that of the fraternal society which, in a published circular, maintained that the death of a brother soon after his admission increased the financial strength of the society, because, under the rules of the society, this death led to the transfer of a certain sum to the emergency fund; while if the brother had lived and paid his contributions a much smaller sum would have been thus transferred! Theoretically, equality can exist only when the policies are all of the same size and the mortality experience is the same for all age classes. This exact equality is obviously impossible, and great numbers tend to rectify the errors as applied to individual cases. Different men want different kinds of policies in varying amounts. Where the variations are not excessive a practical and substantial equality is achieved. Where policy amounts are highly disproportionate, inequality and absolute injustice must follow. Attempts have been made to justify the large policy in a company composed overwhelmingly of small policy-holders. The multiplication-table rests upon neither conviction nor opinion.

It is an axiom of insurance that the assumed rate of mortality must be greater than the rate experienced by the companies; that the interest earned must exceed the rate assumed, and that the loading, or allowance for expenses, must be greater than the actual expenses. The last member of this tripod can no longer take rank among axioms, for although the companies have been struggling to keep down the expense rate, the cost of conducting the business has in many instances exceeded the loading for expenses. In case of the life companies doing business in Wisconsin, according to the published report of the commissioner of insurance, this excess amounted to over seven and one half millions of dollars out of a total expenditure of over one hundred and fifteen million dollars during 1903. This means either that the original allowance for expenses on the part of the thirty-six companies which exceeded their loading was inadequate or that the expense rate has become excessive. If the loading was sufficient in the first place, the additional funds required in conducting the business must have been secured from other sources. Chief among these possible sources are the savings from mortality and gains in interest on investments. Both of these sources create funds

which belong to the policy-holders, and their use for excessive and unnecessary expenses is a misappropriation of trust funds. The problem of the disposition of the surplus has been thoroughly discussed in a well-known insurance case still pending in the courts. It is asserted that under present methods the companies are not held to a rigid accountability regarding surplus funds, and that the accumulation of great surpluses for long periods of time is the chief, if not the sole, cause of all the evils which exist in the life insurance business. Without affirming or denying the validity of these assertions, there can be no reasonable differences of opinion concerning the desirability of a rigid accounting for every dollar held in trust for the policy-holders as a part of the surplus to be distributed during subsequent years. There are various types of policies providing for the accumulation of funds in the hands of the company for the benefit of the policy-holder or his beneficiaries. Policies generally provide for the distribution of these funds at the termination of specified periods of time. According to some, these periods of time should be short, say, one year; or, at least not to exceed three or five years. The representatives of this line of thought are opposed to every scheme of surplus distribution which projects the distributing period five, ten, twenty or more years into the future. Their opponents ardently defend long-term distribution periods. The practice of some companies furnishes a satisfactory middle ground between these extremes. Instead of distributing surplus funds annually or once in three or five years, they keep a careful account of the surplus earnings of every deferred dividend or analogous policy, usually apportioned on the contribution plan, and then make a single payment to the policy-holder at the termination of the period. Each policy-holder knows from year to year what his share in the surplus is; hence no amount of future extravagance or mismanagement can deprive him of this money. The company is not tempted to use the funds thus assigned to policies in paying excessive commissions or doing other doubtful things, because this practice would be detected. If a man desires to employ an insurance company to accumulate a single large sum at a future date from many small contributions, there is no reason why he should not do so. On the other hand, every consideration of good public policy demands a rigid accountability on the part of the companies. The plea that the accounting required under such a method is impossible for a great company may be met by the statement of fact that some great companies have been doing this very thing for many years. Strong arguments can be advanced in favor of short periods for the distribution of the surplus; but with proper restrictions the long period plans offer advantages which the short ones do not possess. The arguments are not all on one side.

Little unanimity of opinion exists regarding the equities of policy-holders in the reserve and accumulated surplus in case of lapse or a surrender of the policy. The early hard custom of absolute forfeiture has gradually given away to more liberal privileges; and, to-day, there are not wanting those who advocate perfect freedom of withdrawal and surrender. Where the policy is a contract of pure and mutual protection, the withdrawal of a policy-holder theoretically weakens the bonds which support the whole, and to this extent it appears to be in the interest of all the policy-holders to impose a moderate fine or surrender charge upon the defaulting member. The well-known argument of adverse selection or the withdrawal of the better risks with its concomitants is generally applied at this point. Where the policy, however, is a protective contract coupled with endowment or other investment features, a different treatment of the surrendered or lapsed policy is demanded, it being assumed in this discussion and taken for granted that any extra expense incurred by the defaulting member on the part of the company be charged to his policy. An examination of the columns of statistics headed "Lapse or Surrender Values" shows conclusively that many companies levy fines on the surrender of so-called investment policies which have no more justification than if a bank were to levy a fine upon the withdrawal of deposits. In fact, deferred dividend and similar funds are very much in the nature of bank deposits, and to fine the withdrawal of the one is as unjust as to make a special charge for the reclamation of the other. The justice and expediency of a reasonable surrender charge may be admitted for the reasons usually stated in support of such charges, reasons which, it should be remembered, are discredited by competent men who take a different view of the question, without sanctioning a practice of mulcting depositors which rests upon nothing but the arbitrary dictates of an insurance company and the extravagance of a bad administrative system. It is no justification of this system to say that the companies have been struggling with agency, publication, and other reforms, which have been considered many times. This abuse exists, and it will continue to exist until policy-holders rise against it and the attendant evils which it directly supports.

At various intervals in the history of company development in the United States attempts have been made to secure for a single company the legal privilege of engaging in a variety of enterprises. Within recent years this tendency has been, perhaps, the dominating one, and companies with *omnibus* powers are numerous in the industrial field. Among the companies which are devoted to the newer branches of insurance, such as fidelity, casualty, plate-glass, tornado, and other relatively recent developments, there are those which

attempt to do two or more kinds of business under the same charter and over the names of the same set of officers. It is conceivable that the same set of men may be able to undertake successfully different branches of insurance at the same time. It has been done. If it is to be continued in the future, good public policy, as well as the best interests of the insured, demands that the different branches of the business shall be managed by different companies, operating under separate charters, each legally restricted to one branch of the business, each responsible to the proper supervisory authorities, and each absolutely independent as a financial institution. This point should commend itself to the legislatures of the various states in which new charters are sought. On the part of the older insurance companies the mixing of functions on the basis of express charter provisions practically does not exist. Because of their enormous financial transactions these companies have, however, become to some extent affiliated with institutions organized for other than insurance purposes. Business affiliations of this nature are extremely common in the industrial world and constitute one of the distinct characteristics of modern economic development. When such affiliations of insurance companies arise naturally out of the necessity of investing great sums of money in the most profitable manner, consistent with security, and extend no farther, no valid criticisms can be raised against them. When, however, these affiliations of insurance companies become tantamount to the assumption of banking, transportation, manufacturing, or other powers, the interests of policy-holders as well as public morality demand a peremptory abrogation of such powers and a complete separation of the affiliated institutions. By adding the columns in Wolfe's *Investment Directory of Insurance Companies for 1904*, any one may ascertain that the insurance companies listed in the *Directory* own a total of about \$21,000,000 par value of preferred, and \$81,500,000 par value of common railway stock. They also own nearly \$26,500,000 par value of miscellaneous industrial stocks, of which nearly \$6,000,000 par value are preferred, and over \$20,000,000 common. Disregarding that part of the holdings of preferred shares which represents voting-powers, the exact extent of which cannot be readily determined, the common shares represent 100,000 votes, assuming that all are \$100 shares, in the election of officers and directorates of railway and industrial companies. To this extent the insurance companies concerned operate railway and manufacturing establishments. That this power is actually exercised, and occasionally with czar-like authority, can be easily confirmed by a visit to Wall Street. It may be argued that, having invested their funds in stocks carrying a franchise power, the insurance companies must participate in the management of the establishments represented by the shares held

by them in order to protect their own interests through the appointment of competent officials. It is a sufficient and final answer to say that no insurance company has a right to touch the shares of a company which requires the wisdom and experience of the insurance officials for its safe conduct. Shares of stock issued by a company with the least taint of a suspicion of incompetent or dishonest management condemn themselves as investments for insurance trust funds. There is positive, direct, and immediate danger in unrestricted insurance investments in the common shares of railway and industrial companies. Preferred shares may be as good as bonds or as uncertain as inferior common shares, depending upon the particulars of the case. It should be added, however, that the moderate market fluctuations of shares, unless the shares were purchased at too high a price, do not necessarily constitute valid objections to the investments in such shares, because the insurance company is interested not only in the security of the principal, but also in the certainty and continuity of the interest or dividends, and the rate of interest earned is not necessarily affected by moderate variations in the market price of securities. Investments in railway and other first-class bonds do not offer the objections inherent in investments in stocks for the reason that bondholders do not generally have anything to do with the management of the properties upon which the bonds are issued. The quiet influences which large bondholders may exert can scarcely be made the object of unfavorable criticism from the point of view of the policy-holder.

Before dismissing the question of the affiliation of insurance companies with other kinds of business, it is desired to direct attention towards the use of names in connection with some insurance companies, notably some of the newer or weaker companies. It is well known in insurance circles that men will permit companies to use their names as officers and directors when the man who carries that name may be absolutely ignorant of both the nature of the insurance business and of the standing of the company which the public is made to believe he directs. Long lists of "advisers" and "councilors" who, in a quiet way, become interested in the company on some "ground-floor plan" are published and scattered broadcast with the view of securing as policy-holders persons who will be influenced by the fact that certain names appear in the list of officers, councilors, or advisers. Sometimes these decorative persons are promised financial rewards, abstracted as robber-tolls from the premium payments of more honest policy-holders. All this wretched business is too contemptible to deserve more attention in this place beyond the exhortation that every citizen should do his utmost to secure legislation which will forever banish the dishonest insurance prospectus and the dishonest use of names in connection

with the insurance business. Existing legislation is inadequate to accomplish this. Legislation is not regarded as a cure-all, but within limits it can direct, shape, turn, encourage, or prevent. It can preserve and promote public interests where competition and self-interest, even in their enlightened form, tend to produce undesirable results.

Indeed, a survey of the insurance laws of to-day offers a variety of suggestions. The taxation of the companies rests upon no uniform rule of administration or principle of taxation. Inequalities, anomalies, and absurdities are everywhere apparent. The barbarity of reciprocal laws continues without abatement. The diversities in state legislation and the duplications and repetitions involved in state supervision needlessly harass the companies and drain their resources. Every analysis of the situation, undertaken from whichever point of view, points toward the great advantages of a single, fundamental federal code of insurance laws. This applies especially to taxation and supervision. The insurance business is overwhelmingly an interstate business. It is by its very nature subject to a great deal of publicity. It is a centralized business and, therefore, it is relatively easy for a federal authority to supervise it. No convincing arguments have yet been presented against a system of federal supervision. A federal authority could prescribe uniform reports and uniform rules concerning the general administration of the business. Possibly there are some points which could be left to the states. That is a matter of detail which can doubtless be adjusted without difficulty when the time comes. A single examination of a company would then authorize it to do business in every state. At present a company may be compelled to submit to the inconveniences and expense of a number of examinations. The expense of a single examination, according to authentic figures, may exceed \$50,000. This is the highest figure known to the writer. Possibly other examinations have cost more. A repetition of such examinations must affect the earnings on policies. Even though this should not be the case to any appreciable extent, the system of charging the cost of an examination to the companies is wrong in principle and has been condemned by scores of state insurance commissioners. Federal legislation would remedy the evil.

Federal legislation, by instituting a single supervisory authority, would also make it possible to exercise a more intelligent control over the policy contract. Under a system of multiple state supervision this would be entirely impracticable. The language of the policy contract is frequently involved and usually "composite." A simple form of contract, which any intelligent man may understand, is desirable. If, now, every form of contract were made subject to the approval of a competent supervisory authority, many

of the absurdities and unnecessary complications in present contracts would disappear. A specimen of every contract-form issued should be deposited with the supervising office, and every contract departing from the recorded and deposited types declared illegal. This is not an argument in favor of absolute uniformity among the companies, which would be undesirable in that it would deprive society of the benefits which come from individual initiative and invention. The competition of the companies in the attractiveness of their policy provisions is one of the most valuable features of the rivalry which has been kept for many years. Rivalry in benefits bestowed upon policy-holders and in economy of management brings advantages to society. The suggestion here made has for its purpose simply the elimination of objectionable features in policy contracts. It is a difficult, delicate, but not impossible task, and, with adequate provisions for appeal, entirely safe.

Turning now towards the great field of fire insurance, upon which so much of modern business rests, the most characteristic feature of recent development is the rapid extension of the use of schedules in rating risks, and the establishment of fire insurance exchanges. Not very many years ago fire insurance was accurately described as a magnificent system of guesswork. The schedule has reduced the guessing element by furnishing a basis for the classification of risks and the determination of rates, which can be made intelligible to men of average understanding. Existing schedules have laid the foundation for the classification of risks which may lead to the establishment of loss ratios for certain classes of property, similar to mortality statistics for different classes of the population. The establishment of average losses for different classes of property, such as planing-mills, breweries, foundries, warehouses, etc., is one of the most important problems of to-day. Since not every building must be destroyed, even partially, fire insurance tables of losses can never reach the degree of accuracy possessed by mortality statistics. Nor is this necessary. But up to very recent times the problem of scientific rating has received relatively little attention. Each building was regarded as a unit by itself, and a rate fixed for it in a haphazard manner. The schedule introduced a standard by which to judge the merits of different types of buildings, contents, appliances, etc. The schedule places a premium on high-class construction, good management, efficient fire protection, and thorough inspection. The value of rigid compliance with established standards is amply demonstrated by the remarkable record of the New England manufacturers' mutual fire insurance companies. By establishing and maintaining an insurance engineering station these companies are doing a most necessary and highly valuable work in applying scientific methods by which the entire fire insurance world

may profit. The fire insurance exchanges have aroused some opposition, and very recently action has been brought against one of them on the ground that it is a conspiracy in restraint of trade. I regard the exchanges as one of the most valuable and indispensable developments connected with fire insurance. They are compilers of information. They work for uniformity in the inspection of risks, in rating, in building regulations, and in every other department of the work. The exchanges might well be intrusted with the establishment of net rates, leaving it to the individual companies to compete in economy of management and in the care with which their risks are selected and inspected. The establishment of rates by an exchange is likely to arouse hostility on the ground that the exchange is a combination formed for the purpose of exacting excessive rates from the public. This is an old cry. That the danger exists is obvious. That it can be prevented is not open to reasonable doubt. The exchanges merit full legal recognition with safeguards against the abuse of the powers which they may exercise. An atomistic fire insurance world can bring advantages to no one, and it is likely seriously to prevent progress. The abolition of the exchanges would remove one of the most potent factors making for scientific methods, and it is to be hoped that no such drastic measures will be resorted to anywhere in the United States. I cannot leave the subject of fire insurance without protesting once more against valued policy legislation, because it is an encouragement to crime and subversive of private and public morality. It is no more profitable to enter into hysterics over "insurance and crime" than over "theology and crime," but the valued policy law is in itself objectionable from every point of view.

In conclusion, a few words must be devoted to those branches of insurance which are still in an inchoate state and which were referred to in an earlier paragraph of this paper, in connection with the suggestion to make insurance an all-inclusive institution concerning the contingencies covered. The urgent need of dealing fully with the problem of accident insurance has already been pointed out. Insurance against losses from flood, tornadoes, hail, and other destructive agencies is in the interest of society as a whole. In view of the fact that these causes of loss do not appear with known regularity nor within well-defined territorial limits, the question arises whether this form of insurance may properly be left to the government. Studies have been made of the destructiveness of floods and tornadoes which might be used as the basis for the imposition of a tornado or flood tax. The levees on the Mississippi were built partly through federal aid, partly through levee district taxes, and partly through state taxes. The same principle might be applied to the collection of flood, tornado, and hail taxes. These

branches of insurance do not appear to offer suitable fields for private endeavor, and conservative state action is well adapted to meet their peculiarities. Within the last year companies have been organized to insure losses resulting from strikes. Insurance against loss of employment has also been considered to a limited extent; but in this, as in so many other special forms of insurance, we have not even made a respectable beginning, and the attempts which have been made in foreign countries may be studied by Americans to great advantage. Because of the peculiar character of the contingencies to be insured against, the last-named branches of insurance represent difficulties which are unknown in life or even fire insurance.

In the concluding sentence the writer desires to remind his audience that he has written as a layman from a layman's point of view. The professional insurance man, who is responsible for the success or failure of his business, must decide to what extent a layman's judgment can find practical application.

SHORT PAPER

JAMES W. ALEXANDER, of New York City, contributed a paper to this Section on the subject of "Do Governments and Law-makers Regard Life Assurance from the Right Point of View?"

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(Prepared through the courtesy of Professor Emory R. Johnson)

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(Prepared through courtesy of Professor Edward D. Jones)

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DIVISION F—SOCIAL REGULATION



DIVISION F—SOCIAL REGULATION

(Hall 2, September 20, 10 a. m.)

SPEAKER: PROFESSOR A. LAWRENCE LOWELL, Harvard University.

SOCIAL REGULATION

BY A. LAWRENCE LOWELL

[A. Lawrence Lowell, Professor of the Science of Government, Harvard University. b. Boston, Massachusetts, December 13, 1856. A.B. Harvard, 1877; LL.B. *ibid.* 1880. Author of *Essays on Government; Governments and Parties in Continental Europe*, etc.; joint author, with Judge F. C. Lowell, of *Transfer of Stock in Corporations*; with Prof. H. Morse Stephens, of *Colonial Civil Service*.]

It has been said that the object of every writer is to draw a new diagonal line through the field of human knowledge. Men love to point out the connection between things apparently so far apart as the spots on the sun and economic crises, or as the invention of bills of exchange at Venice and the rise of the mendicant orders. But the topic assigned to me at this Congress, "The Unity and Inner Relations of the Political, Legal, and Social Efforts of Society," has little of the charm of novelty. The path is well trodden; and, until a new philosophic light breaks forth, whatever is said on this subject must be trite; what can be said in a short address must obviously be superficial.

Let us take, first, the relation between politics and jurisprudence, using the term *politics*, not in the narrow sense in which it is currently employed, to denote the struggles of political parties, but in the larger sense of the conduct of public affairs.

Law both provides the framework within which political life goes on, and it is also the result of that life. It is like the shell of a mollusk, or the trunk of a tree.

Whatever definition we take of law, whether we regard it as the command of a superior, or accept the theory that it rests upon intrinsic natural justice, we may say that it is that part of the rules of human conduct which is enforced, or at least may be enforced, by public authority; such a definition, although vague, is wide enough to include on the one hand primitive law, where the public authority is rudimentary, and on the other hand public international law, — a body of rules which a number of civilized nations habitually obey.

Now so far as politics does not deal with pure questions of persons,

either in the sordid form of distributing spoils, or in the higher aspect of selecting efficient persons for office, it is concerned mainly with the creation of law; not that the direct aim and object of political activity is always legislation, but legislation in some form is usually the indirect, if not the immediate, consequence of political achievement; and this is true where at first sight the connection may appear remote. Political questions concerning foreign affairs, for example, often give rise to treaties, to the recognition of some principle of international law, or to a change in the legal relations of territory. A successful effort in a city to obtain clean streets, or a pure water-supply, is almost certain ultimately to leave its mark upon the statute-book. It is hard to conceive of a struggle, even over a matter of administrative discretion, that is not likely to result in legislation, or subordinate legislative ordinance, or in the increase or diminution of taxation. That which does not exclusively concern persons almost of necessity involves principle; and if a decisive issue is reached the victorious principle is likely to be established by law. So that the political warfare of to-day leaves its traces in the legislation of to-morrow.

This may be the case, although the immediate result of the contest is not embodied in positive law. The constitutional rule about the responsibility of ministers has become firmly established in England, and all her self-governing colonies, without any recognition in the law. Yet the principle has deeply affected legislation. It has given rise to statutes that would doubtless not have been enacted otherwise, and in fact it has created the body that really initiates all the important legislation in those countries.

So far as law is the result of political struggle, it is somewhat in the rear of social evolution, and represents not the last stage of human thought, but the next to last. For a rule of conduct is usually followed by large numbers of people before an attempt is made to enforce it on the rest, and it is certainly largely recognized as a rule that ought to be observed for some time before it is made compulsory by public authority; while, on the other hand, laws that have been outgrown, and have ceased to be in harmony with social conditions, often remain in force for a considerable period before they are repealed or become quite obsolete. Law represents, therefore, the crystallized elements of social evolution, while politics deal with the fluid or transient elements. It deals with questions that arouse immediate interest, and involves a constant effort to transform current opinion into law.

Nodoubt some laws are ephemeral. They are the result of abortive political efforts to bring about a change. In that case they do not represent the next to last stage in social evolution, but an aspiration, an effort to anticipate and create a future stage, an attempt

to give effect to principles for which their advocates erroneously believe the community is prepared. The history of legislation contains many such wrecks of unseaworthy statutes, and they are not less numerous to-day, in spite of the far greater power of the state to enforce its laws. Legislation intended to promote what a friend of mine calls "righteousness by statute" is particularly common in the United States, because of the easy and irresponsible way in which statutes are enacted, and because it suits both the idealistic temper and the practical qualities of the people to pass unwise laws designed to work moral reforms, and then leave them unenforced.

Most prominent among statutes of the kind are the liquor laws in many places, the evasions of the law being sometimes clandestine, sometimes open, and sometimes done with the connivance of the authorities. Statutes of this class are passed on many subjects, out of good nature, or in deference to the urgent appeals of deputations of influential citizens. They may be enacted without any serious intention of enforcing them, or they may be such that local opinion — as is often the case with game laws — or the difficulty of proving violation — as in the case of laws concerning railway rates — makes it very difficult to enforce them. Some of these laws are harmless; others are demoralizing to the men who evade them and weaken the law-abiding character of the people; while others are a fertile source of political corruption. The author of *The Boss*, an exceedingly acute study of New York city politics, written under a feigned name, and far less widely known than it deserves to be, has pointed out that sumptuary laws, which can be violated on payment of a contribution to the campaign fund of the party, are almost a necessity for the support of the machine in the city.

Apart from tentative, ephemeral, and inoperative statutes, political contests are the struggles of political growth, and the political growth of a nation is eventually embodied in its laws.

All this may be supposed to refer to public rather than to private law. Napoleon expressed that idea when he said: "The *legislature* should legislate, *i. e.*, construct grand laws on scientific principles of jurisprudence, but it must respect the independence of the executive as it desires its own independence to be respected. It must not criticise the government, and as its legislative labors are essentially of a scientific kind, there can be no reason why its debates should be reported."¹ In other words, he regarded private civil jurisprudence as a science, quite independent of politics and public opinion. This may be true of the construction of a code based upon existing law; but it is certainly not true of legislative changes. In countries with a popular government, deliberate alterations of the law are made to-

¹ Quoted in Ilbert's *Legislative Methods and Forms*, p. 208. The original letter does not appear to be extant.

day only with the consent of representative bodies, which are intended for that purpose to reflect public opinion.

Such a relation to politics is not limited to statutes. Law is created every day by bodies of learned lawyers. It takes the form of precedents established by courts of justice in the course of the decision of actual cases, — the so-called judge-made law; nor is this process confined to jurisprudence affecting private persons. The distinction, indeed, between public and private law in no way coincides with the difference between statutory and judge-made law; for, in the first place, private law is freely made or changed by statute; and in the second place, the most important body of judge-made law in Continental Europe to-day is the French *droit administratif*, which regulates the official rights and duties of state functionaries and is, therefore, pure public law. In this connection it may be noted, in passing, that in Anglo-Saxon countries the administration of public law can be safely intrusted to the ordinary courts, because there are always in them a number of judges who have had actual experience of public life. Chief Justice Marshall could hardly have laid, as he did, the foundations of constitutional interpretation had it not been for his knowledge of national affairs acquired in the public service, and the same principle applies to every court when called upon to deal with questions that touch administration. A certain sprinkling of judges with political experience is needed to supplement those trained simply by study and at the bar. This is one of many cases where the efficiency of a public body depends upon the presence in small quantities of what in large doses would be a poison.

A full discussion of the relation of politics in the larger sense of the word to judge-made law would entail an examination of many conflicting theories of jurisprudence. In his *Beruf unserer Zeit für Gesetzgebung und Rechtswissenschaft*, Savigny, the most celebrated opponent of codification, declared that, for the most part, law, like language, has developed by a process of natural growth in accordance with the character of the people. Von Ihering, pushing Savigny's comparison of the growth of law and language farther, perhaps, than the author really intended, criticised his theory, and insisted that, instead of developing by the same quiet, unconscious process as the rules of grammar, law was, and always had been, the result of a struggle between conflicting aims and principles. As this is not intended to be a discourse on jurisprudence, but merely an attempt to point out certain relations existing at the present day, it is not necessary to consider how far such doctrines are really in conflict, and how far each of them is historically true. Nor is it necessary for our purpose to analyze Austin's theory that law is a command, and that courts in establishing precedents are creating law by virtue of a legislative power delegated to them by the sover-

eign. Austin was not an historian, but a philosopher who based his theories upon the facts that came under his immediate observation. His insight into contemporary matters was keen and accurate, and although his admiration for judge-made, or as he has called it, "judiciary law," was by no means unbounded, his analysis of its real nature is one of the best parts of his book. He made, however, an admission which certainly goes far towards upsetting his theory that the courts exercise a delegated legislative power. After declaring that "the sovereign administering the law through subordinate courts of justice is the author of that measureless system of judge-made law or rules of law made judicially which has been established by those subordinate tribunals in directly exercising their judicial functions," Austin goes on to say: "In this country, where the rules of judge-made law hold a place of almost paramount importance in our legal system, it can hardly be said that Parliament (the so-called *legislature*) is the author of those rules. It may, indeed, be said that Parliament, by not interfering, permits them to be made, and, by not repealing them by statute, permits them to exist. But, in truth, Parliament has no effective power of preventing their being made, and to alter them is a task which often baffles the patience and skill of those who can best command parliamentary support."¹

Now this remark is interesting because it would seem that the legislature is constantly acquiring greater capacity of controlling and reversing judge-made law. In the past we have seen cases where the legislature has found it impossible to carry out its will, and where courts have virtually made a statute of no effect by their interpretation. This was true in the celebrated case of the English Statute of Uses, which was designed to prevent the creation of subordinate interests in land, but is commonly said to have resulted only in the addition of three words to every conveyance. A very striking example in later days is the decree of the French Government of National Defence in 1870 repealing the provision in the constitution of the year VIII that protected public officials from suit or prosecution. The decree was intended to remove all hindrances in the way of bringing the officials before the ordinary courts; but the Tribunal of Conflicts decided that it applied only to their personal protection, and did not affect the principle of the separation of powers which, as understood in France, forbids the ordinary judges to pass upon the legality of official acts. This example of the exercise of power by a court to defeat the intent of the legislature is certainly very recent, but it could hardly have occurred except in the revival of the ordinary functions of government after a period of revolution.

¹ Austin's *Jurisprudence*, Campbell's Students' Ed., p. 99. This does not appear in the original edition of Austin's work.

Austin's remark, however, still retains some truth. Even at the present day the legislature has no effective means of anticipating by statute the doctrines laid down in judicial decisions, and does not always find it easy to alter them after they have been made. A representative assembly that would reject by an overwhelming majority a bill to enact a certain principle of law may hesitate to reverse that principle when it has been sanctioned by the courts. It often happens that a negative course is the most prudent and politic for a representative chamber, and this gives real force to judicial initiative.

Nevertheless the decisions of the courts on important questions of law attract so much attention to-day, and the power and flexibility of legislatures has increased to such an extent, that the enactment of a statute to change a principle judicially declared is less difficult than it was formerly. Judge-made law has, therefore, become subject to legislative revision to a greater extent than in the past. In giving their decisions the courts are, and it is of most fundamental importance that they should be, absolutely free from political control, but the growth and stability of the law they make depends ultimately on its accord with the public sense of justice. Law cannot endure permanently upon any other basis. At the close of the Middle Ages the customary law of most of Continental Europe, having failed to develop with advancing civilization, was swept away by the advent of the Roman law. Such a legal revolution could hardly occur again, because with the growth of legislative power the control over judge-made law is more rapid and more constant. If the courts are too closely bound by precedents which are no longer adapted to social conditions, or if their judgments do not accord with the public sense of justice, their law will be changed by statute. So that judge-made law, not the decisions in particular cases, but the principles established by those cases, is to-day ultimately subject to political approval. The nineteenth century has certainly shown that in Anglo-Saxon countries the vitality of judge-made law has in no wise diminished; but it endures upon the condition that the principles of law so established must be in general accord with the sense of justice of the community; and that where this is not the case they can be and will be set aside.

Let us now turn to the relations between social science on the one hand and politics and jurisprudence on the other.

The collections of people treated in the various sections under the Department of Social Science at this Congress fall into two distinct classes. They appear to be distinguished in the programme by the terms *community* and *group*, and hence those expressions will be used in this paper, the word "group" indicating a body of people who, as the cause or result of similar conditions, display similar feelings and

opinions; while the so-called communities have in addition a sense, or at least a much stronger sense, of solidarity and of common interest, some organization, and a capacity for common action. In short, the members of one class have similar, and those of the other have common, sentiments and opinions. The line between these classes is not absolute, and the classes themselves are by no means fixed. A body of persons, that form at one period of the world's history a group, may at another form a community. The family and the local community were, of course, true communities before the dawn of history; and certain bodies of people, such as the dependent group, and still more clearly the groups of lunatics, feeble-minded, and infants, have never been, and could hardly be, communities at all; but, on the other hand, bodies of men pursuing the same occupation, though usually mere groups, have become communities at times and under exceptional conditions. The trade-guilds of the Middle Ages were communities of this kind, and many bodies of workmen that had previously been nothing more than groups have developed into communities during the last hundred years. The trade-unions of the present day are both an expression of a sense of solidarity and an attempt to turn a group of workmen into a true community.

Now, although neither of these classes can be left out of account in the study of politics and jurisprudence, the community, with its capacity for common action, is by far the more important of the two. Groups involve less difficult problems for both politics and jurisprudence, because in their case the only matter to be considered is the welfare of the group and of the public at large. In the case of communities the question is further complicated by the wishes and the action of the community itself. This may or may not lead to a more just solution according to the wisdom, moderation, and mutual respect, or the animosities and the exasperation, of the various bodies of men concerned. But in any case it adds to the elements of the problem. Whether the movement, for example, to transform bodies of workmen into communities in the form of trade-unions has been beneficial or not, it has certainly, from the point of view both of politics and of jurisprudence, made labor questions more pressing and more complex.

In treating of the relation of communities to politics and jurisprudence, we must distinguish between those that are based upon status and those that are voluntary. For although this distinction applies to groups as well as to communities, it is naturally far more important in the latter case.

The classification of social entities according as they are based upon status or upon voluntary association requires, however, both explanation and definition. In some cases the members become such without any voluntary action or possibility of choice on their part.

This is true of children born into a family, and, in an early period of society, into a tribe or local community. Then there are cases where the membership, while not assumed for the purpose of membership, is the result of a condition or status which is voluntary in the sense that in theory, at least, the condition is the result of choice, or might have been avoided. That is the case with the dependent and criminal groups. It is the case also with the urban and rural communities. A man is free to live in a city or not as he pleases, but he usually moves his abode to a city, or remains there because his occupation or engagements lead him to do so, not because he desires to be a member of an urban community. In all groups or communities of the foregoing kinds the membership is the inevitable result of a status which may itself be voluntary or not; and these are the only kinds of groups treated under the different sections of Department 22 at this Congress. But there is another kind of entity, the membership in which is purely voluntary, because the members belong to it not on account of any extrinsic condition or status, but for the sake of the group itself. How far the choice is really deliberate or free, and how far the result of environment, of the association of ideas, and of suggestion, over which the individual has little actual control, we must leave to the psychologists, and especially to the Section on Social Psychology. We are concerned here only with the political and legal aspects of the problem, and from that point of view the membership may be regarded as voluntary. Of such a character are social and learned clubs of various kinds, religious bodies, philanthropic organizations, and, let us add, political parties. In this connection it may be observed that the trade-unions are striving to become communities based upon status instead of voluntary association. This effort lies at the foundation of the conflict over the open and closed shop. The policy of the closed shop, if successful, would drive every man who pursued a certain occupation into the trade-union; while the principle of the open shop leaves the union a voluntary body, and for that reason any one familiar with the trend of civilization will be very much inclined to doubt whether the effort is likely to succeed.

As an example of the political and legal problems presented by communities based upon status, we may take the race question. This problem, in one shape or another, faces most of the great civilized nations at the present day, either in their national or their colonial administration. A number of solutions of it have been essayed. The simplest and most drastic is that of expelling or excluding the weaker race. At various times in the world's history the Jews have been expelled from different countries. The Chinese are now excluded from the United States and from Australia. But expulsion on a large scale is clearly impossible to-day among

civilized people, and exclusion is possible only under favorable conditions.

In other cases an attempt has been made to transform or absorb a race. This is the solution commonly tried by the governments of Continental Europe. It is manifestly out of the question except when the differences are not very profound. It may or may not be possible to make Slavs into Germans, or *vice versa*, but no one would expect to make Europeans and Chinese interchangeable. Even as between European races the efforts in this direction have not of late been generally successful.

The third solution is to ignore the difference of race and legislate as if it did not exist. That was the solution applied in this country after the Civil War; but it cannot be said to have fulfilled the hopes cherished by its authors, and the present generation, even in the Northern States, seems inclined to regard it as neither satisfactory nor final.

The fourth solution has been that of disregarding the rights of the weaker race altogether. This has been tried at various periods in the world's history, especially in the case of colonies. It is safe to say it will never commend itself permanently to the conscience of mankind.

Other partial solutions have been tried, more or less deliberately, and with varying degrees of success. This is not the place to follow them in detail, but merely to point out that the problem is one that will hang heavy on the hands of the twentieth century; and that with the growth of popular government and the increasing industrial, intellectual, and social opportunities throughout the world, the task of governing a people that is not homogeneous has become far more difficult. Although these very forces may tend to efface race differences where they are not profound, the differences are often so great that one can entertain little hope that they will disappear.

Except for the questions arising from race, legal and political problems connected with status have tended to decline in importance, while those connected with voluntary associations are increasing in gravity, and are likely to do so for a considerable time to come. Man's mastery over the forces of nature, and the improvement in transportation that is bringing the whole world into active competition, have made coöperation upon a large scale a necessity. One form of this has been economically highly successful. That is the combination of small amounts of capital into great corporations, and its very success has made abuses possible and legislation necessary. Transportation has also made the wants of all civilized mankind more alike, while the diffusion of a common elementary education and the ease of communication have brought about uniform-

ity of thought and the possibility of combination in all directions. Hence associations of many kinds which, being capable of good and evil, must be regulated by law, and must often be the subject of political action.

The solution of social and political questions by the progressive thinkers of the eighteenth and the early part of the nineteenth centuries was based mainly upon individualism. They considered man, not combinations of men, and they regarded all individuals as equal, isolated, and independent units. The prophets of democracy, supposing that each person would think for himself, failed to appreciate the contagious quality of ideas and the compulsory power exerted over opinions by organized bodies of men. They assumed also that the real interests of all men were fundamentally in harmony, and hence they saw no strong motive for combination. The English individualists, moreover, looked upon freedom to combine as an essential part of personal liberty, and they did not perceive a danger that the right might be so abused as to encroach upon the liberty of others. This is very clearly put in Professor Dicey's *Law and Public Opinion in England during the Nineteenth Century*.

Rousseau, whose acumen in grasping the real nature of a problem is more striking than his good sense in finding the solution of it, perceived the difficulties that might arise in his ideal commonwealth from the presence of combinations of men. He saw that his principle of a common will, ascertained by counting votes, and then accepted as the unanimous wish of the whole people, would be futile where there was an organized minority. He declared, therefore, that a community is incapable of a common will where factions or sects exist. If he really imagined that any community would ever arise without those incumbrances, he showed that although a good philosopher, he was a bad prophet. He was a particularly luckless prophet, because he wrote just at the time when the era of invention was about to open the gates for the greatest development of voluntary combinations of men that the world has ever known, and when in public life the very democracy which he preached was about to make political parties a recognized and permanent element in the state.

He was, however, a good philosopher, because he was right in believing that the presence of associations, or groups, or bodies of men of any kind, makes the opinion or action of a community quite a different thing from what it would be if no such bodies existed; and this for several reasons.

In the first place, a composite majority made up of majorities of fractional parts is a very different thing from a majority of the whole people, and may be exactly the reverse of it. Each man in such

a case puts himself into the hands of some body of men whose will is in Rousseau's sense general as regards him, and partial as regards the rest of the community.

Then man is only in a small degree a rational animal, and is mainly a creature of suggestion. He takes his opinions largely from the society of which he is a part. In fact he does not so much join a church, for example, or a political party, because he agrees with its objects, as he accepts its policy because he belongs to it. An association becomes indeed an end in itself, and thus a body may act in a way that the bulk of the individuals who compose it would not act if left to themselves.

In the third place, a large body of men has power to affect the destinies and curtail the freedom of action of other people in a way that individuals could not do. Even without acquiring an actual monopoly, a trust or a huge corporation can drive smaller rivals out of business, or force conditions of labor or trade, or affect the method of conducting other distinct trades, when smaller concerns would have no such power. Moreover, they can do it without resorting to any conduct that would be illegal, oppressive, or even improper in the case of individuals. The same thing is true of trade-unions, or any other combinations of men on a large scale. To take a most familiar illustration: An individual may buy or sell where he pleases, and the motives for his choice are nobody's affair; but if a large number of men agree not to trade with a certain person it becomes a "boycott," and a terrible engine of compulsion.

It follows that formidable combinations stand in a peculiar position. Their acts have different effects from those of individuals. Their moral rights and duties are not the same, and they must to some extent be subject to peculiar laws. The difficulty in dealing with them comes in drawing the line between freedom of combination and the liberty of the individual. The question — in some ways akin to the problem of reconciling order and progress, which has at times occupied so much attention in Europe — will loom large in the twentieth century.

While dealing with voluntary associations it is interesting to observe how far we have already gone in solving an important problem arising out of their development. I refer to the case of political parties. The greatest contribution to the art of politics in the nineteenth century is expressed in the phrase "Her Majesty's Opposition." It implies a recognition that organized bodies of men who are loyal to the state and to the established form of government, but who are opposed to the administration in power, have a right to exist and to carry on an active propaganda. Germs of the modern party system can, no doubt, be traced farther back in some countries, but the system cannot be said to have developed fully until the nine-

teenth century. The legitimacy of party as a factor in public life is now fully admitted in all countries which have possessed popular government for a considerable length of time, and it is admitted to some extent in all countries that have a popular element in their governments. The system is, however, based upon a number of conditions.

On the one side there must be a recognition that differences of political opinion are legitimate and may be advocated by argument and all the proper arts of persuasion.

On the other side the opposition must not urge revolutionary opinions. It must not be what is sometimes called irreconcilable, that is, it must not aim at the destruction of the existing foundations of government and of society. The limits of legitimate difference in political opinions vary, of course, from place to place and from time to time; but it is necessary that the limit should be generally recognized at any given moment, and this is one of the most important functions of a constitution.

Then again the means employed by each party for obtaining power must be proper, and for this reason many laws have been enacted in the nineteenth century against the bribery of voters, and provisions have been made to prevent intimidation—by the device, for example, of the secret ballot.

Finally, there must be a universally recognized means of determining which opinion ought to prevail. This is another function of a constitution and of constitutional law.

The party system is by no means without grave faults, but without it popular government could not have endured. The system has reconciled to a great extent liberty of political opinion and action with the stability of popular institutions.

One of the chief problems of the twentieth century will be the regulation of other combinations of men, whether based upon race or upon voluntary associations for industrial and other purposes; and that problem will involve politics, jurisprudence, and social science. The solution will not be the same as that adopted in the case of political parties, but some hints may, nevertheless, be obtained therefrom, such as the plan of leaving the right to organize free, but regulating the ends and means of operation. In one point certainly the example set in the case of political organizations must be followed. It is that of accepting the natural tendencies of a progressive age instead of trying to run counter to them. The method of approaching the problem and the principles applied to it will, no doubt, be different in different countries and under varying conditions; but just as the nineteenth century showed an inclination to lay too much stress on the individual, we may perhaps expect in the twentieth century a reactionary tendency to treat

bodies of men too much collectively. But the true and, therefore, the permanent solution must be found in keeping in mind both the individual and the group, and politics and jurisprudence can be wisely directed only by a thorough study of the psychology of the group; in other words, the effect of the group upon the mental attitude of the individual.

DEPARTMENT XX — POLITICS



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(Hall 2, September 20, 2 p. m.)

SPEAKERS: PROFESSOR WILLIAM A. DUNNING, Columbia University.
CHANCELLOR E. BENJAMIN ANDREWS, University of Nebraska.

THE FUNDAMENTAL CONCEPTIONS OF NINETEENTH-CENTURY POLITICS

BY WILLIAM ARCHIBALD DUNNING

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WHEN Louisiana was acquired by the United States the politics of the world was centered about a single nation, and the politics of this nation was centered about a single individual. France and Napoleon epitomized the dominant principles of the day; revolutionized France meant liberty and equality, the rights of man, national democracy; Napoleon meant the resistless armed might of democratic propagandism. Before the enthusiasm of the French nation and the genius of their chosen leader the principles, the practices, and the men of the old régime vanished from Western Continental Europe. Only in Russia and in the British Isles did conservatism find a secure refuge, and from these points of support, with the principles and material resources of England as its chief dependence, it waged unrelenting war on all things French and all things Napoleonic, and in the end it was triumphant.

With 1815 came the termination of the long wars; the smoke and shouting of battle passed away and the readjustment of institutions and political systems began. Reaction was manifest everywhere; the dogmas and the men that for nearly twenty-five years had cowered in the remotest and obscurest hiding-places of the Continent, now assumed control of political life, and a war of extermination was entered upon against everything that had been identified with the Revolution. But the work of the French Republic and the Napoleonic Empire had been too thoroughly done throughout western and central Europe to permit of ready eradication, even by the drastic methods employed by Metternich and his satellites. Lib-

eralism, proscribed and hunted by the triumphant powers, lived nevertheless, and resisted its adversaries with the weapons that were nearest at hand — conspiracy, assassination, insurrection — as well as by ceaseless agitation and debate, so far as these were permitted in practical politics, and at last, but only when the middle of the century had been reached, it had secured a definitive triumph throughout the better part of Europe. After the revolutionary wave of 1848, the prevailing governmental systems, as well as the prevailing beliefs in both scientific and popular thought, expressed with more or less completeness the principles for which the liberals had contended. And far more fully than anywhere in Europe, these principles pervaded the government and the general life of that growing people across the Atlantic, whose development had already begun to make them a factor of large significance in the affairs of the civilized world.

I

This conflict between liberalism and conservatism, then, may be taken as marking in a general way a period in nineteenth-century politics. The influence of the antithesis of doctrine appeared in every phase of the political life of the time, and in most phases this influence was decisive. In the internal affairs of every country, the struggle for the realization of liberal ideas furnished the most conspicuous incidents. France was the recognized leader and gave the impulse to all Europe in this respect, and the history of her party politics is merely a recital of the strife of liberalism and conservatism. Spain and the Italian states exhibited a series of transformations in governmental institutions with the same division as the basis. The German states experienced many vicissitudes of agitation and insurrection, but the hand of Metternich was strong in central Europe, and while liberalism got a footing in some of the smaller states, the time of the greater did not come until 1848, and even then the success of the liberals was but temporary in Austria and greatly qualified in Prussia. England felt the effect of the spirit of the times in the great struggles for Catholic emancipation and Parliamentary reform and in the abortive movement of the Chartists. Even Russia had a little experience of uprising for liberal government in 1825 at the accession of the first Nicholas, and a very serious experience with the combination of liberalism and nationalism in the Polish war of 1830. And finally, at the other extreme, across the Atlantic, the United States exhibited the influence of the *Zeitgeist* by the transition from the Jeffersonian to the Jacksonian type of democracy.

When we glance at the international politics of the period we find the same influence largely operative. The grouping of the great

powers in reference to their policy of supervision over the affairs Europe was frequently determined by the real or assumed bearing of the policy on the great issue between liberalism and conservatism. Metternich's astute suggestion that the Greeks, in their struggle for independence, were liberals in insurrection against their legitimate sovereign, the Sultan, illustrates the potency of the leading idea of the time, as a force for diplomats to conjure with. The policy of England toward Spain's American colonies during the twenties, with the incidental though hardly anticipated result of our own Monroe Doctrine, had for its foundation Canning's dislike of ultra-conservatism, while the long and influential *entente* between the English reformed government and the government of Louis Philippe rested notoriously on the sympathy between the leaders of political thought in the two countries, as opposed to the autocratic and reactionary influence represented by the three Eastern powers.

Assuming, then, that the struggle between liberalism and conservatism was the characteristic mark of the practical politics of the period extending to the middle of the century, let us consider what were the principles of political science that were involved in the struggle and its result.

Fundamentally, nineteenth-century liberalism meant democracy. Its ultimate aim was to break down the bars which excluded from political life the classes of people whose intellectual, social, and economic significance was becoming unmistakably predominant. For its immediate aim it demanded liberty and equality. The content of these much-abused terms was explained in accordance with the philosophy of the eighteenth century, that is, by the dogmas which had been demonstrated by Montesquieu and Rousseau and had been formulated in the Declaration of the Rights of Man. Liberty was held to consist in a series of rights defined by nature itself, and equality in the possession of all these rights by every man by the fact of his humanity. Within the sacred circle of these rights no governmental power could intrude. Against every claim of authority to do so as derived from God or custom or tradition was opposed the decree of supreme and beneficent nature. The precise character of nature — this kindly source of human rights — was no less variously and indeterminately defined by nineteenth-century than it had been by eighteenth-century philosophers; and the list of rights that were deduced by laborious speculation from nature in the abstract bore a suspiciously close resemblance to one which could be compiled from the very concrete constitutional law of England and the United States. Yet nature — whatever the diversity of ideas connoted by the term; and nature interpreted by reason, regardless of the skeptic's query, Whose reason? — continued throughout the period we are discussing to be the ultimate basis of the liberal creed.

It was, however, in regard to civil rather than political rights that the code of nature was considered conclusive by all shades of liberals. As to political rights, especially that of the suffrage, liberalism was much divided. The more extreme spirits in its ranks were quite sure that nature and reason immutably prescribed participation in all the functions of government as the right of every man. Less radical elements found in nature the right of representation, but not of participation, in political functions; and many were loath to admit that even participation in the designation of a representative was within nature's gift to every man. Finally those liberals who shaded imperceptibly into the ranks of conservatism itself, maintained that while nature enjoined indisputably the guarantee of civil rights to every man, the assignment and enjoyment of political authority was a matter of human expediency, varying with times, places, and circumstances, and not determinable *a priori*. Liberty for all, authority for the qualified, was the maxim of this school.

The list of names identified with these various shades of purpose and belief — the honor-roll of early nineteenth-century liberalism — includes many which have no meaning to the present generation, but a few which still symbolize something distinctive in theory or in practical achievement. France furnishes Benjamin Constant, Royer-Collard, Guizot, Tocqueville, Lafayette, Comte, Louis Blanc; Germany gives Fichte and Hegel (whose systems, conceived in the spirit of liberty, had, however, the defect of extremely refined abstraction, that they could be as readily adapted to the support of reaction as of progress), Rotteck, Welcker, and the ultimately Americanized Lieber; England offers Bentham and his radical followers, Grote, the two Mills, and the redoubtable Brougham; Italy gives Mazzini, and all Europe the group of devotees who worshiped the thought and carried into operation the wild schemes of that amiable fanatic.

The conservative opposition to the views and purposes represented by the foregoing names was embodied for the most part in the royal and aristocratic classes of the old régime. Its practical spirit was expressed in that curious intermonarchic agreement known as the Holy Alliance; in the forcible interference to suppress constitutional government in Italy, Spain, and elsewhere; in the rigorous espionage and censorship over thought and expression throughout Europe; in the bitter resistance of the aristocracy in England to the diminution of their ancient prerogatives by Parliamentary reform; and in the extreme assertions of aristocratic and monarchic privilege which led to the explosions of 1830 and 1848. Philosophically, conservatism expressed itself in three theories: First, that of the divine right of the old monarchic and aristocratic order — that political authority emanated from God and could not be questioned by any merely human agency; second, the theory that if nature were to

be consulted at all as to the basis of political organization, her answer would be that inequality and not equality was the universal principle among men, and that, therefore, aristocracy and not democracy was the order of nature; third, the theory that the appropriate social, legal, and political institutions for any people were to be discovered, not through any assumption as to the nature of man in general, but by a consideration of the character of the particular people as revealed in its history, and that the institutions which had come to prevail at any particular time through peaceful development must be presumed to have more inherent justice and validity than any others that might be suggested.

Of these three views, the first, which defended absolute monarchy on the ground of mystical divine right, was already antiquated, and in the prevailing rationalism found no adherents save a few obscurantists. The second view had a more intellectual support, and was sustained in a manner that at times manifests no little force by Ludwig von Haller, whose bulky volumes are now rarely opened. The third view characterized the most moderate of the conservatives and determined the actual solution of the problems of the time. It afforded a ground on which the least extreme of both liberals and conservatives were able from time to time to stand together. It triumphed in the Whig reforms in England and in the July Monarchy in France, and it profoundly influenced, if it did not fully control, the application of that principle which on the whole expresses most fully the contribution of this period of the nineteenth century to political science, — the principle, namely, of constitutionalism in both state and government.

Let us consider for a moment the source and nature of this principle. To liberals of every shade in this period, the indispensable token and guarantee of the liberty which they sought was a body of law which should to some extent control and determine the power and procedure of the persons who exercised political authority. With few exceptions, the liberals demanded that this body of law be expressed in a written document. "Constitution" came to mean specifically "written constitution," and the triumph of liberalism is no more significantly shown than by the fact that at the middle of the century a great majority of states in the civilized world were equipped with instruments of this kind. But the written constitution was so intimately associated in origin and character with revolution that the established conservative powers could never contemplate it save with abhorrence. Its earliest appearance had been in the abortive efforts of the English Independents during the Puritan Revolution to formulate an operative system that should embody their ideals; it had been resorted to in America on a large scale when the colonies separated from the mother country; and it

had figured multitudinously in France between the Bourbon of 1789 and the Bourbon of 1815.

Moreover, the content as well as the history of the written constitution made it an object of abhorrence to ultra-conservatism. Two features were generally insisted upon as indispensable: first, a distinct enumeration of the rights of the individual with which government was under no circumstances to interfere; second, a description of the organs of government and a body of rules determining their actual operation. The individual rights normally secured were those that had come to be known as natural rights, and the organs of government with which the practice of written constitutions was associated included some form of popular representative assembly. But both natural rights and popular representation were, of course, diametrically opposed to the ideas of the old régime, and, furthermore, the most fundamental conception of the nature of state and government that underlay the theory of a written constitution was unacceptable to conservatives of every shade. For to the liberals the constitution was the expression of the people's will, and had no more of permanence or immutability than that will. As Rousseau had demanded on principle, and as several of the American states had undertaken in practice, the people must assemble in convention at not infrequent intervals to declare whether they would longer maintain the existing system. State and government, in other words, were mere creations of the will of certain groups of individuals, and a constitution was merely the formal expression of that will at any given time.

Upon this view of political fundamentals conservatives of every shade made aggressive war. The high priests of autocracy saw only horrid sacrilege in any meddling by the common people with the divine mystery of the state. To suppose that any written phrases, open to the interpretation of the vulgar, could express the essentials in political life was to the obscurantists and mystics supreme foolishness. No constitution, declared Joseph de Maistre, the most brilliant exponent of this view, results from deliberation. In every constitution there is something that cannot possibly be written — that must be left in venerable obscurity under penalty of destroying the state. The more there is that is written, the feebler is the political structure. When a nation begins to reflect upon itself, its laws and its life are already determined. Sovereignty is an emanation from God himself, and man must not tamper with it.

Something of the spirit of these phrases of de Maistre appears also in the thought of the scientific and the historical schools of conservatism. To the theory that the state is made, they oppose Topsy's idea, that it merely grows. Burke's glowing denunciation of the French Revolution gives the keynote of their cry. Men are in the

state and subject to government, not through their own deliberate choice, but through an inexorable decree of their nature. The constitution of a given political society is never to be found in any document, however carefully framed and however solemnly proclaimed as the fundamental law. The bond which truly unites and determines a people in their social and political life consists in the aggregate of the numberless conventions and understandings through which in the course of ages the varying relations and institutions of the community have been developed and adapted to its greatest convenience. In other words, — and in the phrase which became the distinguishing mark of a prevailing school of political philosophy, — the state is not a mechanism, but an organism. There is, indeed, a mystery in the state, but it is the mystery of all life and growth; and the remedy for intolerable ills in the state, as in the individual, is not the charlatan's panacea of death and resurrection, however attractive and logical the prescription may appear, but the wise physician's careful study of the history and character of the particular condition, followed by the removal of defects in this organ and in that, without any pretense of touching the life principle itself.

This general view was that on which the practical constitutionalism of the first period of the century was worked out. It was the doctrine which the reforming Whigs in England applied, as against the demand of Bentham and the Radicals for a remodeling of institutions in accordance with their *a priori* scheme. It was the doctrine which inspired the famous protest of Savigny against codifying and thus assuming to stereotype German private law. It was the doctrine, finally, which is clearly revealed by an examination of the content and working of the constitutions that resulted from the agitations of the period we are discussing. These constitutions were, indeed, written constitutions; but how different in character from the type which had been conceived in the enthusiasm of the early Revolution! In many cases the actual document announced itself to be, not the deliberate expression of a people's will, signifying their choice of government, but the grant of certain institutions by a monarch to his subjects. Liberties were indeed guaranteed to the man and the citizen, but rarely the sweeping immunities that had figured in the Declaration of the Rights of Man. A representative legislature was in every case provided for, but rarely so organized as to interfere with the ancient domination of the aristocratic classes, or endowed with such power as to insure the development of more popular institutions. And above all, there very early appeared the vexed question of the right of interpretation — the question which in the long run showed to every one that a written constitution was not a remedy for all the ills that political life is heir to, but merely a palliative for some particular evil conditions at some par-

ticular times. It was under color of an interpretation of a written constitution that Charles X of France issued his July Ordinances and precipitated the Revolution of 1830; it was by an interpretation of the Prussian constitution that Bismarck carried through his policy of the conflict time — an interpretation, moreover, which he, with characteristic cynicism, readily abandoned when it ceased to serve his purpose; and it was through interpretation that the constitution of the United States — the written constitution *par excellence*, the most wonderful instrument, according to Mr. Gladstone, ever struck off at a given moment by the thought and purpose of man — was made the basis for the resolute efforts of two great masses of fellow citizens to annihilate each other.

The written constitution had, indeed, done its work by the time it had become generally prevalent. In its true character it was found to be not an indispensable feature of every sound political system, but merely an ingenious expedient for facilitating the transition from one system to another. Through it the political ideals and characteristic principles of the eighteenth and early nineteenth centuries have been crystallized and put into form for permanent exhibition. Political antiquarians are thus enabled to study the past at their ease; lawyers can wrangle and construe and assert — sometimes with real belief at the basis of their assertion — that in the articles and sections and phrases and words of the document are to be seen the essence of the state; but behind and all around the scanty code the real life of the body politic goes serenely on, regardless of all the puny efforts to cramp and fetter it.

In the development of nineteenth-century constitutionalism, the chief types — the unwritten and the written, or, in the terms suggested by Mr. Bryce, the flexible and the rigid — have been furnished by Great Britain and the United States respectively. In the long run the British type has proved the more permanent; for the limitations on government and on sovereignty itself, which were originally the characteristic mark of American constitutionalism, have in large measure disappeared, and on the impressive but unstable foundation of necessity and destiny has arisen for the contemplation of mankind that structure which to the forefathers would have seemed such a monstrosity — the unwritten constitution of the United States.

II

The second period of the nineteenth century, embracing the decades from the sixth to the ninth inclusive, has, for the controlling topics of its politics, both theoretical and practical, nationalism and socialism. This is the period of Bismarck and Lincoln, of Karl Marx, and, equally significant in the opposite sense, of Herbert

Spencer. The constitutional liberty of the individual, secured by the strenuous struggle of the previous decades, was now subordinated to the demand for national unity in governmental organization and for majority rule in economic organization.

The idea of nationality, as the normal and natural criterion of political organization and independence, was by no means new in this period, but it now gained overwhelming importance from the practical work of Bismarck and Cavour in Europe and from the terrific struggle through which the principle was maintained in the United States. The working out of the idea was attended by a change of relative position among the European Powers. France was supplanted by Germany as the central figure. France, with a homogeneous population and a compact territory under a unified government, had only that interest in the principle of nationality which was incidental to the ambition of the third Napoleon. England, with Ireland on her hands, was necessarily cold toward the doctrine of nationality *per se*. Her philosophy easily conceded that the Poles were not Russians because they said they were not, and that the South Carolinians were entitled to independence of the United States because they believed they were; but it could not admit that Irishmen were not Englishmen or were entitled to independent government for any such reasons. The German, the Italian, and the American peoples, however, were able to make the principle of nationality predominant in both theory and practice. Yet, it is not to be presumed that either Bismarck or Cavour was under any illusion as to the abstract conclusiveness of nationality as a principle; to them the cause of the Hohenzollern and the Savoyard dynasties, respectively, was as much end as means in the policies which they carried through. And, even as to the United States, the time has probably now come when it will not be held unpatriotic, as it certainly is not untruthful, to say that sordid considerations of selfish sectional interest played a large, if not a decisive, part in the struggle through which national unity was preserved.

The triumph of nationalism in the seventh decade of the nineteenth century was promptly followed by a transformation in the principle that has determined in large measure the later stages of political development throughout the world. In the first period of the century nationalism had been the sister creed of liberalism. National independence and constitutional government had commonly been united as summing up what was just and natural in the aspirations of a people. In the name of both principles together the Poles had fought for independence of Russia, the Belgians had achieved their independence of the Dutch King, and the Magyars and Italians had resisted the Austrian Dominion. Nationalism had been essentially defensive in character and application; its

goal had been the release of a people from alien governmental control. But the events of the sixties revealed a new and widely different aspect of the doctrine. Nationalism passed from defense to aggression. Its chief end came to be, not the release of a people from foreign rule, but the subjection of every people to its appropriate domestic rule. In the name of the nation politicians, theoretical and practical, demanded a re-ordering of the world. God and nature and human reason and history were all triumphantly shown to have decreed that in the homogeneous population inhabiting a continuous territory should be the final and unquestionable unit of political organization. "National unity" superseded the time-honored "consent of the governed" as the justifying principle of sovereign dominion. Love of liberty and of self-government, once the noblest theme of poetry and philosophy, now became mere graceless "particularism." In the name of the nation, Hanoverians, Saxons, and Hessians were incorporated in the Prussian state; in the name of the nation eleven million Southerners were harried into subjection to the government at Washington. Political science mapped out the whole world into geographic unities, in each of which it was solemnly declared to be the end of all human destiny that some ethnic unit should be neatly and eternally ensconced.

There were difficulties in the practical application of this, as of every other ultimate principle. Ethnic homogeneity was in last analysis rather hard to define. Some clear objective test was needed to determine where one nation ended and another began. Identity of blood, of language, of religion, of traditions, of history, were all duly tried and all alike found wanting. Nor was the bounding of geographic unity any easier in practice. Alsace, we know, was and doubtless still is German, because it is east of the Vosges, but equally French because it is west of the Rhine. The Alps were undoubtedly ordained by God and nature to be the divider of nations; but it is hazardous to assert the same of the scarcely less formidable Rockies. Yet with all these difficulties perfectly apprehended, the idea still persists that there is something peculiarly natural and permanent and rational in the so-called national state. Switzerland and Russia and Austria-Hungary are all looked upon as rather out of the orbit of the scientific student of politics because they do not conform to the canons of ethnic and geographic unity.

Without examining farther the characteristics of this peculiarly nineteenth-century idea of nationality, let us look a moment at the influence which the idea has had upon the development of the conception of liberty. *Pari passu* with the realization of democratic ideals in governmental organization, there had developed the antithesis of the two systems of thought familiar to us as socialism and individualism. But vaguely and obscurely manifested during

the first half of the century, the conflict between the two became well defined and furious with the triumph of constitutionalism in 1848-1849. Both the opposing systems derived their lineage from the earlier liberalism. The socialist claimed that, with the people in control of the governmental organization, there could be no limit set to the power which they could justly exercise; restrictions that had been insisted upon before, when political authority was in the hands of the one or the few, had no justification, he declared, when authority was in the hands of all. The sovereignty of the people and the welfare of the people he interpreted as involving necessarily the supremacy and the primary interest of the classes which had just obtained political recognition, and the powers of government, he insisted, should be used as freely for the benefit of these classes as they had heretofore been used for the benefit of the classes now deposed. The individualist, on the other hand, steadfastly maintained that the rights of man had not ceased to exist with the triumph of democracy. The end of government, whether controlled by classes or by masses, was to protect these rights, not to override them. The state, indeed, had no other cause for its existence than to assist the individual in developing the powers that are in him, and any application of the public resources to other ends than this was tyranny and despotism.

This modern doctrine of individualism, having its source in the idealism of the German Fichte and Humboldt at the beginning of the nineteenth century, received a very perfect development through the works of the English Mill and Spencer in the fifties and sixties. It is, indeed, not too much to say that the whole magnificent system of Synthetic Philosophy was wrought out by Spencer to furnish a scientific foundation for the individualist thesis which he laid down in the first edition of his *Social Statics*. England at this date had just abandoned her ancient system of agricultural protection, and her philosophers, followed by many in other lands, were enthusiastically in favor of extending over the whole field of commerce and industry the *laissez-faire* which had been applied to English agriculture. The paternalism, which, after all, lies always close behind the fraternalism of the socialist, was, without doubt, distinctly overpowered by that ardor for individualistic liberty which was so widespread in the two decades following the middle of the century. If since then socialism and paternalism have gained the upper hand, and government is now conceived rather as an agency for the positive promotion of the interests of those classes who control it, the result may be traced to that passion for nationalism which supplanted the passion for constitutionalism. With the cry that industrial independence was essential to the complete national life, the United States and Germany took the lead in reversing the tendency which

England's free-trade policy had created, and gradually all the leading nations of the earth fell into line with them. In the presence of universal tariff barriers, in which the powers of government are most extensively and ingeniously employed for the primary advantage of specific classes, it is hard to find an adequate ground on which to resist the demand of any other class for a similar employment of governmental power in behalf of its interests. Nationalism has sounded the knell of individualism — whether forever or not, it remains for the future to disclose.

Another conspicuous feature of nineteenth-century politics that experienced serious if not irreparable disaster through the nationalistic movement was the doctrine of federalism. As the principle upon which the United States developed its astonishing progress in the first half-century, federalism came to be regarded as the touchstone of pure gold in governmental organization. The most logical constitution-makers in the world, the publicists of Latin America, brought forth a large crop of systems embodying this vital principle. Witness the United States of Mexico, the United States of Colombia, the United States of Venezuela, the United States of Brazil, and so on. Only yesterday our government relieved itself of the embarrassment in diplomatic intercourse caused by this very sincere flattery. By order of the Department of State, we are henceforth to be, not the "United States," but "America," distinguishing ourselves from our sister republics by simply appropriating to our exclusive use the name of the hemisphere of which they are a part. Though federalism was in its first application merely a more or less mechanical device for combining previously well-defined and independent political units into a single system, there came later to be found in it the invaluable principle of local self-government. The partition of power between central and state organizations was treated, not merely as an essential to the union of distinct sovereignties, but as a guarantee of individual liberty against all sovereignty. But the sweep of nationalizing sentiment obliterated this beneficent conception. In realizing the ends and aspirations of the nation, the autonomy of states received as little consideration as the rights of individuals. Centralization of power, in the name and for the purposes of national unity, accompanied the progress of every body politic in which federalism had for any reason obtained a hold.

III

After this very general survey of the tendencies manifested in the nationalistic stage of the century's progress, we are able to understand readily the influences which have produced the later and final stage. This, covering the last fifteen or twenty years, may with a fair degree of accuracy be designated the era of the new imperialism.

The events that have given character to the period are so recent and familiar as not to need detailed recital. The broad principle that has underlain them is that the nation, perfected through the suppression of individualism and of federalism, must break the bonds of ethnic and geographic homogeneity and project its beneficent influence into the world at large. Such, at all events, is the philosophic theory of the movement. The practical aspects of the operation have, of course, been of a rather less exalted nature. The impulse has come from the demand for markets on the part of the highly stimulated industries of Germany and the United States. It was in the eighties that the Germans instituted that picturesque world-wide hunt for colonial lands that gave such a shock to Great Britain and such amusement to the rest of mankind. It was in the early nineties that Africa was parceled out, with a brave paraphernalia of "spheres of influence" and "hinterlands" for the parcelers, but with no sign of respect for ethnic and geographic unity among the parceled. Three years later the unmistakable ambition of the American people to manifest their power beyond their national boundaries was thwarted, though with great difficulty, by President Cleveland; but in 1895 he also gave way, and by his Venezuelan message unchained the passions and aspirations which found a temporary satisfaction in the incidents and results of the war with Spain. The United States, the most perfect type of advanced democracy and nationalism, entered fully upon the task of governing distant and hopelessly alien peoples by the methods of autocracy. In the movement for the final partition of Asia into spheres of influence for the European powers — a movement to which the indomitable will and energy of one brave little Asiatic people have raised up an obstacle which at the present moment seems likely to be insuperable — the great American Republic has taken a recognized part as a regulating, if not a promoting, factor. There no longer remains one first-class nation whose conscious aim is rather internal perfection than external dominion — not one that does not see in dependencies the indispensable proof of political competence. Under such circumstances it needs no exalted intelligence to see that constitutionalism and nationalism have been definitively superseded as controlling dogmas in the world's politics.

What, now, is the meaning of this new imperialism? Is there in it anything really new? Is it any different from the imperialism of Athens in the days of Pericles or the imperialism of Rome under the late republic? Has it for its underlying principle anything different from that proclaimed by Machiavelli, that no state, whether monarchic or popular, can live a peaceful and quiet life, but each must either conquer or be conquered? Or anything other than the doctrine of the doughty Thomas Hobbes, transferred from individual

to nation, that life consists in an unceasing struggle for power that ends only with the grave? Or anything different from the principle to which the theories of evolution lend support, that a nation, like any other organism, must either grow or die, and that its growth involves the absorption of other organisms?

To very many thoughtful supporters of the new imperialism a way of escape from the implications of these questions appears in the conception that the modern movement is essentially altruistic,—that it is founded upon duty to others rather than satisfaction of our own desires. This is not a new idea in the history of politics. Athens pointed to the beneficent effects of her supremacy upon the subject states. The philosophical clients of the plundering Roman proconsuls could always declaim with great effect upon the rescue of suffering peoples from misrule and upon the uplifting influence of the *pax Romana*. Likewise, the supporters of our modern imperialism find comfort in the good that has been done. The British in India, it is pointed out, have abolished suttee; the French in Africa have made Timbuctoo accessible to the methods of modern commerce and to the allurements of Parisian art; the Germans have made the forms of their bureaucracy familiar in darkest Kiao-Chow; and the United States has begun at least to inspire in its Philippine subjects a longing for the English language and a respect for the clothing of the temperate zone.

Whether or not the bestowal of these and other even more important blessings of Aryan civilization upon races that yearn passionately to be uncivilized, is the true and an adequate justification of the modern imperialism, it is not the province of this paper to determine. Its function is fulfilled in merely setting forth the succession of ideals and leading principles that has characterized the past century. The constitutionalism of the first period took a form which was in some measure novel in the history of politics; the nationalism of the second period presented also certain features that had no precedent; but the imperialism that closed the century's record can hardly be said to have manifested thus far any characteristics that distinguish it from the movements in which throughout all history the powerful governments of the earth have extended their sway over the weak and incapable.

THE TENDENCIES OF THE WORLD'S POLITICS DURING THE NINETEENTH CENTURY

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IN speaking of the politics of a period, I suppose that we contemplate, in the main, three orders of elements: (1) Political psychology, viz., theories, thoughts, beliefs, and feelings, so far as these are conceived of as fertile and causal; Boulanger's influence for a time in France, for instance. (2) Political movements, whether these have attained definite results or not. Chartism in England would illustrate and so would the Abolitionist crusade in the United States. (3) New political creations, such as new states, leagues, alliances, conquests, policies, institutions, maxims, codes, modes of political procedure, or shiftings of political emphasis.

These three sets of elements may perhaps be brought together without confusion under the general caption of political movement considered in itself, in its causes, and in its results.

Reversing this order and proceeding from surface to center, we notice, as a good way to get started, alterations in the political geography of the last century. Even apart from the *bouleversement* wrought by Napoleon, when, for the time, Europe did not venture to stereotype any maps, the century was a rather busy cartographer. I mention only historically significant changes and omit all details.

The United States has come to embrace the whole territory lying west of the old Thirteen to the Pacific, besides Alaska, the Philippines and Porto Rico. Spain is no longer an American power; all her old dependencies here, save Porto Rico, now an appanage of the American Republic, having become sovereign states. Brazil, independent of Portugal since 1823, is a republic, the last American political community to oust a monarch.

Great Britain grew greater and still greater; South Africa became hers; so did Egypt, for, though the Union Jack is not unfurled there,

its flagstaff, in the person of the Earl of Cromer, is firmly planted by the Nile, which answers every purpose. It is understood that railway and telegraph concessions to British parties, all the way from Rhodesia to the head waters of the Nile, connect those two British poles of the African continent. Australia and New Zealand were nominally British in 1800, but their erection into veritable membership of the Empire occurred later.

British rule in India was fairly begun by Clive's victory at Plassey, June 23, 1757, but it was rickety till 1798, when Lord Mornington, later the Marquis of Wellesley, became governor-general, with his policy of uncompromising British paramountcy over all native princes,— a policy consummated when, at Disraeli's instance, Victoria was proclaimed Empress of India in 1877. Since then Upper Burma has been made British, British India thus covering the whole of southern Asia, from Baluchistan, itself a British dependency, to the meridian halving the Gulf of Siam. To this add Ceylon, the Straits, and Hong Kong, which are British out and out, and the vast and valuable sphere of British influence in China. Innumerable minor dependencies and protectorates I omit, as of no bearing on my discussion.

Since the Second Peace of Paris, France has lost Alsace and much of Lorraine, but has gained, and holds with sovereign or some looser tenure, Savoy, Algeria, and Tunis, Madagascar, rather important districts in West Africa, French India and Indo-China, Cochin China, Annam, Cambodia, and Tongking, besides minute islands and mainland patches here and there over the earth.

The Congo Free State was erected during the eighties, the United States first recognizing its flag in 1884.

On the Continent of Europe, the Congress of Vienna and the Second Peace of Paris restored the map to about the form it had in 1791. The number of states was much reduced, chiefly by quashing ecclesiastical principalities. The Germanic Confederation replaced in a very general way the Holy Roman Empire. Prussia was vastly increased in size, thus put in a way to gain, in 1866 and 1870, still more extensive increments of territory and of power, insuring her the headship, as against Austria, of the new German Empire, which, in 1871, succeeded the confederation.

The nineteenth century saw the various governments of Italy unite under a single sovereignty for the first time since Justinian; Greece independent of Turkey; Egypt, also all the northern provinces in Europe that were formerly vassals of Turkey, free from their suzerain save in name, or, in some cases, tribute.

At the Congress of Vienna originated the European concert idea, — the system of relegating the weightiest affairs of European politics to the great powers for decision, which has since become a recog-

nized part of international law. The congress was an epoch in international law. Private international law may be said to have had its birth here, as public international law had its birth at the Congress of Westphalia. Certain valuable forms and rules for international intercourse date from this congress. A lively interest now first began to be manifested in Europe's common weal. New agreements were here set in train for the free navigation of rivers having an international character. The powers united to do away with the slave trade and directed new attention to the rights of foreigners resident in any land. "The business policy of the eighteenth century had as its fundamental principle that one nation's gain is another's loss. Now for the first time a European treaty appealed to the doctrine of the new political economy, that the alleviation of commerce is for the common interest of all peoples."¹ Only in tariff legislation has Adam Smith been ignored. In this field even Great Britain is considering whether or not to disown him.

The five powers of the Holy Alliance sought at the Congress of Aix la Chapelle and still more at the congresses of Laibach and Verona, to fix as a bottom tenet of international law the principle of dynastic legitimacy. They damned as revolution all limitation by constitutions of a sovereign's power and all tampering with the territorial lines traced at Vienna. They further assumed the duty of protecting in their possessions the sovereigns then on thrones, and of assuring and guarding the public law of Europe as they understood it.

This effort the march of events and of European public opinion, which by this time began to count for a good deal, soon brought to naught and rendered ridiculous. The Bourbons ceased to reign in France. Revolutions in Italy dispossessed a number of families restored in 1815. The Pope surrendered his temporal power. Belgium was separated from Holland, and Savoy joined to France, while Austria lost her best Italian lands. Germany became a unit and an empire, besides appropriating Alsace and most of Lorraine. The Spanish American republics remained independent of Spain.

October 27, 1860, Lord John Russell sent abroad perhaps the boldest dispatch which a British Minister ever drew: "The governments of the Pope and the King of the two Sicilies, he said, provided so ill for the welfare of their people that their subjects looked to their overthrow as a necessary preliminary to any improvement. Her Majesty's Government were bound to admit that the Italians themselves are the best judges of their own interests. Her Majesty's Government did not feel justified in declaring that the people of southern Italy had not good reasons for throwing off their allegiance to their former government. Her Majesty's Government therefore

¹ V. Treitschke.

could not pretend to blame the King of Sardinia for assisting them. We cannot wonder that such words as these spread in Italy like flame, that people copied the translation from each other, weeping over it for joy and gratitude in their homes, and that it was hailed as worth more than a force of one hundred thousand men."¹

The principle of the balance of power among nations, which the Congress of Vienna applied with such mechanical fidelity, lapsed into desuetude, giving way to the maxims of non-intervention and respect for each people's sovereignty.

Louis Napoleon's wish to interpose for the South in the American Civil War, and Great Britain's unwillingness, which deterred him, are remembered by all. On Prussia's seizure of Schleswig and Holstein in 1864, and of Hannover, Electoral Hesse, Nassau and Frankfurt in 1866, powerful influences in England and France wrought for intervention, but in vain. At the Schleswig-Holstein crisis, Lords Palmerston and John Russell were for war, and bemoaned the timidity of their colleagues; but Victoria was strongly against them and prevailed. In Great Britain still louder cry for intervention was heard, first when Louis Napoleon made himself Emperor, and again as his fall became imminent; but both times the Ministry was immovable. Public sentiment in the fatherland demanded German intervention in favor of Krüger during the South African War, but the imperial government resolutely held aloof.

In fine, while the right of a nation, in certain cases, to interfere for mere equilibrium's sake with a neighbor nation's extension schemes may, perhaps, still be defended in abstract international law, the corresponding practice in international politics is dead and buried.

The last century also saw given up, or at least greatly decreased, ideality of aim, whether in international or in national politics, part result, perhaps, of the state's completer freedom from church influences. Natural rights are little pleaded any more. You must claim acquired rights or get out of court. It is frankly admitted that politics has its field right here in this actual earth and that earth is not yet heaven. In politics now we do the best we can, then feeling it a duty to be satisfied, provisionally, be the results never so far from ideal. "Hope not for the republic of Plato," says Marcus Aurelius, "but be content with ever so small an advance, and look on even that as a gain worth having."

It would be a mistake, however, to suppose current politics less genuinely moral or humane than the politics of the seventeenth and eighteenth centuries, when it could be said:

"Earth is sick
And Heaven is weary, of the hollow words
Which states and kingdoms utter when they talk
Of truth and justice."

¹ Morley's *Gladstone* II, 15, 16.

Any surmise of deterioration ought to be dissipated by noticing the numerous and momentous questions which nations have of late been settling by arbitration, the treaties of arbitration now existing, or the erection, by the fifteen most powerful states on earth, of The Hague Tribunal for quieting disputes such as once usually meant war.

I cannot subscribe to the theory that the course of history is directed wholly by economic causes,— the so-called economic interpretation of history. But there is one economic might which shapes human events to an even greater extent than the advocates of that theory have observed; I mean the money power; and it is among the philanthropist's most gratifying notes that this incalculably strong force is at every crisis of strained relations between nations exerted on the side of peace. As a preservative of peace the money power deserves rank alongside The Hague Tribunal.

It is worth notice that the freest populations are the ones which multiply the most rapidly. The population of the United States and Great Britain with their dependencies and protectorates is now some 522,000,000. Sir Robert Giffen a little time ago made the population of Europe and of nations of European origin, like the United States, something over 500,000,000; the United States, 80,000,000; the United Kingdom, Canada, Australia, and the white population of South Africa, 55,000,000; Russia about 135,000,000; Germany, about 55,000,000; Austria-Hungary, 45,000,000; France, 40,000,000; Italy, 32,000,000; Spain and Portugal, 25,000,000; Scandinavia, 10,000,000; Holland and Belgium, 10,000,000; other European countries, 20,000,000. A century ago, adds Sir Robert, the figure corresponding to this 500,000,000 would not have been more than 170,000,000.

The point is that the development was not uniform, but the most marked in the Anglo-American section, where a population of some 20,000,000, which was about the figure for the United States and the United Kingdom together a hundred years ago, has grown to not less than 130,000,000. Russia and Germany also show remarkable increases, but nothing like the Anglo-American.

The system of "spheres of influence," so admirably elucidated by Professor Reinsch, is a creation of the century, its chief exemplification, at present, being in China, where Russia, Germany, Great Britain, and France all have footholds.

The storm-center of world politics, always in the East, has moved on to the Far East, Great Britain and Russia continuing to be the head contestants.

Thwarted by Turkey in his resolve to connect the Black Sea for naval purposes with all the oceans, the Muscovite reconnoiters toward India, only to find the Khaibar Pass occupied by men he has seen elsewhere. Nothing daunted, the British being busy in

South Africa, the Colossus plants one foot near the ice-free water on the Persian Gulf, the other on ice-free water at Port Arthur, the tip of Chinese Manchuria, which 6500 miles of railway connect with St. Petersburg. A Russo-Japanese war ensuing from this move, the Briton counters by pocketing Tibet.

The chess-game is interesting, but hardly as yet bears out Mr. Tarde's view that one or the other of these powers, or at any rate some nation, is destined to world-empire. Too many checks and balances are in reserve. For instance, suppose Great Britain at this moment in the ascendant; yet, as I once heard Archibald Colquhoun explain, Russia's methods of colonization in Asia are superior to the British, being less radical. Again, the day that sees Great Britain victorious over Russia may also see Canada, Australia, and South Africa independent nations. But should Russia then swing dangerously to the fore, the entire Anglo-American world would be one flint, fire-striking rock against her, while Germany would be as likely to side with England as France with Russia.

Mr. Tarde's theory is too *a priori*, too "previous;" as is that of Mr. Pearson and others who proclaim the yellow peril, whether from Chinese industrial or from Japanese military efficiency; and also that of those who, gleefully contemplating The Hague Tribunal and the rapid progress of arbitration, expect all war to end the day after to-morrow.

Having glanced at what may be considered the chief political creations, crystallizations, *faits accomplis*, of the century past, we go back upstream to sight the main movements whence those new formations causally sprang.

Notice, first, the centralizing tendency, including (1) the enlargement of the territories ruled from a single center, accompanied or not by the spirit of imperialism, and (2) the strengthening of the central authorities in all nations. Both forms of the tendency are observed in the United States, in Russia, in Germany, and in Italy; also in the foreign takings of England, Germany, France, and Chile, in Austria's reluctance to end in any degree her lordship in Italy, and in the impulse which Austria shares with Russia to appropriate as much as possible of the Balkan Peninsula.

Modern means of communication by steam and telegraph immensely facilitate the unifying of large and widely separated bodies of men. Railways and telegraphy explain why our generation could witness the rise in Germany of the first solid central government there in all history, giving the lie at last to Niebuhr's saying that anarchy was the God-ordained constitution of the German people.

But for the agencies named, the United States could not be permanently or strongly ruled as a single nation, and the victory of central government in the Civil War would have been in vain. But

for them, further, no Dominion of Canada and no Australian Federation would exist.

National expansion would undoubtedly have gone much further than it has but for the antagonism it encounters from the disposition of blood-related communities to get together under the same governments. Blood is not only thicker than water; it is thicker than the ink in which pacts are written or constitutions printed. In determining the boundaries of states, a wholly new prominence has come to be assumed by consanguinity, the nation political inclining to coincide with the nation as an affair of race.

Ireland's wish to shake off or minimize English rule illustrates this, as does the centrifugal energy tending to dirempt Hungary from Austria and Norway from Sweden. The centripetal working of the idea is seen in the unity of Germany and of Italy. Many think that the German Empire will in time embrace German Austria and Italy Italian Austria. Slavic races, too, desiderate political unity, but the feeling as yet ends in sighs, brochures, editorials, and speeches, choked there, it would seem, through dread of Russia's supposed absorption policy.

Both these tendencies — to centralize and governmentally to group consanguineous peoples — are insignificant beside the one next to be named, the republican or democratic, so pronounced in the political history of my hundred years.

When the American Revolution broke out, a method of governing states to which we of to-day can give no tenderer name than absolutism was practically universal. Even Great Britain was no true exception. Not a constitution in the sense now usual existed in all the world.

Since then absolutism in government has given way, no longer existing in any state of first rank. Only the Czar and the Sultan rule in the old fashion, and even they are bound by public opinion, local and ecumenical, considerably to heed the popular wish. Monarchy has been dispensed with by many peoples, in form as well as in substance; in the rest most of its old power is gone. Civilized lands are ruled in unprecedented measure for the people and by the people. Suffrage has been enormously extended, serfs and slaves set free. Of all the emancipation edicts and statutes on record, an overwhelming majority hail from days since the French Revolution. The list of those uttered during this period in Germany alone makes up a half-page close fine-print note in Roscher's *Political Economy*.

This strongly-marked democratic period had its proximate and for us its practical opening in the French Revolution, though its absolute origination must be referred to the Cromwellian revolution in England. Sir Henry Maine has pointed out that the character-

istic doctrines which that revolution propounded were then wholly new to mankind. They were, moreover, then set forth in almost the very form now familiar to all civilized men. The "Agreement of the People," issued in the name of the Commonwealth army and dated January 15, 1649, clearly enunciates that sovereignty resides in the people. It would have placed supreme legislative power in a representative assembly elected for a limited term, given equal voting privileges to all payers of taxes, established religious freedom, and separated church from state. Even the idea wrought into our governmental system, of limiting the legislature's function by certain vital principles fixed beforehand in a constitution, is clearly embodied in that Agreement.

That Agreement of 1649 and the debates and struggles by which men sought to give it effect furnished Locke and Algernon Sidney their alphabet and their inspiration, which they in turn passed on to Rousseau and to the American revolutionists.

While all this is to be admitted, still Guizot's remark that every characteristic element of modern civilization has been mediated to the world through France is substantially true of democratic government as it has come to be practiced. It is the product of the French Revolution.

Whatever opinion may be held of its character in other respects, no one can question the importance of that revolution in shaping political ideas and affairs since. Description and discussion in fact hardly hint at the radical, pervasive, and lasting changes which the revolutionary movement effected in the political condition of Europe, not a single element of which escaped positive influence therefrom.

The main significance of the revolution does not lie in the facts that France, from a condition of abject weakness, making her the scorn of Europe, suddenly rose up, changed her form of government, and in a few years forced a continent to her feet, her empire surpassing Charlemagne's in size and recalling that of Augustus; it resides rather in the irresistible will first revealed in all this against monarchical, feudal, and ecclesiastical oppression and unreason,— "organic torpor," a decayed, inefficient, and inexpressibly burdensome public system. The cause of these brilliant deeds was passion for a rational public order, educated and developed by a series of French writers and fired to frenzy by Bourbon tyranny, stupidity, and immorality.

Pressed by his Minister to attend to affairs of state, Louis XV would retort, "Bah, the crazy old machine will last out my time, and my successors must look out for themselves."

"Unhappy man" — you are hearing Carlyle — "there as thou turnest in dull agony on thy bed of weariness, what a thought is thine! Purgatory and hell-fire, now all too possible in the prospect; in the retrospect, — alas, what thing didst thou do that were not

better undone? What mortal didst thou generously help? What sorrow hadst thou mercy on? Do the five hundred thousand ghosts who sank shamefully on so many battlefields from Rossbach to Quebec, that thy harlot might take revenge for an epigram, crowd round thee in this hour? Thy foul harem! The curse of mothers, the tears and infamy of daughters! Miserable man! thou hast done evil as thou couldst; thy whole existence seems one hideous abortion and mistake of nature."

Only thus from its causes can the Revolution be justly judged. If it is so viewed, its errors and excesses may be explained and in part condoned, as the inevitable friction generated in producing a great and worthy piece of work against fearful resistance.

I cannot agree with those writers, like Taine and Sir Henry Maine, who reprobate the Revolution itself, believing that whatever good it wrought could have been accomplished without it. "The French Revolution," declares Bisset, "was the work of philosophers, and it was, compared with the English revolution, a failure and ended in Cæsarism, that is, in the government of hell upon earth."

In this hostile mode of estimating the movement, Burke's *Reflections* led the way, swayed too much in their judgment of it as a whole by the fate of the unfortunate Marie Antoinette, who had so impressed the author when in France.

"It is now sixteen or seventeen years," he says, "since I saw the queen of France, then the dauphiness, at Versailles, and surely never lighted on this orb, which she scarcely seemed to touch, a more delightful vision. I saw her just above the horizon, decorating and cheering the elevated sphere she just began to move in, glittering like the morning star, full of life and splendor and joy. O, what a revolution! and what a heart must I have to contemplate without emotion that elevation and that fall!"

Sir James Mackintosh's *Vindiciae Gallicae* introduced the appreciative criticism of the Revolution, whose freshest note Frederic Harrison has sounded in saying: "The history of our entire nineteenth century is precisely the history of all the work which the Revolution left. The Revolution was a creating force even more than it was a destroying force; it was an inexhaustible source of fertile influences; it not only cleared the ground of the old society, but it manifested all the elements of the new society. It would be easy to show that the last fifty years of the eighteenth century was a period more fertile in constructive effort than any similar period of fifty years in the history of mankind. . . . Truly we may call the Revolution the crisis of modern reconstruction.

" ' When France in wrath her giant limbs upreared,
And with that oath which smote air, earth and sea,
Stamped her strong foot and said she would be free.' "

Bisset, of all men, should admit that the Revolution did not *end* in Cæsarism. "If there is one principle in all modern history," to quote Frederic Harrison again, "it is this: that the Revolution did not end with the whiff of grapeshot by which Bonaparte extinguished the dregs of the Convention."

In France the fires of republicanism never went out, though at times smouldering. They burst forth powerfully under Louis Philippe in the Second Republic, in the present republic — these republics no new creations, but adjourned sessions, as it were, of the original. Since 1789 every anti-republican polity arising in France has passed its life in unstable equilibrium.

Elsewhere in Europe as well, old style political ideas began to lose power. Constitutions were in time introduced in all the German states. A national-liberal party rose in Prussia, which at last, after so many ages, made the political unity of Germany a reality.

This result might have been attained much earlier but for the conflict of the sentiment for unity with that for constitutional rule. Prussian policy was strongly anti-republican. King William and Bismarck were, so late as 1863, still heavily tarred with Metternich's brush, repelling liberals like Rotteck, Welcker, and Gagern, in the center and south, in lands which the confederation of the Rhine had embraced, even when they were convinced that Prussian victory meant a united fatherland. Union finally came by compromise, Prussia turning more liberal, the ultra-liberals insisting less on ideally free institutions at once.

Italy, even more than Germany, took impulse towards freedom and unity from the good influences connected with French occupancy.

Great Britain, where the good seed fell into the best ground, benefited infinitely from the Revolution. Few English, to be sure, sympathized with Dr. Price in seeing a millennium at hand. "What an eventful period is this," he exclaims in a sermon, part of which Burke quotes: "I am thankful that I have lived to see it. I could almost say, Lord, now lettest thou thy servant depart in peace, for mine eyes have seen thy salvation."

Soberer men avowed sympathy with the essential in the new movement. Fox was among these. He believed Pitt's repressive measures to be of dangerous tendency.

On Pitt's death, Sir Walter Scott wrote:

"Now is the stately column broke,
The beacon light is quenched in smoke,
The trumpet's silver sound is still,
The warder silent on the hill."

One can imagine Fox reciting this, not as a threne but as a pæan.

The career of British liberalism since Fox and Pitt's day has been peculiarly proud. To it is mainly due that noble succession of

reform acts extending the franchise until manhood suffrage is realized in Britain more perfectly than in the United States. Laws have been passed unshackling British trade, greatly to the benefit of the common people. Popular election has been carried into counties and cities, placing the peasant and the mechanic in condition to hold his own against wealth and rank as he could never do before. The extra voting power of the rich has been mostly annulled, the public service purified and opened to the humblest, the administration of justice immensely improved. A system of public education has been launched, by which the poorest youth may win intelligence that shall be worthy of his freedom and enable him to utilize and enjoy it.

Nor is the train of causation starting from the French Revolution exhaustively conceived without recalling again the freedom of the Spanish-American republics, the rise and life of the democratic party and of the Monroe Doctrine in the United States, the creation of Belgium, and the liberation of Greece.

Hardly had the French Revolution democracy begun its race when it suffered serious arrest. An absolutist reaction set in: in France itself, under Napoleon, the restored Bourbons, and, later, the Second Empire; Metternich arose and the Holy Alliance; strife for free institutions was repressed in Germany, Italy, and Spain; reform became and for a time remained a hateful word all over Europe; Louis XVIII dated the state papers of 1814 as of the nineteenth year of his reign, affecting to ignore all that had passed since Louis XVI's death.

Queen Victoria once said: "As I get older I cannot understand the world. I cannot comprehend its littlenesses. When I look at men's frivolities and littlenesses it seems to me as if they were all a little mad." This insanity of petty-mindedness was never more patent than in Germany after Napoleon's fall.

The German Confederation was Metternich's tool to stay the advance of liberalism. The presence of the French in Germany had quickened and generalized the wish for constitutional and hatred of personal rule. While peril lasted the powers heeded. Czar Alexander received Poland on condition of granting it a constitution. Frederic William promised Prussia a constitution; Article 13 of the Confederation Acts declared that each of the confederate states was to have a constitution with representation. Liberals fully expected that before long constitutional methods would prevail all over the Continent as in England.

Bitter disappointment resulted, the next period being but a record of Metternich's triumphs, of monarchs' mean devices to evade their pledges and to hush the popular cry. Save Saxe-Weimar, not a state in the Confederation obtained at this time a liberal ground law.

Bavaria, Württemberg, and Baden, which had felt France most, had charters by 1820, but these modified absolutism only a little, and were given partly to spite the larger states surrendering to reaction.

The privileges which were here and there conceded were vitally vitiated by appearing as grants, not as rights. All seeking by the people to wrest concessions was viewed as Jacobinism with reign of terror behind. Press, pulpit, school, and platform were under gag laws, patriots excluded, exiled, or silenced by an infamous system of espionage, which Napoleon would have blushed to own.

All this proved in vain, however. The good leaven went on permeating the meal till all west Europe was leavened. Liberal ideas, domestic, and streaming in from Switzerland, Italy, Greece, England, and France, especially during her revolution of 1830, proved at last more than a match for Metternich; and when the new revolution of 1848 rocked to its base every throne of Continental Europe, he fell and his system was doomed.

Men had come more and more into Gladstone's state of mind in 1851, when he wrote: "It is a great and noble secret, that of constitutional freedom, which has given us the largest liberties, with the steadiest throne and the most vigorous executive in Christendom. . . . I am deeply convinced that among us all systems, whether religious or political, which rest on a principle of absolutism, must of necessity be, not indeed tyrannical, but feeble and ineffective systems; and that methodically to enlist the members of a community, with due regard to their several capacities, in the performance of its public duties, is the way to make that community powerful and healthful, to give a firm seat to its rulers, and to engender a warm and intelligent devotion in those beneath their sway."

Republicanism has encountered, and is still struggling therein, a second *impasse*, which threatens to be far graver than the first.

A wide and deep remission of philanthropy marks the intelligence of our time, partly speculative in origin, as seen in Nietzsche, who ridicules consideration for one's enemies and for the weak, as slaves' ethics; partly resulting from fuller acquaintance with the inferior races of men. Tongues thoroughly trained in trick gymnastics stick at vocables like "equality," "brotherhood," "the race," "humanity," much more than when only missionaries had first-hand familiarity with Bushmen and Igorrotes. Such a generalization as "man" does well enough in zoölogy, but in practical ethics it finds its position harder and harder to keep. The changed thought promptly sidles over on to political ground. Having radically subordinated certain races to others, we find it easier, if not inevitable, to subordinate certain classes.

Another boulder badly obstructing democracy's path is socialism. The socialists have, agreeably to their wish, convinced great multitudes that their programme is simply the logical working-out of democracy. At the same time, against their wish, they have begotten the conviction in others that socialism put in practice would mean anarchy, communism, leveling, a crusade against the highlands of men's life in the interest of the bog. It would build forth the social body utterly without regard to heterogeneity, allowing no place for the genius, the artist, the dreamer, the mugwump, the non-conformist, the rebel. The Church in its worst days never meditated rendering life so insipid. Prisoned in the iron orderliness socialism must bring, real men would cry out with Walt Whitman:

" O, something pernicious and dread,
 Something far away from a puny and pious life,
 Something unproved, something in a trance,
 Something escaped from the anchorage and driving free."

I care not what others may say, but as for me, give me the privilege of nonconformity or give me death.

The modern liberal deems a never so mountainous district preferable to a dead level. If democracy is that, and he frequently fears it is, he will none of it. Rather, he shouts, my kingdom for a horse with a man astride! If it is the only alternative, give me monarchy, aristocracy, even plutocracy, rather than the democracy which stifles and kicks the individual.

Again, liberalism has disappointed early expectations. Its devotees at first looked for economic and moral as well as political millennium as soon as men were set free from monarchic rule.

But it is clear that the device of simply knocking off men's political shackles falls short. Bare civil liberty does not constitute or assure social weal. Society sunders itself worse than ever into disparate and hostile classes. Poverty and oppression have not come to an end. This century of political equality, of status changed to contract and of a ballot for all, is precisely the one wherein pessimism has been born, which is no longer the smart hobby of a few, but the fixed conviction of multitudes.

Distracted over so many unfulfilled prophecies, a host of liberals almost conclude that they have been following an *ignis fatuus*, to turn from which is the beginning of wisdom.

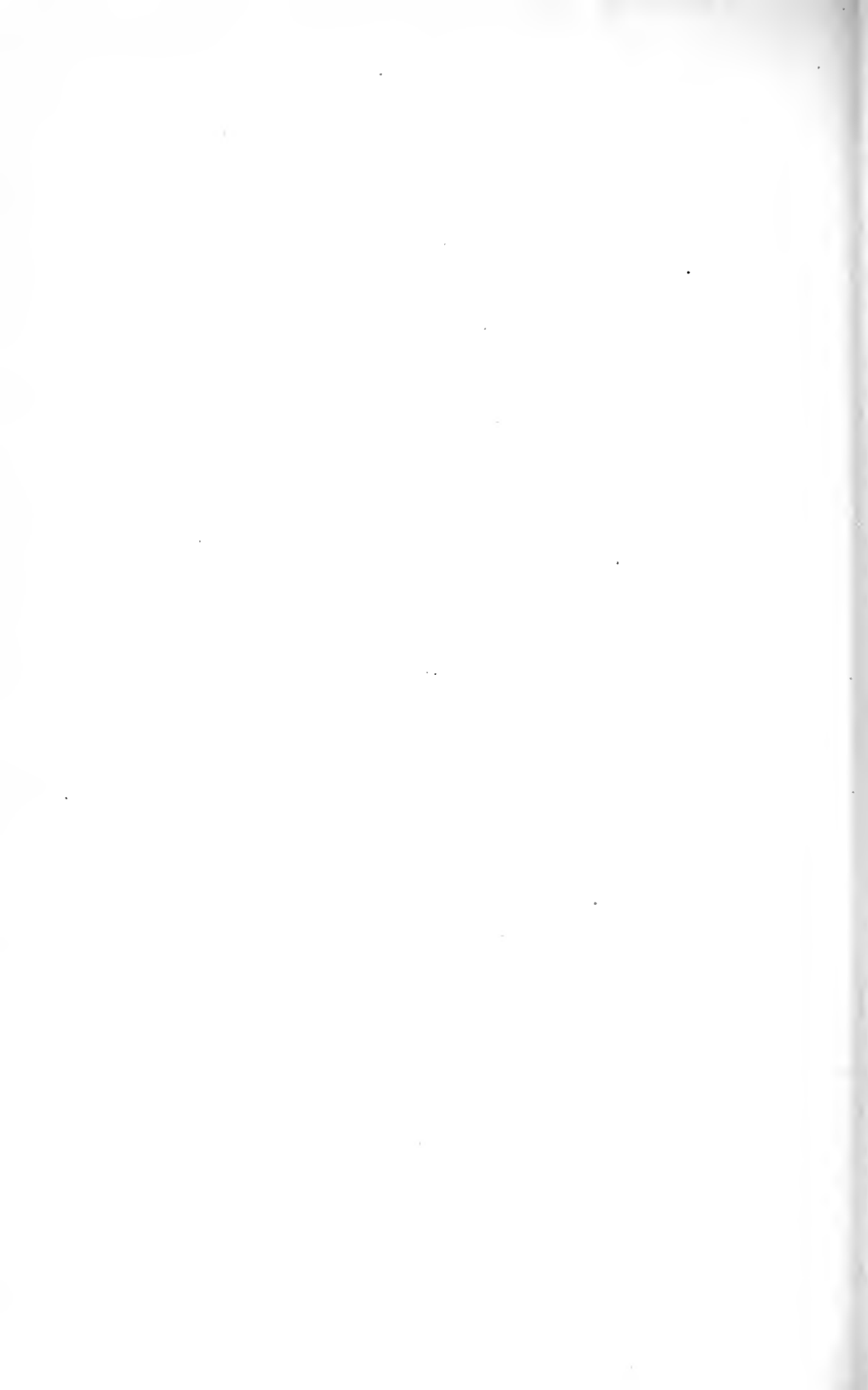
Lastly, the *gaucherie* of popular government in executive functioning, and especially in war, renders it odious with a great and increasing number.

The modern mind is of a practical turn. Men theorize less than formerly, but administer better. We delight in facile practice, in bringing things to pass. Familiarity with colossal businesses, railway systems, trusts, where single minds with absolute authority

produce wonders in the way of dispatch, coördination, and combination, brew relish for order and rapidity in business, and discontent for the slow, lumbering, awkward methods which, to date, most democracies insist upon in conducting public affairs.

The inclination is, therefore, observable on every hand to allow executives longer rope, a freer hand, more independence in detail from legislatures and from the constituency. Whereunto this will grow, none can tell. As it is, however, clearly inconsistent with the democracy hitherto expounded and practiced, it helps to swell and spread the conviction that democracy, at least democracy as we know it, cannot be the final polity.

SECTIONS A AND C
POLITICAL THEORY AND NATIONAL
ADMINISTRATION



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POLITICAL THEORY AND NATIONAL ADMINISTRATION

(Hall 15, September 22, 3 p. m.)

SPEAKERS : PROFESSOR W. W. WILLOUGHBY, Johns Hopkins University.
PROFESSOR GEORGE G. WILSON, Brown University.
RIGHT HONORABLE JAMES BRYCE, London, England.
SECRETARY: DR. CHARLES E. MERRIAM, University of Chicago.

POLITICAL PHILOSOPHY

BY WESTEL WOODBURY WILLOUGHBY

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THE term "political philosophy" is not so self-explicative as to render unnecessary an inquiry into the character and value of the speculations with which it has to deal. The adjective "political" is easily reduced to its proper meaning. Correctly used, it has reference to those matters that directly pertain to the organization of men in corporate communities over which some paramount ruling authority is generally recognized as the legitimate source of all legally binding commands. We thus term "political" all matters that concern the state, its origin, history, right to be, organization, activities, administration, and aims. When, however, we turn to the meaning of the substantive "philosophy," when used in connection with the qualifying adjective "political," the matter is not quite so simple. It is clear that we cannot speak of a philosophy of politics in the metaphysical or epistemological senses of the word, nor can we employ it in its cosmic application as a synthesis of the doctrines of all the sciences. The only meaning, then, which we may properly attach to the word, when used in the phrase "political philosophy," is that which it has when we speak of the philosophy of any science as that portion of it which is concerned with the

theoretical discussion of the essential characteristics of the material and phenomena with which such science has to deal. When we thus speak of a philosophy of a science as dealing with its theoretical principles, it is not to be understood, however, that it is therefore concerned with its hypothetical or undetermined part. A philosophy in this sense is theoretical only in the sense of being abstract, that is, as dealing with generalizations rather than with particulars, and as predicating essential and fundamental qualities rather than accidental or unessential characteristics. Its results are, or should be, as exact as those reached in the corresponding sciences and arts. Indeed, the correctness of the principles reached in these latter fields is almost wholly conditioned upon the truth of the distinctions philosophically determined.

In its methods and aims, political philosophy is, upon the one side, teleological or ideal; upon the other side, scientific or analytical. Upon its ideal side it seeks to discover the nature of political society and the legitimate sphere of its authority as determined by the nature of men, that is to say, by their need of political organization for the satisfaction of their proper desires and for the realization of their possible perfections. It thus defines the state in terms of its end, and essays to determine what its activities and organization should be, rather than to describe its form and functions as they actually are. Upon its analytical side, political philosophy is wholly concerned with the state as it is, with its nature as determined by the elements of which it is composed, and by the manner in which they are united. From the innumerable and diverse ways in which political organs are framed and political authority manifested, political philosophy discovers those underlying qualities which are essential and common to them all. From its search for the real source and nature of political power or sovereignty, it returns with criteria according to which political phenomena of all kinds and all ages may logically and satisfactorily be analyzed and classified. Political philosophy thus, upon its analytical side, affords the means of uniting into an harmonious whole that multitude of phenomena which, in appearance, is so confused and confusing. It makes it no longer necessary to declare law, the state, or sovereignty to be one thing at one time and another thing at another. In its light the changes or evolutions of political institutions and activities are seen to be changes in form or manner of outward manifestation of political authority, and not alterations in nature. History shows us that neither in governmental organization nor in actual activity and social efficiency have two states ever agreed, nor has the same state remained the same in these respects at different periods of its existence. Yet the state itself, considered abstractly as a political power, has not changed in character. Its sovereignty has remained the

same that it ever has been, and always will be, so long as it exists at all. Those who deny this (as does, for instance, Professor Rowe, who says that "it is impossible to formulate a political terminology applicable to all times and to all countries") deny not only the possibility of a philosophy of politics in any sense of the word, but, by necessary implication, deny the possibility of framing definitions in political science whose validity may be unquestionably accepted. If law and sovereignty change at different times, not only in form but in character, what criteria are afforded for determining at any given time what their real characters are, and therefore the tests by which their presence may be infallibly detected; or what possible basis is there left for comparison between institutions of different times or of the same time, but among nations upon different planes of civilization? What hope will there be, reasoning from such a basis, of finally determining political legitimacy in any individual case, or of founding systems of constitutional law or international procedure upon anything but empirical and therefore largely arbitrary bases?

A survey of the history of political speculation shows that, up to comparatively recent times, political philosophy received almost no attention upon what we have termed its analytical side. The ideal, the ethical, or, as one might almost say, the metaphysical method, saw the one almost exclusively followed. The nature of the state, and especially its relation to the church, its ethical right to existence, the legitimate sphere and content of its law, the character and extent of the authority properly exercisable by its rulers, and the reciprocal rights and duties of its subjects,—these, rather than the examination of the ideas of sovereignty and law as positive legal concepts, were the questions that were over and over again discussed, and the answers to them sought not in a utilitarian consideration of existing needs and conditions, but in purely subjective examinations of the essential nature of men and the contents and character of divine or natural law.

Thus, during all this time, political philosophy, in so far as it was not theological or metaphysical, was ideal or ethical. Its inquiries extended little beyond the domain of *Naturrecht* or *Naturrechtlehre*. The existence of these so-called natural laws, absolutely binding in their force, and possible of exact and definite statement, being assumed, speculators, one after another, essayed the elaboration of codes of conduct that should govern rulers and ruled in the establishment, organization, and maintenance of political relations. Absoluteness was the one characteristic of all the systems that were elaborated. Ideal forms of government, applicable at all times and to all peoples, and systems of law, complete, and in conscience absolutely binding upon every one, were almost uniformly the results reached. Being almost purely subjective in character, the freest

possible play to the speculative abilities and inclinations of their authors was permitted, and thus, as a writer in the *Quarterly* (October, 1900) has remarked, the science or philosophy of natural law, while preventing the creation of a true and useful science of politics, was the apotheosis of political philosophy.

In our day, however, in both ethical and political speculation, the absolute has given way to the relative. That the best form of government and the best code of laws are not the same for all peoples, and that, though the distinction between right and wrong is absolute, no particular rules of conduct are, are now truisms.

This, however, has not meant the total, or, indeed, the considerable, destruction of political philosophy even upon its ideal or ethical side. Though we now no longer believe that it is possible to construct a political Utopia everywhere applicable, or an ideal code of laws ethically and absolutely binding upon every one, we still hold it profitable to subject existing political conditions to ethical and utilitarian criticism, and consider it possible to outline systems of governments and elaborate codes of laws, which, while admittedly imperfect, and applicable only to particular conditions, are, nevertheless, improvements upon those existing. Furthermore, we still see the necessity of discovering an ethical *quo warranto* both for the existence of political authority in general and for the given state or government in particular.

But it is especially upon its analytical side that political philosophy now flourishes and demonstrates its value. First of all, rigid political analysis has rendered possible the creation of a true political science.

A science has been defined as "knowledge gained and unified by exact observation and correct thinking, especially as methodically formulated and arranged in a rational system" (Standard Dictionary). Thus it is not until the related facts obtained by research, observation, and experimentation have been coördinated and logically classified that a science is created. But before this coördination and classification are possible the facts themselves have to be correctly analyzed and their essential characteristics ascertained, so that exact definitions of them may be drawn and criteria discovered that may serve as the bases of correct classifications. Thus political philosophy upon its analytical side, by ascertaining the precise connotations of such terms as law, government, state, suzerainty, sovereignty, and the like, has rendered possible the formulation of exact definitions and classifications and, consequently, the creation of a political science.

Especially in the fields of constitutional jurisprudence and of international law is the value of political analysis made manifest. Political philosophy, in fact, supplies the logic of constitutional law, and where fundamental political concepts have not been intelligently thought out and harmonized into a system, vagaries in consti-

tutional interpretation, and inconsistencies in political action, have been almost surely the result. Chief Justice Marshall was great as a political philosopher rather than as a lawyer. All of his chief opinions were essentially essays in political theory. This is evident from the fact that in them very rarely is a legal authority or precedent cited to sustain the reasoning employed or the conclusions reached. And, since his time, though references to predecided cases abound in its written opinions, the *ratio decidendi* of the decisions of the United States Supreme Court has in all of the more important cases been derived from the principles established by pure political theory. Thus, to cite but a few instances, this is seen in *United States vs. Lee*, where the right of a private citizen to recover possession of property held by a federal officer under authority of an unconstitutional executive order was sustained by basing it upon the general principle that in a republican government no authority can be so high that an act by it, unauthorized by a valid law, can operate to divest the private citizen of a legal right. So also in *Texas vs. White*, the distinction between a state and its government — a distinction emphasized by political theory — was seized upon by the court to enable it to assert the continuance of a state in the Union at the same time that the legitimacy of its government was denied. Finally, in the recent cases dealing with the constitutional rights of the inhabitants of our insular possessions, the decisions are based upon the purest of political theorizing regarding the nature of the rights enumerated in the first eight articles of amendment to the Constitution.

In the field of international law the sphere and service of political theory or philosophy is even more conspicuously manifested. In the beginning, the principles of international law were deduced in a purely philosophical manner, custom and precedent playing little or no part. And though convention and custom are now the chief sources of its rules, the part played by pure political theory is still very important. This is due to the fact that at the same time that the principles of international law, through the practice of nations and the efforts of commentators, have been rendered fairly definite and systematized, and the formal rights and duties of sovereign nations towards one another thus made, in the main, evident, the application of these principles and the determination in concrete cases of these respective rights and duties have been made, if anything, more than ever difficult by the great increase in the complexity of constitutional and international relations which has marked the last century, and, especially, the last quarter of it. Instead of a family of nations composed of members completely autonomous in fact, as well as name, we find nations, each sovereign in name and theory, associated in the closest of constitutional and international

bonds, in some instances exercising their international powers in common, and in others surrendering up the enjoyment of their international rights in whole or in part to alien powers. In not a few cases, indeed, this surrender has extended to the exercise of domestic powers as well. Thus it has come about that just as in the Middle Ages the feudal state was the prevailing civic type, and in the early modern age the absolute monarchy, so at the present time the dominant type seems to be the composite or federative form. In Europe we have the federal state of Switzerland, the dual empire-kingdom of Austria-Hungary, and the great German hegemony under the leadership of Prussia. In the Americas we have the federal states of the United States, Canada, Mexico, and the various South and Central American federations. Australia is now a federated commonwealth. In South Africa a federal movement among the several British colonies exists, and finally, the scheme of an imperial federation of all the English colonies with their mother country is in many quarters being vigorously pressed. Each of the greater powers of the world has within comparatively recent years established political interests over the less developed peoples of Asia, Africa, and the Pacific Islands. Where these political interests have taken the definite colonial form, international conditions have not been greatly complicated; but where, as is the case in so many instances, these interests have been asserted, not as a result of the formal subjection of the territories in question to the sovereignty of the powers claiming the interest, but as based upon treaties providing for the establishment of a protectoral relation, or for the lease for a number of years of a particular tract of land, or the recognition of simply a "sphere of interest," or, most indefinite of all, for the lease of a sphere of interest, — where these have been the international relations that have been established, a host of novel international problems have been born, for the solution of which, in most instances, only pure political theory is competent. The connotations of the terms sovereignty, suzerainty, half-sovereignty, protection, vassalage, allegiance, have to be examined with a carefulness never before required. Among other problems it is necessary to determine anew what powers and attributes are incidental to the possession of sovereignty, whether its existence is an infallible and necessary test of statehood, to what extent the exercise of its powers may be delegated without parting with its possession, the distinction between governments *de facto* and governments *de jure*, whether states may be created by international compact, whether the origin of political authority in general is susceptible of a juristic interpretation, what is the essential character of positive law and whence its validity, and to what extent so-called international law is binding, or is law at all *in sensu strictiore*.

*The Relation of Political Philosophy to Other Departments of
Speculative Inquiry*

From the definition and sphere of political philosophy, we turn now to a consideration of the relations in which it stands to some of the other departments of speculative inquiry.

Political Philosophy and Metaphysics

Though, as has been pointed out, political theory cannot be spoken of as a philosophy in its metaphysical sense, there is a very close relation between political philosophy and metaphysics in so far as political philosophy attempts to determine the nature of the state from its final cause, and metaphysics seeks to state teleologically man's nature. Except in so far as the existence of the state is conceived to be an end in itself, the definition of political authority in terms of its proper end is, of course, governed by what is conceived to be man's end and destiny. Thus, as a matter of fact, it is found that abstract political speculations have ever been carried on in intimate union with ontological and teleological inquiries. The aim of almost all philosophizing is the discovery not only of the essential nature of things, but the determination of their justification and purpose with reference to an ideal or end. It is, therefore, but to be expected that in all times those minds which, by nature and temperament, have been inclined to seek for the nature of reality in general, should have also searched for the nature, justification, and end of the state, the greatest of all human institutions. Thus it is found that very many of the chief political philosophers have been also conspicuous as philosophers in the general sense. This is as true of Plato and Aristotle in ancient days as it is of Aquinas and Suarez in later times, and of Spinoza, Locke, Hobbes, Mill, Kant, Fichte, Hegel, and Green of still more recent date.

Inasmuch as there is no logical connection between metaphysical and political speculations, that is to say, no syllogistic dependence of the results of the one study upon the conclusions of the other, philosophers have not attempted to deduce political principles directly from ontological premises. At the same time, however, the general cast of mind, the philosophical *Tendenz* of writers, has often influenced them in their political inquiries. Thus, to take a single instance, the difference in the views of Plato and Aristotle as to the relation of the individual to the state, and as to the proper sphere of control of the latter over the private life of the former, is explainable by the divergency of the views respectively held by them as to the relation between universals and their particulars. Plato, in his conception of the state, treats it as, in a sense, a universal,

the universal of man; and as, in his general philosophical system, the general is considered as more real, more important, than the particular, so the body politic is conceived to represent, if not actually to be, a higher type of humanity than the single individuals comprehended within it. Hence, in his political scheme the welfare of these individuals is wholly subordinated to that of the civic generality, and the citizen is treated as having no rights, no aims, indeed, apart from the state. Aristotle, on the other hand, while not denying reality to ideas or universals, yet holds that they do not exist apart from the particulars included within them. The particulars are thus given an importance and a self-existence, as it were, of their own. They are treated as having a life that is not and cannot be completely swallowed up in that of their universals. The reflection of this in his political thought is seen in the increased rights and claims which are given to individuals, *qua* individuals, as against the state.

Political Philosophy and Ethics

The relation between political and ethical theories has been even more intimate than that which has existed between political philosophy and metaphysics. So intimate, indeed, has this association been that Janet, who has given us, perhaps, our best history of political speculations, has found it practicable to combine this history with an account of the ethical systems of the writers considered.¹

Upon its theoretical side, ethics necessarily depends upon metaphysical inquiries into the essential nature of man and of the moral order of the universe. Upon its practical side, however, its union is with politics. When the character of moral obligation or of sanction, or the nature of the highest good is dealt with, we are in the realm of theoretical or abstract ethics. When the establishment of proper norms for human conduct is essayed, the domain of practical ethics is entered. Practical ethics is essentially a social science in that it has for its aim the determination of just rules for the guidance of men in their dealings with one another. The solitary individual may be and is, in fact, a moral being, but until he is brought into association with others of his kind there can occur to him few, if any, obligations of a moral nature. For though we may hold that the feeling of moral obligation is an original datum of human consciousness, and that man, as a partaker in the divine or absolute reason, is potentially a moral being, the possibility of his coming to a self-recognition of this fact, as well as the opportunity of realizing it in practice, is only rendered possible in the social and political state.

¹ The title of his work is *Histoire de la Science Politique dans ses Rapports avec la Morale*. When completed, Dunning's *History of Political Theories* will easily rank as the best account of political speculations. Thus far two volumes have appeared, bringing the history down to the time of Montesquieu.

The concrete facts which condition the formation and exercise of ethical ideals are thus preponderantly of a political character. The influence exerted by the commands of the state in creating and molding current conceptions of right and justice is necessarily enormous. The true and desirable relation between law and ethics is, of course, for ethics to dictate the principles and distinctions which the laws embody. As a matter of fact, however, it has always been the case, and always will be the case, that until men become generally moralized and intellectualized, legal determinations have been and will be to many persons the source whence they derive their ethical distinctions.

When, from the formation of ethical conceptions, we turn to the realization of them in practice, the dependence of the ethicist upon the politician becomes in many cases absolute. In so far as ethical speculation is devoted to a search for a justification of the existence, and the manner of existence, of the authority of a political institution, its inquiries are as much political as ethical. So, conversely, in so far as the political philosopher seeks for the moral basis for institutions and authorities, his speculations are as much ethical as political. Thus, while ethics has no concern with the analytical questions of political philosophy, with its teleological problems it is intimately connected. These teleological problems have to deal with the right of the state to be, the legitimate extent to which the freedom of the individual may be restricted by public control, and the aims which a body politic should strive to realize.

Speaking upon the relation of ethics to politics, Professor Hyslop writes: "For the sake of an effective comparison, politics should be defined as the science of the regulation and restriction of human conduct by law. It thus seeks to determine how certain courses of action may be artificially induced or prevented. It aims by law to establish social order, or a condition of things which the unorganized wills of men would not spontaneously produce. It is, therefore, the science of the artificial limitations of human liberty, in the protection of rights and the regulations of external conduct. On the other hand, ethics is the science of what a man can and ought to do, whether government exists or not. It determines the justice and validity of all political principles, but it does not investigate the means of putting them into force. It is, therefore, concerned with the phenomena of free action, or the voluntary choice of the good. Hence, in contrast with politics, it may be defined as the science of the extension of human liberty or of those conditions under which morality is realized without a resort to civil law. For this reason it is strictly the science of the conditions under which morality becomes internal as well as external. Politics stops short with the attainment of the external good, an order in which free morality is

possible, though it does not and cannot affect this morality. Ethics aims with this to attain internal good or virtue, and is consequently concerned with the 'good will,' as well as with the good conduct externally considered. But it deals with morality only as it is the product of free will, while politics subordinates freedom to the attainment of social order."¹

While substantially correct, there may, however, be room for questioning whether a false impression may not be gained from the above concerning the aim of politics. It is true that political institutions and laws are necessarily limited to the control of external acts. Men cannot be made moral by act of parliament. But the ultimate aim sought or which should be sought by all political powers is that through their influence and assisted by the environment which they create, the highest possible moral life may be lived. In final purpose, then, ethics and politics agree. Only in the instrumentalities through which they operate do they differ. The one seeks to control human conduct by direct appeals to the individual's reason and conscience; the other, to render these appeals effective by the educational influence of the institutions which it establishes and the order and formal justice which it maintains.

Thus, indeed, Plato makes politics a part of ethics, while Aristotle declares politics the major science of which ethics constitutes but one division. Despite their differences, both of these positions are based upon the fundamentally true premise that the real object of all inquiries which have to deal with the lives and conduct of men is that a "good life" shall be realized. This is the one bond that unites them all, and, whether we give to ethics or to politics the more comprehensive meaning, or include them both within some wider term, is nothing more than a matter of terminology.

Political Philosophy and Theology

No necessary or logical relation exists between political principles and theological speculations. As a matter of historical fact, however, they have often been closely associated. So long as political authority was given a directly divine character, political inquiries were necessarily limited by, and included within, religious theories. Thus the great variety of political theories which have been advanced to explain the relations which church and state bear, or should bear, to one another have in large measure been of a theologico-political character. This problem of church and state, as is well known, was, indeed, the central point around which mediæval political speculation centered. Out of this general controversy sprang a host of divergent views regarding religious toleration, the right of

¹ *Elements of Ethics*, pp. 10, 11.

tyrannicide, the divine rights of kings, popular rights of resistance to political oppression, and especially the right of the church to determine when subjects should be released from their oaths of allegiance and obedience to their political sovereigns.

Political Philosophy and Political Economy

The use of the term "political" in the titles of each of these departments of thought indicates a more intimate relation between the two than actually exists. Voltaire is reported to have said that the Holy Roman Empire was neither holy, nor Roman, nor an empire. With equal truth it might be said that political economy, at least as the science is now conceived, is neither political nor economic in the ordinary sense of the word. When economic speculations first began to assume a form sufficiently coherent and considerable to warrant their being grouped under a distinct title and to receive treatment as a separate department of human inquiry, they were essentially cameralistic in character; that is to say, they centered around the problems of public finance. They had to do primarily with the questions of maintaining the public credit, and of securing to the state an income adequate for its needs. Thus, at the hands of the first real school of economists, the mercantilists, its relation to practical politics was so intimate that the new science did deserve the title "political economy." By the physiocrats the center of interest was taken from the state and placed in the citizen, the problems surrounding the production of wealth by the individual being the ones especially emphasized. At the same time, however, that the direct dependence of economics upon considerations of political polity was thus lessened, the relation between the philosophic bases of economic and political speculations was rendered more intimate by the founding of economic views upon those same doctrines of natural laws and inalienable individual rights which were at that time current in political thought.

In the epoch-making work of Adam Smith, *An Enquiry into the Nature and Causes of the Wealth of Nations*, the science of political economy assumed more nearly its modern form, but doctrines of natural rights still played a considerable part in its theory. Furthermore, as the title partly indicates, questions of political policy were everywhere emphasized. Since Smith's day, however, the uniform tendency among economists has been to consider as the primary purpose of their science the investigation of the production, distribution, and consumption of wealth; and questions of public policy are held to have a place in their inquiries only in so far as they introduce modifying conditions. This fact is shown by the general tendency of the economists of to-day to discard altogether the use of

the qualifying adjective "political" and to term their science simply "economics." It is still, of course, true that when the economists attempt to make practical applications of the principles which they have deduced, they are concerned with questions of the exercise by the state of this or that function, or the adoption by the law of this or that policy. But this is only the application of principles already determined. So far as economics is considered as a science or a philosophy, it is concerned solely with the discovery of the physical laws that control industry, and the psychic laws that regulate the conduct of men in their efforts to secure wealth and obtain the greatest amount of benefit from its consumption.

Political Philosophy and Sociology

Giving to the term "sociology" its broadest meaning, as the title of the comprehensive science that embraces the study of all social facts, political science is, of course, one of its subdivisions, and its philosophy a branch of social philosophy. If, however, we accept the definition of Giddings, according to which sociology is that science which has to deal with the primary psychological facts and elementary social phenomena which the students of politics and of the other social sciences assume without analysis as the foundations upon which to erect their respective scientific superstructures, sociology, in so far as it deals with political facts, covers much of the ground that the political philosopher has been wont to claim as his own. Speaking especially of political science, Giddings says in his *Principles of Sociology*:¹ "How is it with the theory of the state? Political science, too, finds its premises in facts of human nature. The active forces of political life, as of economic life, are the desires of men, but they are no longer merely individual desires, and they are no longer desires for satisfactions that must come for the most part in material forces. They are desires massed and generalized; desires felt simultaneously and continuously by thousands, or even millions, of men who are by them simultaneously moved to concrete action. They are desires of what may be called the social mind in distinction from the individual mind, and they are chiefly for such ideal things as national power and renown, or conditions of liberty and peace. Transmuted into will, they become sovereignty — the obedience-compelling power of the state. Political science describes these gigantic forces of the social mind and studies their action; but it concerns itself with their genesis no more than political economy concerns itself with the genesis of individual desires. It simply assumes for every nation a national character, and is content that the political constitution of the state can be scientifically

¹ Page 36.

deduced from the character assumed. It takes the fact of sovereignty and builds upon it and does not speculate how sovereignty came to be, as did Hobbes and Locke and Rousseau. It starts exactly where Aristotle started, with the dictum that every man is a political animal."

In another place he says: "So far, then, as the objective interpretation is concerned, neither political economy nor politics can pretend that it goes back to the primary facts in the social category. Both frankly assume without explanation the phenomena of human association."¹

To the position thus taken that political science, in common with the other special social sciences, requires the services of another science to establish the fundamental principles and interpret the primary facts with which it has to deal, two objections lie. In the first place, it is not to be admitted that the politician takes sovereignty or any other primary political fact without inquiry as to its origin. The historical or descriptive publicist or the writer upon practical politics does not, of course, concern himself with the origin and nature of political authority, or with the basis for political right. But the political philosopher or theorist does, and many works exist in which the origin of political power has been traced back of the mere fact of its existence to its ultimate psychological genesis. In the second place, in Giddings's statement of the case for sociology as a science fundamental and logically prior to political science, it is incorrectly assumed that political societies result from an organic development of antecedent groups that are without political organization, — from groups, in other words, that are purely social in character. As a matter of fact, though the time cannot here be taken even to outline the argument, it is easily demonstrable that the psychological basis upon which the state is founded is a sentiment of unity which exists in individual wills and that the political unit is not a development from some lower social unit. The body politic is not a development from the family or the tribe. It may be that, historically speaking, the social group is earlier formed than the political group. This is due to the fact that a degree of mutual restraint and tolerance which is sufficient to maintain a slightly coherent social group is more easily established than the mutual coöperation and individual self-subjection which are necessary for the creation of a political unit. But the social group does not by a simple process of growth become a political group. Psychologically as well as teleologically the state is independent of the facts of mere social groups; and hence, that science which studies the genesis and nature of social groupings cannot be fundamental to the science of politics.

¹ Giddings, *Principles of Sociology*, p. 34.

In taking this position we are not to be understood as denying to sociology the right and title to a place among the other social sciences as concerned with a distinct and important body of social phenomena. Our criticism extends only to the point of refusing to entertain its claim to be the science logically antecedent to political science. We fully agree with Professor Giddings that it is quite feasible, as well as eminently desirable, that special and exclusive study should be made of those peculiar and essential facts which concern the genesis, organization, and evolution of human association. It may be that from this study it is possible to obtain, upon the objective side, laws of growth which may be stated in terms of a physical process, and that upon its subjective side social phenomena may be interpreted by reference to discoverable motives or facts of human consciousness of kind. Whether, as thus pursued, sociology may claim an existence as a science independent from, but coördinated with, the other social sciences, we do not say. But we are not ready to concede either that political philosophy has yielded, or properly may yield, to the social psychologist all inquiries as to political origins.

Political Philosophy and the Philosophy of History

Political philosophy is related to the philosophy of history only through its own history, but here the relationship is very intimate. Political theories, however abstract their form of statement, have ever been the product of the objective conditions and needs of their times. Also, though in much less measure, they have, when formulated, influenced the course of historical movements. Thus, in tracing their development, one necessarily discovers and discusses the same fundamental motive ideas which the philosophical historian has to deal with in his efforts to explain and rationalize the past. Thus, not only does an adequate grasp upon political theory enable one correctly to determine the thoughts and intentions of men of the past, but a history of the development of political theories, in its reflection of the thoughts and actuating motives at the basis of important political movements, furnishes the historical student with an insight into the logic of events which he can obtain from no other source. Especially where, as in the history of the United States, questions of constitutional right have required practical solution, a knowledge of political theory and of its history is of the greatest value. A noteworthy illustration of this is seen in Professor McLaughlin's article, "Social Compact and Constitutional Construction," contributed to the *American Historical Review*.

Political Philosophy and Philosophy of Law

In order to understand the exact relation which the philosophy of law bears to political philosophy it will be necessary to consider for a moment the different senses in which the term "philosophy of law" is used. By a philosophy of law may be meant two things: first, an inquiry into the nature, or source of obligation, of the rules of conduct that are enforced by the governing power; or, secondly, a search for those principles which, from an ethical standpoint, should be accepted as juridical. If we accept the view of the English analytical school that all laws, in so far as they are laws at all, are the commands of the state, an inquiry into their nature and source of authority necessarily becomes a single topic of a general political philosophy. If, however, following the general lead of Continental schools, it is held that enforcement by the state is but an incidental fact, and that, in the truest sense, laws derive their authority from their inherent rationality as tested by their consonance with abstract principles of right and their suitability to the civic needs of the people whose conduct they control, a philosophy of the law becomes in effect largely an ethical undertaking.

In England those attempts which have been made to outline ideal systems of law have usually had the practical object in view of seeking to bring about immediate reform in existing laws. This being so, such efforts have been generally termed "theories of legislation." Upon the Continent, however, though the idea of ultimately bringing about legal reforms by educating the legal sense of the community may not always have been entirely absent, the immediate object sought has been by no means so practical a one. As Pollock says:¹ "The only strictly necessary difference between our 'theory of legislation' and a German philosopher's *Naturrecht* is that Continental schools consider this ideal of legal institutions as a thing to be contemplated in and for itself with a metaphysical interest which is, as it were, cut adrift from practice; while the Englishman's ideal is of something to be realized, or approached as near as may be, in an actual state, for actual citizens, and by the positive enactment of a legislature."

That *Naturrecht*, ideal law, or philosophy of law is purely an ethical inquiry is frankly recognized by Continental writers. Lasson begins his *System der Rechtsphilosophie* with the definite statement that legal philosophy is a branch of ethical philosophy. So also Kant, in his *Philosophy of Law*, says: "The science of right designates the philosophical and systematic knowledge of the principles of natural right."² Likewise says Friedlander, in his *System of Jurisprudence*

¹ "Methods of Jurisprudence," *Law Magazine*, vol. VII.

² Hastie, transl. p. 43.

as a *Scientific Organism*:¹ "Jurisprudence is a branch of ethics. Its function as a science is to establish the essential principles of right; and as right only obtains reality among men who are united into a state, it has also to establish the fundamental principles of the state."

It is to be observed, however, that a system of *Naturrecht*, as thus defined, is not conceived to set forth a complete ethical system. To a Continental, *Recht* or *droit* includes only that portion of human conduct which is possible of enforcement by the state, without reference to the fact whether it is so enforced or not. Thus, upon the Continent, ethics is divided into two parts, — the one dealing with actions which can be enforced by external compulsion, and as such forming the subject-matter of *jurisprudence* or *Rechtslehre*, or the science of *droit* or *Recht*; the other dealing with those actions that cannot be so compelled and which must therefore be left to individual conscience, and as such forming the subject-matter of *morale* or *Tugendlehre* or *Ethik* in a narrower sense, or the science of *moralité* or *Tugend*. It will thus be seen that in France and Germany *droit* and *Recht* are applied not only to actions that actually are enforced by the state, and which the English and American jurist designates as positive law or law proper, but to all actions capable of such enforcement, whether or not they are as a fact so enforced. Correspondingly the terms *morale* and *Tugendlehre* are not made applicable to all portions of right conduct, but simply and solely to those actions that do not admit of external compulsion.

With this explanation of the meaning of the term "philosophy of law," we can see how necessarily intimate is its relation with political philosophy. In so far as laws are viewed as commands of a political superior to a political inferior, from a sovereign to a subject, a legal philosophy is, as has been already said, nothing more than a particular branch of political inquiry. Also, when viewed as a search for ideal principles of right, its connection with political speculations is very close. For, in determining these ideal principles, the considerations involved are almost identical with those that the political philosopher has to bear in mind in his attempts to ascertain the elements of an ideal commonwealth. In fact, the only important distinction between a system of ideal law and a political Utopia is that in the latter there must necessarily be included, in addition to the statement of the general principles of right which should be recognized, the outline of a scheme of governmental organization through which such principles are to be declared and enforced.

¹ Hastie, transl. p. 140.

Conclusion

By way of summary of our statement of the relation which political philosophy bears to other fields of speculative inquiry it may be said that metaphysics, ethics, and political philosophy constitute the three divisions into which any general philosophical system is logically divisible. By metaphysics are determined the nature and essential attributes of men as rational moral beings. Upon its conclusions are based the principles which the ethicist declares. Finally, the results reached by the ethicist are in turn those which it should be the aim of all political life to realize. Thus, to state the sequence in other words, metaphysics determines the possibility of human freedom, ethics lays down the principles by which it should be regulated, and politics ascertains the means through which those principles may best receive recognition and enforcement. Thus, the final aim of philosophy is fulfilled. Without ethics and politics, metaphysics is reduced to useless imaginings. Without metaphysics, ethics has no foundation for its premises, and without politics it is without the means of securing a realization of the aims which it declares desirable. Without metaphysics and ethics, politics is unable either to determine the relative values of different possible lines of public policy, or to establish grounds upon which political obedience may rightly be demanded.

By way of final word, the speaker would repeat what he has had occasion in an earlier paper to declare, that, though abundantly justified by its practical fruits, the greatest incentive to the study of political theory is that pure intellectual delight which is to be obtained from the pursuit of any speculative inquiry. Philosophy is the search for the essentially true, and alone is able to satisfy the mind's insatiable demand for the whence, the how, and, to use a scholastic term, the whatness or *quiddity* of human phenomena. Its results are, therefore, satisfying apart from their practical value, and its method enticing by giving play to our highest intellectual faculties. At all times political speculation has occupied an important place in the general field of philosophy, and has attracted the attention of the greatest minds, from Plato and Aristotle, Augustine and Aquinas, Locke and Spinoza, to Kant and Hegel, Savigny and Austin, Jefferson and Mill. And, when we reflect upon it, what can be more provocative of inquiry than the nature of the corporative control to which all men submit in one form or another, and under which and because of which they have been able to progress from the lowest stages of savagery to the highest attainments of civilized life? What wonder that, apart from the pursuit of practical ends, the greatest minds should have been stirred to its critical examination!

PROBLEMS OF POLITICAL THEORY

BY GEORGE GRAFTON WILSON

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It is not uncommon for such as call themselves "practical" to give slight regard to the serious politico-scientific presentation of a topic bearing upon the management of state affairs. They say, "O, that is the point of view of a theorist;" "he is bringing in historical illustrations. These do not apply to present conditions;" "that is all right in theory, but it will not work in practice;" or "I have no respect for those fine-spun theories that never lead to anything."

Such opinions are not confined to "practical politicians," but find expression elsewhere, even in the works of those engaged in the presentation of the claims of other than the political sciences. The critics sometimes see little reason for the existence of political science, and still less for the elaboration of political theory.

To such detractors the first problem of political theory would be for it to prove its right to exist.

It is true that practical necessities gave rise to political phenomena long before any theoretical consideration of politics was conceived. The state existed prior to political speculation and independent of it. The fact of this priority of existence does not, however, prove that political theory may not have a right to be any more than the fact of the existence of electricity before the existence of theories in regard to its nature would discredit the theories which have given such beneficent results to man. These theories have not modified the essential nature of electricity, but have made it possible for man to control electrical energy for his own purposes. The problem of political theory is in part so to reveal the nature of political energy that it may be controlled for man's benefit. If this can be done, even those who demand "practicability" would grant that political theory has a right to be.

In the consideration of the right of political theory to be, it must at the outset be admitted that, like other theories, there have been theories in the political field that have been only in small part tenable and others not at all tenable by a normal mind.

Here there arises the problem of the relation of political theory to political action. It must be admitted that political theories have

often influenced political action most profoundly. The works of Aristotle have again and again become not merely the subjects of study for those interested in Greek literature, but for those engaged in political affairs. They have been used as the sources of arguments for determining practical political action. Eginhard in his *Life of Charles the Great* states that the great ruler delighted in the works of St. Augustine, especially in *De Civitate Dei*.¹ The influence of the works of Grotius upon the political policy of his contemporary Gustavus Adolphus is evident. In some of its aspects the French Revolution was a crude attempt to work out what was thought to be a correct political theory. The influence of the same theories is evident in the enunciation of some of the fundamental principles upon which the United States Government was founded. The debates upon the adoption of the Constitution of the United States, the Federalist Papers, and the writings of other of the early political leaders in the United States show the influence of the understanding of political theory. The political movements of the first half of the nineteenth century in Europe show how the theory that a nationality had a right to embodiment in a political unity influenced practical politics. Theories as to what a state might do in the way of determining economic prosperity have been the basis of many political party struggles, and claims based upon lack of understanding of political theories have led to the downfall of "practical politicians" and political parties.

Those widely versed in political theory have also often been leaders in the political activities of their times. This has been particularly true in Germany, and some of the great development of that state can be traced to a recognition of the worth of political theory as a guide for practical action. Where political studies have received the most careful attention and most rational consideration, there the political action has been in general most consistently progressive.

It is as reasonable to believe that practical political affairs may be more properly understood and directed when the theories underlying political action are comprehended, as it is reasonable to expect similar treatment of affairs in other lines of human activity when the underlying theories are understood.

It would seem, then, that political theory has in the past strongly influenced human activity, that men who have led in political affairs have often been guided by political theories, and that in itself political theory would have the same reasons for its existence as the theory of other studies dealing with human activities. If political theory can lead to action so disastrous to human well-being as has

¹ "*Delectabatur et libris sancti Augustini, praecepueque his qui De Civitate Dei praetitulati sunt.*" Eginhard, *Vita Karoli*, cap. 24.

sometimes been the case, then there is reason for an investigation in order that sound and beneficent theories may take the place of those of the opposite character.

Those who would attempt to discredit often do not know what is the nature of political theory at present nor what has been its influence in the past; indeed, while decrying the theorist, they as practical men may be acting upon principles which the theorist has enunciated, and their successes may be due to the correctness of the theory or to its fitness for the conditions at the time existing.

Again, problems of political relationship arising in consequence of the growing importance of the state itself and the extension of its powers in comparison with such institutions as the family and the church have emphasized the importance of political theories.

The growth of parties, schools, systems, governmental policies, and the like, based upon theories makes necessary attentive study of their bases. Many of these parties distinctly call themselves by the theory name, as in the case of the "socialistic party," the "nationalist party," etc. The courts of justice often incline toward a theory in accord with a political platform, and in some cases judges are elected for the purpose of supporting a party theory.

As the state is one of the most important of the products of human association in its effects upon associated life and in its influence upon the individual, there is a final and sufficient reason for the mastery of the fundamental principles of its being, and with these political theory purports to deal.

Even this brief survey shows that political theory has a right to exist and to claim respect, though it must always be admitted that there may be false as well as true theories.

Granting that political theory has a right to be, the next general problem is one of subject-matter.

One of the first difficulties in regard to the subject-matter is that of discriminating between the political and non-political in the data of human association. Much of the data relating to early human association which has been used as a basis for political theorizing is certainly very imperfectly understood, and in some cases the data are not reliable for political theorizing, as they were gathered with an entirely different purpose in view.

Some writers speak of the Hebrew theocratic state, of primitive states among aboriginal tribes, and of states bound only by family ties or by clan relationships. If the organization prevailing among the early Hebrews and these other early relationships are to be called states, then the problem of dealing with these and modern states under the same system of definitions becomes very difficult, even in theory. The points of identity in organization between a savage tribe and the British Empire would not be many, and to attempt to

give a common explanation for each would lead to absurdities. It is evident that some of the confusion and differences which have arisen are due to the attempt to account by political theory for non-political facts. Dunning, in his *History of Political Theories* (p. xvii), has observed that a history of political theories "would begin at the point at which the idea of the state, as distinct from the family and the clan, becomes a determining factor in the life of the community." It would not be maintained that any particular date or degree of civilization could be fixed upon as a prerequisite for political action. It is affirmed that there exists a problem for both the student of political theory and political science in the way of discrimination between the political and non-political in early social data.

Another important question in the consideration of the subject-matter would be as to when and under what circumstances social data would become political data properly to be used for political theorizing. Dunning, in accord with the position above taken, says, "Of all the multifarious projects for fixing the boundary which marks off political from the more general social science, that seems most satisfactory which bases the distinction on the existence of a political consciousness."

The subject-matter presents another difficulty from the fact that the data upon which political theory must draw do not remain fixed. Even if agreement were to be had upon definitions, the content would change with the change in human relations. To adapt political theory to the dynamic character of the subject-matter is an ever-recurring problem.

Much of early political theory and, to some extent, present political theorizing is concerned about the doctrine of form of the state, — the question as to whether monarchy, oligarchy, or democracy is the best form. This is a problem of some importance, but is insignificant in comparison with the problem of rendering efficient such form as may exist. The consideration of political data without predisposition in favor of any particular form of political organization will discover efficiency under varying forms and also will discover that in most instances the efficiency is not due to the form of organization.

By political theory is generally understood the theory centering upon the state. One of the primary problems would therefore be to determine what the state is, and upon this definition would depend much of the scope of the theory. After establishing a definition, which the great diversity in existing definitions shows to be no easy task, the problem of determining the relations of the states to each other, to other political institutions, and to other social institutions arises. This involves the question of the limits of state action, one of the most difficult of all problems and one upon which much dis-

cussion has been had. This will, in part, depend upon the conception of such political ideas as sovereignty, law, etc. In the field of performance of state functions and the exercise of state activities there are questions of relationships. The separation and limitation of powers, the character and range of governmental activity, and the nature of government itself become problems for political theory. The subject-matter of political theory is varied, and different writers have given to it very diverse treatment. The same general subject-matter has in some instances, particularly in the eighteenth century, given rise to theories leading to entirely opposite conclusions, and later individualistic and socialistic theorists have used the same subject-matter in support of the contentions of their respective positions.

Admitting that political theory has a right to existence, and that from the extent and nature of its subject-matter diverse conclusions may be drawn, the next general problem becomes one of method. It would need no argument to arrive at the conclusion that a theorist starting with a series of political axioms would arrive at different conclusions from those of a theorist who viewed the state as an historical evolution or that a believer in "the divine right of kings" would evolve a different theory from that of an advocate of the social contract theory. The problem of method easily becomes a significant one for the political theorist. Indeed, it has been claimed by some that the method is the most important of all the problems as to political science and theory.

Various methods have been used by political theorists.

The formal explanation of political facts which has viewed the state as static and subject to logical analysis has profoundly influenced political theory. Certain valuable conclusions can doubtless be drawn from such theorizing. The tendency of this method is toward a purely legal view of the state. The method of pure logic, as it has been called by some writers upon the Continent, tends to give a narrow point of view, while at the same time the view gains influence from its positiveness.

A more positive method was that which assumed its definitions and the reasons for them as well as assumed certain political axioms; then, by deductive reasoning in regard to the assumed state and also in regard to the assumed character of man, drew its conclusions. This doctrinaire school of theorists corresponded in some respects to the Manchester school of economists.

The historical method corrects many of the errors consequent upon the rise of the above method. It shows what analysis or logic cannot show, viz.: that reason is not the source of certain political institutions and phenomena, but rather that their source is in special conditions which arose in some earlier time. The doctrinaire

method, with its axioms and formulæ, regards such phenomena as exceptions. In a negative way the historical method gives to political theory the data for correcting conclusions of the two first-mentioned methods.

In a positive manner, the historical method furnishes political data in their "time-setting," making possible the interpretation of political phenomena with reference to their conditioning circumstances. The method of comparison has also served most efficiently in political investigation and interpretation. Montesquieu gained not a little by its use. De Tocqueville says, "In America I have seen more than America; I have there sought an image of democracy itself."¹

In connection with the question of method, there is the problem of freeing political theory from the extended use of analogy which has often given a false idea of the nature of the political facts. In the case of the biological analogy which has been most extensively used, there has often been a tendency to make little or no discrimination between physical and political phenomena. This method has doubtless served a purpose in strengthening the idea of the unity of the state, but an analogy cannot take the place of correct reasoning. Of this T. H. Green says, "If it were held, then, that the state were an organized community in the same sense in which a living body is, of which the members at once contribute to the function called life, and are made what they are by that function, according to an idea of which there is no consciousness on their part, we should only be following the analogy of the established method of interpreting nature."²

As by these and other methods the facts are presented, the problem of reconciliation of the points of view thus gained comes to the political theorist. He must also recognize the modern tendency to give a sociological interpretation to many of these facts, which is now as marked as was the tendency to give a legal interpretation at an earlier time.

It is evident that each method may be capable of rendering service to the political theorist. To give to the conclusions of each the proper value and place is a problem deserving and receiving more and more attention.

In considering the more concrete problems of political theory one of the first is that which is concerned with the origin and basis of the state. This problem is one that very early received attention from political theorists and writers upon political subjects. Its solution may make a great difference in the working-out of other portions of a general theory of the state.

¹ *De la Democratie en Amérique*, I, p. 19.

² *Principles of Political Obligation*, sec. 125.

To some writers both of early and later periods, political life is innate, and man is man only as he is political. It should be observed that among those using somewhat similar terms in regard to this basis of the state in the nature of man, there is often a wide difference in the content of these terms. Some draw one conclusion along the lines of a natural law as the basis of the state and others another. Some base the state in might or force and enter upon the elaborate explanations to account for the source of this force which they claim makes the state possible.

The theory that the state is the product of "natural law" gave to the term "natural law" and its various modifications the most divergent interpretations.

The same may be said of the attempts to base the state in a "social contract."

That there are still problems in regard to the origin of the state will be evident in the comparison of the points of view of almost any of the recent discussions upon the subject. Some even question the right of the state to be.

These problems have occupied so much of the space in the books upon political topics that more than a mere mention of the fact that the problem of origin still remains seems unnecessary.

These theories as to the origin of the state serve to show that there is a problem for the political philosopher in the distinction of causes of political phenomena from conditions of political phenomena. It is possible that had this question been earlier raised, political theory would have been more advanced. The attempt to account for non-political facts by political causation has been common in the field of theory. A clear discrimination between the phenomena that *condition* and those that *cause* political activity removes many difficulties. Not all theorists would agree in regard to the respective categories. It is probable, however, that to most investigators soil, climate, configuration of the land and sea-lines would, in general, condition political development. The solution of the problem of placing conditioning phenomena in their proper relations is one which will bear valuable results. The elimination to a great extent of time and space in human relations has removed conditions favorable to the individualistic theory of the state and furnished new problems.

Before discussing further problems, it seems fitting that a question that logically might have been raised earlier should be proposed, viz.: What is the state as the subject about which political theory centers?

The problem of definition is not a simple one. There are many excellent descriptions of a state which contain an enumeration of such of the conditions of state existence as seem to the given writer

desirable, such as the number of persons, the territorial basis, or the end for which the state exists. These facts in regard to the state may be enlightening to a general reader, but become a source of confusion when attempt is made to use them in a definition for political theorizing, as would be the case in a chemical experiment where a bottle bearing a given name contains not merely what the name indicates, but other chemicals as well. Frequently accidental attributes are regarded as essential and are accordingly made a part of the definition. The attempt should therefore be made to exclude from the definition everything not essential to the state and to include everything essential.

While the writer of this paper was requested to set forth some of the problems of political theory only, it may not be out of place to offer a tentative definition of the state. Whether or not this definition meets the standards which the problem of definition sets forth, it has in actual use been found a convenient point of departure for political theorizing. The definition offered for consideration is that the *state is a sovereign political unity*.

This definition is offered in part that the proposition of subsequent problems may be somewhat more definite, and that, if possible, their solutions may be less complicated. The terms used in the definition need for themselves definition, and in their definition important theories are involved.

The term "political" has had various meanings placed upon it and its content has increased or diminished from time to time till now, in the days of world-politics, its content is very different from what it was in the days of the Grecian city-state. The word seems, however, to have attained a fairly clear meaning at present as the term for public in distinction from private affairs of men.

When coupled with the word "sovereign," the unity is marked off from any other in which men are associated. The problems connected with sovereignty will be considered later.

By the definition, the state is distinguished from a social unity. Consequently, there are many problems of the relationship between the state and voluntary organizations within and without the state. There may remain and does remain the problem of determining how far the state, *e. g.*, shall concern itself with religious affairs, but here it will be a problem of determining the external conditions of religious life rather than the religious life itself. That the state could only condition non-political life, not create or destroy it, has been a lesson which nearly all religions have been slow to learn. It may be said of the conduct of state authorities toward other human activities that they have often mistaken the power to condition for a creative or causal power and have attempted to solve by state agencies problems which could only be solved by other means.

Whatever be the definition of the state, the doctrine of sovereignty is generally regarded as the central doctrine of political theory. Few topics have been the subject of more extended treatment, and as there does not even yet seem to be an agreement as to what is meant by the term sovereignty, it may be assumed that here will be found an important problem. The word is used in different senses by different writers and not infrequently in different senses by the same writer in succeeding pages. With comparatively few exceptions, as will be seen from Merriam's *History of Sovereignty since Rousseau*, the doctrine of sovereignty advocated by a given writer was based upon the grounds of temporary political expediency rather than upon philosophical reasoning. That the theorists of the present day should show the same tendency would be natural, and hence arises the necessity for guarding against the influence of psycho-political environment of the period.

Closely related in its results to this influence of environing conditions is that which leads writers to give to earlier political or other concept an importance and emphasis commensurate with that which it has previously received. This is particularly true in regard to the emphasis placed upon the doctrine of sovereignty. It might be proper to raise the question whether too much attention has not been given and is not now given to the consideration of the doctrine in its various forms. Whatever be the answer to this question the problems connected with the exercise of the supreme political authority are becoming complex to a high degree through the differentiation consequent upon new forms of dependencies and modern interstate relations.

Bryce, in his essay on "The Nature of Sovereignty,"¹ says, after discussing various confusions in regard to the subject of sovereignty, "Had the qualifying terms '*de jure*' or '*de facto*' been added every time the word 'sovereignty' was used, most of these difficulties would have disappeared." Later (p. 546), he says in speaking of international relations, "Nevertheless, where some legal tie has been created between two or more states, placing one in a lower position, we may say that inferiority exists *de jure*, while if there is an actual and continuing disposition of the weaker one to comply with the wishes of the stronger, there is inferiority *de facto*. Where the laws made by the legislative authority of one state directly bind the subjects of another state, the latter state cannot be called in any sense sovereign." Burgess² says: "Really the state cannot be conceived without sovereignty, *i. e.*, without unlimited power over its subjects; that is its very essence." These quotations show the tendency shared also by many writers to establish an extreme definition for sovereignty.

¹ *Studies in History and Jurisprudence*, p. 542.

² *Political Science and Constitutional Law*, I, p. 57.

Such definitions give rise to the problem of classification and determination of the character of the so-called half-sovereign, parti-sovereign states, or fragments of states.¹ At the same time the extreme definition of sovereignty gives rise to the problem of the political status of members of federal states, confederations, and other unions. To this problem some give the terse solution that such are not states at all, but retain their names as such only by courtesy and should receive consideration only as administrative divisions. This is the position which has been growing more and more into the political theory of the past forty years. The question arises as to whether this theory has not simply reflected the actual political development of the period.

Are states which voluntarily make treaties limiting the range of their freedom of action therefore no longer sovereign? If so, just what kind of a treaty renders the loss of sovereignty certain? Is it such a treaty as the defensive treaty between Great Britain and Japan, the Triple Alliance Agreement, the Arbitration Treaties of 1904, or the Anglo-Franco Agreement in regard to North Africa? All of these limit the free exercise of sovereign powers in certain respects. What is the position of neutralized states? Such problems as these become of practical importance for international law. While international law admits that "it is not inconsistent with sovereignty that a state should voluntarily take upon itself obligations to other states, even though the obligations be assumed under stress of war, or fear of evil,"² yet there remains the problem of determining the limit to which obligations may be assumed without loss of sovereignty. A state may be deeply in debt and still be classed as sovereign, may be neutralized, may be closely bound to another or to several other states, may be internally disorganized, may be insignificant in area, population, and power, or seemingly may lack all attributes but recognition in the family of nations, and still be regarded as sovereign in international law. Is it necessary to answer that some of these "are sovereign because they are states and are states because they are sovereign"?

The problem arises as to how far sovereignty may be said to exist among these so-called states, and further, how such conceptions as spheres of influence and the like shall be regarded, and, again, how far sovereignty can be divided in states of various forms. Indeed, the question may be seriously raised whether there is at the present day with the close system of international relationships any sovereign state and whether with an extreme definition of sovereignty theorists will not soon be discussing a political phenomenon which has no corresponding entity in fact.

¹ Jellinek, *Ueber Staatsfragmente*.

² Wilson and Tucker, *International Law*, p. 40.

With such political doctrines as the "concert of powers," "dominant influence," "Monroe Doctrine," "world conferences," etc., will not new and wide modification of a theory enunciated in the sixteenth century be necessary?

There are also numerous problems centering about sovereignty as viewed from an internal as well as from the international standpoint. Here the problems of federation, confederation, colonies, protectorates and other subdivisions need merely to be mentioned as suggestive of fruitful fields for discussion.

Again, such questions as the residence of sovereignty, the divisibility of sovereignty, the nature of the legal sovereign, and many others offer problems which are not yet fully solved.

All definitions of the state recognize its political nature and that it may exercise its authority in political affairs. This does not, however, solve the ancient problem of the limit to which the state may extend its authority. In ancient days, when the state was everything and man was held to exist for the state, the problem was much more simple than in the days of pronounced individualism. The problem of the limits of state interference has always been a difficult one. The reaction against the medieval state with its privileged classes left a strong prejudice against state interference which the doctrines of individualism strengthened. The problem is to establish the proper degree of state regulation. As the state is political, its action should be for public ends. The solution of the limits of interference with and regulation of individual action can in part be determined by theory as to what is individual and what public; *e. g.*, religion is now generally regarded as personal and not subject to state regulation, while freedom to worship is regarded as something to be secured by public authority as conducive to public well-being. The state exists for civic purposes. The individual considers his life as his own to be lived in freedom. To determine at what point the state authority may properly begin or cease is easy in extreme instances. There is, however, a wide zone in which this question is open to debate; *e. g.*, undoubtedly the proper education of children is a moral duty resting upon the parent, and to relieve the parent of this duty may weaken him morally, yet the state in many instances educates the child and compels him to attend school even when the parent may object. The question of the nature of the interference aids in clearing the problem of interference of some difficulties. If interference is classified, as with (a) beliefs, (b) property, and (c) conduct, a general solution of the problem can be more easily reached. Beliefs would in general be individual. Property is at least protected by the state, if not made possible by the state. Conduct may be individual or may affect the state. With beliefs the state would not interfere; over

property the state must have jurisdiction, and in regard to conduct the state itself must judge.

The problem of how far the state may regulate conduct is partly solved by reference to the existing body of law, which gives to the state extreme rights, even to the power of putting an end to a subject's existence in some instances. This gives rise to the problems centering upon the right to punish crime which has received much theoretical attention. It is granted that certain acts should lead to the exercise of counter acts by the person who suffers, by his family or friends, by the community, or by some properly constituted power. There might be danger both to the offended and offender if the exercise of force was uncontrolled. The right to exercise such force has therefore in most cases been asserted to belong to the state. The problem of the efficient and just exercise of force therefore appears.

What political weight should be given to a particular individual because of his possessions, status, capacities, etc., is a problem once thought to be solved, but again arising.

The problems centering about the varied ideas of liberty, freedom, and equality have been greatly modified by the influence of the theory of evolution. The problems formerly having an individualistic basis are now calling for a sociological solution.

Other such problems as rest upon the attempts to regulate power and responsibility in state agents, to create a form of state control that shall be adapted to political needs, and problems having practical ends in view demand theoretical consideration.

From the theoretical point of view all these problems must be solved in the light of the solution of another problem to which all bear a relationship, viz.: the problem of the end or ideal for which the state exists. Bluntschli¹ formulates as the proper and direct end of the state, "the development of the national capacities, the perfecting of the national life, and, finally, its completion, provided, of course, that the process of moral and political development shall not be opposed to the destiny of humanity." This is an excellent example of the influence of the time-spirit upon political theory. The development of the theory of nationality and the emphasis upon the embodiment of nationality in state form was a mark of his time and is reflected in his theory. Other theories as to the end of the state reflect the influence of the times as well. Sometimes it is protection of the individual, sometimes development of culture, sometimes perfection of liberty, and so through a long list of special ends.

The solution of the problem of the end of the state will depend upon the theory of the nature of the state. If the state be regarded

¹ *Theory of the State*, p. 300.

as an organism, the end will naturally be found within itself. If the state be regarded as an organization, the problem of the end becomes open to broader discussion. Is the state ever anything other than political? Can its acts ever be other than public acts? Does the state exist for other than political ends? There are varying answers to such questions, though the tendency is to answer all in the negative. If answered in the negative, then a step toward the setting-forth of the end of the state is taken. Will not the end be in line of progressive public well-being, as the state is an organization based upon the will of human beings?

Even if all these problems were set forth in proper form and solved, if there is to be progress in human association and organization, and such seems to be the destiny, the political theorist has the great problem which early confronted Plato, the problem of formulating such political ideas and ideals as shall cause mankind to aspire to the progressive realization of the possibilities of human development.

OFFICE OF THE SECRETARY OF STATE

Washington, D. C., August 1, 1900

Dear Sir:

I have the honor to acknowledge the receipt of your letter of the 27th inst.

and in reply to inform you that the same has been forwarded to the

proper authorities for their consideration.

I am, Sir, very respectfully,
Your obedient servant,

John Hay

Secretary of State

Washington, D. C.

Very truly yours,

John Hay

Secretary of State

Washington, D. C.

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John Hay

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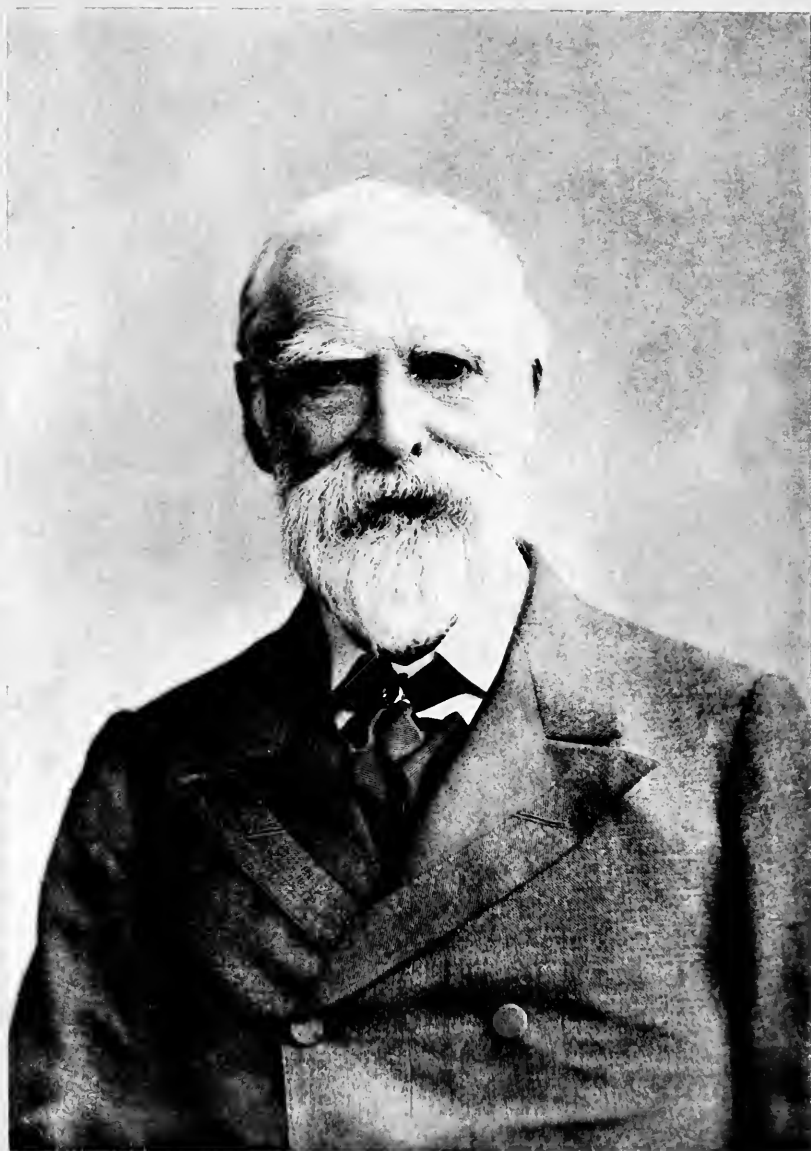
Secretary of State

Washington, D. C.

Very truly yours,

John Hay

RIGHT HON. JAMES BRYCE,
British Ambassador to the United States.





NATIONAL ADMINISTRATION

BY JAMES BRYCE

[James Bryce, Member of the British Privy Council, M. P. for Aberdeen. b. Belfast, May 10, 1838. B.A. Oxford University, 1862; D.C.L. *ibid.* 1870; Hon. LL.D. Edinburgh, St. Andrew's, and Glasgow Universities, Columbia University, Dartmouth College, University of Toronto, University of Michigan; Litt.D. University of Cambridge, Victoria University; Doctor of Political Science, Buda Pesth University. Post-graduate of Oxford and Heidelberg. Barrister-at-Law, Lincoln's Inn, 1868; Regius Professor of Civil Law, Oxford, 1870-93; Under-Secretary of State for Foreign Affairs, 1886; Chancellor of the Duchy of Lancaster, and Member of Cabinet in Mr. Gladstone's last Ministry, 1892-94. Foreign member of the Institute of France and Royal Academies of Turin, Brussels, and Naples; Società Romana di Storia Patria; Corresponding Member of the Massachusetts Historical Society, Royal Academy of Canada, and Literary Society of Iceland. **Author of** *The Holy Roman Empire*; *The American Commonwealth*; *Studies in History and Jurisprudence*; *Impressions of South Africa*; *Studies in Contemporary Biography*; and many other works.]

THE subject of national administration, on which I am invited to address you, is one of wide scope as well as great importance. It covers so large a field, it ramifies into so many branches of inquiry, that all I can attempt in the limited time allotted is to sketch its outline and to indicate the chief topics which would need to be discussed in detail were a detailed discussion possible. It is a bird's-eye survey of the landscape rather than a description of its features that I must proceed to attempt.

By national administration I understand the whole action of the state in maintaining and defending itself and in securing for its members, the citizens, what it undertakes to do for them. It is that organization which the community has created for the two great purposes of self-preservation and of mutual benefit. Speaking more precisely, it has four aims. The first is the defense of the community against external forces, *i. e.*, neighbor states or tribes, who were in early times presumably enemies. The second is the defense of the persons or bodies that govern the community against internal forces that may assail it, *i. e.*, against rebellion. The third is to provide for the members of the community the things for the sake of which the state is primarily formed, *viz.*, order and the enforcement of civil rights, or, in other words, peace and justice. The fourth is to extend to members of the community various advantages which they might conceivably provide for themselves, but which it is supposed that the state through its servants can provide more efficiently. I omit the provision of religion, because many modern states leave it on one side and do not touch on the administration of dependencies, because this is frequently absent.

Of these aims, the first three have always existed in every community deserving to be called a state, and till quite recent times they covered all the services an administration was expected to render. Government existed for the sake of defense or conquest — in rude time defense passes naturally into conquest — and of order. In other words, the work of a national administration might be summed up as war and justice, and of these justice came second. But within the last two centuries, and especially during the nineteenth century, the last of the four grew apace, and now in the more advanced countries, more than half of the functionaries whom a national administration employs, as well as a considerable part of the money it spends, go to providing the citizens with things which in earlier times they either did without or provided for themselves. Such, for instance, are police, the transmission of letters and other articles, internal communications by railway or telegraph, the instruction of the young, the health or safety of persons engaged in various employments, the construction of works of real or supposed public utility, the development of material resources (agriculture, forests, fisheries), the supplying of information serviceable for commerce or industry.

It is in this direction that new work is being undertaken in so many ways and on a daily increasing scale. But in all branches of administration there has been a prodigious extension of state action. It is not only that the progress of civilization creates new wants and leads to new demands; the old functions also have become more complicated with the progress of science. Armies are larger; navies are larger; both are incomparably more costly, because all the processes of war are more elaborate. These two services cost in England to-day nearly \$300,000,000, as much as the total expenditure of the national government was for all purposes sixty years ago. At the siege of Port Arthur, Japan has probably already spent \$5,000,000 in projectiles discharged and ships destroyed, not to speak of the loss of men. The whole tendency of recent years has been to throw upon national administration more work, to require from it more knowledge and skill, to intrust it with the expenditure of more money, to make its efficiency more essential, since it is expected to help the nation in competition with other nations, and to expose its members, the civil servants of the state, to more frequent and stronger temptations. This evident tendency to widen the sphere of national administration raises the question, What kinds of work ought it to undertake, and from what ought it to abstain? Here we have a topic more than large enough for a whole course of lectures, so I will indicate only the most general considerations that apply to it. These considerations are not the same for all countries. In some countries the people are backward, ignorant, uninventive,

and may need more leading from their government than is needed in other countries. In some countries the standard of honor and purity among officials may be comparatively low, and it may, therefore, be unsafe to intrust to such officials the disposal of large sums of money or the management of costly enterprises. Apart, however, from these local sources of difference, there are three general considerations tending to dissuade a wide extension of such functions of a government as are not essential to the defense and internal order of a country. One is the danger of discouraging or superseding individual enterprise. The greatness of a state depends in the last resort on the vigor, the alertness, the self-reliance of its citizens. To reduce their initiative, to teach them to follow passively instead of leading and guiding their administration, may be the worst service you can do them. A second ground for caution is the risk of reducing the amount of care and forethought which people take for their own interests. If you carry too far your efforts to protect them either against physical harm or against self-indulgence, or against fraud, evils which their own activity, self-control, or prudence might avert, you may so discourage the habit of looking after their own interests as ultimately to do more harm than you prevent. Leading-strings destroy the sense of individual responsibility. Lastly, you may incur the danger of making the administration too powerful a factor in the social and political life of the country; you may teach it to feel itself a master instead of a servant; you may form the wholesome habit of obedience to the law into the slavish habit of obedience to the official. Did time permit one could illustrate these risks from the examples of some modern countries, which have been led, partly by an exaggerated conception of the all-pervading grandeur of the state, partly by the natural tendency of officials to grasp at more power, partly by an honest wish to effect improvements with the utmost speed, to push far beyond the old limits the interference of public authorities in fields formerly left to the individual. Doubtless there is one important argument on the other side to be regarded. It does not follow that what government leaves alone is left alone for the benefit of the individual citizen. The monopolist — be he a man or a combination of men who are rich, who are active, who are able, who are perhaps also unscrupulous, though not necessarily unscrupulous, for we must not allow the resentment which some combinations have evoked to prejudice us against all those who try, possibly by fair means, to draw vast branches of business within their grasp — is in the field; and he may not only extrude the individual, but may appropriate to himself immense gains which the action of government might have secured for the community. These are cases, therefore, in which national administration may undertake work which otherwise it would have declined, because in doing so

it is really protecting the interests of the individual as a business man and a taxpayer, and preventing the growth of a power which might reach dimensions dangerous to the community as a whole. Nevertheless, it may safely be said that the general presumption is in favor of leaving individuals to do whatever it is not either necessary or, at least obviously, advantageous that the state should do for them. State intervention can doubtless often be shown to be desirable, even where it is not essential. But the burden of proof lies on those who would introduce it, for natural laws generally, though I repeat not always, work better than human devices intended to modify them.

Before leaving this question let me note that I am speaking primarily of national administration, not of public administration generally. There are some kinds of work not safe or suitable for the government of the state, which local authorities may properly undertake. The objections above indicated need to be qualified when we apply them to local elected bodies, through which the energy of the private citizen may exert itself and which may check the dominance either of private monopolists or of an organized bureaucracy. In England, for instance, we are now experimenting in large extensions of the work of local municipal and county councils, and we hope for good results.

Let us pass to consider what are the principles that should determine the character of a national administration, and what are the conditions of its efficiency. I do not enter into the question of its structure, nor into the distribution of functions between it and the local authorities of the country, for these matters depend largely on the political constitution. They are different in a federation like yours from what they are in a unitary country like Great Britain; they are different in free states and in absolute monarchies. They are different in highly centralized countries like France from what they are in England. Yet one point deserves to be noted: To be strong for national purposes a government need not be centralized. For all administrative purposes the United States supplies an obvious example, and an administration which controls all local affairs may not only reduce the habit of independence among the people, but may also, if the country is managed on a party system, become an engine of mischief. The best scheme seems to be one which leaves to local authorities, and preferably to elected local authorities, all such functions as can safely be intrusted to them, together with a limited power of taxation for local purposes, while retaining some measure of control by the central administration in case they overstep either the statutory limits of their powers or the limit of a discretion exercisable in good faith, and in a spirit neither corrupt nor oppressive. To fix the precise amount of control to be so reserved for the central administration is no easy task. But it is

not an impossible task, for in England, where it has been tried, we find that comparatively few difficulties arise in practice.

Passing on to principles which apply to administrative systems in general, there are some points that may be taken for granted. There must be a systematic organization of the work in each department of administration; there must be proper regulation for promotion and for discipline among the officials. But the question of providing for the representatives of each great department in the political scheme of the national government, whether in the private council of an autocrat or in the cabinet of a constitutional country, or in the ruling assembly, presents grave and interesting problems.

It is essential that those who do the departmental work of a country in all its main branches, such as collection and expenditure of revenue, preservation of order, education, carrying-out of various administrative statutes, should be in close touch with the political organs of national life; and this in several ways. They must be responsive to public opinion; they must be liable to have their action criticised publicly and freely; they must have opportunities of defending their conduct when so criticised; they must have means of suggesting changes in the law which their administrative experience shows to be necessary, and of tendering to the legislative power evidence and arguments in support of their proposals. These are matters which an autocratic government can deal with readily enough if it has the wisdom and public spirit to do so, for there the executive which conducts the administration is also the legislative authority which changes the law. The weak point of such a government is the want of control by public opinion. But in a popular government administration and legislation may be quite disjointed. I will endeavor presently to show how in England and her colonies provisions have been made for conjoining them which have, on the whole, worked well and given satisfaction to the people.

Now let us come to what is the most material thing, the persons who compose the administration, *i. e.*, the civil service of the country.

Their first and highest merit is honesty, and the rules of the service must be such as to help them to be honest by removing temptation as far as possible from their path and by keeping them under vigilant supervision. The second requisite is capacity, that is to say, not merely general ability and diligence, but also such special knowledge and skill as their particular line of duties requires. The increasing specialization of all kinds of work, due to the progress of science and the further division of labor in a civilized society, makes this need more urgent than formerly. It is, however, still imperfectly recognized, except perhaps in Germany, where persons entering official life receive an elaborate special training.

In order to secure capable and diligent men, the civil service must be made attractive; that is, it must offer advantages such as to draw into it persons who might expect to obtain wealth or distinction in other occupations, as, for instance, in the legal or medical or literary or engineering professions, or in commercial business. How is this to be done? Many things go to make people seek public employment. Nowhere, perhaps, is it so much sought as in Greece, — a poor country offering few careers to a surplus of educated and aspiring men; yet those who know Greece know that the attractiveness of the profession has not given Greece an exceptionally efficient civil service. But, speaking generally, the way to draw talent into state service is to make it perfectly open to all citizens, to make it permanent, to pay it well, and to make it socially respected. Posts ought to be filled by appointment or other than by election. Election by the people is almost sure to be made on party grounds, and party views are no guide to the finding of a capable man whose business it will be to do official work into which party views do not or ought not to enter. Election by a legislative body, such as an assembly or a city council, may give better opportunities than does a vote at the polls for ascertaining the qualifications of a candidate; but it is likely to be made for other reasons than the candidate's fitness, — possibly party reasons, possibly the wish to please a candidate's friends. The only way to fix responsibility is to give the function of selection to a single person and make it his interest as well as his duty to select carefully and honestly. To secure even this is so difficult that an examination either fixing a minimum level of knowledge or awarding posts by open competition has been found a valuable expedient.

The reasons for making the civil service a permanent service are no less obvious. Unless a man is sure that he will not be dismissed except for some fault, he will not spend his time and money in getting a proper preparatory training, and will not feel that sort of interest in his work and loyalty to the nation as his employer which go so far to make him do his work well. If, moreover, the occupants of the posts are frequently changed, the experience they have acquired will be lost to the public and the new appointee will be for a time less competent, because he will have to learn his work. As respects payment, it ought to be on a scale properly adjusted to the cost of living and to the incomes made in other occupations requiring a similar amount of knowledge and skill, though, of course, the scale may fairly be fixed somewhat lower in respect of the permanence of the employment as compared with the risks which the professional or commercial man has to face. It is a good plan to let part of the remuneration take the form of a pension, which is practically deferred pay contingent on good conduct. Where poverty forbids

the public servant to live in a style corresponding to his social position, he is more likely to yield to the temptation of supplementing his salary in an illicit way. The social status of the civil service does not indeed wholly depend on what the government gives as payment. Much turns on the habits and traditions of the people, though the amount of payment is a considerable factor in making men seek that career. In Germany, for instance, and in France official salaries are lower in proportion to the cost of living and to the incomes of professional and business men generally than are the salaries of civil servants of the same class in England, while their average ability is as good. It would seem that employment is more sought after in the two former countries than in England because Frenchmen and Germans have a relatively stronger sense of the grandeur of the state and because state service carries a relatively higher social standing.

Not less important is the principle, amply approved by experience, that the servants of the state must be kept entirely out of strife of political parties. Appointments ought not to be made on party grounds; promotion ought to be made either by seniority or by merit; no political work ought to be expected from officials, nor should they be suffered, even if they desire it, to join in political agitation. It may, indeed, be doubted whether they and the country would not benefit by their exclusion from the suffrage, but no one who knows the temper of democracies will suggest this as a practical measure. Rather may it be deemed what is called a "counsel of perfection," for no nation seems to have adopted or to be in the least likely to adopt it. The mode of promotion raises difficult questions. If it is by seniority only, able men will be kept out of the higher posts until perhaps the best working years of their life are over, while dull men may happen to be at the top. If seniority is disregarded, there will be many jealousies and heart-burnings among the veterans who are passed over, and imputations of favoritism will be made, possibly often with reason, for it is so hard to say who are the men most worthy of advancement that an unconscientious head of an office may indulge his personal predilections or yield to the pressure of his friends urging the claims of their friends. An old Scotch official is reported to have said that he always gave the posts to the best men, but he usually found that his relatives, belonging to the same vigorous stock as that from which he came, were the men. I can say from experience that the exercise of patronage is one of the most difficult as well as the most disagreeable parts of an administrative work. Whatever care one takes, mistakes will occur, and for one friend you make three enemies.

Between the political form of a government and the excellence

of its administration there is no necessary connection. It used to be thought that despotisms were favorable to efficiency, and doubtless such autocratic eighteenth-century reforming monarchs as Frederick the Great did improve the management of their state affairs. The example of Rome supported this view: her provincial administration, bad under the Republic, improved immensely under the earlier Empire, and it was indeed the strong and skilled civil service that more than anything else enabled the Eastern Empire so long to resist the foes that encompassed it on every side. But the least pure, and probably one of the least efficient, administrations in Europe, is that of Russia; Turkey is, of course, much worse, but then the Turks are still a barbarous people. The civil service of England under a polity practically democratic is better to-day than it was under the oligarchical rule which lasted till 1832, and it may, along with that of France, claim to be the best in Europe after the German, which is, probably, the most efficient in the world.

It is, however, true that in popular governments the civil service is exposed to some special dangers. There is a danger that it may be used in the game of politics; a danger that its members may try to secure their own ends by bringing pressure to bear upon politicians. In Australia, where the railways belong to the state governments, the railway employees, forming in some places a considerable proportion of the electors, gave so much trouble by their efforts to obtain higher pay that they were at last taken out of the local constituencies and given separate representation. A difficulty of a quite different kind is that the masses of the people, not realizing how much skill and capacity are needed in officials holding the highest kinds of posts, may be unwilling to pay adequate salaries. The voter to whom \$1000 (£200) a year seems vast wealth does not see why he should pay one of his servants \$10,000 (£2000). Yet a capable official may save the nation twice that sum annually by his exceptional skill.

It may give some concrete vitality to these general observations if I illustrate them by a few references to the administration of Great Britain, of which I know something practically, having been at one time at the head of one of the largest public departments. In Britain, the national administration is practically a growth of the last seventy years. Before the Reform Act of 1832 the only public offices were the Treasury, the Foreign Office (the names were not then the same), the departments of the Navy and Army. There was a Home Office and a Board of Trade and Foreign Plantations, which pretended to look after North America (not very successfully) and the West Indies, but they had very few duties and a very small staff. There was no India Office (though a germ of it existed in the Board of Control), no Colonial Office (colonial work went along with

war), no Education Office, no Local Government Board, no Post-Office, no Board of Agriculture, no Scottish Office. Yet this increase of the central departments in England is not due to a suppression of local authorities, for these are far more numerous and more important now than they were in 1832, and are more important than in any other of the large countries of Europe. Each of the great departments is presided over by a leading politician; the chief among these have seats in the Cabinet. The civil service, which is under these chiefs, has for a long time been a permanent service, the members of which are not dismissed except for misconduct or inefficiency. A few of the highest posts are political, and change with a change of government, but these are little more than forty in number. Ambassadors are members of the permanent service, and so are colonial governors, though occasionally some person of special fitness is brought in from outside. Every one is obliged to retire not later than at sixty-five years of age and is then entitled to a pension, which may, after forty years' service, be as high as two thirds of the salary which was being received when the time for retirement came. Till 1855 posts were filled by the patronage of the head of the office, which was usually exercised either by favoritism or else to win or to reward political support. In 1855 a strict entrance examination was instituted, and in 1870 the great majority of the posts, higher as well as lower, were thrown open to competition, an experiment that had already been made with the large and highly paid civil service of India. A few posts at the top and the bottom still remain outside the competitive system. The former, among which, of course, were embassies and governorships, may, in some cases, only with the sanction of the Treasury, be filled by the appointment of an outsider; and in this way good men are occasionally brought in where the office may contain no man specially qualified, while there are also occasional jobs, which personal friendship or party affiliation have prompted. The places at the bottom not awarded by examination are now not numerous and receive quite small salaries; they are mostly petty appointments in the customs, needing nothing more than honesty and diligence. Even those are a vexation to members of Parliament to whom their constituents apply for recommendations, and there is a general wish to take them altogether out of the sphere of political patronage, as postmaster-ships recently have been taken out. In one or two offices there still exists a system of what is called limited competition, *i. e.*, the candidate must be nominated by the head of the department and a competitive examination is held to select the best men from among the nominees. This prevails in the F— O—. It is not hard to obtain a nomination, and the nomination is deemed to afford some guarantee that the candidate is in the position of a gentleman

and may be trusted not to betray or misuse whatever knowledge of confidential matters he may obtain.

All the examinations are conducted by a body called C. S. G., under regulations regarding subjects and marks for excellence approved by the Treasury and published. Complaints are sometimes made that an examination in literary and scientific subjects does not prove a man's fitness for practical life, and least of all for the work to which in India a youth of twenty-six may be set, of governing hundreds of thousands of people. But the answer is that neither does a system of political patronage secure fitness in point of character, while it offers far less security for intellectual competence. Accordingly, the competitive system has taken root and is not likely to be abandoned. It satisfies the popular desire for equality, and it has raised the level of ability without lowering the level of integrity in the civil service. The officers employed by local authorities (such as city and county councils) are usually also permanent, *i. e.*, are not removed except for misconduct or inefficiency. No executive officer is elected by the people.

The British civil service is broadly divided, omitting some minor details, into two sets of officials, who correspond, roughly speaking, to that distinction which holds its ground in England between those who are and who are not what is conventionally called "gentlemen." The second division clerks have duties of a more mechanical and less responsible kind, which needs a less complete education, and they receive salaries of from £70 (\$350) to £300 (\$1500) a year, a very few going as high as £500 (\$2500). There are about three thousand in all, and the competition is keen and copious. The first division, higher class, or men who have received a high education, usually at a University, have salaries which, beginning at £200 (\$1000), rise in the first class of this division to £1000 (\$5000) by gradual increment. Some few of the great posts have a salary of £1500 (\$7500) or even £2000 (\$10,000). In the Indian colonial service the salaries are generally higher and the length of service does not exceed, except in very special cases, twenty-five years, after which the official can retire at £1000 (\$5000) a year pension.

Promotion in the lower grades of both divisions is by seniority, but for important posts this is disregarded, and men may rise by merit. Where exceptional ability is shown, a person may be raised from the second into the first division.

Those who have had experience in the working of an office generally wish that they had a freer hand in promotion than our system allows. They would like not only to secure quicker advancement to capable men, but also more frequently to bring in from outside men of exceptional talent, and to be able to offer them exceptional salaries. I have already indicated the dangers incident to the giv-

ing this freedom to the head of a department. It might be allowed to the best Ministers and the best permanent heads of departments; they, of course, have more to do with all promotions, save those to the highest places, than the Minister has, for they know the staff much more intimately. But it would be abused by all but the most conscientious.

Three other topics need a passing mention. One is the general control which the Treasury exercises over all the departments, through its power of fixing salaries, through the fact that it has to approve and present to Parliament and defend in the House of Commons the estimates for the expenses the departments incur in the public service, and through the fact that in some cases statutes make its consent necessary to certain acts of the other departments. The Treasury is really the keystone of the British official system, holding the various departments together; and I remember how frequently it used to happen that when some change in organization was desired, or when some new kind of work was to be undertaken, one had to say to the permanent head, "We must now see the Treasurer about this. He can meet the objections they will probably raise."

A second point has already been adverted to. It is the supervision of local authorities all over the country by some of the central departments, and to some extent by the Home Office, to a still larger extent by the Board of Education and the Local Government Board. This last in particular has received by various acts important functions in watching, and if need be, arresting or controlling the action of county and district councils and of city and borough councils. This control, however, is not arbitrary and hardly even discretionary, for it chiefly consists in requiring them to observe strictly the provisions of the statute law. Nor dare the local government board act in an arbitrary way. The county councils are powerful bodies, powerful socially as well as legally, for they contain many men of high position and great influence. The borough councils are also strong, and have great strength in the House of Commons through their parliamentary representatives. There is, therefore, little risk of encroachment by the central government on the powers of these local bodies.

A third topic has been already mentioned in passing, viz., the relation between the civil service of the country and the political organs of government, — the Cabinet and Parliament. In Britain this relation is secured by the plan which places a leading parliamentary politician, who is necessarily also prominent in one of the two great parties, at the head of each of the great departments, about twelve in number. He, sitting in Parliament; speaks for the department to Parliament and to the nation. He is

responsible for everything the department does or omits to do. He has to explain its policy, to defend its acts, to stand the fire of parliamentary criticism. He may be every day publicly questioned, and he is bound to answer, unless he can say that the matter is confidential and that the interests of the public service require him to keep silence. It is to him that suggestions are made by members of Parliament and others regarding needed legislation or administrative action. It is he who receives deputations complaining of something done amiss, or asking that something should be done. It is he who appoints royal commissions or departmental committees to investigate and report on difficult problems. When his permanent departmental advisers think that legislation on any topic is needed, it is he and his parliamentary under-secretary, if he has one, who bring in the bill and argue for it in Parliament. So through him the department obtains the means of extending the scope of, or improving, its own action, and thus of better serving the country. Finally, as he is a member of the Cabinet, he consults his colleagues on such departmental questions as involve exceptionally large interests or have a political bearing, obtains their sanction for any new departure, and thus sees that the policy of the department is in harmony with the general policy which the Cabinet is following and which its supporters presumably approve. Thus the harmonious working of the whole machinery is insured and the department is kept in that close touch with public opinion which is essential to the proper conduct of affairs under a free constitution. It is a further advantage that as the parliamentary opposition almost always contains some person who has been head (or under-secretary) of each department, there are always men in Parliament besides the men actually in office who can bring practical experience to bear on departmental questions when they come up. It is now our custom that a former head of a department, though he is expected to watch and to attack (when necessary) the action of his successor in office, helps his successor to pass department bills which raise no controversy over the principles on which the two parties are opposed. There are almost always friendly and often confidential relations between the present Minister and the ex-Minister for each department, and the advantage of these relations is so evident that the rank and file of the two hostile parties, though seldom backward in their criticism of what are called "the two front benches," take no serious objection to the custom just described.

The English civil service impressed me, when I saw it at close quarters, as being an efficient service. Twenty years ago it had not quite as much first-class ability, either at home or in India, that is, quite as large a proportion of the available talent of the country as perhaps it ought. But with the coming up of younger men ad-

mitted under the competitive system, the level of capacity has been rising. Many of the best men from the great universities now enter it. It is, perhaps, still deficient in special training for the scientific side of administrative work, but this defect diminishes as better provision is made for instruction in these subjects, a matter heretofore neglected in England. It is not always abreast of new ideas and expedients, but one can hardly expect a public service using public money to be as bold and enterprising as private firms. It maintains an extremely high level of purity, scandals being almost unknown. It has a strong corporate public spirit and sense of duty to its own reputation and to the country. It exerts a great and, I think, a growing influence upon legislation and upon the way in which legislation is carried out in practice. This it does, not because the law allows a wide stretch of power to officials, for in this respect England resembles the United States, and gives no such free hand as France and Germany do, but because each department has formed its own settled habits and traditions, and impresses these traditions and its own views upon its parliamentary head. That head is, no doubt, its absolute master. But he is obliged by his want of special knowledge to lean upon the experience and judgment of his staff, and he needs a keen mind and a firm will if he is to overrule their counsels. The permanent officials usually serve him loyally, whatever their private political views may be. The trust he reposes in them and the credit they enjoy in the country are due to the fact that a civil servant is understood to have no politics and must not meddle with party controversies, either by speaking at meetings or by writing in the press. It is against constitutional doctrine to impute any blame or attribute any policy or any responsibility to a member of the permanent civil service. Policy and responsibility belong to the parliamentary head, because he has the power of controlling and, if necessary, of dismissing, for serious fault, his subordinates.

In my own country of Scotland a sermon — and this sermon would be for Scotland a short one — usually winds up with what is called “The Application.” If I am to append an application to this discourse, in extenuation of the dryness of which I must plead the overmastering necessity of severe compression, the practical lesson to be enforced is the following:

Every country which desires to be well administered must keep two things vital. One is to keep its public service pure. To keep it pure it ought, in these days of increased temptation, to be well paid. If it is well paid, it is sure to attract plenty of ability, and ability may be trusted, under an honest and careful system of promotion, to find its way to the top.

The other thing is to make appointments by merit and promotions by seniority and merit combined. For this purpose it must be

kept out of politics. Let admission to the public service and advancement in the public service be altogether removed from the political pressure of legislators and unaffected by the political opinions of candidates. Forbid the civil servant to canvass or to speak or to write on any party political questions. Teach him to regard himself as the servant of the whole nation, and not of a party in the nation. You are no doubt debaring him from one of the privileges of a citizen. But he has other privileges which the ordinary citizen does not possess, and his special powers carry with them special disabilities. He must submit to the latter if he is to be trusted in the exercise of the former.

The chief danger which seems to threaten political life in our times is the growing power of wealth and the tendency to abuse public authority and public office for the sake of private gain. This was a gross evil under the despotisms and oligarchies of former days, and an evil from which it was hoped that democratic government would deliver us. It has, however, reappeared under new forms, and in many countries it threatens the honest and efficient working both of the elective and of the administrative machinery of the nation.

The grander and the wider the part which administration plays in the highly developed modern state, attempting a hundred new tasks and handling sums of money of unexampled magnitude, so much the more essential has it become that the machinery of government should be worked with a high-minded and single-minded devotion to the interests of the whole people.

It is for the people themselves to secure this by showing that keen and sympathetic watchfulness over administration which the founders of the American Republic nearly three hundred years ago gave to those simple and homely institutions, the product of long English centuries, out of which the vast fabric of your present national government has grown. The state is no doubt only a name for the totality of the individuals who compose it. But it represents, or ought to represent, those individual citizens in their highest aspect, in their most earnest hopes. It embodies the hallowed traditions of their past. It looks forward to an ever-widening collective effort after progress in the future. A state wisely, purely, energetically administered is not only itself the product of an enlightened and upright people; it is a mighty factor in helping to cure their faults, to cultivate their virtues, to bring them nearer and nearer to their ideal of a happy and noble life.

SECTION B — DIPLOMACY



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(Hall 1, September 23, 3. p. m.)

SPEAKERS: HONORABLE JOHN W. FOSTER, Ex-Secretary of State.
HONORABLE DAVID JAYNE HILL, Minister of the United States to
Switzerland.

THE PROPER GRADE OF DIPLOMATIC REPRESENTATIVES

BY JOHN WATSON FOSTER

[John Watson Foster, Lawyer, Washington, D. C. b. Pike County, Indiana, March 2, 1836. A.B., A.M. Indiana University, 1855; LL.D. Wabash College, Princeton and Yale Universities. United States Minister to Mexico, 1873-80; to Russia, 1880-81; to Spain, 1883-85; Special Ambassador to Russia, 1897; President of National Arbitration Conference, 1904-05. Member of Washington Academy of Sciences; President of Washington Archeological Society, etc. Author of various magazine articles and diplomatic subjects; also many books.]

IN the letter inviting me to speak on this occasion, I have been requested to prepare a paper on present problems in diplomacy.

Had I been asked to treat of present problems in international law, I would have found a wide field open for our consideration. That branch of jurisprudence is a progressive science. Old theories, such as *mare clausum* and the three-mile ocean limit, are being discarded or modified by the changing conditions of commerce and invention, and new principles are sought to be introduced into the code of nations. The question of the exemption of private property from seizure on the high seas in time of war, advocated more than a hundred years ago, is still under discussion and likely at no distant day to be accepted by the nations. The practice of blockade has undergone marked changes in the past century, and the theory of peaceful blockade is under present-day discussion. Modern warfare has created new questions. It is requiring a revision of the contraband list and a more accurate definition of the rights of neutral ports, accepting more humane methods, and raising new topics, as the use of mines on the high seas and the proper restrictions as to wireless telegraphy.

But in diplomacy, strictly so-called, we find few topics of present-day discussion. The one which I consider of most importance is that to which I ask your attention — *the proper grade of diplomatic representatives*.

International law is of modern origin and recent growth, the attempt at its codification only dating to the seventeenth century, and it scarcely came to be recognized as binding upon nations before

the nineteenth; but the practice of sending and receiving ambassadors or diplomatic representatives has existed among nations from the earliest recorded history. The ancient Egyptians are known to have frequently observed the practice; early biblical history contains references to the custom; it was quite common among the Greek states, and observed by Rome both during the Republic and the Empire.

But in all these cases and during the early period of modern European nations, embassies or missions were only used on special or extraordinary occasions, and were of a temporary character. Not until late in the fifteenth century did the diplomatic service become permanent in its character and the governments establish resident embassies or missions. This stage of organized growth was reached, however, a century and a half before Grotius began the task of giving shape and authority to international law. Still, the rights and duties of diplomatic representatives were at that period imperfectly defined. This is seen in the accounts of the great congresses or conferences, following the long wars of the European powers — those of Westphalia, Ryswick, and Utrecht; and the controversies then developed over the rank or relative standing of the respective ambassadors had a marked influence in fixing more accurately their status, but not until the Congress of Vienna in 1815 did the grade of the members of the diplomatic corps become authoritatively established.

It is a matter of some interest or curiosity in this connection to recall the fact that the question has been mooted, both in Europe and America, whether, in the existing conditions of the world, the diplomatic system is necessary and its utility justifies its expense. It is claimed that with the present development in steam communication, the rapid transmission of intelligence by electricity, and the general diffusion of news by the press, diplomatic negotiations might readily be carried on directly between the foreign offices of the various governments, that the interests of citizens and subjects might be attended to by consuls, and that on extraordinary occasions the business might be intrusted to special temporary missions. With many the diplomatic service is regarded as a purely ornamental branch of government and its maintenance a useless expenditure of public money.

This subject was, some years ago, considered by a special committee of the Parliament of Great Britain. Lord Palmerston, the Prime Minister, and the best informed and most experienced statesman of his day in international affairs, was examined. John Bright put to him the question, "Whether it would not be practicable to transact the ordinary business by means of written communications between the two foreign offices, and when anything arose requiring particular attention to have a special mission of some member of the Cabinet?"

Lord Palmerston replied: "I do not think it would;" and proceeded to give the reasons for his belief.

Mr. Cobden propounded the following: "If you go back two or three hundred years ago, when there were no newspapers, when there was scarcely such a thing as international postal communication, when affairs of state turned upon a court intrigue, or the caprice of a mistress, or a Pope's Bull, or a marriage, was it not of a great deal more consequence at that time to have ministers at foreign courts . . . than it is in these constitutional times, when affairs of state are discussed in the public newspapers and in the legislative assemblies? . . . Under these circumstances, are not the functions of an ambassador less important now than they were two or three hundred years ago?"

Lord Palmerston replied: "I should humbly conceive that they are more important on account of the very circumstances which have just been stated. . . . I should think that the change which has taken place with regard to the transaction of public affairs in Europe tends to make diplomatic agents of more importance rather than of less importance."

This question has been made more than once the subject of inquiry by the Congress of the United States, and the various Presidents and Secretaries of State have given their opinion in favor of the utility and necessity of the service, and the Congress has continued to authorize it. The controlling judgment is well expressed in the language of Secretary Frelinghuysen to Congress: "Diplomatic representation is a definite factor in the political economy of the world; and no better scheme has yet been devised for the dispatch of international affairs, or for the preservation of friendly relations between governments." President Harrison, after his retirement from public life, left on record his view of it as follows:

"The diplomatic service has sometimes been assailed in Congress as a purely ornamental one; and while the evident necessity of maintaining the service is such as ought to save it from the destructionists, it is quite true that our diplomatic relations with some of the powers are more ceremonious than practical. But we must be equipped for emergencies, and every now and then, even at the smallest and most remote courts, there is a critical need of an American representative to protect American citizens or American interests."

The grade or rank of diplomatic representatives has been the subject of discussion and fierce controversy from the date of the first establishment of permanent missions, more than four centuries ago, and although it was thought to have been finally and definitely settled at the Congress of Vienna in 1815, and that settlement was accepted and followed by the United States, it has recently been a

source of discussion and embarrassment at Washington. To fully understand the question, it will be proper to make some reference to this controversy in the past.

A diplomatic envoy is the representative of his government or sovereign, and his claim of rank is for his country and not for himself; so that the controversy in the past has been one of nations rather than of persons. During the medieval period the struggle of the European nations for preëminence in rank was the special feature of the era, and it gave rise often to the most absurd pretensions. It was sought to be maintained for various reasons, such as: The title of the sovereign, the size of the dominions, the antiquity of the royal family or date of independence of the country, the nature of the government (whether monarchy or republic), the population, its achievements in arms, the date of the conversion of the people to Christianity, and even the services rendered to the Pope or the Church. Up to the time of the Reformation, the Pope was universally recognized in Christendom as having precedence over all sovereigns; next in order was the Emperor of Germany, as successor of the Roman Emperor, and below them a constant strife existed among the nations. For a time the republics were refused what were termed "royal honors," but finally Venice, the United Netherlands, and Switzerland were accorded recognition in the order of precedence here named. The title of Emperor was sought to be made exclusive to the old German Empire, and Russia was forced to wait several generations after its ruler assumed that title before being accorded recognition as such. Four centuries ago the Pope of Rome, by virtue of his conceded preëminence and ecclesiastical authority, sought to settle the vexed question by issuing an order fixing the relative rank of the then existing nations of Christendom. It illustrates the intensity of feeling which the question had aroused to state that, notwithstanding the high papal authority of that date, this arbitrary settlement was not accepted and was only observed in Rome, and even there merely for a brief period. It also illustrates the evanescent character of the honor and the changes of the governments of the world, to note that of the score and a half of nations enumerated in the papal order, only three (England, Spain, and Portugal) exist to-day with the royal titles then accorded them. It is also curious to note that in this table of precedence England stood eighth in order and Russia does not appear in the list.

A large part of the deliberations of the great congresses of European nations, up to and even including the early part of the last century, was taken up in settling the question of precedence among the envoys or delegates. This was notably so at the Conference of Westphalia. At the Congress of Ryswick a warm debate occurred over the demand of the ambassadors of the Emperor of Germany that

a particular space should be set apart for their carriages, and that this should be the post of honor; a fierce quarrel occurred over the allotment of rooms, and in the conference-room a single table had been provided; but no agreement could be reached as to the order of seating, and so in that room they all stood, and another room was provided in which there was no table, and the envoys sat in a circle. At the Diet of Regensburg the precedence of the ambassadors was decided by an arithmetical rule by which each had precedence over the rest twice in ten days. At Utrecht a round table was used, but this lost its accommodating qualities when it was discovered that the place of honor was opposite the door of entrance, and that every place of honor has a right and left. At this congress a quarrel for precedence took place between the footmen of the several ambassadors, in the account of which it is recorded that it "threatened to retard the peace of Christendom." Addison gives an amusing account in the *Spectator* of a discussion over it which he heard in one of the coffee-houses of London, the result of which he sums up in these words: "All I could learn at last from these honest gentlemen was that the matter in debate was of too high a nature for such heads as theirs, or mine, to comprehend." Macaulay, in his *History of England*, describes in his best vein the Congress of Ryswick, which well illustrates these idle controversies.

The contest of envoys to these international congresses of the past have not been more animated and absurd than those of the envoys to the several courts of Europe. Many amusing and sometimes tragic incidents have been narrated of the latter, from which I give some instances. It is related that the Spanish ambassador to England, in 1661, in order to secure a place in the royal procession next to the King and before his French colleague, attacked the latter's coach in the streets of London, hamstrung his horses, and killed his men, thus vindicating his country's greatness. When the plenipotentiaries of France and Austria met to settle the conditions of marriage between Louis XIV and Maria Teresa, in order to preserve the full dignity of their nations, they stepped together, with the right foot, side by side, into a council chamber hung in corresponding halves with their respective colors, and sat down at the same instant, precisely opposite each other, at a square table, on two mathematically equivalent armchairs. A story is told of two newly arrived envoys from Italy and Germany, who, being unable to agree on which should first present his credentials to the King of France, stipulated that whoever reached Versailles the soonest on the day of their reception should take precedence of the other. The Prussian went the night before the audience and sat on a bench before the palace until dawn. The Italian, arriving early in the morning, saw the Prussian there before him and slipped surreptitiously through

the door of the King's bedroom and commenced his salutation. The Prussian rushed after him, pulled him back by the skirts, and commenced his harangue. The memoirs of diplomatists and the histories of Europe are full of the exalted and absurd contentions of envoys, but the foregoing are sufficient to illustrate their extreme and often farcical pretensions.

None of the monarchs of Europe was more insistent upon his rank than the "Little Corporal" when he made himself Emperor of France. On inviting the Pope to attend his coronation, it was stipulated that the same ceremonies should be observed as at the coronation of the ancient Kings of France; but on the arrival of the Holy Father, the latter was astonished to see Napoleon take precedence over him, as if there were no question about it. In 1808 he caused the edition of the *Almanach de Gotha* to be seized, because, as was its custom, it arranged the reigning houses alphabetically and did not place Napoleon first.

The question of the precedence of nations extends into the negotiation and framing of treaties. In former times the more powerful or more ancient of nations claimed the right to be first named in conventions and other diplomatic instruments, and not until the nineteenth century has it been yielded. As one of the younger nations, the experience of the United States illustrates the progress made toward equality of treatment. In all of its treaties made in the eighteenth century it was named last. France first recognized with the United States in its treaty of 1803 (the Louisiana Purchase) the practice of the *alternat*, that is, the right of each chief of state to have his name and the name of his plenipotentiary appear first in the original copy of the treaty or other instrument which he retains. Great Britain refused to concede this right to the United States in the treaty of peace of 1814 and in anterior conventions, but, upon the insistence of the latter, yielded it in the treaty of 1815 and thenceforward. It was first conceded by Spain in the treaty of 1819. The Spanish negotiator in consenting intimated that on signing he might deliver a protocol against its use being made a precedent for the future; whereupon the stout John Quincy Adams informed him that the United States would never make a treaty with Spain without it.

The contest as to the rank of the states, which had been waged for centuries, was sought to be settled at the Congress of Vienna of 1815. A committee was appointed with instructions to fix the principles which should regulate the rank of reigning monarchs and all questions connected therewith. The committee submitted a report to that end; but after a long discussion, the powers abandoned the project as one too difficult to realize, and confined their action to prescribing the composition and rank of the diplomatic corps only

at their respective courts. But since that period, by the practice of governments, it has come to be recognized by them all that there can be no rank or precedence among independent and sovereign nations, but that all must stand on an equality in their negotiations. For instance, at the Conference of Paris in 1856, one of the most important in that century, the representatives sat at a round table in the alphabetical order, in the French language, of their national titles. In the Bering Sea Tribunal of Arbitration of 1893 the United States had precedence over Great Britain because of this order of arrangement. The same practice was observed at The Hague Peace Conference of 1899. At that conference it was expressly declared by the representatives of the great powers of Europe, "Here there are no great, no small powers; all are equal, in view of the task to be accomplished."

The United States, when at its independence it entered the family of nations, accepted the order prescribed by the Congress of Vienna in 1815, which, with the addition made in 1818, recognized the composition of the diplomatic corps in four classes, to wit: ambassadors, ministers plenipotentiary, ministers resident, and *chargés d'affaires*, with rank in the order named. For more than a century this country sent abroad, as its highest diplomatic representatives, those of the second class, and this practice was observed up to a recent date. But the ministers plenipotentiary of the United States at the capitals of the great powers of Europe where ambassadors were maintained, have repeatedly complained that they were often humiliated and their usefulness sometimes impaired by the lower rank which they were assigned in the diplomatic corps, and this assertion gained general currency and acceptance through the press. It is true that ambassadors take precedence over ministers in the order of reception and seating on public occasions, at entertainments, and, at some European capitals, in order of their admission to interviews at the foreign office. It certainly is not agreeable to a minister of the great American Republic, who arrives first at the foreign office, to be required to step aside and give place to the representative of Turkey or Spain and wait till the latter's audience is concluded with the Secretary of Foreign Affairs, simply because he bears the title of ambassador. Mr. Bancroft, the American minister at Berlin, when subjected to this treatment protested against it, and Prince Bismarck decided that the practice should not be continued. Other American ministers who were made to suffer inconvenience or humiliation from the custom might possibly, by firm or considerate remonstrance, have obtained relief. The remedy uniformly suggested has been to raise the grade of representatives at the capitals named to that of ambassador; but the successive secretaries of state declined to make the recommendation to Congress. Such was the action of

Secretary Marcy in 1856. Secretary Frelinghuysen said that the department could not, "in justice to its ministers abroad, ask Congress to give them higher rank with their present salaries; neither could it with propriety appeal to Congress for an allowance commensurate with the necessary mode of life of an ambassador." When, in 1885, Mr. Phelps, the American minister to Great Britain, urged that the mission be raised to an embassy, Secretary Bayard replied: "The question of sending and receiving ambassadors, under the existing authorization of the Constitution and statutes, has on several occasions had more or less formal consideration, but I cannot find that at any time the benefits attending a higher grade of ceremonial treatment have been deemed to outweigh the inconveniences which, in our simple social democracy, might attend the reception in this country of an extraordinarily foreign privileged class."

Notwithstanding the reasons given by successive secretaries of state against the creation of the grade of ambassador, the Congress of the United States in 1893 did just what Secretary Frelinghuysen said would be an injustice to American ministers — authorize the grade without increasing the pay of its representatives. The legislation to this effect was inserted as a clause in one of the regular appropriation bills, and was passed through both chambers without a word of discussion or comment. If its effect in changing a practice of the government for a hundred years had been made known at the time, it is extremely doubtful whether it would have secured the approval of the Congress.

An ambassador has been held in Europe to be the special or personal representative of his sovereign, and to stand in his place at the foreign court, with the right to claim audience at any time with the head of the state, and entitled to privileges and honors not accorded to other envoys of nations. This claim had some force when the monarch could boast, "I am the state;" but with the establishment of constitutional government and a responsible ministry, all foundation for such a claim was removed, and it certainly should have no place under a republican form of government.

Events in Washington following the passage of the law creating the grade of ambassador in the American diplomatic service have shown that Secretary Bayard was not astray in his fears as to "the inconvenience which in our simple social democracy might attend the reception in this country of an extraordinarily foreign privileged class." The reception of ambassadors from Great Britain, France, Germany, Russia, and Italy, in reciprocity for the nomination of American ambassadors to those countries, was followed by the scandalous scenes in the Senate Chamber on the first inauguration day following their appointment, when in the zeal of the subordinate officials to show special honor to those newly created and exalted digni-

taries, all the other members of the diplomatic body were neglected and left to find their way to their residences without an opportunity to witness and honor the induction of the new President into office; and, if the press reports are to be credited, further trouble was occasioned by the question of the proper location of the ambassadors at the last inauguration. Then came the problem whether the Vice-President of the United States should make the first call upon the new ambassadors, and the further question whether the Secretary of State, who stands second in succession to the presidency, and on the death of the Vice-President first in succession, should give place at entertainments and public functions to those dignitaries. These momentous questions were doubtless settled aright in the light of European precedents, and the good sense and prudence of the eminent gentlemen who hold the ambassadorial rank have, it is probable, prevented other embarrassing and foolish questions from arising; but these events and those which attended the advent of the Mexican ambassador, whose coming was resented by the European ambassadors, as well as the recent unpleasant incident at the White House, when the ambassadors collided with the Supreme Court, would have been avoided if the Act of 1893 had not been passed. When the act creating ambassadors was passed by Congress, the government of the United States had grown to recognized greatness and dignity in the eyes of European sovereigns, its diplomatic service had in the past hundred years and more won deserved honor and distinction, and it did not require the bauble of a title to give its envoy greater standing or efficiency. I doubt very much whether the absence of rank has ever prevented any really able minister of the United States from rendering his country a needed service.

I have referred to the theory that ambassadors, because of their supposed investiture of a special capacity to represent their sovereign or head of their state, have the right to demand an audience at any time with the chief of the nation to which they are accredited, and that such right does not pertain to diplomats of the next lower grade of ministers plenipotentiary. It is a theory which has come down from the medieval period, but in modern times has become pure fiction. Vattel says of ambassadors that their "representation is in reality of the same nature as that of the envoy" or minister plenipotentiary. Calvo, one of the highest living authorities on international law, referring to the claim that ambassadors "have a formal right of treating directly with the sovereign, of which the others [ministers] are deprived," says: "This is a distinction without a meaning, especially since the organization of modern nations no longer rests exclusively upon the monarchical principle, and therefore renders it impossible for sovereigns personally to conduct international negotiations. . . . In our eyes the agents of the first two

classes are exactly on the same line from the point of view of their character as of their duties and powers." Martens, the leading authority on diplomatic ceremonies and practice, writes: "Considered from the point of view of international law, all diplomatic agents, without regard to their class, are equal. This equality is shown by their all possessing, in a like degree, all diplomatic rights. . . . Many writers have tried to infer from the rules of Vienna that ambassadors, as representing the person of their sovereign, have, in distinction from other diplomatic agents, the formal right of treating with the sovereign to whom they are sent, and of being received in audience by him at any time. We cannot admit this inference. As Prince Bismarck opportunely remarked, 'No ambassador has a right to *demand* a personal interview with the sovereign.' The constitutional government of West European monarchies compels ambassadors to treat with the minister of foreign affairs." Lawrence (T. J.), one of the latest authors on international law, says: "Ambassadors, as representing the person and dignity of their sovereign, are held to possess a right of having personal interviews, whenever they choose to demand them, with the sovereign of the state to which they are accredited. But modern practice grants such interviews on suitable occasions to all representatives of foreign powers, whatever may be their rank in the diplomatic hierarchy. Moreover, the privilege can have no particular value, because the verbal statements of a monarch are not state acts. Formal and binding international negotiations can be conducted only through the minister of foreign affairs."

It has been seen that the increased expense of maintaining an embassy was one of the reasons given by American secretaries of state against the creation of the grade of ambassador. The style of living or the establishment which a diplomatic representative maintains has been given great importance, especially in the European capitals. It is a curious fact that in the early period after the establishment of embassies or legations it was the practice for the government to which the ambassador was accredited to defray his expenses. For instance, we have the record that the Court of Vienna in 1679 appropriated a sum equal to \$2000 per week to meet the expenses of the Russian embassy, and of the Turkish embassy something over \$1000. A century later the Turkish embassy at the same court cost the latter 2000 rubles daily. The papal legate at Paris in 1625 cost the King of France 2500 livres daily. The celebrated Lord Macartney, British embassy to China, is said to have cost the Chinese Government a sum equal to \$850,000.

But in the course of time these splendid and extravagant expenditures became both burdensome to the court which furnished them and humiliating to the representatives of the country receiving

them, and it came to be the practice of each government to defray the expenses of its own mission; but it was assumed that this should be done on a scale befitting the dignity and standing of the nation, and governments are supposed to keep this standard in view in making their appropriations for the diplomatic service. An envoy who is sent abroad to represent his country ought not to be expected to maintain a more expensive establishment than is warranted by the salary paid him, and yet every American ambassador accredited to the capitals of Europe, who in any degree meets the expectations of his countrymen, spends annually much more than he receives from the national treasury.

But the government of the United States is not the only one which fails to meet the expenses of its embassies. In his testimony before the parliamentary committee from which I have already made extracts, Lord Palmerston stated that the salary of the British ambassador in Paris was not sufficient to meet the outlay actually made by him; and yet the salary and allowances of the British ambassador are more than three times as great as those received by the American ambassador to that capital. I have been informed on the best authority that when the post of British ambassador in Paris became vacant a few years ago by the retirement of Lord Dufferin, it was offered in succession to three British statesmen of prominence, who declined the honor on the ground that they could not afford the extra expense that would necessarily have to be met from their private purse.

This fact may suggest the inquiry whether the style of living of ambassadors and the demands made upon them have not exceeded the proper bounds, and whether there is not some force in the argument used to justify Congress in its course, that it is not becoming our democratic representatives abroad to maintain such an ostentatious and extravagant style of living. The change of the American legations to embassies in the European capitals seems to have called for the maintenance of large houses or palaces and a much more lavish style of living, which have so greatly increased their expenditures that only persons of wealth can afford to accept these posts. It is a sad day for any country, but more especially for a republic, when its highest offices cease to be rewards of merit and fitness and when they can only be filled by rich men.

Many incongruities and embarrassments result from the continued adherence to the several grades or rank in the diplomatic service established a century ago by the Congress of Vienna. The great powers of Europe, the United States, and Mexico send to other governments respectively the four grades of diplomatic representatives, and even a fifth grade has been added by some of them, who clothe consular officers with diplomatic functions under the title of

“diplomatic agent,” but no uniformity of action is observed. France, for instance, accredits an ambassador to Switzerland, but ministers plenipotentiary are sent by the other neighboring powers — Germany, Austria, and Italy. On the other hand, France accredits only a minister plenipotentiary to its neighbor, Belgium. Another illustration of irregularity or inconsistency is found in the diplomatic body to the independent government of Morocco. There are ministers plenipotentiary from Germany, Great Britain, France, Italy, and Spain, ministers resident from Austria and Russia, *chargés d'affaires* from Denmark, and the United States is represented by a consul-general, who acts in a diplomatic capacity, but in grade stands below all other powers.

Each government determines for itself the grade of representative it will send to other countries, but the government to which the representative is sent claims and exercises the right of receiving or rejecting such person because of grade. But reciprocity of grade is not always observed. A representative of a lower grade is sometimes received from a country to which one of a higher grade is sent. The irregularity of rank is likely at any time to create diplomatic embarrassments, as it already has in more than one instance. We have seen that the reception at Washington of an ambassador from Mexico was resented by the ambassadors of the European powers. As one of them remarked to me, they did not regard Mexico as sufficient in population and importance to exercise the right of ambassadorial appointment. Suppose China, embracing more than one fourth of the population of the earth, older by thousands of years than the oldest of the so-called great powers of Europe, and possessing a high grade of civilization and intellectual attainments, should accredit ambassadors to those powers — upon what reasonable ground could they be rejected? And yet should they have an intimation that such was the intention of that ancient empire, it is more than probable that its foreign office would receive such representations as would lead it to desist from its intention.

The most serious embarrassment resulting from this difference in grade of diplomatic representation is furnished by the relations at present existing between the United States and Turkey. For a number of years past these relations have been in a most unsatisfactory condition. In no country of the Western world could the old fiction of the ambassador as the personal representative of the sovereign to-day approach so nearly a reality as in Turkey, as the Sultan is more fully than any other monarch the personal ruler of the state. All the great powers of Europe, and even the Shah of Persia, are represented at Constantinople by ambassadors, and they exercise the right of access to the Sultan at will to discuss official matters. The American ministers plenipotentiary have represented

to their country that it is very difficult to get any just and proper consideration and dispatch of their business, because of the irresponsible character of the Secretary for Foreign Affairs or even of the Grand Vizier, as all important matters are determined by the Sultan; and that, as they do not possess the ambassadorial character, they cannot without great difficulty have audience with him to discuss official business.

To remedy this embarrassment, President McKinley caused application to be made to the Turkish Government for the appointment by the two governments respectively of ambassadors; but the proposition was not accepted by Turkey. The condition of the interests of American citizens in that empire continuing to be very unsatisfactory, President Roosevelt renewed the application for the appointment of ambassadors; but it was again rejected. It cannot well be understood in the United States why this application should be refused, when ambassadors from much smaller and less powerful countries, like Italy and Persia, are received at Constantinople.

Last year a delegation of some of the most prominent citizens of the United States, representing large property interests in the Turkish Empire, made a visit to Washington and laid before the President a memorial, setting forth that American citizens and property in that empire were denied the rights and protection which had been secured by the ambassadors of the great powers of Europe to their subjects and property interests. The President, being impressed with the justice of the memorial, caused a cable instruction to be sent to the American minister in Constantinople, directing him to ask for an audience of the Sultan in the name of the President, to enable him to communicate a message from the President to the Sultan on the subject of the memorial. After a delay of some weeks an audience was granted on the express condition that the minister should be limited to delivering the message of the President, but that he would not be permitted to discuss the subject with the Sultan.

Even this decisive action of the President seems to have had no effect, as the American citizens continued to be deprived of the rights and privileges enjoyed by the subjects of the great powers of Europe, and for a third time an application has been made and rejected for the reception of an American representative with the grade of ambassador. The press has informed us that the American minister at Constantinople, under renewed and urgent instructions from Washington, pressed for a settlement of the question at issue, but that he was greatly delayed and embarrassed by the fact that the ministry have no real power to dispatch any important public business, because the Sultan reserves to himself that prerogative, and that, not being an ambassador, he found great difficulty in reaching

the Sultan. Meanwhile this important question remained undetermined, and it became necessary to dispatch a formidable American fleet to Turkish waters to evidence the President's interest in the question, and the fleet was held in the Turkish port until the demand of the United States was complied with. What more striking argument can be presented against the maintenance of the various grades in the diplomatic service?

There is no good reason why the representative of the smallest American republic or European principality should have a different standing, for instance, at the foreign office in London from that freely conceded to him in the Peace Conference of the nations at The Hague; neither should it be expected that any government would be forced, because of a mere grade in the diplomatic hierarchy, to maintain a more lavish display at a foreign court than its principles or convenience would determine.

The remedy for the embarrassments arising from diplomatic rank is a simple one. In the reference I have made to the foolish contests which were carried on for centuries by the nations of Christendom, great and small, for precedence, we have seen that only one solution of the problem could be found, and that was so simple we wonder now that so fierce a warfare could have been possible, that is, recognition of the equality of sovereign nations, so that to-day the smallest republic of Central America is equal in negotiations and at international conferences with the most powerful empire of Europe. There will be no satisfactory settlement of diplomatic rank until all distinctions and special privileges are abolished and a single grade is established in all the capitals of the world.

THE CONTEMPORARY DEVELOPMENT OF DIPLOMACY

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AMONG the great interests of modern times, none is more deserving of public attention than the transaction of international business. Every ship that discharges a cargo in a foreign port, every telegraphic message from beyond the sea, every exchange of commodities across a national frontier, imparts to the world a deeper sense of its unity and solidarity.

While private enterprise, seeking legitimate extension, is thus becoming international, public functions are passing through a significant process of development. Politically and legally, the surface of the earth is held under the sovereignty of independent governments, sometimes remote in space from the territories over which they exercise control, and all intent upon extending their power and importance. At a moment when industry and commerce have become most keenly aware of a world-wide interest, the political system is most vigorously emphasizing the power of territorial control. The situation thus created presents the most intricate diplomatic problem of our time, — the reconciliation of political conceptions originating in an age of national isolation and general hostility with the rising tide of human activity which is asserting, and will never cease to assert, the rights of commercial intercourse.

I. *The Classic Conception of Diplomacy*

The fundamental doctrine of diplomacy is the absolute sovereignty of the state. Raised by this theory above all laws, each state exists for itself alone. Without distinction of governmental forms, empires, kingdoms, and republics alike all pretend to possess those

unqualified attributes which ancient Roman theory accorded to a practically universal empire. When the great national monarchies rose out of the ruins of the ancient system, each assumed the *imperium* which Rome had formerly exercised, and subsequent constitutional transformations, while profoundly modifying the state as regarded from within, have never affected its sovereign pretensions. The existing international system, therefore, presents the contradiction of merely territorial sovereignties claiming the prerogatives of absolute power. The tardy recognition of formal equality among them has, indeed, conceded something to the order of fact; but this concession confronts us with the anomaly of actually limited and theoretically co-equal political entities, all assuming to possess supreme authority.

The diplomacy based on this conception has been rendered classic by gifted writers, who draw their inspiration from these pretensions. Its patron saint is Machiavelli, its consummate apostle, Talleyrand. Its maxims, creations of eighteenth century philosophy, — half imagination and half metaphysics, — have been formulated by Ancillon and Count de Garden. "Whoever can do us harm, wishes, or will wish, to injure us. Whoever, by superiority of force or geographic position, can injure us is our natural enemy. Whoever is unable to harm us, but can, by the extent of his power or the advantage of his position, injure our neighbor, is our natural friend. These propositions," concludes Ancillon, "are the pivots upon which all international intercourse turns."

The forces of a state are grouped by Count de Garden under four rubrics: territorial, pecuniary, military, and federative. A nation becomes strong by extending its frontiers, augmenting its material wealth and credit, maintaining a powerful military organization, and entering into conventional arrangements with other powers for its own exclusive advantage.

All this implies that national prosperity consists in acquisition and expansion, unlimited in principle and measured only by the energies of the nation. It is egoism made public, systematic, and absolute. Self-aggrandizement being the mainspring of national life, all our neighbors are our natural enemies; for they will take all that we do not appropriate, and when they are able, will strip us of what we already possess. The only means of preserving national existence is, therefore, to appropriate so much and to possess it so securely that we may become irresistible.

The normal relation of human societies, according to this conception, being one of permanent hostility, material greatness is the one purpose of public action, and armed force the only safeguard of existence. In this system, the diplomatist has no other function than to exercise his personal cunning in securing the preponderance

of his sovereign master. Since the destruction of competitors is an indirect method of increasing our own superiority, the aims of diplomacy — according to this school of thought — are not only to keep our own secrets, but to discover those of our neighbors; not only to form favorable relations with other powers, but to destroy those of our rivals; not only to establish our own commerce, but to undermine and defeat the commercial enterprises of others. Depth of knowledge, rectitude of principle, elevation of character, and regard for the common good may be personal adornments; but they are not indispensable to a diplomatic agent, and may even embarrass his success.

Let us admit that nations cannot exist without a primary regard for their own interests; that force is the final safeguard of justice in every form of human society; and that war may sometimes be necessary and even become a duty. But is it true that suspicion and hostility, rather than mutual confidence and friendship, are the natural basis of international relations? Is it true that honor, justice, and coöperation can produce a reign of prosperity and security within the boundaries of particular states, but must obstinately halt at the national frontiers and refuse to pass beyond them?

It is time to treat the classic axioms of diplomacy as economists have treated the fictions that so long separated economic philosophy from the realm of fact. The theory of the physioerats, that a nation can be prosperous only as it develops agriculture; and the doctrine of the mercantile school, that national prosperity consists in the accumulation of precious metals, are both now seen to be without foundation. Production is a vital process as manifold as human wants and human faculties, and wealth a state of satisfaction not capable of being measured in the terms of one commodity. Modern thought has made it plain that the deductive method has crippled and disfigured every science which it has ever attempted to organize; for no concrete being is the incarnation of a single principle, and no living thing is incapable of transformation. The law of evolution is as applicable to the forms and elements of human society as it is to the natural world. The sociology of nations presents no exception; and diplomacy needs to be brought down from the realm of false abstractions and unverified traditions, and made to grasp the full significance of the facts and forces of contemporary progress.

Since the great classic masters of diplomatic science formulated its theories, a profound transformation, half-conscious but wholly inevitable, has taken place. Public attention may accelerate this movement and public indifference may retard it, but no conceivable influence can wholly destroy its work. Since the era of absolutism — which the French Revolution interrupted and the Congress of

Vienna attempted to restore — the constitutional movement has placed charters of popular rights in the hands of nearly all civilized peoples, and the work of national unification has thrown new light on the moral nature of the state. In place of chance aggregations of disparate elements, held together by arbitrary force, homogeneous nations have come into the foreground of history to work out their natural destinies. Within these states, law, order, justice, and security have come to be respected. But the crown and completion of the political system — the establishment of law, order, justice, and security between nations — still remains inchoate.

How are these great aggregations of humanity to be brought under the laws of social well-being and progress? Diplomacy must seek the answer from those historic forces and those forms of human knowledge which have modified and still continue to modify the conditions under which its task is to be accomplished. In a general sense, the whole onward movement of human knowledge and culture — including the art of warfare, the means of transportation and communication by steam and electricity, the influence of the press, the diffusion of education and culture, the expansion of the horizon of public interest by trade, travel, and the prompt publicity of remote occurrences — has transformed the organization of society. But we may, in particular, better comprehend the task of modern diplomacy by considering some of its relations to history, jurisprudence, ethics, economics, and education.

II. *The Relation of Diplomacy to History*

“History,” as De Tocqueville has remarked, “is the breviary of the diplomatist.” It not only explains the nature of his functions, but it is the record of his achievements. It recalls the former existence of a vast intercontinental state, — comprising parts of Asia and Africa, and nearly all of civilized Europe, — embracing a single faith, governed by a single code of law, and comprising nearly all that then existed of human civilization. It shows how the political unity that held in the embrace of one universal empire the Britain and the Numidian, the Spaniard and the Assyrian, and for centuries made of the Mediterranean a Roman lake, realized a state that included a great part of humanity. It explains how an organization so complete and powerful was finally overwhelmed and dismembered by a mistaken policy toward the despised barbarians who surrounded it. It reveals the psychological and moral unity of Europe in that marvelous transformation of the barbarian kingdoms into another vast empire founded on community of religious faith, the reunion of free assemblies, and the organizing capacity of Charles the Great. It proves the practical futility of the imperial

conception by the whole course of subsequent events. The inevitable dismemberment of the medieval empire into independent kingdoms, the development of feudal society as a means of local defense, the inadequacy of merely local government for the necessities of industrial and commercial growth, the rise of the great monarchies as a means of emancipation from feudal servitude, and the reconciliation of local sovereignty and universal authority in the formation of modern states, are all consecutive links in a chain of irrefutable argument by which the diplomatist vindicates the indispensability of his science to the world.

It is an historical certainty that the permanent organization of mankind must henceforth rest on the basis of independent political communities. No one familiar with history can imagine the possibility of reëstablishing a universal empire. No thinker permeated with the historical spirit entertains a serious hope of a general federation of sovereign states. Smaller political communities may, perhaps, be gradually absorbed in the larger; but the great powers give no promise of coalescence, and no indication of uniting to form a permanent confederation. These great masses of organized human energy may still modify their frontiers, but they will continue for centuries to confront one another, as fixed and enduring on the surface of the earth as the stars in the firmament.

The task of the diplomatist is, therefore, neither a vanishing nor a declining enterprise. It is one which, on the contrary, in the presence of the bristling array of terrific instruments of destruction on sea and land, assumes an ever-increasing solemnity and responsibility. The diplomatist should know the history of these great national entities, and of their relations to one another, as a competent physician would wish to know the life-record of a delicate or dangerous patient; for the present — in nature and in life, individual and national — is but the epitome and expression of the past. The future knows no other guide, and it is from history that we are to gather the formulas of present action.

In view of its importance, it is astonishing that no complete history of diplomacy exists in any language. Such a history would include not only an account of the rise and progress of international intercourse, but an exposition of the motives by which it has been inspired and the results which it has accomplished. But even this statement does not fully define the scope of such an undertaking; for an intelligent comprehension of diplomacy must also include a consideration of the genesis of the entire international system, and of its progress through the successive stages of its development. Thus regarded, it would be seen that diplomacy — taken in its largest sense, and including the foreign policy of nations — possesses the deepest qualities of human interest; for the whole fabric of present

international relations, embracing its laws, usages, privileges, and obligations, is the result of past diplomatic activity.

If, therefore, the diplomatist is deeply indebted to the historian and would gladly increase his indebtedness, his guild is prepared to make a rich return in compensation. It is from his archives that the most precious and trustworthy materials of history are to be derived. It is his dispatches that explain the origin and causes of every war and the terms and conditions of every peace. It is in the correspondence and records of his government and in the details of his letters, memoirs, and reminiscences that the whole psychology of international policy must be sought.

A new type of history came into being when Von Ranke in Germany and Mignet in France turned their attention to unused diplomatic sources. For fifty years past, innumerable scholars have ransacked the archives of the European governments, gathering a rich harvest of data and documents relating to special questions; and thus, at last, international events, studied from many angles of observation, as from a multitude of photographs, begin to assume their just proportions. On some future day, when the scientific historian has made full use of this authentic material, a mirror will be held up to nature, in which not only the diplomatist may perceive the lessons of past negotiations, but citizens of once opposing nationalities may discern the true merits of great controversies, so easily distorted by patriotic pride and popular tradition. Every such revelation, by diminishing the rôle of passion and prejudice, will narrow the chasm which separates peoples, by enabling them to discover that in their most bitter contentions there were two sides where they have been accustomed to see but one.

Passing over a multitude of instances, a single example may serve to illustrate what remains to be accomplished in the vast and fertile field of diplomatic history. Toward the close of his reign, his Holiness, the late Pope Leo XIII, opened to the use of historical scholars the secret Archives of the Vatican. Thus, for the first time, were presented to the scrutiny of the historian the records and correspondence of the most ancient international institution in the world. The reports of the papal nuncios alone fill more than four thousand volumes, divided into twenty-one groups, according to the places from which they were written. There are, besides, letters of importance covering centuries of intercourse by kings, princes, cardinals, bishops, and eminent individuals.

The labor bestowed upon this rich collection of documents has already borne precious fruits, but a vast proportion of its contents still remains to be explored. The Austrian and Prussian Institutes have published a part of the reports of the nuncios emanating from Germany, but the great mass of these reports still remains untouched.

The French School at Rome has published many valuable documents found in the papal archives, including the registers of several popes, and also a number of special studies, such as the scholarly works of Déprez and Péliissier, which exemplify what may yet be done for the history of diplomacy, now, for the first time, rendered possible in the scientific sense.

But even when made accessible in printed form, the contents of diplomatic archives have little human interest until they are placed in those relations which render them significant to the public mind. No text-book of mathematics is more dull and unattractive than a volume of treaties; yet, when we enliven its dreary text by bringing upon the scene the national interests involved, the deep, human sentiments affected, the exciting drama of negotiation, the deadly struggle and ardent aspiration which its contents represent; when we follow the conflict of which this dull document forms the conclusion, and perceive in it a victory of peace and intelligence that swallows up and symbolizes the victories of war; when we see in it the triumph of a just cause, the sepulchre of a false ambition, the ruin of a hopeless system, or the consecration of a great principle, we realize that nothing serves better to mark the rising tide of human progress. But when a treaty of peace becomes a yoke of servitude imposed by force upon a prostrate people, defeated in a just cause, we learn how infinitely far the triumphs of arms are removed from the triumphs of reason; and that the least certain path to equity is that appeal to force which adds to the misfortune of injustice the calamity of defeat.

III. *The Relation of Diplomacy to Jurisprudence*

Trial by battle has long since been suppressed in all civilized communities, as essentially barbaric and irrational; yet great nations continue to arm themselves for future conflicts, and appeal to the God of battles to crown them with victory. What is it, then, which justifies the use of armed force by the state, while the forcible avenging of private wrongs is condemned in the individual? What is it that dignifies with the honorable name of "war" the confiscation of property and the taking of human life by public determination, when these are punished as "robbery" and "homicide" if perpetrated by private persons?

Jurisprudence replies that the state is an association of human beings organized for the attainment of common ends, — among them public peace, justice, and security of life and property, — acting in the interests of all, not for the benefit of one or a few. Its laws are the necessary antidote for anarchy, and its authority to make and enforce them is derived from its "sovereignty."

It is precisely this conception of "sovereignty" that reveals the transformation of human thought with regard to the organization and relations of the state. In the Roman Republic, it signified simply "the majesty" of the Roman people, but under the Empire it lost its connection with the constituent elements of the state, and was translated into "the will of the Emperor." In the revival of Roman law that accompanied the formation of modern states, it assumed the form of absolute monarchy, and accepted the formula, "Whatever is pleasing to the Prince has the force of law." In the philosophy of the revolutionary era, the source of authority was sought in the people, but without losing its absolute character. The doctrine of "popular sovereignty," in its crude and unanalyzed form, suggests that whatever is pleasing to the majority has the force of law,—an inference which might be used to justify any enormity which a vicious or misguided multitude might choose to perpetrate upon the few, or upon the rights of foreign peoples.

Such a conception of the state would be as false as it is inadequate, and no thoughtful and well instructed jurist would defend it. The essence and justification of the state lie in the social purpose which it seeks to accomplish, as defined in its constitution, for the bare and formless will of a people cannot serve as its foundation. A state is not a chance or arbitrary association of men bent on a predatory expedition. Such a group of human beings would be called a mob rather than a commonwealth. Nor can such an aggregation of men rise to the dignity of a state by mere organization and discipline, as a band of highwaymen might be subordinated to the direction of a chief. A state is brought into being by historic conditions which unite men in a body politic for the purpose of self-regulation and the realization of common ends of order, justice, and security. The state, therefore, is a moral entity, in which all private benefits are subordinated to public well-being.

It is only as a moral entity,—or, as it has even been called, as a "moral person,"—possessed of will, intelligence, and determining principles, that a form of human society can claim the attributes of a state. Otherwise, it is merely a form of force, without prerogatives founded on juridical conceptions. What, then, is "sovereignty," if not the prerogative of a state to command its own constituents, to make and enforce laws, to guard its own being and independence from aggression, and to be recognized as a moral entity?

Such is the modern juristic conception of the state, and as such it holds its place in the family of nations. Is it, then, a moral entity when seen from within, and devoid of all relation to law and justice when regarded from without? The qualities which support and justify its claim to "sovereignty" within establish its place as a

responsible agent in all its intercourse with other bodies politic. To say that the state exists solely for itself, and is subject to no law or principle which it chooses to deny or disregard, is to destroy at its root all civil authority whatever. The individual does not voluntarily enter the state; he is placed in it by an act of nature. By another act of nature, nations of men exist side by side, forming separate political communities. Whatever principle of natural right subordinates the subject or citizen to the legal jurisdiction of his birth, coördinates coexisting sovereign states and creates between them reciprocal rights and obligations.

Before the time of Gentilis and Grotius, the states of Europe had as little regard for each other's rights as rival bands of brigands; but these great jurists and their successors, appealing to the intelligence of all nations, by disclosing the existence of universal principles inherent in human nature, convinced mankind that even in a state of war, laws are not wholly silent.

In his great work on *The Laws of War and Peace*, Grotius, appealing to the universal rights of humanity, pointed out that the state, existing for the realization of justice, must apply just principles even in its use of force. A body politic, refusing to be governed by rules of justice, thereby forfeits its claim to sovereignty; for, in declining to perform its obligations, it destroys the only logical foundation of its rights.

It is for the recognition of this universal juridical bond between all nations that international jurists have labored during the last three centuries. Natural law, the Christian religion, the jurisprudence of Rome, general custom, common consent, and conventional agreement have all been advanced as furnishing proper elements for the construction of that international code which all jurists have agreed does, or should, exist; and all these elements have afforded contributions to that great body of principles and usages which constitute the present system of international law.

Vague and undetermined as this body of jurisprudence is, no civilized nation denies its existence and its general authority. On the contrary, most nations not only recognize it, apply it, and appeal to it, but in some manner formally adopt it as a part of their own municipal law. The United States of America has not only done this, but has by constitutional provision declared that treaties with foreign powers constitute "the supreme law of the land;" and has attempted, in a digest prepared at public expense and by official direction, to define with minute exactness the whole body of international law. Such a course, if followed by all nations, would furnish the materials for the ultimate formation of that formal international code which jurists like Bluntschli and David Dudley Field have endeavored to construct.

What, then, is necessary to establish between nations the observance of those principles of equity which are universally recognized in civilized communities? International law possesses no guaranty except the good faith of nations and of their public men, and no penalty for open violation except such as the injured party may be able to inflict. In the society of nations, there is neither legislature, nor judiciary, nor executive.

For this reason, one of the most important events of the nineteenth century was the establishment of a permanent international tribunal at The Hague. As in the case of the Supreme Court of the United States, which to-day regulates the most important controversies of forty-five great commonwealths, its inauguration was greeted with doubt and distrust; and because it has not in the few years of its existence proved a preventive of wars and a touchstone of universal peace and concord, it is still, perhaps, regarded in some quarters as a mere chimera.

It is true that The Hague Tribunal at present appeals to us by its possibilities rather than by its actual achievements, but its mere existence, composed of jurists among the most distinguished in the world, is an immense gain to civilization, and cannot fail to promote the pacific settlement of international disputes. It adds to the dignity of this tribunal that, by the munificence of a wise, generous, and cosmopolitan benefactor, a splendid palace of justice is soon to be erected for its use, in a country whose thrift, integrity, and place in history make it a fitting seat of international mediation.

But the progress of this movement is not merely theoretical and material. One of the founders of The Hague Court has initiated parliamentary action that is spreading out into a network of treaties by which questions not affecting national honor and independence are, henceforth, to be referred to this tribunal. His Majesty the King of England has been especially active in promoting these conventions; and their Majesties the German Emperor, the King of Italy, and the King of Spain, and his Excellency the President of France, have united in concluding treaties by which these great powers are setting the example to smaller states of an appeal to law and justice as the normal standard of public action.

While the age is fortunate in possessing among its rulers and public men enlightened leaders who truly represent the progress of thought and society, it would be visionary to expect that, hereafter, rivalry or misunderstanding may not again bring into violent collision the vast armaments which continue to increase rather than diminish. The *raison d'état* which has so often plunged nations into armed conflict still controls public policy; and although there may be a growing disposition to respect acquired rights, there are still abundant opportunities for contention.

IV. *The Relation of Diplomacy to Economics*

The most potential source of peril to public peace and international justice is, at present, the conflict of economic interests. The irresistible increase of population, the demand for territorial expansion, the development of the colonial system, and the struggle for new spheres of influence, in the quest for raw materials and foreign markets, create a situation fraught with danger.

It is to the science of economics that diplomacy must turn for the means of averting this danger. Questions of far-reaching consequence still remain unanswered. Is the political control of territory necessary to the enjoyment of its commercial advantages? Is it a profitable enterprise to divide the world into purely national markets, thereby excluding ourselves from the areas of trade held by other nations? Is it more remunerative to acquire, control, and defend colonial possessions than it would be to share their advantages with others under the protection, wherever necessary, of an international police? Is it not possible to diminish the cost of modern navies by intrusting the defense of commerce to an international marine governed by an international code?

These questions are not addressed to any particular nation, nor is it intended to answer them in any definite sense; but simply to call attention to the problems that press equally upon all, and to inquire if there is not a pacific solution of them based on the principle of general welfare.

The classic maxims of diplomacy forbid all cosmopolitan benevolence and represent the hostility of national interests as inherent, inevitable, and permanent; but those maxims, if logically applied, would have prevented all political progress founded on the sacrifice of private interests for the public good. Every advance which the world has made in civilization has resulted from the perception that mutual advantage might be obtained by harmonizing conflicting interests. The formation of the American Union, the unification of Italy, and the consolidation of the German Empire are among the greatest achievements of modern history, and illustrate the prosperity that may be realized from mutual concession for the common good. Out of struggling colonies and rival principalities great states came into being, blessed with unexampled prosperity, because their constituent parts ceased to waste their energies in obstructing one another's welfare and joined their forces for mutual benefit.

Beneath the surface of political phenomena flows a great historical current which deserves the attention of thoughtful men. The expansive instinct of humanity changes its direction of action according to the obstacles it has to overcome. In the era of political inequality,

the general aspiration was for liberty, which created in the eighteenth century a struggle for national independence; but in the constitutional era that followed, the larger human relations were revealed, and in the nineteenth century was developed the idea that modern nations are essentially interdependent. The special task of the twentieth century will be to reconcile these two great conceptions, and to unite independent states in bonds of peace, amity, and fruitful intercourse.

This, in the broadest sense, is a task of diplomacy, but it is also a problem of economics; and its most vital energies will be derived from economic considerations. At present, the cost of national armaments has reached an overwhelming height, and raises the practical questions: How long will the wealth-producing population continue in silence to support this burden? and, How long will the wealth-possessing population confide in the ability of governments to meet their financial obligations?

Diplomacy would be untrue to its high vocation if it did not direct public attention to this costly guardianship of peace. It is true that it is not for aggressive warfare and inconsiderate bloodshed that these millions are expended; and that, so long as great nations continue to arm themselves, others must do likewise in self-defense; but the day is coming when humanity, feeling its kinship of suffering more keenly than its hereditary fears, will cry out in universal protest against a system which does violence to its better instincts. No process of thought or of negotiation will be too costly if it can open the door of exit from the condition of mutual distrust that arrays great nations against one another in constant apprehension of hostile intentions. Next to national honor, which need never be sacrificed, the one great interest of mankind is peace.

V. The Relation of Diplomacy to Ethics

But there is a deeper spring of human action than the desire for material welfare, and the costly sacrifices of war are its best witness. We must not, in the name of economic selfishness, nor even of mistaken moral sentiment, condemn the measures needful for national defense. A morbid idealism has proclaimed the dogma that no war is just, that bloodshed is never right, and that all exercise of force is wrong. Such a doctrine owes its very possibility to the protection of institutions that would not exist for a single day if society had not the force and determination to destroy its enemies. There is no idea of "right" except in opposition to that of "wrong," and because existence itself is an equilibrium of energies, force is the necessary basis of society. It is in the awful heat of battle that the state has triumphed over anarchy and justice established a

throne upon the earth. In a world of mingled good and evil, there can be no perpetual peace.

Of this no one is more fully conscious than the diplomatist, whose negotiations would degenerate into empty words if they were not supported by a material force capable of vindicating disregarded rights. But certainly the measure of force is in no sense the measure of international rights and obligations, which exist independently of military strength. The little states have the same right to existence and to respect as the great powers; for, as moral entities, all civilized nations, pursuing a common end, have an equal claim to ethical consideration.

It will be a great advance in education when our text-books on ethics devote their concluding chapter to international morality, for no ethical system can be complete, either in a public or a scientific sense, which does not include in the scope of its theory the moral functions of the state and the ethics of international intercourse. When, in the schools of all civilized countries, the young are taught that moral obligation does not end with national frontiers, that states are moral entities subject to the great principles of ethics, and that treaties once freely accepted are sacred; when national history has learned to be fair and honest in its representation of other nations, a new era of human development will be opened, and diplomacy will enter upon a new period of efficiency.

The national conscience of every people cannot fail to be touched by the mere recital of the decalogue which will be written in that new Book of Genesis:

I am the God of truth and righteousness, and thou shalt have no other gods before me;

Thou shalt not steal;

Thou shalt do no murder;

Thou shalt not covet thy neighbor's industries, nor his foreign commerce, nor his colonial possessions, nor anything that is thy neighbor's;

Thou shalt honor thy wise men and thy teachers of righteousness, that thy name may be long in the land which the Lord thy God giveth thee.

Who will venture to complete that august code of public duty? Who, bravest of all, will dare to apply it in practice? Yet, who will be so bold as to deny its application to the affairs of nations?

Diplomacy already reveals the influence of that growth in public morality which is characteristic of our time. The day has passed away forever when intelligent men would accept Sir Henry Wotton's definition of an ambassador as "a clever man sent abroad to lie for his country." Permanent diplomatic success cannot be based on falsehood; and the highest attribute of a statesman is to discern

just and enduring relations, and build his policy upon them. A venerable and experienced ambassador once confessed to the writer that he had for months deceived himself and seriously misled his government by assuming that a certain minister of foreign affairs meant the opposite of what he said. Afterward, with shame and humiliation, he was obliged to confess his error.

VI. *The Relation of Diplomacy to Education*

The advance made since the middle of the last century in the principles and methods of diplomacy are chiefly owing to two causes, both of which are educational. The first of these is the better preparation of men for the work of establishing just and reasonable international relations. In nearly all the countries of the world — except the United States of America — candidates for the diplomatic service are rigorously examined before they are received, not only in international law and history, but in the laws, languages, and constitutions of other countries, and especially in commercial geography and the statistics of foreign trade. The result is that the men who serve modern governments as diplomatic representatives are coming to have, in general, a knowledge of what is true, what is just, what is expedient, and what is right in the relations and conduct of foreign states. They constitute a valuable body of peacemakers and public advisers, whose counsel is useful because it is based on knowledge.

The second cause is the enlightenment of public opinion by means of travel, the press, and the increased interest in foreign trade. Even where the people do not participate in affairs of state, they are beginning to regard with a new solicitude the part their governments are taking in the great field of international politics. Statesmen and diplomatists are, therefore, working in the presence of a public interest more keen and intelligent than has ever before been awakened in questions of foreign policy.

To train men for the diplomatic service and to create and guide public opinion in the right way, through the knowledge and influence of properly qualified journalists, legislators, and other public officers, special schools, like the *Ecole Libre des Sciences Politiques* at Paris, have been established in several countries, in which international subjects are receiving increased attention, but no educational enterprise of a truly international character has yet been undertaken.

Here is a vast, fruitful, and wholly uncultivated field for public benefaction. One can imagine a time when teachers and students of different nationalities will meet at a common center, or pass from country to country to examine and discuss, in a scientific spirit, questions which concern the general welfare. If it is true that at

the heart of every controversy there is a right unsatisfied, it is equally true that for every right intelligence can devise a mode of satisfaction. It is not by force, or the menace of force, that human differences are finally to be adjusted; it is by the calm verdict of unruffled reason, pursuing an honest path to an honest end.

Intelligent patriotism is as sensitive to national honor as it is solicitous for national success, and good men everywhere wish for nothing so ardently as to be understood. The sword has had its day of glory; great states have come into being; public order has fought its way to the seat of power; and from the elevation of the throne and the parliament, men may at last reason together in tones that are audible. True patriots will everywhere feel a new thrill of pride and confidence in their rulers and leaders when they behold in them the triumph of great principles of reason and conscience; for these are the elements that dignify our human nature, lifting it above the passions of the moment, and connecting it with the permanent interests of mankind.



SECTION D — COLONIAL ADMINISTRATION



SECTION D — COLONIAL ADMINISTRATION

(Hall 4, September 24, 10 a. m.)

CHAIRMAN: PROFESSOR HARRY P. JUDSON, University of Chicago.
SPEAKERS: PROFESSOR BERNARD MOSES, University of California.
PROFESSOR PAUL S. REINSCH, University of Wisconsin.

THE CONTROL OF DEPENDENCIES INHABITED BY THE LESS DEVELOPED RACES

BY BERNARD MOSES

[Bernard Moses, Ph.D., LL.D., Professor of History and Political Science, University of California. b. Burlington, Connecticut, 1846. Ph.B. University of Michigan, 1870; Ph.D. Heidelberg, 1873. Professor of History, Albion College, 1875; Professor of History and Political Science, University of California, 1875—. Member of the United States Philippine Commission, 1900-02. **Author of** *Politics* (with W. W. Crane); *The Federal Government of Switzerland*; *The Establishment of Municipal Government in San Francisco*; *Democracy and Social Growth in America*; *The Establishment of Spanish Rule in America*.]

It is one of the simplest and most evident facts of social growth that in the early history of peoples now civilized one generation succeeded another with very few changes either in character or outward condition. If some of these peoples developed peculiar institutions, and established independently peculiar manners, customs, and ordinances, this result was made possible by their long isolation, or their freedom from external influences through extensive periods of time. Such isolation and such freedom were characteristic of the early ages of social life. The barbarians of long ago were left undisturbed through centuries, and if they had capacity, they had also the opportunity to develop an indigenous civilization. The barbarians of to-day, if they have the capacity, have not the time at their disposal, have not the opportunity, to effect an independent development.

The creation of the means of communication, the desire and the ability of the strong, enlightened nations to expand the field of their dominion, and the economic need felt by civilized society for the resources of the whole world, take away from the undeveloped peoples the opportunity for a centuries-long process of slow, independent, social growth. If it were assumed that the American Indians, left to themselves for a thousand years longer, would have advanced to a state of civilization, this capacity would have been of no avail because the other factor, the period of a thousand years, was not accorded to them. In the days of old it might have been reasonable

to urge the leaving of each barbarian people to work out its own progress independently. Such a policy then might have been effective. There were few and imperfect means of communication. There were strong prejudices holding one tribe or race aloof from another. The commercial motive that leads civilized men to invade every corner of the world was almost entirely wanting. Then it might have been possible for a people to have a thousand years of isolation in which either to stagnate or to develop its institutions.

All this is now changed. Modern means of communication have drawn together the ends of the earth. They have made every country contiguous to every other country. The representatives of modern enlightenment have laid aside most of the barbarian's race prejudices, and their commercial relations bring them into relations with the inhabitants of every quarter of the world. No tribe or nation, whether rude or civilized, can now maintain its isolation. The view that a rude people should be permitted to develop its own life without foreign interference may have involved a practicable policy in the beginnings of social growth. As applied to the present, it is utopian. Dominated by notions founded on ancient traditions, we may think that a policy involving this view *ought* to prevail; but our opinions of what ought to be the attitude of one people to another have no necessary relation to the facts in the case. The curiosity of the civilized nations and their economic needs have thrown down all partition walls. If there is any people now in the state of barbarism with capacity for independent development under long isolation, it is safe to affirm that it will not achieve such development. The spirit of contemporary civilization is intolerant of barbarian isolation. The peoples of the uncultivated races may not now have the same time for independent development and the same freedom from interference that they might have had in the earlier ages of social progress. There is thus no vital question now between the independence of Java and Dutch control, or between the independence of the Philippines and American control. The real question in these and similar cases is between control by the present superiors and control by other superiors. The present tendency in the world politics is not to create new sovereign statés, but to enlarge the jurisdiction of a few of those already existing. The continent of Africa has been divided by lines of political demarkation without calling into existence a single new sovereign; and some of the regions that have hitherto been politically independent appear destined to fall under foreign control. It would not be difficult to recognize in such an event, particularly in the subjection of Morocco to the government of France, a movement to advance the interests and increase the realm of civilization.

Having celebrated annually for more than a hundred years the attainment of independence as our greatest national festival, we are likely to lay much stress on political independence and regard it, everywhere and under all conditions, as the paramount political good. But it is quite possible that this is an exaggerated view. An impartial examination of it is presupposed in a critical discussion of a nation's colonial policy and administration; and when it is determined that in the present state of international politics the barbarian tribes or rude peoples have not, under the actual demand for universal intercourse, the opportunity for independent development, part of the basis of the claim that such tribes or peoples should be independent appears to fall away.

In view of these considerations, it becomes necessary to recognize dependence, or union with some great nation, as inevitable in these cases. For the inhabitants of regions like the Dutch East Indies, the Philippines, and similar countries there is practically no alternative to control by some superior power. The question of the independence of such countries in the present political state of the world is a purely academic question. Dependence in these cases is not only inevitable, but it may also be advantageous for the social body over which authority is exercised. The advantage, however, does not appear in all cases. The advantage to such communities brought under foreign control appears when that control is exercised by a liberal and enlightened nation. They become associated with representatives of a higher form of life, and acquire a knowledge of the arts by which wealth is increased and the physical well-being of a community is promoted. They become familiar with the more effective modes of social organization. They learn the language of an enlightened people, and through it they are brought under the influences that make for cultivation. The dependent body is drawn into the current of the superior nation's life, and is carried along by the momentum of its progress. There is, moreover, no necessary connection between political independence and personal liberty. Paraguay threw off the rule of Spain and was politically independent under Dr. Francia. After the death of Francia, the Paraguayans, still independent, fell under the even more brutal domination of Lopez. To them independence brought only tyranny and disaster. Under independence the nation was broken under the heel of an absolute ruler and led into wars that brought it to the verge of extinction. Independence is not a universal social remedy, nor everywhere a sure introduction to a higher phase of political life.

The dominant political ideal of the societies now on the lower level of civilization is that of arbitrary personal rule. The Javanese accepted the decrees of their native princes as if they were the inevitable decrees of fate. The subjects of the native princes of India have

practically no initiative, and submit without question to the will of a ruler whose conduct is not modified by any organized expression of a popular desire. The brief struggle for independence in the Philippines was not a movement to establish the liberty of the people, but an effort to set up the rule of a limited oligarchy. Before the occupation of the islands by the Americans there were probably not forty persons in the whole population who desired to see political power pass into the hands of the great body of the people. Independence for a people on the social level of the Javanese or of the bulk of the inhabitants of the Philippines means the establishment, immediately or ultimately, of some form of absolute rule, destined to manifest the qualities of a more or less oppressive tyranny. In spite of the exactions of the Dutch in the East Indies, or of the strong rule of the English in India, there is a vastly higher grade of popular prosperity and personal liberty in those parts of Java or of India where the people are directly under the Dutch or English control than in the native states where the immediate government of the people is in the hands of the native princes. This is not a far-reaching argument, but it is a sufficient refutation of the statement that the rule of the Anglo-Saxons or kindred peoples never tends to elevate the lower races brought under their control.

The question of vital importance for the inhabitants of dependencies is essentially the same question as that which is important for the members of the dominant nation itself. The popular welfare in both cases depends largely upon the character of the national government. If the authority of a reckless and tyrannical government is extended over a semi-barbarous people, it is not to be expected that the inhabitants of the dependency will be greatly benefited or have abundant reasons for rejoicing. On the other hand, the extension of a wise and beneficent government's authority over a rude people may furnish it an impulse and guidance toward the attainment of a higher form of life and larger liberty for the individual citizens. Even a nation not especially noteworthy for political wisdom may, in the position of a superior, materially assist a rude people to take important steps toward civilization. The political wisdom of Spain has never been adequate to her great opportunities, yet the inhabitants of the Philippines owe to Spain their most important achievements in social progress. Practically all the qualities they now have distinguishing them from the non-Christian barbarians of the East Indian Archipelago have been acquired under the direction of their European superiors.

In passing under American control, the inhabitants of the Philippines fell under the influences of a new form of society and a new system of instruction. The cultivation of a rude people begun by the Spaniards is continued on more practical lines by the United

States, and no good reason has hitherto been advanced for withdrawing instruction from them and leaving them with their lessons half-learned, particularly in view of the fact that, without the stimulating and directing influences proceeding from union with a civilized nation, the bulk of the inhabitants would tend to revert to a condition not greatly unlike their ancient barbarism. No people is so conservative as the barbarian. The restraining force of centuries of tradition make it difficult if not impossible to take a step forward without a helping hand.

For these and other reasons it is safe to assume that the question of Javanese independence, or Indian independence, or Philippine independence may be ignored in a practical discussion, or relegated to the limbo of academic debate. Neither the past nor the present gives any indication that any change is practicable beyond a change of superiors. If the Dutch should ever be willing to lay down the burden of their East Indian administration, other nations would be found who would not hesitate to take it up. If the people of the United States should conclude that they are too arbitrary or cruel in their dealings with dependencies, too corrupt or incompetent to continue a directing hand over the government of the Philippines, candidates for the suzerainty will not be wanting.

The permanent control of certain dependencies appears thus to be part of the general policy of the leading Western nations, and there is no doubt that by this policy, taking into consideration the whole history of colonies, the well-being of the inhabitants of dependencies has been materially advanced by influences that have come to them in consequence of their relation to a superior nation. And the result on the superior nation has been scarcely less advantageous. It has tended to substitute a generous view of humanity for the narrow conceit which made even the wisest nations of antiquity regard all nations beyond their borders as barbarians. Working with another people or members of another race for the advancement of public interests and the welfare of all members of society tends to establish common views and sentiments of mutual sympathy. England's character and standing among the nations have been greatly influenced by her experience outside of her insular boundaries. The wealth that has come to her from trade with her dependencies has been less important than other results of her political association with strange peoples and her coöperation with them for the promotion of a higher form of civilization. And it may be expected that conspicuous responsibilities for dependencies will tend to steady the political mind of America. The policy of holding dependencies is, however, not new for the United States, although its continental dependencies have been inhabited by men having part in the inheritance and cultivation of the rest of the nation.

This policy is older than the Constitution. The government of the Northwestern Territory had originally no source of authority but the central government of the nation. It was strictly a colonial government, even if we sometimes balk at the name. The changes effected in it as it passed from the earlier to the later stages correspond with the development observed as an English crown colony advances from its original position to the state of a colony with representative institutions. Moreover, the status of the Northwestern Territory, as also that of the subsequent territories under the Union, was essentially that of a British colony. The organic law of the British colony is an Act of Parliament as the organic law of an American territory is an Act of Congress. The inhabitants of the American territory have, however, generally escaped the unpleasant suggestions that might have been made to attach to their position as colonists. The fact of their dependence on a political superior outside of their borders was never especially emphasized, and even the political division to which they have belonged was given the colorless designation of territory. An important point of difference between the continental territory as it has hitherto existed under the United States and the British colony consists in the fact that the status of the territory has been regarded as transitory; that the territorial organization has been regarded as the first step toward statehood. As long as we had to do in the territories with societies made up of emigrants from the states, it was not difficult to carry out this idea practically. But when a colonial territory was annexed that was largely populated by members of an alien race, whose antecedents and ideas, traditions and customs, differ widely from those of the bulk of the nation, the colonial question for the United States assumed a new aspect. It was no longer possible to emphasize the idea that the dependency will ultimately grow into a state. It is not alone the number of inhabitants that determines whether or not a territory shall be transformed into a state and admitted into the Union. The character of the population is also considered. New Mexico, with a population of 195,000, remained a territory, while Idaho, with 161,000 inhabitants, Nevada, with 42,000, and Wyoming, with 92,000, became states. The determination of the time when a territory or dependency shall be converted into a state is with Congress. If Congress in its wisdom finds that it is not advisable to transform a territory into a state after fifty years, there appears to be no constitutional power in the present organization of the government to override it if it adheres to this view after four hundred years. The United States has had territorial dependencies throughout the whole period of its existence under the Constitution. It would not, therefore, be doing great violence to tradition or to the Constitution if it should continue to

hold dependencies throughout the future periods of its existence. If this should happen, made advisable by the character of the inhabitants of the districts in question, there is no reason to suppose that our institutions would, on this account, suffer deterioration. There is, moreover, no reason to suppose that the inhabitants of territories so held would be deprived of any privileges essential to their well-being. If, in the future, the discussion on this subject should refer to the Filipinos, evidence will probably not be wanting to show that in their relation to the government of the United States the Filipino people will enjoy more rights and privileges and a greater degree of security and prosperity than under any government that would be created for them if they were politically independent; for all their traditions, whether from the days of their tribal barbarism or from the days of Spanish occupation, are traditions of absolute rule. They entertain only such conceptions of political organization and administration as are consistent with their antecedents. Whatever political ideas they derive from the United States will be ideas of individual liberty and of a tolerant government.

America's undertaking in the control of dependencies, whether within the limits of the continental territory or elsewhere, represents or emphasizes the administrative policy which the enlightened nations have been and are gradually approaching. When England, France, and Portugal made their first settlements in India, they had no plans for changing the condition of the people among whom they settled. They sought to trade with them as they were. Gradually it has become clear to the leading nations that highly developed peoples are both better producers and better purchasers than rude nations in the beginning of their economic development. California is of more advantage to the commercial world to-day than it was when its population consisted of a few thousand domesticated Indians and their contented masters, and its wealth was measured by the herds that roamed over its hillsides and along its fertile valleys. The dependency of great natural resources manifests its full commercial significance only when its population has developed the higher as well as the lower needs of a civilized society. Herein is a justification of the new colonial administration. To undertake to develop the wealth of a dependency peopled with semi-civilized inhabitants, without at the same time bringing about that social differentiation characteristic of a high grade of society, is simply to exploit that dependency, for without the forms and institutions of a cultivated society, accumulated wealth will not be largely sought and cannot be maintained. Sometimes a differentiated society is formed in a dependency by introducing members of the dominant nation to constitute the higher ranks. These members then assume all the higher occupations, while the natives are rele-

gated to agricultural and unskilled employments. This is essentially the state of things in Java. The native Javanese constitute only a fragment of a society. The positions requiring mechanical, clerical, or professional skill or ability are held by Europeans or their descendants. There has been little or no attempt made to draw out of the body of the people persons trained to fill the civil offices or perform any of the higher functions of society. If, therefore, the European element were withdrawn, there would remain the cultivators of rice and the other limited classes of unskilled laborers, but the social structure would collapse. The administrative policy of Java is a survival from another age. It draws a hard line between the natives and the Europeans, and determines the position of persons with mixed blood in such a way as to discriminate unjustly between the pure Javanese and persons having a slight trace of European blood. It appears to maintain the view that the white race should rule, not because it can lift the dependent people to a higher plane of life, but simply because it is the white race and has the necessary power.

The extreme of liberalism in dealing with colonies of an alien race in the tropics is represented by America's government of the Philippines. Of course, England's great dependencies of English stock are practically self-governing commonwealths, and even her dependencies within the tropics are no longer dealt with in the ancient manner. But the new policy of colonial administration, involving a people of another race, is more thoroughly carried out under the United States than elsewhere.

No line is drawn between the American and the Asiatic. By this order many difficulties are destroyed before they are born. The questions which arise in Java concerning the status of persons of mixed blood do not appear in the Philippines. There is one law for all and one system of tribunals, before which every offender, regardless of his race or descent, must be brought for trial. Abundant means for popular education are provided, which persons of all classes and conditions are free to use. There are no forbidden subjects. There is no attempt to uphold the prestige of the dominant nation by limiting the field of the Filipino's knowledge. The local government rests entirely on a popular basis. Any office in any municipality may be held by any resident who has the qualifications of a voter, and is able to secure the suffrage of the other voters of the municipality. The governors of the province are elected by an electoral college composed of the members of the town councils within the province. The insular legislation is to rest in the hands of an elective assembly coöperating with the governor and a smaller appointed body acting in the double capacity of upper house and executive council. Internal peace and order are maintained by a

body of Filipinos organized and trained as an insular constabulary. The power and prestige of the United States constitute a sufficient guaranty that the archipelago will not be invaded by a foreign enemy.

Under these conditions the inhabitants of the islands enjoy opportunities for their intellectual and political development which were never extended to them before. The essential feature of the new phase of colonial administration is that it sets a higher estimate on the dependent people than was usual when Europeans began to exercise political authority over communities composed of members of other races. It recognizes racial differences, but at the same time it finds in the less developed races other sentiments than fear to which it may successfully appeal. Of the old system of controlling dependencies the rule of the Dutch in Java furnishes an illustration. The government of the United States in the Philippines furnishes an example of the new system. In the social affairs of Java nothing is more conspicuous than the line that separates the Dutch from the Javanese. The extreme humility and submissiveness of the Javanese in the presence of their political superiors have not been maintained without reason on the part of the natives, or without design on the part of the Dutch. Even to-day the representative thought of the Dutch in Java lays stress on this attitude of the Javanese as indicating the efficiency of the Dutch rule. The natives have been made to understand that intercourse between themselves and the Dutch is something different from intercourse among the Dutch, where men address one another as equals. That this idea might be impressed upon them, the Javanese have not been encouraged to learn the Dutch language or allowed to use it in addressing the Dutch residents of the islands, and as a consequence of this a social barrier has been erected between the two elements of the population.

Under the policy established in the Philippines other sentiments than fear are made use of in adjusting the relations between the two peoples. The Filipino has a strong desire to be counted in with the members of the dominant nation, whether Spaniards or Americans. Nothing affords this ambition a more immediate gratification than the opportunity to learn the language of the nation in power. If the inhabitants of a dependency speak the same tongue and read the same books and periodicals as their political superiors, they not only seem to themselves to belong to the controlling class, but, in fact, by these means they become rapidly assimilated to that class.

The eagerness with which the Filipinos have seized the opportunity to learn the English language is a strong indication of their desire to be affiliated with the Americans. If two peoples, or parts of two peoples, are politically united, and one adopts the speech of the other, the strongest barrier between them falls away, and racial

discrimination, with respect to all spheres of activity, tends to disappear.

In view of the political assimilation involved in the modern plan for colonial administration, the question naturally arises as to the bearing of this on social assimilation. For Anglo-Saxons this question is of special interest. It is interesting to know whether their rigid race-respect, which has hitherto held them aloof from strange peoples, is to be overthrown in the pursuit of a political ideal. The Anglo-Saxon's instinct has kept his stock free from the contamination of foreign blood, and herein is one of the sources of his strength. By this he has been able to keep the gains of his progress. The Spaniards, on the other hand, in their colonization, mingled their blood with the blood of the less developed races, and their descendants counted, in many instances, less for the continuance of Spanish strength than for the upbuilding of Indian nations. But as the Anglo-Saxon has moved upon foreign territory and established himself among rude peoples, his increase has always counted for civilization. In his early colonial administration of branches of alien races he assumed not only the political but also the social inferiority of the aliens. Under the newer plan of colonial administration the two elements of the population cooperate in conducting the government, and thus the Anglo-Saxons are brought into a relation to the dependent people different from that which they held in the early history of their colonization.

The experience of the Anglo-Saxon and kindred peoples does not furnish adequate data for a satisfactory solution of the problem here suggested. Questions concerning the social relations that will ultimately exist between members of dominant Western nations and the inhabitants of alien dependencies are conspicuous among the unsettled questions of colonial policy. It is evident that there are to continue to be instances of members of widely different races living in the same community and participating in a common government. The negroes of the South appear destined to abide in this country yet many generations, and also to have some part in the government. The English are not likely soon to withdraw from India; and if the Dutch cease to rule in the East Indies, it is quite probable that a nation of the white race will succeed them. The living together of parts of different races is evidently one of the facts that must be accepted for the future, and the coming generations will be under the necessity of elaborating some basis of coexistence and common participation in public affairs. The only alternative is the relegation of one or the other of the races to a position of social and political subjection, and this is less probable than some adjustment of the different elements to one another and the management of their common interests in common.

It might be suggested with some plausibility that this condition of things, where Anglo-Saxons are involved, necessitates a departure from that people's traditional policy of social exclusiveness. A careful observation, however, seems to indicate that under present conditions there may be coöperation in government as well as in business without social amalgamation. It was once thought that there could be no coöperation in political affairs except among persons of a common descent or a common religious faith. But recent experience has given us a new view. Men may have the most diverse private interests, and move along separate lines in the ordinary concerns of life, and yet have a strong common interest in the affairs of their government. It is not necessary that the Anglo-Saxons should be shaded off into the indigenous inhabitants by a system of cross-breeding in order that social peace and political harmony may be preserved. There is mutual respect between races of pure blood, and the mestizo is seldom a source of political strength. Yet it is possible that the peaceful coöperation of two races is more difficult under a liberal colonial administration than where the members of the controlling nation exercise an uncompromising domination. The more liberal administration will doubtless advance the well-being of all concerned, but it will require for its successful prosecution the exercise of qualities which the Anglo-Saxons have only imperfectly cultivated. If the Dutch policy is to be carried out, there is need of a certain amount of force, but it may not be necessary to lay great stress on conciliation or the compromising spirit. It is more difficult to administer the present than the earlier form of colonial control, for it is more difficult to acquire the wisdom with which to govern under freedom than the force with which to rule arbitrarily.

As to form of control, our race appears to be limited to a narrow range. The colonial governments established by Western nations, as well as the national governments themselves, seem to be determined by the force of a political instinct, and are in large measure merely reproductions of an original type. The original tribal chief, council, and assembly which are reproduced in the King, Lords, and Commons, and in the President, Senate, and House of Representatives, reappear in the governmental forms of the most important modern colonies. Where the colonial organization falls short of this elaborate form, the limitation appears to be determined by the quality of the inhabitants or by some external physical condition. The suggestion that we should govern as dependencies branches of an alien race under the forms and according to the ideas of the inhabitants has not great practical force; for wherever we govern, we are moved to govern by our hereditary rules. We know only imperfectly the governmental forms of other races, and we know less about

their ideas of administration. Our governments, to illustrate, are based on the idea of individual responsibility to established authority, and we should probably make a very poor display in attempting to apply, for example, a scheme of control under which a clan or an association was found to be responsible for each of its individual members.

If this government, or any other enlightened government, assumes to exercise authority over territory occupied by members of an alien race, it may maintain temporarily the institutions and usages of the adopted society, but ultimately it must stand for its own laws and the acceptance of its own social ideas. It is not worth the while to proceed practically as if the institutions and customs of the undeveloped peoples were to be permanently preserved. Their customs and institutions are often their shackles which make it impossible for them to run the course of progress. Nobody supposes that the institution of caste and its attendant customs are anything but a hindrance to the social progress of India. The spirit of many of the institutions of the less developed races is the spirit of domination and bondage. The spirit of civilization or enlightenment is liberty. The undeveloped tribes or nations may be politically independent, and yet in bondage to their traditions. If America has any mission outside of her continental limits, it is not to preserve among less developed peoples such institutions and customs as make for bondage and social stagnation, but to put in their place the ideas that have made for freedom, and the laws by which this nation has been enabled to preserve its freedom.

THE PROBLEMS OF COLONIAL ADMINISTRATION

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FUTURE students of political evolution will note a strange similarity between the theories which are now being advanced to defend imperialistic expansion and that humanitarian optimism which animated the period of the French Revolution. The ideas through which the French Revolution attempted to conquer the world were based upon an intense and undoubting belief in the equality and uniform virtue of human nature. Freed from the shackles which perverted forms of society had formed, humanity would again be true to itself, would follow its rational impulses, and under sane institutions, inherit a millennium of peace and happiness. These hopes of the young century were bitterly disappointed in its later years. It became impossible to realize the unity of civilized mankind, and the narrower feelings of nationalism and race antipathy took the place of the earlier enthusiasms. But at present, when a new and universal forward movement of civilized society is taking place, the same ideals are again appealed to. Humanity is one, and the members of the brotherhood who through barbarous customs and irrational institutions are kept in a state of backwardness are to be led out into the light of freedom and reason and endowed with the multiform blessings of civilization. Many of the races embraced in this ideal love are as little inclined to accept the dispensations of a human providence as were the European nations who resisted the spread of revolutionary ideas as interpreted by Napoleon. Their resistance may, however, turn out to be less formidable, and so the course of history may not repeat itself. The experiment may be more successful this time than it was before, and a new era may actually be dawning upon the outlying regions of the world.

But if this forecast is to come true, it will be due primarily not to the general ideas to which we have just referred, but to certain great economic changes which have taken place during the last century and which have laid a material foundation for a world-wide organization of social life. The movement began a few centuries ago with the creation of commercial stations along the coasts of distant continents. The basis of intercourse was then frankly commercial. There

was no attempt to interfere with the interior social and political arrangements of the native races, and only in India, where the British were spurred onward in the course of empire by the ambitions of the French conquerors, and in the Dutch possessions and other plantation colonies, which were looked upon as estates waiting exploitation, was there any penetration of the interior regions. But after the middle of the last century, the great advance made in the rapidity and ease of communication revolutionized the entire movement of colonial activity. Being brought so much nearer to the European countries, the undeveloped regions in general became looked upon as promising fields for the investment of capital in the extractive and agricultural industries. This implied a far different relation to internal affairs than had obtained before. While the merchant was satisfied with small trading-stations or river-hulks, the colonial *entrepreneur* looked to the interior regions for an investment of his capital. It was essential to him that these regions should be made accessible, and that within them law and orderly conditions should be established; that a steady labor-supply should be provided, and that so far as possible the mechanism of Western industrial life should be introduced. The inevitable result of such changes was the demand for political sovereignty over extensive tracts of territory. The struggle for colonial possessions commenced, and with great rapidity Africa was divided among the colonizing nations, while preëmption rights were claimed in other unoccupied regions. Having thus forcibly seized upon large tracts of land and established a claim of sovereignty over their inhabitants, the nations engaged in this movement looked for some moral principle upon which this procedure could be defended. At this juncture it was very natural to fall back upon the earlier theories of the unity of mankind and of the destiny of rational civilization to embrace the entire globe. The missionary spirit was evoked, the duties of the civilized nations towards the less fortunate were unfolded, and the whole movement was represented as one of altruism and benevolence.

This intermixture of economic forces and idealistic moral impulses has brought great confusion into the entire political thought of our period. So chaotic is its condition that many minds have despaired of discovering in the entire movement of expansion any vestige of the moral sense. They are ready to stamp the entire idealistic theory as pure cant, consciously designed to veil a most selfish type of aggression. They point out that while we preach the doctrine of universal brotherly love, we look with disdain upon nations, no matter how highly civilized, who differ from us in the least shade of color; we abolish slavery, and under the pretext of providing a moral education for the natives, introduce forced labor; we preach peace while we are stirring up into warlike feelings societies that

for ages have lived in a condition of peacefulness; we cry for the open door, meanwhile plotting all the time to reserve to ourselves the markets over which we can exercise any control; and while our science has made the idea of evolution an ingrained part of our being, we carve up the world into artificial tracts and attempt to impose upon the natives an alien system of social institutions. Such contradictions invite the suspicion that we have here to do with a vast aggressive movement of national selfishness, which is simply paying a bare and empty respect to ideas of morality which in practice are totally disregarded. And yet such a conclusion would hardly be just. In the complex system of thought which directs the action of our time, the enthusiasm for the ends and purposes of civilization is more than a mere veil of selfishness; but it remains to be determined how this idea can have any effectual influence in the constructive work of colonial administration.

Like strong personalities, the modern nations are filled with a desire to impress the mark of their genius upon the world. While there are many ways in which this may be done, one of the most obvious is that of gaining followers for their ideas of life and civilization. Nations desire wealth, and expand their trade; they desire prowess; they create great industries and maintain powerful navies and armies; but in their heart of hearts there can be no truer gratification than that of hearing their language spoken in a strange land, than having their customs and institutions acknowledged as superior by other races. This leads to the conception — surely not ignoble — that the area of civilization is expanding, and that by the patient efforts of centuries one nation after another will be raised to a higher level of social efficiency and allowed a greater share of social happiness. As from the small altar of civilization in Greece the torches were carried to the east and west, even by the armies of Alexander and Cæsar, the imperialists hope that this same heritage, enriched by the achievements of many intervening centuries, will henceforth be spread throughout the globe through the peaceful means of economic development, supported only when absolutely necessary by the arm of force. But we have already seen how unsafe a guide an ideological conception like this will ever be. In order that it should become useful, we must avoid the danger of a vagueness which would include all manifestations of expansive energy under its mantle of approval. We must analyze the forces at work in order to determine which of them are really in accordance with the aims and the character of civilization. We must inquire what our civilization demands, and what constructive elements in a colonial policy may be judged to flow from its character and essence. Our own civilization is the only criterion we can apply, because, while we may despair of being able to bestow its outward blessings upon alien races, we

must, in our relations with them, be governed by the inherent laws of our own rational nature. An attempt to act otherwise would imply a claim to the wisdom of providence in ordering the destinies of alien races. But we are on safer grounds when we conclude that we are entitled to do what is natural to our own civilization and what its character demands, and as long as we do not depart from its principles in our intercourse with other races, we shall not have to reproach ourselves, at any rate, with having deserted the only clear guide we have.

Colonial expansion must first be judged from the point of view of the needs of our own civilization. To what extent is it a normal result of those forces which constitute the civilization of the West? The conception that the whole movement is undertaken in an unselfish spirit in order to help the less fortunate races cannot be seriously considered. Nations that have so many unsolved problems at home would be stultifying themselves by trying to straighten out the difficulties of others. Unless a vital need of our own civilization for this very expansion and interference with other races can be shown, it cannot claim any justification on humanitarian grounds, because we have no way of proving that our interference with others will be necessarily beneficial to them. When we inquire what are the truly essential characteristics of our civilization which distinguish it from all others, we shall perhaps find in the last analysis that they are mobility, concentration, and mastery over the forces of nature. In no other society are the individual members so independent, so able to move within the social body, to determine their own development, and to bring their energies to bear in a variety of places and manners. No other society has so high a concentration of individual forces or social ends. No other society has achieved so complete a mastery over the productive and impellent forces of nature. Out of these characteristics the expansion movement has naturally developed. It was impossible to restrict the mobility of social forces to national boundaries. Passing beyond, they for a time escaped social control, and the action of the individual adventurers by no means always redounded to the credit of civilization. It was found necessary to follow them up and to bring social conscience and control to bear upon them in the new regions which they had penetrated. The principle of concentration naturally led to the demand that the new regions whose resources were being opened up should be brought into close relations with the national industrial life to which they are subsidiary. Finally, the great problems of the control and utilization of the vast productive forces of the new continents invited the ability trained in the narrower European field to prove its mettle in coping with greater difficulties.

It has been urged that since the characteristic mark of modern

economic life is the intensiveness of its methods, the attempt to spread economic effort over larger areas would necessarily mean the return to the barbarian system of exploitation. According to this view we have to choose between the constantly more productive intensive culture of a smaller territory and the extensive exploitation of ever-widening areas. A real danger is here pointed out. If, on account of the rapid and easy profits gained through a reckless exploitation of the natural wealth of new regions, our capital should neglect the steady intensive improvement of industry at home, a marked retrogression would soon set in. Our industrial supremacy would be threatened and our social life corrupted, on the one hand by a degeneration of industries at home, on the other hand by a wealth too easily gained and by the consequent rigid stratification of society. The lesson to be drawn from this objection, therefore, is that by all means reckless exploitation in the new countries is to be made impossible, not only in order to protect the inhabitants of these regions, but also to prevent a very dangerous reaction upon our own industrial and social life. But if a sane and rational policy of economic development should be followed, it is difficult to see why it is not justifiable to extend intensive methods to wider areas, and to introduce a productive economy into regions where at the present time barbarian exploitation alone holds sway. It has also been urged that the present movement only emphasizes the nervous restlessness of Western civilization. We have given, it is said, too much attention to means, too little to the ends of life, and in the great movement that we are now undertaking, we are striving simply for new means, we are erecting a vast mechanism which will embrace the entire world and crush it in a dreary uniformity. What result are we aiming at in the construction of this vast machine? Who is to be happier for it? How can it conceivably increase our happiness or the happiness of the native populations who are turned from their natural mode of existence, and forced to adopt a new and irksome way of life? Questions like this are too general in their reach to admit of a conclusive answer. We may grant that our civilization is lacking in definiteness of aim, that its general tendencies are confused and uncertain; but may it not be that in the contact with the older civilizations of the Orient, it will be led to a new interpretation of life? Such would seem to be the natural outcome. When once the world has been organized as a system of civilized states and future expansion becomes impossible, it will, of necessity, have to seek satisfaction in static rather than in dynamic ideals.

In contemporary thought the idea is often expressed, or at least suggested, that our civilization is to be the ruling force in the future in this sense, that all other civilizations are to be subservient to it, and that the Western races are to form a privileged caste. A concep-

tion such as this is untrue to the fundamental characteristics of our civilization. A return to the caste system, even with our race as the ruling order, would be a denial of the essential principle of social mobility. The wealth that would be drawn from the subject territories under a system of this kind would inevitably lead to national degeneracy. The social and political attitude thus introduced would have a most pernicious reflex influence upon the internal institutions of the Western nations. As they are not so constituted as to form in themselves a compact caste, the result would be that an inflexible social stratification would be developed within them, and the laboring classes reduced again to a position of virtual serfdom. It is due, therefore, to the very ideals which constitute our superiority and secure our welfare that we should allow to the territories which come under the control of the Western nations the same freedom of economic development which has rendered the latter powerful and prosperous.

The movement which we are considering carries with it the danger of a revival of actual slavery. As the former stages of evolution which our civilization has passed through began with the existence of a large slave population, — in the ancient cities and in the societies of medieval Europe, — so there is now, with the entry upon that phase in which the whole world will constitute a unified economic organism, an unavowed but powerful tendency to reduce a large part of mankind to a position of servitude. The belief in the perfectibility and ultimate unity of the human race is on the wane, and present inferiority is treated as necessarily permanent. With the economic development of the new regions that are now coming under European control there is created a great demand for unskilled labor, far greater than the slight inclination of the black races to work prompts them to fill. It is not surprising, therefore, that the introduction of a system of compulsory labor is advocated. The dignity of labor is to be taught the natives by force, and methods which we have been accustomed to consider among the worst abuses of slavery are freely advocated as the only means of endowing the backward races with the progressive spirit of industry. Should this tendency continue to gain strength, it is clear that the world will have to fight the anti-slavery struggle over again from the beginning, but on a far wider area and involving far more powerful interests than the recent national anti-slavery crusade which we had thus far considered as the final word in this matter.

We have thus far looked at the movement of expansion from the point of view of the interests of our own civilization. We now approach the far more difficult question as to what is to be our attitude towards the civilizations and social systems with which we have to deal in colonial administration. At first sight it would seem an

eminently proper policy to favor the introduction of our own institutions among all the populations that come under our control. Every nation considers its own institutions as the highest products of social evolution, and no better destiny could be conceived for other races than that they should be allowed to share in the benefits which rational laws would bestow upon them. Moreover, it is exceedingly difficult to understand alien social systems and to judge correctly the trend of their evolution. It would indeed require the wisdom of a platonic philosopher to forecast properly the spontaneous development of such societies. With our own institutions we are familiar. Their virtues we believe in. They seem simple and rational; we can easily put them in the form of legal enactments and thus bestow them upon our dependents as a complete and satisfying whole. Moreover, the general desire to set the impress of our national genius upon the world finds no better expression than this propaganda of institutions. In fact, to many people the entire justification of the expansion movement lies in the promise of the spread of better institutions of the European or American type. When we, therefore, ask ourselves the question, Which is the better policy, — not to interfere with native customs and civilization, in fact to foster their natural development, or to sweep away the customs of backward races which so often seem but the bonds which hold them in slavery and to put in their stead the liberal institutions of our own society? — the answer is most readily given in favor of the latter alternative.

And yet the policy of assimilation has thus far in practice proved unsuccessful and at times even disastrous. Experience seems to show that even those institutions which are by us considered the very foundation of good government may have harmful results when introduced into another society. The most striking example of this is found in the experience of Great Britain in India. The English are not an assimilating race. They have always had clearly in mind the economic purposes of expansion, and have allowed the political missionary spirit comparatively little sway. They have not been filled with the desire of transforming native societies. Still, they have introduced certain institutional reforms, which to them seemed absolutely essential and not attended with any risk. Thus, who would not agree that the impartial enforcement of contracts, the system of judicial appeals, representative government, the institution of the jury system, a free press, and liberal education are things about the usefulness of which among us there can be no two opinions? The British introduced these institutions into India, with the best of intentions, and yet with such results that their opponents can now plausibly argue that they must have been animated with the sinister purpose of disrupting and undermining Indian society. The most

unforeseen consequences have resulted. Through the rigid enforcement of contract the vast agricultural debtor class has been gradually enslaved to the money-lenders and is being ousted from its ancestral holdings. As the government upholds the principle of freedom of contract and will not fix the price of grain in times of shortage, the calculating native capitalist is enabled to hold his stock of food for higher prices regardless of the fact that people may be dying of famine by the thousand in the neighborhood. The scientific system of appeals favors the machinations of unscrupulous native pleaders, who gain a livelihood by stirring up litigation and making the most of judicial delays, with the result that the confidence of the Indian population in the justice and efficiency of the law has been impaired. The granting of representative government in municipalities has led to the sharp accentuation of religious and racial animosities, and has especially increased the bitter feeling between Mohammedans and Hindus, the former of whom oppose strongly any system of representation based upon numbers. The same result has been brought about by the creation of a free press, which uses its freedom not only for the purpose of constant agitation against the British, but also to stir up and perpetuate the feeling of mutual hatred between the various great religions of India. The jury system has undermined the confidence of the natives in the justice of the British, because no white jury can be found to condemn a white man for the murder of a native. And finally, the system of higher literary education, conceived by Lord Macaulay for the purpose of initiating the Oriental mind into the philosophy and literature of the West, has resulted in the destruction of native *morale* among the educated classes and in the creation of a literary proletariat, hungry for public employment. The complete bearing of these social changes deserves more careful study than we can here give it, but the above brief indication may suffice to point out how incalculable are the results of the importation of foreign institutions into a native society.

France is the classical land of assimilation. The colonies that were left to France after the Napoleonic era were few and small. A certain romantic and sentimental interest attached to Martinique and Guadeloupe, and they became the spoiled children among colonies. Most of the institutions of the mother country were extended to them. When in the middle of the last century the colonial empire of France again expanded, through the acquisition of territory in Africa and Asia, the older principles of action were not abandoned. The new territories were treated as regions within which French civilization was to be forthwith established. The most radical belief in constructive meliorism still governed French political thought. The results of this policy are now before our eyes. Algeria has long

been treated as a part of France. The attempt has been made to give the natives a personal status, to destroy the family and the tribe, to break up the communal land-holdings, to apply to the forests the stringent regulations of the French forest laws, with the result that to-day the natives look upon the French as their arch enemies, bent upon destroying their social life and utterly ruining them. It is in the matter of individualism that the assimilating policy is apt to make its most radical attempts at reform. The grouping of populations in families and tribes is looked upon as a mark of barbarism, and it is regarded as the first principle of a liberating policy to recognize the right of the individual fully to control his property. While this is apparently a liberalizing movement, its results are usually far from those aimed at. Not prepared by gradual social evolution for the individual status, the native when artificially placed in this position is helpless and becomes a victim of shrewder persons ready to take advantage of his weakness. Thus the natives of India, the fellaheen of Egypt, and the Kabyles of Algeria, when legally individualized, soon lose all effective economic liberty.

In Indo-China the French began by remodeling and destroying the native institutions and even attempting to introduce the entire legislation of Continental France. But they discovered in time that such a policy, of doubtful wisdom in Algeria, is totally unsuitable for a tropical colony like Indo-China, and at present they show a tendency to maintain such native institutions as the Annamite commune and even allow the mandarin a certain influence. Wherever the French elective and representative institutions have been introduced into tropical colonies they have led to the most grotesque results. In the Indian possessions as well as in Senegal, the elections have become a pure formality. Thus, while thousands of votes are officially returned, hardly a native is seen to enter the polling-place on election day, the entire reports being prepared in advance by public officials. During the last decade a powerful opposition has arisen in France to the continuance of the policy of assimilation. This movement has received much support from the success of the French administration in Tunis, where the native institutions, beliefs, and customs have not been unduly interfered with. In West Africa and in Madagascar there has also been a certain willingness to acknowledge the justification of divergent social institutions. But the essential character of French colonial policy is still assimilative in the main, although a greater willingness is shown to make concessions to the natural obstacles opposed to such a policy.

The policy of assimilation rests upon the old rationalist doctrine of the universality of human reason. An institution once declared rational must as such be applicable at all times and in all places; and though individuals may at first in the darkness of superstition resist

the introduction of such institutions, they will, if forced to accept them, be ultimately liberated thereby and raised to a higher plane of existence and civilization. The essential element in this belief is that reason is the one controlling force in human conduct, and that rational institutions are productive of rational action, and hence are the sole requirement for well-ordered and civilized life. As a matter of fact, however, the science of the nineteenth century has abandoned this belief in the universal supremacy of the conscious rational faculty. Men are governed far more by their inherited beliefs, customs, and instincts, than by a conscious choice between different courses of action. This is true among ourselves, and it is so to an exceedingly greater extent among more aboriginal peoples. The doctrine of assimilation makes a demand upon the rational element in human nature which not even the action of the most highly developed individuals, not to say nations, could justify. The natives are to abandon the entire complex of customs and beliefs which have thus far guided them through life, and by an act of selective reason, to adopt institutions foreign to their social experience. Modern science is agreed that inherited psychological elements — the constitution of the mind — are the most persistent phenomena of which we have any knowledge. New ideas may be poured into the consciousness, may even be understood by the rational faculties, but they will leave no trace upon the mental constitution and upon the real spring of action. The most conclusive proof of this is found in the psychology of those races which have come, through the chance of history, under the control of different conquerors. Through numberless generations under the most varied historical conditions and environments, the descendants of the same race will continue to develop similar psychological traits. Thus, parts of the Malay race have been for centuries under the rule of three different European peoples, and nevertheless the Filipinos, with their Spanish instruction, the Javans trained under the Dutch colonial system, and the Malays of the mainland who have been under English tutelage, all display identical characteristics and have the same intellectual constitution which the earliest explorers noted in their day. In the same way we may trace among the negroes of the United States, of Hayti, and of Martinique, the same psychological tendencies which are found among their distant relatives in the African forests. The actual experience of colonizing nations and the results of scientific investigation leave room for but one opinion upon the policy of assimilation, that it rests upon a purely ideological basis and runs counter to the scientific laws of psychic development.

The very first requirement in laying the foundations of a colonial policy is, therefore, the careful study of the ethnical character of the

races with whom we come in contact. The ethnological survey is the most important part of colonial administration. We must learn to respect the psychological and social character of the people with whom we have to deal, — respect it sufficiently at least to become acquainted with it, to study it carefully, and to analyze its elements.¹ When we consider the difference between the highly trained, industrious, peaceable, frugal Chinese and the shiftless, indolent Malays; between the dreamy, philosophical Burmans and the warlike, laborious tribes of Central India; between the fellaheen of Egypt, the Moors of Algeria, and the multitude of negro races in Central and Southern Africa; the very idea that one set of institutions, one form of social practice, could be applicable to all these multiform societies, would seem the result of pure ignorance. What the colonial administrator needs above all else is imagination. Not the abstract imagination which would create an artificial system, but the reconstructive imagination which is able to understand the social conditions of an alien population. In colonial affairs we are in need more of the sense of justice than of benevolence.² Nothing is more dangerous than an active benevolence without a proper knowledge of the civilizations with which it interferes. But the sense of justice which accords them a certain right to live, which agrees that there may be a justification for divergence from our standards, is absolutely essential for lasting results in colonial administration. Native societies themselves desire justice rather than benevolent interference, and appreciate far more a ruler who respects their customs while governing them with a strong hand, than one who, under the claim of humanity and benevolence, meddles with their every social arrangement and institution.

But, we may well ask, if we are not to use our civilization as a criterion for our colonial activities, how shall we be guided in the construction of a colonial policy? Are we to follow simply the most material needs of our commerce and industry, and, totally disregarding the higher civilization of the natives, allow them to shift for themselves; or is there some way in which we can understand the needs of their own civilizations and assist them in realizing their destiny? The simplest answer, and one that appeals to many minds, is that we should let all these alien societies alone, and allow them to develop unhindered, because no nation has the right to regard itself as a providence for the social regeneration of other races. But when we consider that we have actually become responsible for the destiny of great multitudes of people, and that this responsibility

¹ The most successful investigation into the psychology of native populations has been carried on by the ethnological department of the Dutch colonial government under the councilor on native affairs, Mr. Snouck-Hurgronje.

² It is an Arab proverb that one day of justice is better than seventy years of prayer.

cannot practically be avoided, we shall not be satisfied with any such negative statement of our duties and relations. We need a more positive guide, one also that will harmonize our attitude toward the various elements in civilization. May we not, after all, find in our own civilization the guidance which we seek? We have found that, statically considered, as a definite system of customs and institutions, we cannot apply it directly in solving the problems of colonial development. It is clear that we cannot confer by acts of legislation the results of our social and political evolution upon an alien people. The fruits of civilization cannot thus be transferred. But will not a study of the dynamic elements that have assured our social progress give us some clue as to a proper colonial policy? While we may well despair of bestowing upon an alien race the entire complex of our civilized institutions and customs and beliefs, may it not be possible to modify their social evolution in accordance with our experience and thus to obtain for them gradually a higher degree of social well-being and efficiency? The evolutionary and structural ideals of our civilization may be of greater value in this matter than its positive standards and its resultants in our social life.

Defined from the structural point of view, civilization implies a social organization of highly centralized energy combined with great mobility of the individual parts. This mobility involves the absence of a deadening fixation of activities by custom or caste, leaving the individual free to seek the line of endeavor in which his own energies may find their best and most fruitful expression. It involves a constant betterment of the condition of humanity through invention, and consequently an intensive cultivation of the natural resources of the civilized state. The surplus thus obtained enables the civilized society to devote a large part of its energies to the advancement of education, art, and science. The distinction between civilization and barbarism lies, therefore, primarily in the mobility of social forces and in the readiness with which they are able to concentrate their efforts at any given point. The impact thus produced, no barbarian society can withstand. The positive superiority of a given society is thus not due to the presence of a large armed force, but to the maintenance of conditions which will enable it to bring to bear at any time and at any given point the entire national energy.

It is imperative that we should clearly see that in colonial politics we have to deal with societies in their broadest aspects, — with civilization and not with individuals. The greatest mischief is wrought by looking upon the natives as so many individuals, clay to the hands of the potter, to be fashioned with ease into some resemblance to European or American. It is only as we modify the structure, principles, and customs of native societies, that we can exert any lasting influence upon individuals. Just as the quality of our

Western civilization depends closely upon social structure, so — though in a much larger degree as social cohesion is much stronger in the lower strata of mankind — the civilization of a Hindu, or a Malay, or a Hausa, depends not upon what we can teach him individually, but how we can affect the structural character of the society to which he belongs. To modify the direction of social evolution by slow and natural methods, that is the most ambitious program we can in reason set for ourselves; to take a Tagolog and make of him an American is the naïve impulse of inexperience. For though isolated individuals may adopt the best thought of a higher civilization, — we need but think of the negro valedictorians in our universities and of men like the Maharajah Dhuleep Singh, — they cannot hold out against the social influences of their own race nor can they impart to it their acquired civilization. Societies must be viewed as a whole, united by the strong bonds of tradition and of lasting and intimate relations among the members. There is a life purpose, unconscious though it be, even in the lowest forms of civilization. This we cannot simply suppress by rough-shod measures, and substitute for it point blank and indiscriminately the purposes and methods of our own civilization. Indeed, we can do no more than, by gradually substituting new economic forces and new social motives, to foster a development in the general direction of our own civilization.

Bearing in mind constantly the path which our own social evolution has traveled, and analyzing the conditions of its development and progress, we shall give attention, first of all, to the creation of a sound economic basis for social life in the colonies. The development of a productive, in place of a purely consumptive, economy, and an assurance of the increasing mobility of all factors in economic life, are the first desiderata. All the higher elements of civilization can be obtained only as the fruit of a wise and perfectly adjusted economic system. The art of Florence arose after medieval humanity had served a long and laborious apprenticeship in industrial life, and the dramas of Shakespeare could not have been written had the nation been living merely from hand to mouth. The most elementary purpose of a civilized colonial policy would therefore seem to be the prevention of the reckless and destructive use of the natural wealth in forests and mines for mere private profit, and the encouragement of settled agricultural and industrial pursuits. The greatest among the American negroes clearly perceives and founds his life-work upon the fact that a race cannot be given a self-sufficing position in civilized life unless it has a sound economic organization, and unless it has trained itself to a productive industry.

Among the essential duties of a civilized state there is none more important than the guaranty to every individual under its rule of

the conditions which make healthy life possible. As long as a state has not solved this elementary problem, as long as periodical famines sweep away large numbers of peasants, or accumulations of filth make residence in the towns a constant danger to health and life, the state or society which permits such conditions cannot be called fully civilized. No efforts should, therefore, be spared in the prevention of plague and famine, the two dark thunder-clouds which overhang backward communities and which relentlessly threaten suffering and destruction. No society, no group of individuals, can attain to a state of self-realization and of true inward freedom, as long as it is under the spell of such sinister powers.

It is, however, not only our duty to free these populations from terrors and dangers inherent in their civilization and surroundings, but to protect them against the even more serious risks which are involved in the meeting of civilizations on different planes of development. These dangers are twofold, — arising from the use of deleterious substances and modes of life, or from the creation of an apparent individual freedom of contract, which, however, usually results in the entire destruction of economic independence. The surest means of protection against these risks lie in a scrupulous maintenance of the native *morale* and social organization; any attempt to deal with natives merely as individuals in the Western sense will, without fail, endanger their independence, their health, and their life. It has been abundantly experienced that when the ordinary members of a backward race are dissociated from the organism to which they belong and are brought into direct contact with a higher society, they will usually lose their native *morale* and add only the dangerous and even vicious sides of the advanced civilization. The only way to protect the individual is to protect the society to which he belongs, and if any improvement of his condition be attempted, it should not involve the weakening of social relations.

To foster the cohesion and self-realization of native societies, while at the same time providing the economic basis for a higher form of organization, — that should be the substructuré of an enlightened colonial policy. We can conceive of no greater crime than the wanton destruction of such societies, for it involves the moral and physical degeneration of their members. This is true of even the lower forms; there is no excuse for destroying the tribal organization; it should be allowed to develop into the higher phases of social life. But when we have to deal with such nations as the Annamites, Burmans, and Chinese, the insensate folly and criminal cruelty of treating their civilization as mere rubbish to be cleared away would seem too apparent to need further emphasis. Such nations should rather be encouraged to take pride in their own historic character, to develop their marvelous inborn artistic talents, and thus to impart to the

general civilization of the world new and rare treasures, than to be treated as unworthy savages fit only for work as beasts of burden and for an apish imitation of European forms.

When we consider the specific basis of a colonial policy with respect to the native races, we shall see that it rests upon a foundation composed of a few simple economic principles. In such an investigation it becomes clear that while Western societies in their contact with the natives of Africa and Asia will be able to accomplish certain useful results, they are, on the other hand, attempting many things which it will be impossible to attain under the present methods. The one indisputable blessing which Western nations are bestowing on primitive races is that of peace. This is the greatest achievement of the European régime in India and in Africa. The terrible intertribal warfare and the bloody raids organized by Arab slave-drivers in Africa have largely been put an end to and have given place to more peaceful ambitions. In connection with this, a civilizing colonial policy will also improve the general conditions of life. The introduction of a scientific medical service and of advanced principles of sanitation is a primary duty of colonial administration. The most fundamental conditions of life being thus assured, it is necessary that mobility of the elements in economic action and free mutual intercourse be made possible by the opening-up of routes connecting the various regions and making them accessible to the populations of one another. The construction of roads and railways is therefore one of the most potent agencies of civilization. In that way alone is the penetration of the methods and products of civilization to the interior regions made possible. In order to provide for improvements such as these as well as to undertake lines of industrial development which surpass the capacity of the natives, it is necessary that capital should be invited to participate in the development of new regions and that such investments should be rendered as safe as possible. The native population should be trained in industrial pursuits as well as in the arts of agriculture so as to utilize the natural resources without exhausting or destroying them. The substitution of intensive methods for the exhaustive barbarian exploitation which is now the rule throughout Africa as well as in other undeveloped regions of the world is the essential purpose of the civilizing policy.

But when we come to the higher elements in civilization, — intellectual culture and religion, — the road is not so plain nor is it at all certain that an attempt directly to influence the more primitive races will at first be successful. In this connection we must again remember that we are dealing not with individuals, but with societies, and that it is impossible to change the complexion, the character, and the *morale* of a society by giving a certain intellectual education

to a few among its members. We have already dwelt upon the fact that civilization can affect the condition of backward societies only by setting in operation economic forces which will gradually modify the social structure. But the attempt to eradicate the intellectual character of these peoples and to substitute for it the complex intellectual and moral culture of Western civilization through the process of instruction, cannot in the nature of things be accompanied with any large measure of success. Psychological characteristics are among the most stable and fixed phenomena of which we have any knowledge. They are undoubtedly subject to modification, but only very gradually in the course of centuries and as a result of radical structural modifications.

The British policy of educating the Hindus according to European methods has failed and has produced lamentable results, because it entirely overlooked the truth that we cannot modify societies by giving them the accessories, even the highest, of another civilization, but only by influencing structural development. As in this case of India, so in general, this can be effected only by changing the economic basis on which the social structure rests. The form of education which will yield the greatest results is technical training, accompanying the actual development of economic life and the growing consciousness of control over natural forces. The political organization that will be most potent in influencing social growth is the city; and through the creation of a true communal life in towns and cities lies the road to the ultimate self-realization of native societies, just as national life in the West is only an expansion and development of the ideals and institutions of the classic and medieval city-state.

A more rapid and direct influence could be looked for should race mixture between Europeans in India and in the tropics become general. Were the conditions in the tropics such that the Europeans could freely intermarry with the native populations the problems we are considering would assume an entirely different aspect, for, as in the white population of the United States, there would come into being a new race. Through the amalgamation of racial characteristics there would arise new beliefs, customs, and ideals, in fact a new philosophy of life and a new intellectual constitution. Though in the past there has been some mixture of European and native blood, and especially the Latin races have shown themselves willing to enter more freely into alliance with dependent races, it still remains true that the results of such racial union have not been of the most encouraging nature. The mixed breeds have at times, as in the case of the mulattoes, shown great excellence of physique and considerable power of mind; in most cases, however, they have appeared rather as degenerate types. They have occupied an unfortunate social

position, being looked down upon and suspected by both of the races from whom they have descended, and becoming the easy prey to vice and to general decadence. At the present time the tendency toward race mixture is less strong than ever before. Races are becoming mutually exclusive, and especially those which consider themselves higher show a strong desire of keeping their blood pure. It is therefore not to be expected that the psychological differences which separate white and colored mankind will be modified by racial mixture.

The side from which the intellectual nature of the non-European races will, perhaps, prove most accessible is that which is connected with the mastery of nature. The people of both Asia and Africa have lived under the overpowering influence of resistless phenomena of nature. The primeval forest world of Africa, the typhoons and floods of the East Indian islands, the famine and pestilence of India, her vast mountains, and the ferocious rivers of China, which bring destruction to millions every few decades, — these are phenomena the like of which the Western world does not know. With us nature is more docile and of greater amenity. It is consequently not a matter of surprise that the forces of nature should have been understood and mastered first by the Western mind. It is through this mastery that the Western peoples can impress other nations most successfully with a sense of their superiority. By relieving the tyranny which nature now exercises in the primitive forests of Africa and in plague-stricken India, Western civilization may become the Prometheus of the nations that are yet in bondage. The mastery of the resources and forces of nature has given us a new conception of life, it has relieved us from the fear of the capricious powers by which primitive man sees himself threatened on all sides. When we look back at the medieval man, whose belief in miracles, amulets, and incantations do not put him at a very great distance from modern barbarians, we feel that our command over natural forces makes a return to the medieval point of view hardly conceivable. As we prepare the more backward races to share in this mastery over nature, they will also have a better understanding of our intellectual life and of our beliefs. The haughtiest Brahman even stops to wonder as he sees the processes of electrical industry and notes the sure grasp with which the forces of nature are made subject to the human will.

“From the ground up” should be the motto of an intelligent colonial policy. Not to attempt to bestow upon the backward races the blessings of a civilization which they cannot understand and which may be a deadly poison in the form in which they are offered, but to work in alliance with the universal forces of social evolution, to battle against the exploitative tendencies which would carry us

back into another age of barbarism more cruel and more difficult to overcome than any former one, and to give to the more primitive societies a secure economic foundation for future progress and development, — these should constitute the elements of a sound colonial policy. If we restrict our efforts to those things which we clearly see can be accomplished, — to the maintenance of peace, the protection of health, the creation of adequate means of communication, and assistance in industrial development; if we set our face firmly against slavery and exhaustive exploitation in all its forms, we may rely upon the working-out of the colonial problem with the same confidence that we place in the mechanism of a complicated electrical motor. But in order to obtain such results patience is most needful. Civilization cannot be transferred as a whole. To deal with intellectual and spiritual matters directly involves such difficult psychological considerations, such incalculable contingencies, that in an effort to develop a constructive colonial policy, it seems wiser to make sure first of the things in which at least a somewhat clearer forecast of results and a somewhat safer calculation of effects can be had, than is the case with impulses and enthusiasms the range of which passes at present the scope of careful analysis. Activities along these lines are by no means to be discouraged, but they fall into a different sphere from that which the legislator and administrator can hope to deal with successfully. One principle seems clear enough, namely, that our moral civilization cannot be propagated by laws, perhaps not even by exhortation, but that the only true civilizing influence is *example freely followed*. Thus the primitive Germans voluntarily chose their Roman neighbors as models for their action, and Japan to-day is of her free will imitating our institutions and methods because she recognizes in them a certain superiority. By setting up models of action and conduct which will be gladly and spontaneously imitated by other races, the Western nations may, indeed, hope to exert a powerful civilizing influence.

It will, therefore, be wise for the colonial legislator not to attempt too much, not to have too ambitious a programme. But if rightly planned, the economic reforms which it is in his power to effect with success, may, like the massive architecture of a cathedral crypt, in time upbear an edifice which will answer larger purposes than those of mere economic welfare and progress.

SHORT PAPER

PROFESSOR ALBERT G. KELLER, of Yale University, presented a short paper to this Section on "The Value of the Study of Colonies from a Sociological Standpoint."

of the world, the age of barbarism, were cruel and more cruel. We must not only give to the more primitive races a foundation for future progress and development, but we must also substitute the elements of a sound colonial policy for our efforts to those things which we chiefly value. We must give attention to the maintenance of peace, the maintenance of adequate means of communication, the maintenance of our own development, if we set our face firmly against the unproductive exploitation in all its forms. We may attempt to grapple with the colonial problem with the same directness which has been the hallmark of a complicated electrical system, or we may, as the patient case more needs, attempt to deal with it as a whole. To deal with international relations, such as the complex and difficult psychopolitical situation of the present, it seems wiser to attempt to deal with it as a whole, at least a somewhat whole.

THE WITCHES

Photogravure from a Painting by Walter MacEwen

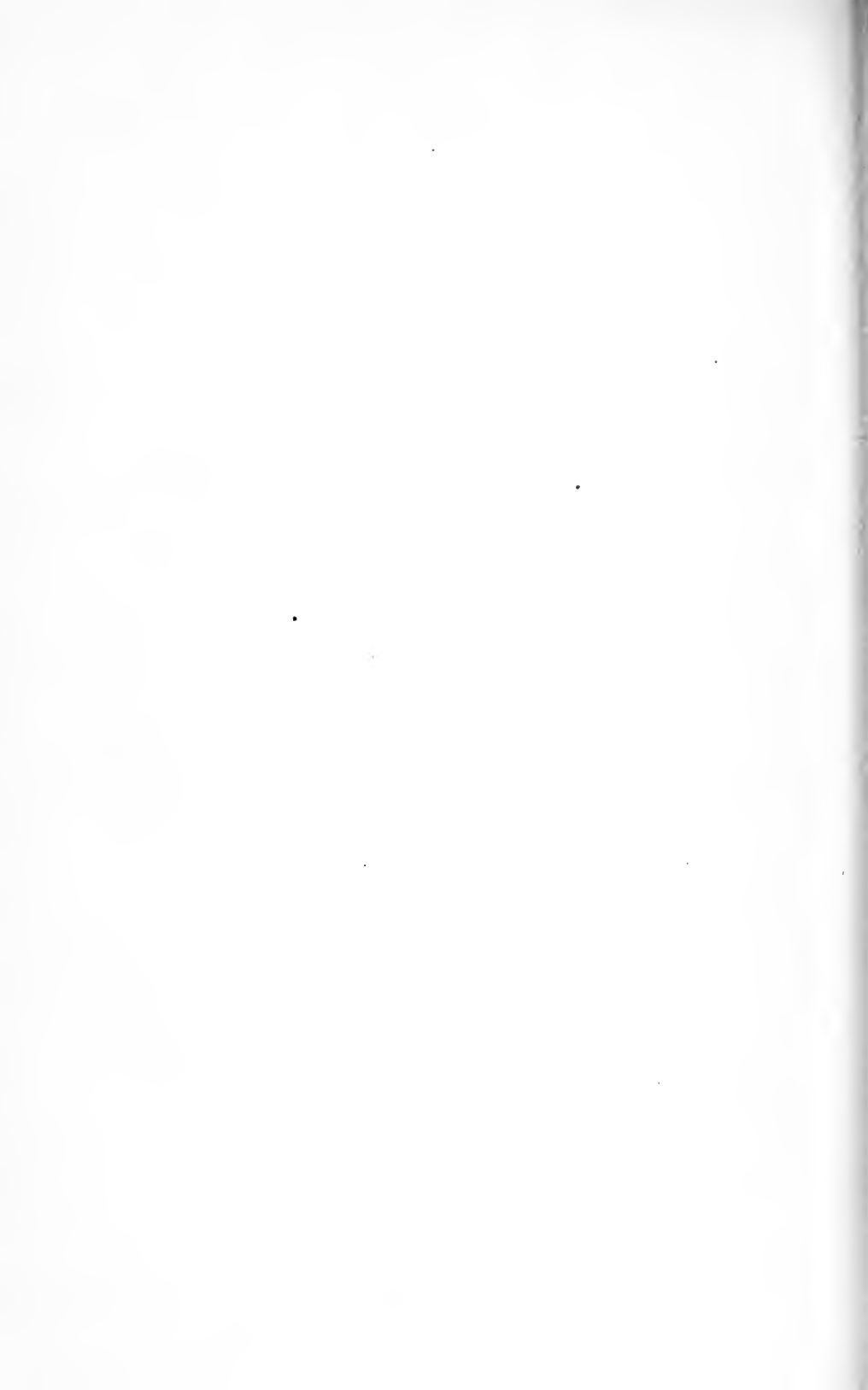
Hawthorne's pen pictures of the superstitions respecting witches that culminated in Salem, Mass., two centuries ago, have been used by MacEwen to objectively impress those of the present age with the savage folly that distinguished some of our ancestors. In the painting as reproduced, a handsome young woman is about to become the victim of a jealous rival, through accusations of alliance with Satanic powers. Some thus falsely charged were burned, so that to fall under suspicion brought terror to victim and friends, a situation which Mr. MacEwen has chosen to make the subject of his famous picture.

The painting is a reproduction of a famous picture by Walter MacEwen. It depicts a young woman, a handsome young woman, who is about to become the victim of a jealous rival, through accusations of alliance with Satanic powers. Some thus falsely charged were burned, so that to fall under suspicion brought terror to victim and friends, a situation which Mr. MacEwen has chosen to make the subject of his famous picture.





SECTION E — MUNICIPAL ADMINISTRATION



SECTION E — MUNICIPAL ADMINISTRATION

(Hall 15, September 24, 3 p. m.)

SPEAKERS: MR. ALBERT SHAW, Editor *American Monthly Review of Reviews*.
MISS JANE ADDAMS, Hull House, Chicago.

SECRETARY: PROFESSOR JOHN A. FAIRLIE, University of Michigan.

RELATIONS OF MUNICIPAL ADMINISTRATION

BY ALBERT SHAW

[Albert Shaw, Editor of *American Monthly Review of Reviews*. b. Shandon, Butler County, Ohio, July 23, 1857. A.B. Iowa College, 1879; A.M. *ibid.* 1882; Ph.D. Johns Hopkins University, 1884; LL.D. University of Wisconsin, 1904; Post-graduate of Johns Hopkins University and universities of Europe. Editor of the *Minneapolis Tribune*. Member of Academy of Political Science, American Statistical Association, American Historical Association, American Forestry Association, and many others. Author of *Icaria, A Chapter in the History of Communism*; *The National Revenue*; *Coöperation in the Northwest*; *Municipal Government in Great Britain*; *Municipal Government in Continental Europe*.]

THE century whose progress this Exposition celebrates has been for nothing else more remarkable than for its creation, not merely in this new world, but also in the old world, of the modern urban community. Speaking broadly, the cities of Great Britain and Germany in their present characteristics are as recent phenomena as the cities of this Louisiana Purchase region itself. Where five million people live under urban conditions as a part of a great community adjacent to New York Harbor, there were not one hundred thousand people when the Louisiana Purchase was consummated. London and Paris were ancient cities, with their splendors of old architecture and their pride of municipal and local tradition. But all that vast and complex development of the metropolis that London and Paris, Berlin and Vienna, have to deal with to-day, is of as late emergence as Buenos Ayres or Chicago. The modern city, whether of cosmopolitan character or merely commercial and industrial, is in all its larger aspects, for political and social purposes, the outgrowth of new conditions which began to make themselves powerfully effective only in the nineteenth century. Those conditions were brought about chiefly by the utilization of steam power for manufacturing and for locomotion. In the economic world the predominant modern factor has been the creation of productive capital. Capital has aggregated itself principally in machines and instruments of transportation. The result has been that we live under material conditions that have become more profoundly transformed since

the days of Napoleon and Jefferson than during any previous ten or twenty centuries of the world's history.

The new economic efficiency resulting from the creation and employment of productive capital has multiplied the population of all civilized countries. It has placed a premium upon intelligence, moreover, and has been the most potent agency in the banishment of popular ignorance. Its inevitable concomitant, moreover, has been the wide diffusion of the means of subsistence and the steady reduction of the domain of poverty.

Not only, however, has the modern system of economic production multiplied population and lifted the people up in the scale of physical well-being, but it has had a most striking and even sensational effect upon the re-grouping of population. It is this re-grouping that has created the modern conditions of industry and of transportation, and that has concentrated the steadily increasing surplus of the population in centers of manufacturing and trade.

The growth of capital and the average increase in wealth have created many new wants, which in turn have been supplied by the products of new forms of trade and industry. And these differentiations have in turn increased the town population and added to the complexity of town life.

The same conditions of industry and transportation which have created our modern cities and multiplied their population have had a striking though not revolutionary effect upon agriculture and the rural industries. They have tended to bring about the opposite condition of a relative sparsity of rural population. This has been due to two principal facts: first, the introduction of machinery, which has made possible the cultivation of a given area of land by a smaller number of people; second, and more important, the new prevalence of extensive, as opposed to intensive, methods in agriculture, as a result of the opening-up of vast areas of new and virgin soil through the construction of railways.

The competition of the new soils, with their access to markets, will continue for some time to come to keep the older lands depressed in value and subject to extensive rather than intensive methods of culture. So long as this condition remains, surplus population will continue to flow from the agricultural to the manufacturing neighborhoods, that is to say, from country to town. These tendencies can be amply illustrated by facts derived from every country within which Occidental civilization prevails. Even here in the states which have been built up upon the soil of the Louisiana Purchase, — in all the older parts of states like Missouri, Iowa, or Minnesota, — the agricultural population has been a fixed or slightly diminishing factor for two or three decades past, while the town population has been increasing by leaps and bounds.

The general statistics showing the growth of urban population in Europe and America are accessible and familiar, and it would be needless to cite them at this point in evidence of a tendency that could not have been different under existing conditions and that cannot be changed for a considerable time yet to come. In the older parts of the United States, as in Great Britain and the more highly developed industrial parts of the Continent of Europe, the urban population already far outnumbers the strictly rural population.

Modern municipal government, which forms the topic of our conference this afternoon, has to deal with a variety of political and social problems that arise from this modern growth and radical re-grouping of population. These problems relate, on the one hand, to forms of organization, — that is, to the framework and method of the machinery of municipal government; and, on the other hand, to the objects and scope of the government of urban communities, that is to say, to the functions, political and social, that pertain to the municipal authority.

During the first half or even three quarters of this century of urban development now under consideration, the typical new industrial community was enormously hampered through the existence of evils that for a long time were not clearly understood to be curable. With the creation of factories and the concentration of industry in towns, rural hamlets were depopulated by the decay of old handicrafts, and a rustic population crowded into towns that were in no manner prepared to receive such accessions.

The results were painful and seemingly disastrous. There was overcrowding to an extent now almost incredible. So unwholesome were the surroundings that epidemics were the rule rather than the exception. Invalidism reduced the economic effectiveness of the workers; the average expectancy of life was very low; infant mortality was so sweeping that only a small percentage escaped; and thus, as a net result, the death-rate of every considerable urban community was to a marked extent higher than the birth-rate, and town life and industrial progress could only be maintained by the influx of surplus population from the country districts for fresh sacrifice on the altar of modern industrialism.

It is true enough that there had been an earlier phase of urban life which had also to some extent produced overcrowding and distress, and intramural life in walled cities in the Middle Ages had been frequently characterized by unwholesome conditions and decimating infections. But in those days the overcrowding in its worst aspects was usually a temporary condition due to war or to disorders which obliged the country folk to seek shelter within fortified walls. Generally speaking, no European countries were very densely populated. The town dwellers were in a very small minority. Epidemics were

regarded as divine visitations. Political economy, social science, and bacteriology had not entered into the vital consciousness of men. And thus the conditions with which municipal activity in our time has been most deeply concerned, were in those periods for the most part disregarded.

There were, to be sure, other aspects in which towns and their life were of much significance. The seaport towns were the centers of maritime trade, and many of them became rich and famous through traffic and merchandise. Witness the Hansa towns, Venice, and many another. Other cities, as centers of governing activity and as capitals of kings or of princes or grand dukes, had distinctions and splendors that have furnished them with a continuity of life very dignified and ennobling. Most or all of the old-time towns had their organizations or guilds of handicraftsmen, these in the aggregate constituting a free citizen or burgher body, which body in turn had secured from the reigning authority a charter or grant of communal privilege and corporate self-direction.

The municipal corporations thus formed almost invariably had their old town halls centrally placed on the market square and of imposing and beautiful civic architecture. The survival of great numbers of these old buildings as centers of a wholly new kind of municipal corporate activity helps not a little to carry the mind in imagination over the chasm that separates medieval from modern ways of life, thought, and action. But, although in the case of many towns there has been unbroken use for several centuries of town halls and other appurtenances of the *Gemeinde*, or organized community, and although also in many cases there has been legally no break in the continuity of the incorporated municipal body, there has in reality come about a change not merely profound, but altogether revolutionary in the characteristics of town life and in the aims and methods of the municipal corporations themselves. It is in this sense that Vienna is new rather than old, and that the thriving urban communities of the Rhine Valley are of as recent development as those in the Mississippi Valley.

For a considerable time, as I have said, after the development of the factory system and the building of railroads had brought us fairly into the midst of present-day conditions, — in which population is everywhere forming in the new urban groups with which we are now concerned, — for a considerable time this re-grouping was regarded even by those who extolled the new agencies of production and the new implements of exchange, as a thing deeply to be deplored by reason of attending ills that seemed beyond remedy. Those ills went farther than the physical maladies that invalidated the workers and crowded the cemeteries. Town life seemed to foster every sort of crime and vice, and to threaten the swift decay of civic

character and private virtue. Thus, looking into the future, one seemed to face the paradox that the very methods which were multiplying wealth, diffusing comfort, gradually shortening hours of brutalizing toil, and promising, theoretically at least, to emancipate and elevate the masses, were so working themselves out in practice as to devitalize and degenerate whole nations through the many-sided and incurable evils under conditions of life prevailing in the densely inhabited centers of new industry. This seeming paradox confused and alarmed many minds until a very recent period.

The paradox disappeared with the great discovery that, after all, the evils of city life cannot only be abated, but so fully removed as to make conditions in populous towns both endurable and advantageous. The remedial measures have been worked out along many lines at the same time, all having to do with the growth of intelligence, the application of science, the improvement of the mechanism of public administration, and last, but not least, the achievements of modern commerce and industry in creating masses of wealth that can be drawn upon in a large way for the common welfare.

The recognition of the possibility of making city life positively desirable has in some places been tardy, and even now the political reformer and the social worker sometimes doubt and sometimes despair; but hope and confidence have everywhere triumphed, the best evidence of which is found in the dazzling array of public improvements and ameliorations of the general welfare that every important urban center of Europe and of America has accomplished within the past fifteen or twenty years. For every serious malady that continues to afflict any given community, the remedy has been discovered and successfully applied in one or another great town elsewhere under analogous conditions.

As respects the application of the different forms of remedy, we must, in a general way, assign the first place to British municipal life. The various phenomena of modern industrialism had an earlier and a more pronounced development in Great Britain than anywhere else. The rapid upbuilding and over-population of factory towns compelled the attention of English and Scotch reformers to the new conditions as requiring public treatment. It might be more logical to take up first the progress that has been made in the application of these remedies, — in other words to discuss the growth of municipal functions. But since I must also speak somewhat of reforms in municipal structure, it may be well to allude first to these questions having to do with the forms of town government.

The reconstruction of English municipal government belongs to the reform period of seventy years ago. It was that same re-grouping of population which had by that time created the factory towns that had compelled the reform of representation in Parliament. The

enfranchisement of the populous new boroughs for parliamentary purposes was attended by inquiries and discussions which showed the necessity of reforming the inner or municipal structure of these new communities. Some of these were without any form whatever of municipal government, while others were subject to serious abuses under outgrown medieval charters, which practically excluded the people themselves from a share in the control of their own local affairs.

The Municipal Government Act of 1835 is the great legal landmark in the development of modern town organization. Its lines were so broad and so simple that its essential features have sufficed for nearly three quarters of a century, and will undoubtedly continue through the new century upon which we have entered. Many old forms and old terms were retained, and the chartered life of the county cities and the medieval boroughs seemed to go on without a shock or a break. Nevertheless, the Municipal Government Act brought new life into the old forms, while it cut off unjust privileges and monopolies, and enlarged the conception of the municipal corporation from a narrow, close, self-perpetuating body to a body made up of all the resident householders and occupiers.

Under this elastic common framework it has been possible from time to time to enlarge the municipal electorate as English life has grown more completely democratic. The central fact in the administration has been and will continue to be the popularly elected municipal council, sitting in one chamber, acting as a board of directors for the conduct of municipal affairs, and carrying on the various departments of executive work under the supervision of standing committees.

Each working department is carried on under the direction of an employed expert head, whose tenure is presumably permanent, and who has in a large measure the authority to appoint and dismiss as well as to direct all the subordinates in his branch of the municipal service. The municipal or town council is a financial as well as an administrative body, and, under parliamentary authority and a certain measure of central supervision, it levies local rates and taxes, contracts interest-bearing loans, and in general carries on the work of municipal administration very much as the directors of a railway company, or of any other large industrial or financial enterprise, carry on the business with which they have been intrusted by the shareholders.

In this British system, the mayor is simply the presiding officer of the municipal council, is selected by the council itself, and is almost invariably one of its oldest members. By way of exception, the administration of the schools falls to a separately elected school board, and the care of the poor in like manner devolves upon a sepa-

rately organized administrative group. In sound logic, there is no important reason why the schools and the department of public relief should not also come under the control of the municipal council, and the oversight of its standing committees. But in both instances there have been reasons of history and tradition for the separate control of these two functions.

Speaking in general, the enormous demands of an expanded and ever-improving municipal life have constantly added to the volume and the variety of the work intrusted to the British municipal councils. Yet these boards of directors have been fully equal to the new tasks imposed upon them, and it will be generally agreed that from the standpoint of the framework or organization of municipal government, the British cities have no serious problems remaining to be solved. As science and the arts of civilized life point out new and better ways to promote the well-being of the people through municipal effort, the British town councils show themselves fully competent to initiate and to administer the new services.

Similar though less acute and less aggravated conditions of urban growth had required municipal reorganization in other countries. Those most important for our present purposes are the municipal codes of France and of Prussia. It was characteristic of the law-giving work of the Napoleonic period that it should have been at once drastic and of uniform and logical character. Making an exception of Paris, — as the English system has made an exception of London, — the French communal and municipal code of the early part of the nineteenth century created a system which was made applicable to the entire territory of France. The central feature of the system was the communal council. The number of members of the council varied in the ratio of population of the communes. As the rural commune grew into the urban community or municipality, its organization became more elaborate, but all upon a sliding-scale plan prescribed in the terms of a universally applicable statute.

In the long struggle between centralized authority on the one hand and the spirit of local self-government on the other, this municipal mechanism has sometimes been administered by the higher authorities through a system of central appointments, quite as bureaucratic as the institutions of Russia itself. At other times, this mechanism has worked with something like English local freedom. In either case, however, its outer forms have changed very little.

The most important thing about this legislation was its scientific character, its thoroughly modern aspect, and its well-nigh incredible achievements in sweeping away the anomalies which had grown up through the centuries. Thus, the Napoleonic administrative laws prepared the way for the municipal growth of the nineteenth

century, and French urban life has, accordingly, developed under orderly forms with a system elastic enough to meet changes, and in accordance with the genius of modern French life.

Prussia was hardly less fortunate in the opening part of the last century in its great administrative reformers, who created a system for provincial, municipal, and local government that in the main has stood the test of time and has served for the exigencies of a wholly unforeseen growth of industry, population, and urban life. Saxony and the other German states, meanwhile, had also provided themselves with reformed systems of municipal and local government, different in details, but in a general way similar to the system of Prussia. Belgium, Spain, Italy, Switzerland, and the Latinic countries in general, followed sooner or later the model of France in shaping for themselves uniform codes of administrative law for the organization of local and municipal corporations. Austria and the eastern part of Europe have more generally followed the German model.

The keynote of the German system is to be found in a very highly organized, well-trained, non-political, permanent civil service. Every department of municipal administration is in the hands of expert functionaries, each man holding his place as a life career. At the head of the municipality is the burgomaster, himself the most highly trained administrative functionary of all. His position is wholly different from that of the non-salaried English citizen, who holds temporarily the honorary rank of Lord Mayor.

In like manner, the headship of the police department, of the legal department, of the education department, and of the various services concerned with the supply of water, the maintenance of the streets, the sewer system, the public cleansing, the administration of the health services, and so on, is vested in a permanent professional expert administrator under whom are many other permanent and specially trained experts, who hold their places for life on condition of efficiency and good behavior.

The burgomaster and the head officials of the principal departments constitute a body known as the council of magistrates. The citizenship of the community is represented in another body known as the *Gemeinderath*, or common council. This council is popularly elected, and is a body of great authority. It sits in one chamber, but is elected upon a plan which recognizes the large taxpayers as entitled to much more consideration than those who pay small taxes. With the development of democracy, these property distinctions will probably be modified and in the course of time they may be abolished.

Meanwhile, however, admission to the trained civil service is open upon merit to the very humblest, and promotion in the civil and municipal services also goes without favor upon merit. The selection

of the burgomaster and of the other chief functionaries, at those rare times when vacancies occur, devolves upon the elected council, which also has general budgetary power and coöperates with the magistrates' council in matters of municipal policy.

The permanence of the municipal service makes it possible to carry on with patience and unbroken effect every sort of public improvement and also renders it comparatively easy to imbue German municipal administration with the spirit of scientific progress. Thus, while from the point of view of French, British, or American democracy, German municipal government is unpopular and reactionary, it is, nevertheless, in the very forefront of progress as respects the application of scientific knowledge to the public services. It is a municipal government whose standards are prescribed by the bacteriologist, the electrical and civil engineer, the sociologist, the financial and legal expert, the trained architect, the botanist, and the man of technical equipment in a hundred different directions.

It is at least open to question whether or not a community may not be regarded as governing itself as truly where its civil service is perfectly organized and dominated by scientific and humane ideas, though its electorate be restricted and non-democratic, as a community which, like those of the United States, throws its electorate open without conditions even to the vagrant, but which denies itself the benefit of a thoroughly efficient and highly enlightened civil service.

The United States is the only country which has not worked out for itself a fairly uniform system of municipal government. There are in this country to-day more varieties, not merely in the details of organization, but in the fundamental features of the framework of municipal government, than in all the countries of Europe taken together, from Scotland to Bulgaria and Greece.

I cannot deny the opinion that it has been unfortunate for the best development of civilized life in American cities that there had not been devised before the middle of the nineteenth century some simple standard system of organization for American municipal corporations. Along with many advantages, our federal system has had some grave disadvantages. To that system undoubtedly must be attributed many of our difficulties in dealing with the city problem, and especially those difficulties that arise from defective legislation.

Our cities are scattered through a large number of states and derive their forms of administration and their various powers from as many legislatures. Some of the states have worked out uniform systems, while others have followed the practice of granting individual charters to each incorporated town or city. Almost every city in the country can show an experience of charter change, revision,

and renewal, so bewildering and so capricious in frequency of repeal and in violence of sudden resort from one device to another, totally different, that it becomes more difficult in many instances to follow the structural changes of government in a moderate-sized American town than to grasp the whole administrative history of municipal corporations for England or for France.

In theory, the municipal corporations are minor divisions or entities of the state, but in many cases their relative importance is so great that they are not held in proper subordination. Under these circumstances the state lacks power to legislate wisely and on stable and permanent lines for its growing and assertive municipalities. On the one hand, the great town disturbs the even tenor of the life of the commonwealth; on the other hand, the rural commonwealth fails to understand the needs of the great town, and attempts in futile and vexatious ways to hamper it and circumscribe its powers.

Thus to meet local or temporary exigencies, rather than to serve the abiding ends of good administration, there is constant meddling with charters and change of method and system. All American cities, however, have some form of an elective municipal council. In a few instances these councils have power almost as complete as in England, in most others much less power, and so on to the vanishing-point. Nearly all American cities have been at one time or another the complete victims of an attempt to separate the so-called legislative from the executive function, in oversight of the fact that practically the whole work of a municipal corporation is administrative, and that the enactment of by-laws is a very minor detail.

Practically everywhere throughout the United States the cities provide themselves with a mayor elected by the whole voting body. In many cities the mayor has very small actual power; in many others he appoints and removes all heads of departments, controls the police system, and runs a sort of periodic autocracy. In many American cities, the different departments of administration are farmed out to boards and commissions. In some places these boards are elected by the people, in others they are appointed by the mayor. In still others they are chosen by the municipal council. Yet more frequently they come into being through ingenious combinations of all these methods.

It is useless to try to generalize, or to attempt, for purposes of description, to work out of all our varying forms some average sort of arrangement that we might call the American system. Yet some creditable attempts have been made in this direction, and a body of excellent theoretical, legal, and practical students of the subject, organized as the National Municipal League, has worked out a so-called model charter, which is having no slight degree of influence upon charter-framers and legislatures, as from year to year they go

on prosecuting this ceaseless American industry of making and un-making municipal charters.

Most municipal reformers in the United States have, however, openly or tacitly agreed to give over for the present all very strenuous attempts to secure their ideals in the matter of charters. They are working, rather, for good practical results under any sort of mechanism, however complicated or arbitrary. They recognize the fact, nevertheless, that the innumerable so-called checks and balances and the baffling division and dispersion of authority, far from preventing misgovernment, afford the wrong-doers their best opportunities.

It has thus far proved impossible to persuade the charter-makers that the safest and best plan is to abolish nine tenths of the machinery and provide a simple, direct way by which cities may exercise self-government as respects the range of power granted them by the state.

The earlier powers to be exercised within municipal limits are those of a negative and purely protective sort. The police authority is everywhere recognized as belonging to the higher sovereignty of the state. It has, however, in nearly all countries been found convenient to turn over to the municipal authorities the organization and control of the police work. An exception has generally been made of the great metropolitan cities, in which the whole state has so much concern, that it makes direct exercise of the police authority, and declines to admit the municipal corporation to any share in the maintenance of public order. In some countries, as in England, police standards and methods are national, while organization and ordinary control are municipal. In such cases there is national inspection, and the higher government pays some part of the cost of maintenance.

In the United States many of the most serious disturbances of municipal life grow out of the difficulty of defining properly the sphere of the police administration, and the further difficulty of securing permanent and non-partisan direction. It is highly important that a sharp distinction be noted between the evils in American municipal life that associate themselves with the conduct of the police department and the other very different problems of municipal government that have to do with the raising and expenditure of the corporate revenue, and the management of water-supply, drainage systems, cleansing services, streets, parks, schools, and various other lines of municipal activity. While it is evident that inefficient or corrupt police administration has a tendency to infect and corrupt other departments, it has often been strikingly true that alongside of scandalously bad police administration there has been found fiscal integrity and efficient management of the health services, the schools, and various public works.

Upon municipal corporations in general, it may be said that the state has devolved not merely the ordinary protection of life and property with which the police department is charged, and such special forms of protection as are illustrated in the fire departments, but also the newer forms of service that relate to the protection of the public health, the older sort of regulation that relates to the preservation of public morals, and the local enforcement of a variety of general statutes. For all these purposes the municipality is in fact the local agent of the state. There is nothing new in the legal or theoretical nature of any of these functions, but there is a vast deal that is new in the manner in which the functions are exercised.

Thus the enormous development of public lighting grows out of the primitive function of the night watchman. The modern development of water-supply is essentially a health protective service. The same thing may be said of the sewer system, the cleansing of the streets, and the removal and disposal of garbage and waste. All these are public functions in the highest sense. In the opinion of most municipal authorities, the question whether or not street-illumination, water-supply, sewers and drainage, street-cleaning, and garbage removal should be exercised as public or as private functions is no longer open to discussion. None of these services can be properly rendered for private profit. They relate too essentially to the public welfare. Fortunately, in all these matters, modern municipal life is making an unexpectedly rapid and fortunate progress, with results that are shown directly in the reduction of death-rates, and indirectly in a score of other ways.

Forty or fifty years ago, as I have already said, epidemics were frequent in most cities of Europe and America. Now they are of rare occurrence. The cholera, at Hamburg, eleven years ago, resulted in making German municipal government more than ever a matter for the bacteriologist and the high sanitary and engineering authorities. The best American cities are advancing to these German and British standards.

Nothing else has such far-reaching importance in the more recent life of cities in Great Britain and Europe, and even more obviously in America, as the physical changes due to electric transit and the upbuilding of suburban zones. Within the past ten years the extent of electric street railways in America has increased many-fold. This movement is doing a hundred times more to relieve the congestion of population in cities and to make possible an effectual dealing with the evils of overcrowding than has been accomplished by the direct application of remedies to slum conditions.

Fifteen or twenty years ago the word "slum" was of constant recurrence in any discussion of the problems of municipal life. Every city, even the small ones, had its area of overcrowding, of

unsanitary conditions, of great infant mortality, of epidemic tendency, of criminal resort, and of degeneracy and decadence. Most people believed that such slum areas were inevitable and could not be wiped out. It was observed that the drastic clearing-out of one slum spot was followed by the rapid creation of another. There has come about, however, a complete change of opinion on this subject. The rapid tide of the better class of families to new and sanitary districts, opened up by trolley lines, is so relieving the pressure upon old residence properties in central districts that demolition can proceed with advantage, and rules against overcrowding can be enforced with good results.

Along with this tendency to annex the suburbs and expand the municipal area are to be observed many hopeful accompanying tendencies. One finds immense progress in the art of street-making. Municipal landscape art, as shown in open squares and in smaller and greater parks, has advanced with magnificent progress since Mr. Olmsted and his associates laid out Central Park in New York. Water-supply, sewers, and all that belongs to the functions of good municipal housekeeping are no longer in doubt. With some mistakes, with some extravagance, and with some reaction, the main victory has, nevertheless, been won all along this line.

The people have grasped the conception of orderliness, beauty, and sanitary safety in town life, and they will work these ideals out without fail in all modern industrial countries where there is prosperity enough to keep the forces of civilization alive and energetic. Thus the opportunities and conditions of the average working-man or mechanic dwelling in our cities have been completely revolutionized within ten or twenty years. The plain man may educate his children in admirable free schools under municipal control. The schools have learned to adapt themselves to the needs of the working-man's family, so that they no longer *unfit* for practical life, but on the contrary contribute to the ability of the boy or the girl to earn a living in his own town, as well as to be a good citizen and an intelligent member of society. The working-man has the best of water, the assurance of good health conditions, admirable opportunities for recreation and instructive amusement, great public libraries and reading-rooms made accessible to him, and a hundred advantages scarcely dreamed of fifty years ago. Thus evil has been turned into good, and where once it was seemingly disastrous for men to be living together under urban conditions in modern industrial communities, it is now, for the great majority, a source of positive and unquestioned advantage.

I am not unduly optimistic. I do not for a moment ignore the many and grave difficulties that beset the work of municipal government and the task of social reform in the industrial centers.

What I hold is that the problems are now defined, the remedies are fairly understood, and the work can progress with good courage. We have, in the United States, made enormous progress since, more than twenty years ago, Mr. Bryce made the studies which are embodied in the chapters of his *American Commonwealth* that relate to our city life. In some respects the very best illustrations of the triumphs and the difficulties of American urban life are afforded by this great city of St. Louis that has grown up as the chief center of the states formed out of the Louisiana Purchase territory. There have been evils and scandals in its municipal governmental career that have of late been widely advertised to the world. I have, on the other hand, known something for years past of other phases of its municipal life, and I must assert that, in the main, it stands not only as a creditable, but as a brilliant, example of modern municipal progress. It has at least managed to make a comfortable and a beautiful dwelling-place for its inhabitants, and to provide for them those facilities that contribute to the safety and enjoyment of life.

Here, as elsewhere in America just now, — as in Chicago, San Francisco, New York, Boston, Philadelphia, and many another city, — the most important phase of municipal life is the struggle for a higher type of civic virtue. This is coming about in the gradual detachment of what we may call “municipal politics” from the domination of the national and the state politics, which have no proper place in the direction of the corporate activities of towns and cities.

In spite of the difficulties that I have mentioned, there is some tendency to improvement in the structure of municipal government. There is almost revolutionary improvement and progress in the application of American prosperity and advanced material civilization to the appointments of town life. Finally, there is also unquestionable progress in the direction of civic honesty. It need not be said that with the massing of population in the urban centers it becomes almost a question of life or death for the state itself that the citizenship of the populous communities be at least of as high a grade and standard, as fit for the exercise of the privileges of democracy, as the citizenship of the rural neighborhoods. But for the rapidity with which we have received and enfranchised masses of non-English-speaking immigrants who have for the most part taken up their homes in our cities, I believe we should already have brought the standards of civic life in our towns up to the average of the country at large. As to the future, I have no doubts at all upon this score.

In British, German, and other European industrial centers, the greatest difficulties that now have to be faced grow out of the pov-

erty and degradation of a considerable percentage of the urban population. The remedies for this condition are not exclusively in the hands of municipal authorities. They must be worked out with the progress of economic conditions, and the gradual diffusion of realized wealth.

From the standpoint of the social and political philosopher, as well as of the political economist, it must never be forgotten that the modern city is the creation of those very industrial conditions that have created the whole mass of modern wealth, that have elevated the standards of life, and that are certainly destined in their turn to improve and finally to transform the cities which their own instrumentalities have created.

PROBLEMS OF MUNICIPAL ADMINISTRATION

BY JANE ADDAMS

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WE are accustomed to say that the machinery of government incorporated in the charters of the early American cities, as in the federal and state constitutions, was worked out by men who were strongly under the influence of the historians and doctrinaires of the eighteenth century. The most significant representative of these men is Thomas Jefferson, whose foresight and genius we are here to commemorate, and their most telling phrase is the familiar opening that "all men are created free and equal."

We are only now, however, beginning to suspect that the present admitted failure in municipal administration, the so-called "shame of American cities," may be largely due to the inadequacy of those eighteenth-century ideals, with the breakdown of the machinery which they provided, and, further, to the weakness inherent in the historic and doctrinaire method when it attempts to deal with growing and human institutions.

These men were the legitimate successors of the seventeenth-century Puritans in their devotion to pure principle, but they had read poets and philosophers unknown to the Pilgrim fathers, and represented that first type of humanitarian who loves the people without really knowing them, which is by no means an impossible achievement. "The love of those whom a man does not know is quite as elemental a sentiment as the love of those whom a man does know," but with this difference, that he expects the people whom he does not know to forswear altogether the right of going their own way, and to be convinced of the beauty and value of his way.

Because their idealism was of the type that is afraid of experience, these founders of our American cities refused to look at the difficulties and blunders which a self-governing people was sure to encounter, and insisted that the people would walk only in the paths of justice and righteousness. It was inevitable, therefore, that they should have remained quite untouched by that worldly wisdom which counsels us to know life as it is, and by that very modern belief that, if the world is ever right at all, it must go right in its own way.

A man of this generation easily discerns the crudeness of that eighteenth-century conception of essentially unprogressive human nature, in all the empty dignity of its "inborn rights of man," because he has grown familiar with a more passionate human creed, with the modern evolutionary conception of the slowly advancing race whose rights are not "inalienable," but are hard won in the tragic processes of civilization. Were self-government to be inaugurated by the advanced men of the present moment, as the founders were doubtless the advanced men of their time, they would make the most careful research into those early organizations of village communities, folkmotes, and *mirs*, those primary cells of both social and political organization where the people knew no difference between the two, but quite simply met to consider in common discussion all that concerned their common life. They would investigate the craft guilds and *artels*, which combined government with daily occupation, as did the self-governing university and free town. They would seek for the connection between the liberty-loving medieval city and its free creative architecture, that most social of all the arts.

But our eighteenth-century idealists, unconscious of the compulsions of origins and of the fact that self-government had an origin of its own, timidly took the English law as their prototype, "whose very root is in the relation between sovereign and subject, between lawmaker and those whom the law restrains," and which has traditionally concerned itself more with the guarding of prerogative and with the rights of property than with the spontaneous life of the people. They serenely incorporated laws and survivals which registered the successful struggle of the barons against the aggression of the sovereign, although the new country lacked both nobles and kings. Misled by the name of government, they founded their new cities by an involuntary reference to a lower social state than that which they actually saw about them. They depended upon penalties, coercion, compulsion, and remnants of military codes to hold the community together; and it may be possible to trace much of the maladministration of our cities to these survivals, to the fact that our early democracy was a moral romanticism, rather than a well-grounded belief in social capacity and in the efficiency of the popular will.

It has further happened that, as the machinery, groaning under the pressure of the new social demand put upon it, has broken down from time to time, we have mended it by giving more power to administrative officers, distrusting still further the will of the people. We are willing to cut off the dislocated part, or tighten the gearing, but we are afraid to substitute a machine of newer invention and greater capacity.

A little examination will easily show that, in spite of the fine phrases of the founders, the government became an entity by itself away from the daily life of the people; not meant to be set off against them with power to oppress, as in the case of the traditional European governments, but simply because its machinery was so largely copied from the historic governments which did distrust the people, that it failed to provide the vehicle for a vital and genuinely organized expression of the popular will. The founders carefully defined what was germane to government and that which was quite outside its realm; whereas the very crux of local self-government, as has been well said, is involved in the "right locally to determine the scope of the local government," in response to the local needs as they arise.

They were anxious to keep the strings in the hands of the good and professedly public-spirited, because, having staked so much upon the people, whom they really knew so little, they became eager that they should appear well, and should not be given enough power to enable them to betray their weaknesses; as a kind lady may permit herself to give a tramp five cents, believing that, although he may spend it for drink, he cannot get very drunk upon so small a sum.

All might have gone well upon this doctrinaire plan, as it still does in many country places, if there had not been a phenomenally rapid growth in cities upon an entirely changed basis. Multitudes of men were suddenly brought together in response to the nineteenth-century concentration of industry and commerce — a purely impersonal tie; whereas the eighteenth-century city attracted the country people in response to the more normal and slowly formed ties of domestic service, family affection, and apprenticeship. Added to this unprecedented growth from industrial causes, we have in American cities multitudes of immigrants coming in successive migrations, often breaking social ties which are as old as the human family, and renouncing customs which may be traced to the habits of primitive man. Both the country-bred and immigrant city-dwellers would be ready to adapt themselves to a new and vigorous civic life founded upon a synthesis of their social needs, but the framers of our carefully prepared city charters did not provide for this expanding demand at the points of congestion. They did not foresee that after the universal franchise has once been granted, social needs and ideals are bound to enter in as legitimate objects of political action; while, on the other hand, the only people in a democracy who can legitimately become the objects of repressive government are those who are too underdeveloped to use the franchise, or those who have forfeited their right to full citizenship. We have, therefore, a municipal administration in America which is largely reduced

to the administration of restrictive measures. The people who come most directly in contact with its executive officials, who are the legitimate objects of its control, are the vicious, who need to be repressed; the poor and semi-dependent, who appeal to it in their dire need; or, from quite the reverse reason, those who are trying to avoid an undue taxation, resenting the fact that they should be made to support that which, from the nature of the case, is too barren to excite their real enthusiasm.

The instinctive protest against this mechanical method of civic control, with the lack of adjustment between the natural democratic impulse and the fixed external condition, inevitably produces the indifferent citizen and the so-called "professional politician;" the first who, because he is not vicious, feels that the real processes of government do not concern him, and wishes only to be let alone; and the other who easily adapts himself to an illegal avoidance of the external fixed conditions by assuming that those conditions have been settled by doctrinaires who did not in the least understand the people, while he, the politician, makes his appeal beyond those to the real desires of the people themselves. He is thus not only the "people's friend," but their interpreter. It is interesting to note how often simple people refer to "them," meaning the good and great who govern but do not understand, and to "him," meaning the alderman who represents them in these incomprehensible halls of state, as an ambassador to a foreign country to whose borders they could not possibly penetrate and whose language they do not speak.

In addition to this difficulty, inherent in the difference between the traditional and actual situation, is another, which constantly arises on the purely administrative side. The traditional governments which the founders had copied, in proceeding to define the vicious by fixed standards from the good, and then to legislate against them, had enforced these restrictive measures by trained officials, usually with a military background. In a democracy, however, the officers intrusted with the enforcement of this restrictive legislation, if not actually elected by the people themselves, are still the appointments of those thus elected, and are therefore good-natured men who have made friends by their kindness and social qualities.

The carrying-out of repressive legislation, the remnant of a military state of society, is, in a democracy, at last put into the hands of men who have attained office because of political "pull," and the repressive measures must be enforced by those sympathizing with and belonging to the people against whom the measures operate. This anomalous situation produces almost inevitably one result: that the police authorities themselves are turned into allies of vice

and crime, as may be illustrated from almost any of the large American cities, in the relation existing between the police force and the gambling and other illicit life. The officers are often flatly told that the enforcement of an ordinance which the better element of the city has insisted upon passing is impossible; that they are only expected to control the robbery and crime that so often associate themselves with vice. As Mr. Wilcox has pointed out in *The American City*, public sentiment itself assumes a certain hypocrisy, and in the end we have "the abnormal conditions which are created when vice is protected by the authorities;" in the very worst cases there develops a sort of municipal blackmail in which the administration itself profits by the violation of law. The officer is thoroughly confused by the human element in the situation, and his very kindness and human understanding are that which leads to his downfall.

There is no doubt that the reasonableness of keeping the saloons in lower New York open on Sunday was apparent to the policemen on the East Side force long before it dawned upon the reform administration, and yet that the policemen were allowed to connive at law-breaking was the cause of their corruption and downfall.

In order to meet this situation, there is almost inevitably developed a politician of the corrupt type so familiar in American cities, who has become successful because he has made friends with the vicious. The semi-criminal, who are constantly brought in contact with administrative government, are naturally much interested in its operations, and, having much at stake, as a matter of course attend the primaries and all the other election processes which so quickly bore the good citizen whose interest in them is a self-imposed duty. To illustrate: It is a matter of much moment to a gambler whether there is to be a "wide-open town" or not; it means the success or failure of his business; it involves not only the pleasure, but the livelihood, of all his friends. He naturally attends to the election of the alderman, and to the appointment and retention of the policeman; he is found at the caucus "every time," and would be much amused if he were praised for the performance of his civic duty. But because he and the others who are concerned in semi-illicit business do attend the primaries, the corrupt politician is nominated over and over again.

As this type of politician is successful from his alliance with crime, there also inevitably arises from time to time a so-called reformer, who is shocked to discover this state of affairs, this easy partnership between vice and administrative government. He dramatically uncovers the situation, and arouses great indignation against it on the part of the good citizen. If this indignation is enough, he creates a political fervor which constitutes a claim upon public gratitude. In portraying the evil he is fighting, he does not recog-

nize, or at least does not make clear, all the human kindness upon which it has grown. In his speeches he inevitably offends a popular audience, who know that the political evil exists in all degrees and forms of human weakness, but who also know that these evils are by no means always hideous. They resent his overdrawn pictures of vice and of the life of the vicious; their sense of fair play and their deep-rooted desire for charity and justice are all outraged.

If I may illustrate from a personal experience: Some years ago a famous New York reformer came to Chicago to tell us of his phenomenal success and his trenchant methods of dealing with the city "gambling-hells," as he chose to call them. He proceeded to describe the criminals of lower New York in terms and phrases which struck at least one of his auditors as sheer blasphemy against our common human nature. I thought of the criminals whom I knew, of the gambler for whom each Saturday I regularly collected his weekly wage of \$24, keeping \$18 for his wife and children, and giving him \$6 on Monday morning. His despairing statement, "The thing is growing on me, and I can never give it up," was the cry of a man who, through much tribulation, had at least kept the loyal intention. I recalled three girls who had come to me with a paltry sum of money collected from the pawn and sale of their tawdry finery, that one of their number might be spared a death in the almshouse and have that wretched comfort during the closing weeks of her outcast life. I recalled the first murderer whom I had ever known, — a young man who was singing his baby to sleep, and stopped to lay it in its cradle before he rushed downstairs into his father's saloon, to scatter the gang of boys who were teasing the old man by giving him orders in English which he could not understand, and refusing to pay for the drinks which they had consumed, but technically had not ordered.

For one short moment I saw the situation from the point of view of humbler people, who sin often through weakness and passion, but seldom through hardness of heart; and I felt that such sweeping condemnations and conclusions as the speaker was pouring forth could never be accounted for righteousness in a democratic community.

The policeman who makes terms with vice, and almost inevitably slides into making gain from vice, merely represents the type of politician who is living off the weakness of his fellows, as the over-zealous reformer, who exaggerates vice until the public is scared and awestruck, represents the type of politician who is living off the timidity of his fellows. With the lack of civic machinery for simple democratic expression, for a direct dealing with human nature as it is, we seem doomed to one type or the other — corruptionists or anti-crime committees. And one sort or the other we shall continue to have so long as we distrust the very energy of existence, the

craving for enjoyment, the pushing of vital forces, the very right of every citizen to be what he is, without pretense or assumption of virtues which he does not really admire himself, but which he imagines to have been set up as a standard somewhere else by the virtuous whom he does not know. That old Frankenstein, that ideal man of the eighteenth century, is still haunting us, although he never existed save in the brain of the doctrinaire.

This dramatic and feverish triumph of the self-seeker, see-sawing with that of the interested reformer, does more than anything else, perhaps, to keep the American citizen away from the ideals of genuine evolutionary democracy. Whereas repressive government, from the nature of the case, has to do with the wicked, who are happily always in a minority in the community, a normal government would have to do with the great majority of the population in their normal relations to each other.

After all, the daring of the so-called "slum politician," when he ventures his success upon an appeal to human sentiment and generosity, has something fine about it. It often results in an alliance of the popular politician with the least desirable type of trade-unionist as the reformer who stands for an honest business administration becomes allied with the type of business man whose chief concern it is to guard his treasure and to prevent a rise in taxation.

May I use, in illustration of the last two statements, the great strike in the Chicago Stock Yards, which occurred a few weeks ago? The immediate object of the strike was the protection of the wages of the unskilled men from a cut of one cent per hour, although of course the unions of skilled men felt that this first invasion of the wages, increased through the efforts of the unions, would be but the entering-wedge of an attempt to cut wages in all the trades represented in the Stock Yards. Owing to the refusal on the part of the unions to accept the arbitration very tardily offered by the packers, and to their failure to carry out the terms of the contract which they made ten days later, the strike in its early stages completely lost the sympathy of that large part of the public dominated by ideals of business honor and fair dealing, and of that growing body of organized labor which is steadily advancing in a regard for the validity of the contract and cherishing the hope that in time the trades-unions may universally attain an accredited business standing.

The leaders, after the first ten days, were therefore forced to make the most of the purely human appeal which lay in the situation itself, that thirty thousand men, including the allied trades, were losing weeks of wages and savings, with a possible chance of the destruction of their unions, on behalf of the unskilled, the newly arrived Poles and Lithuanians who had not yet learned to look out

for themselves. Owing to the irregular and limited hours of work — a condition quite like that prevailing on the London Docks before the great strike of the dockers — the weekly wage of these unskilled men was exceptionally low, and the plea was based almost wholly upon the duty of the strong to the weak. A chivalric call was issued that the standard of life might be raised to that designated as American, and that this mass of unskilled men might secure an education for their children. Of course, no other appeal could have been so strong as this purely human one, which united for weeks thousands of men of a score of nationalities into that solidarity which comes only through a self-sacrificing devotion to an absorbing cause.

The strike involved much suffering and many unforeseen complications. At the end of eight weeks the union leaders made the best terms possible, which, though the skilled workers were guaranteed against reduction in wages, made no provision for the unskilled, in whose behalf the strike had been at first undertaken. Although the hard-pressed union leaders were willing to make this concession, the local politicians in the mean while had seen the great value of the human sentiment, which bases its appeal on the need of the "under dog," and which had successfully united this mass of skilled men into a new comradeship with those whom they had lately learned to call compatriots. It was infinitely more valuable than any merely political cry, and the fact that the final terms of settlement were submitted to a referendum vote at once gave the local politicians a chance to avail themselves of this big, loosely defined sympathy. They did this in so dramatic a manner that they almost succeeded, solely upon that appeal, in taking the strike out of the hands of the legitimate officers and using it to further their own political ends.

The situation would have been a typical one, exemplifying the real aim of popular government, with its concern for primitive needs, forced to seek expression outside of the organized channels of government, if the militia could have been called in to support the situation, and thus have placed government even more dramatically on the side of the opposition. The comparative lack of violence on the part of the striking workmen gave no chance for the bringing in of the militia, much to the disappointment of the politicians, who, of course, would have been glad to have put the odium of this traditional opposition of government to the wishes of the people, which has always been dramatically embodied in the soldier, upon the political party dominating the state but not the city. It would have given the city politician an excellent opportunity to show the concern of himself and his party for the real people, as over against the attitude of the party dominating the state. But because the militia were not called his scheme fell through, and the legitimate

strike leaders, who, although they passed through much tribulation because of the political interference, did not eventually lose control.

The situation in the Chicago Stock Yards is an excellent epitome of the fact that government so often finds itself, not only in opposition to the expressed will of the people making the demand at the moment, but apparently against the best instincts of the mass of the citizens as a whole.

For years the city administrations, one after another, have protected the money interests invested in the Stock Yards, so that none of the sanitary ordinances have ever been properly enforced, until the sickening stench and the scum on the branch of the river known as "Bubbly Creek" at times make that section of the city unendurable. The smoke ordinances are openly ignored, nor did the city meat inspector ever seriously interfere with business, as a recent civil-service investigation has demonstrated, while the water-steals for which the Stock Yards finally became notorious must have been more or less known to certain officials. But all of this merely corrupted a limited number of inspectors, and although their corruption was complete and involved the entire administration, it did not actually touch large numbers of people. During the recent strike, however, twelve hundred policemen were called upon to patrol the yards inside and out — actual men possessed of human sensibilities. There is no doubt that the police inspector of the district thoroughly represented the alliance of the city hall and the business interests, and that he did not mean to discover anything which was derogatory to the packers, nor to embarrass them in any way during the conduct of the strike. But these twelve hundred men themselves were called upon to face a very peculiar situation because of the type of men and women who formed the bulk of the strike-breakers, and because in the first weeks of the strike these men and women were kept constantly inside the yards during day and night. In order to hold them there at all, discipline outside the working hours was thoroughly relaxed, and the policemen in charge of the yards, while there ostensibly to enforce law and order, were obliged every night to connive at prize-fighting, at open gambling, and at the most flagrant disregard of decency. They were there, not to enforce law and order as it defines itself in the minds of the bulk of healthy-minded citizens, but only to keep the strikers from molesting the non-union workers, which was certainly commendable, but, after all, only part of their real duty. They were shocked by the law-breaking which they were ordered to protect, and much drawn in sympathy to those whom they were supposed to regard as public enemies.

An investigator who interviewed one hundred policemen found only one who did not frankly extol the restraint of the strikers as over against the laxity of the imported men. This, of course, was

an extreme case, brought about by the unusual and peculiar type of the imported strike-breakers, of which there is much trustworthy evidence, incorporated in affidavits submitted to the mayor of Chicago.

It was hard for a patriot not to feel jealous of the trades-unions and of the enthusiasm of those newly arrived citizens. They poured out their gratitude and affection upon this first big, friendly force which had offered them help in their desperate struggle in a new world. This devotion, this comradeship and fine *esprit de corps*, should have been won by the government itself from these scared and untrained citizens. The union was that which had concerned itself with real life, shelter, a chance to work, and bread for their children. It had come to them in a language they could understand, and through men with interests akin to their own, and it gave them their first chance to express themselves through a democratic vote, to register by a ballot their real opinion upon a very important matter.

They used the referendum vote, the latest and perhaps most clever device of democratic government, and yet they were using it to decide a question which the government presupposed to be quite outside its realm. When they left the old country, the government of America held their deepest hopes and represented that which they believed would obtain for them an opportunity for that fullness of life which had been denied them in the lands of oppressive government.

It is a curious commentary on the fact that we have not yet attained self-government, when the real and legitimate objects of men's desires must still be incorporated in those voluntary groups, for which the government, when it does its best, can afford only protection from interference. As the religious revivalist looks with longing upon the fervor of a single-tax meeting, and as the orthodox Jew sees his son staying away from Yom Kippur, but to pour all his religious fervor, his precious zeal for righteousness which has been gathered through the centuries, into the Socialist Labor party, so a patriot finds himself exclaiming, like Browning's Andrea del Sarto: "Ah, but what do they, what do they, to please you more?"

So timid are American cities in dealing with this perfectly reasonable subject of wages in its relation to municipal employees that when they do prescribe a minimum wage for city contract work, they allow it to fall into the hands of the petty politician and to become part of a political game, making no effort to give it a dignified treatment in relation to cost of living and to margin of leisure. In this the English cities have anticipated us, both as to time and legitimate procedure. Have Americans formed a sort of "impe-

rialism of virtue," holding on to the preconceived ideas of self-government, and insisting that they must fit all the people who come to our shores, even although we crush the most promising bits of self-government and self-expression in the process? Is the American's attitude toward self-government like that of his British cousin toward Anglo-Saxon civilization, save that he goes forth to rule all the nations of the earth by one pattern whether it fits or not, while we sit at home and bid them to rule themselves by one set pattern? — both of us many times ruining the most precious experiments which embody ages of travail and experience.

In the midst of the city, which at moments seems to stand only for the triumph of the strongest, the successful exploitation of the weak, the ruthlessness and hidden crime which follow in the wake of the struggle for mere existence on its lowest terms, there come daily accretions of simple people, who carry in their hearts the desire for mere goodness, who regularly deplete their scanty livelihood in response to a primitive pity, and who, independently of the religions which they have professed, of the wrongs which they have suffered, or of the fixed morality which they have been taught, have an unquenchable desire that charity and simple justice shall regulate men's relations.

This disinterestedness, although as yet an intangible ideal, is taking hold of men's hopes and imaginations in every direction. Even now we only dimly comprehend the strength and irresistible power of those "universal and imperious ideals which are formed in the depths of anonymous life," and which the people insist shall come to realization, not because they have been tested by logic or history, but because the mass of men are eager that they should be tried, should be made a living experience in time and in reality.

In this country it seems to be only the politician at the bottom, the man nearest the people, who understands this. He often plays upon it and betrays it, but at least he knows it is there.

This is perhaps easily explained, for, after all, the man in this century who realizes human equality is not he who repeats the formula of the eighteenth century, but he who has learned, if I may quote again from Mr. Wilcox, that the "idea of equality is an outgrowth of man's primary relations in nature. Birth, growth, nutrition, reproduction, death, are the great levelers that remind us of the essential equality of human life. It is with the guaranty of equal opportunities to play our parts well in these primary processes that government is actually concerned," and not merely in the repression of the vicious nor in guarding the rights of property. There is no doubt that the rapid growth of the Socialist party in all crowded centers is largely due to their recognition of those primary needs and experiences which the well-established governments so

stupidly ignore, and also to the fact that they are preaching industrial government to an industrial age which recognizes it as vital and adapted to its needs. All of that devotion, all of that speculative philosophy concerning the real issues of life could, of course, easily be turned into a passion for self-government and the development of the national life, if we were really democratic from the modern evolutionary standpoint, and did we but hold our town meetings upon topics that most concern us.

In point of fact, government ignores industrial questions as the traditional ostrich hides his head in the sand, for no great strike is without its political significance, nor without the attempt of political interference, quite as none of the mammoth business combinations of manufacturers or distributors are without their lobbyists in the city council, unless they are fortunate enough to own aldermen outright. It is merely a question as to whether industry in relation to government is to be discussed as a matter of popular interest and concern at the moment when that relation might be modified and controlled, or whether we prefer to wait a decade and to read about it later in the magazines, horrified that such interference of business with government should have taken place.

Again we see the doctrinaire of the eighteenth century preferring to hold to his theory of government and ignoring the facts, as over against the open-minded scientist of the present day who would scorn to ignore facts because they might disturb his theory.

The two points at which government is developing most rapidly at the present moment are naturally the two in which it genuinely exercises its function, — in relation to the vicious and in relation to the poor and dependent.

The juvenile courts which the large cities are inaugurating are supplied with probation officers, whose duty it is to encourage the wavering virtues of the wayward boy, and to keep him out of the police courts with their consequent penal institutions, — a real recognition of social obligation. In one of the most successful of these courts, that of Denver, the judge, who can point to a remarkable record with the bad boys of the city, plays a veritable game with them against the police force, he and the boys undertaking to be "good" without the help of repression, and in spite of the machinations of the police. For instance, if the boys who have been sentenced to the State Reform School at Golden deliver themselves without the aid of the sheriff, whose duty it is to take them there, they not only vindicate their manliness and readiness "to take their medicine," but they beat the sheriff, who belongs to the penal machinery, out of his five-dollar fee, over which fact they openly triumph. A simple example, perhaps, but significant of the attitude of the well-intentioned toward repression government.

As the juvenile courts are beginning to take an interest in the social life of the child, in order to prevent arrest, on the same principle the reform schools are inaugurating the most advanced education in agriculture and manual arts. A bewildered foreign parent comes from time to time to Hull House, asking that his boy be sent to a school to learn farming, basing his request upon the fact that his neighbor's boy has been sent to "a nice green country place." It is carefully explained that the neighbor's boy was bad, and was arrested and sent away because of his badness, and it is quite possible sometimes to make clear to the man that the city assumes that he is looking out for himself and taking care of his own boy; but it ought to be further possible to make him see that, if he feels that his son needs the education of a farm school, it lies with him to agitate the subject and to vote for the candidate who will secure such schools. He might well look amazed, were this advice tendered him, for these questions have never been presented to him to vote upon. Because he does not easily discuss the tariff, or other remote subjects, which the political parties present to him from time to time, we assume that he is not to be trusted to vote on the education of his child; and in Chicago, at least, the school board is not elective. The ancestors of this same immigrant, from the days of bows and arrows, doubtless taught their children those activities which seemed valuable to them.

Again, we build enormous city hospitals and almshouses for the defective and dependent, but for that great mass of people just beyond the line from which they are constantly recruited we do practically nothing. We are afraid of the notion of governmental function which would minister to the primitive needs of the mass of people, although we are quite ready to care for him whom misfortune or disease has made the exception. It is really the rank and file, the average citizen, who is ignored by government, while he works out his real problems through other agencies, and is scolded for staying at home on election day.

It is comparatively easy to understand the punitive point of view, which seeks to suppress, or the philanthropic, which seeks to palliate; but it is much more difficult to formulate that city government which is adapted to our present normal living. As over against the survival of the first two, excellent and necessary as they are, we have the many municipal activities of which Mr. Shaw has told us, but we have attained them surreptitiously, as it were, by means of appointed commissions, through boards of health endowed with exceptional powers, or through the energy of a mayor who has pushed his executive function beyond the charter limit. The people themselves have not voted on these measures, and they have lost both the education and the nourishing of the democratic

ideal, which their free discussion would have secured and to which they were more entitled than to the benefits themselves.

In the department of social economy in this Exposition is an enormous copy of Charles Booth's monumental survey of the standard of living for the people of London. From his accompanying twelve volumes may be deduced the occupations of the people, with their real wages, their family budget, their culture-level, and to a certain extent their recreations and spiritual life. If one gives one's self over to a moment of musing on this mass of information, so huge and so accurate, one is almost instinctively aware that any radical changes, so much needed in the blackest and the bluest districts, must largely come from forces outside the life of the people: enlarged mental life from the educationalist, increased wages from the business interests, alleviation of suffering from the philanthropists. What vehicle of correction is provided for the people themselves? What broad basis has been laid for modification of their most genuine and pressing needs through their own initiative? What device has been invented for conserving, in the interests of the nation, that kindness and mutual aid which is the marvel of all charity workers who know the poor? So conservative an economist as Marshall has pointed out that, in the fear of crushing "individual initiative," we every year allow to go to waste untold capacity, talent, and even genius, among the children of the poor, whose parents are unable to shelter them from premature labor; or among the adults, whose vital force is exhausted long before the allotted span of life. We distrust the instinct to shelter and care for them, although it is as old and as much at the foundation of human progress as is individual initiative itself.

The traditional government of East London expresses its activity in keeping the streets clean, and the district lighted and policed. It is only during the last quarter of the century that the London County Council has erected decent houses, public baths, and many other devices for the purer social life of the people; while American cities have gone no farther, although they presumably started at workingmen's representation a hundred years ago, so completely were the founders misled by the name of government, and the temptation to substitute the form of political democracy for real self-government, dealing with advancing social ideals. Even now London has twenty-eight borough councils in addition to the London County Council itself, and fifteen hundred direct representatives of the people, as over against seventy in Chicago, with a population one half as large. Paris has twenty mayors with corresponding machinery for local government, as over against New York's concentration in one huge city hall, too often corrupt.

In Germany, as the municipal and social-economic exhibits of

this Exposition so magnificently show, the government has come to concern itself with the primitive essential needs of its working-people. In their behalf the government has forced industry, in the person of the large manufacturers, to make an alliance with it, and they are taxed for accident insurance of working-men, for old-age pensions, and for sick benefits; indeed, a project is being formed in which they shall bear the large share of insurance against non-employment, when it has been made clear that non-employment is the result of financial crisis brought about through the maladministration of finance. And yet industry in Germany has flourished, and this control on behalf of the normal working-man, as he faces life in the pursuit of his daily vocation, has apparently not checked its systematic growth nor limited its place in the world's market.

Almost every Sunday, in the Italian quarter in which I live, various mutual benefit societies march with fife and drum and with a brave showing of banners, celebrating their achievement in having surrounded themselves by at least a thin wall of protection against disaster, setting up their mutual good will against the day of misfortune. These parades have all the emblems of patriotism; indeed, the associations represent the core of patriotism — brothers standing by each other against hostile forces from without. I assure you that no Fourth of July celebration, no rejoicing over the birth of an heir to the Italian throne, equals in heartiness and sincerity these simple celebrations. Again, one longs to pour into the government of their adopted country all this affection and zeal, this real patriotism.

Germany affords, perhaps, the best example of this concern of government for the affairs of the daily living of its wage-earners, although Belgium and France, with their combination of state savings-banks, with life-insurance and building-associations, backed by the state, afford a close second in ingenuity and success. All this would be impossible in America, because it would be hotly resented by the American business man, who will not brook any governmental interference in industrial affairs. Is this due to the inherited instinct that government is naturally oppressive, and that its inroads must be checked? Are we in America retaining this tradition, while Europe is gradually evolving governments logically fitted to cope with the industrial situation?

Did the founders cling too hard to that which they had won through persecution, hardship, and finally through a war of revolution? Did these doctrines seem so precious to them that they were determined to tie men up to them as long as possible, and allow them no chance to go on to new devices of government, lest they slight these that had been so hardily won? Did they estimate, not

too highly, but by too exclusive a valuation, that which they had secured through the shedding of blood?

Man has ever overestimated the spoils of war and tended to lose his sense of proportion in regard to their value. He has ever surrounded them with a glamour beyond their deserts. This is quite harmless when the booty is an enemy's sword hung over a household fire, or a battered flag decorating a city hall; but when the spoil of war is an idea which is bound on the forehead of the victor till it cramps his growth, a theory which he cherishes in his bosom until it grows so large and so near that it afflicts its possessor with a sort of disease of responsibility for its preservation, it may easily overshadow the very people for whose cause the warrior issued forth.

We have not yet apprehended what the scientists call "the doctrine of the unspecialized," what the religious man calls "the counsel of imperfection," and the wise educator calls "the wisdom of the little child." If successful struggle ends in survival, in blatant and tangible success, and, as it is popularly supposed to do, in a certain hardness of heart, with an invincible desire to cling fast to the booty which has been thus hardy acquired, government will also have to reckon with the many who have been beaten in this struggle, with the effect upon them of the contest and the defeat; for, after all, they will always represent the majority of citizens, and it is with its large majority that self-government must eventually deal, whatever else other governments may determine for themselves.

We are told that mere successful struggle breeds emotion, not strength; that the hard-pressed races are the emotional races; and that wherever struggle has long prevailed emotion is the dominant force in fixing social relations. Because of this emotional necessity all the more does it seem a pity that American municipal administration has so long confined itself to cold and emotionless areas, dealing as it must with the immigrants who come to us in largest numbers from the lands of oppression, and who vote quite simply for the man who is kind to them. We do much loose talking in regard to American immigration; we use the phrase "the scum of Europe," and other unwarranted words, without realizing that the underdeveloped peasant may be much more valuable to us here than the more highly developed, but also more highly specialized town-dweller, who may much less readily develop the acquired characteristics which the new environment demands.

To demand protection from these so-called barbarians in our midst, who are supposed to issue forth from the shallows of the city and to seize upon the life and treasure of the citizens, as barbarians of old came from outside the city walls, is, of course, not to have read the first lessons of self-government in the light of evolu-

tionary science, and to have scarcely apprehended the truth that it is, after all, from the mass, from the unspecialized, that reforms proceed.

In spite of the danger of bringing biology bodily over into the social field, it is well to remember that all biologists agree that when any growth of new tissue must take place it cannot come from the highly specialized cell, whose powers are already turned in one direction, but that it must come from the primitive cell, which has never perfected any special function and is capable of development in any direction.

Professor Weaver, of Columbia, has lately pointed out that "the cities have traditionally been the cradles of liberty, as they are to-day the centers of radicalism," and that it is natural that brute selfishness should first be curbed and social feeling created at the point of the greatest congestion. If we once admit the human dynamic character of progress, then we must look to the cities as the focal points of that progress; and it is not without significance that the most vigorous effort at governmental reform, as well as the most generous experiments in ministering to social needs, have come from the largest cities. Are we beginning to see the first timid, forward reach of one of those instinctive movements which carry forward the goodness of the race?

If we could trust democratic government as over against and distinct from the older types, — from those which repress, rather than release, the power of the people, — then we should begin to know what democracy really is, and our municipal administration would at last be free to attain Aristotle's ideal of a city, "where men live a common life for a noble end."

SHORT PAPER

DR. HENRY DICKSON BRUNS, of New Orleans, Louisiana, presented a paper on "Elements of Improvement in Municipal Government."

WORKS OF REFERENCE RELATING TO POLITICAL THEORY

(Prepared through courtesy of Professor W. W. Willoughby)

- AUSTIN, The Province of Jurisprudence Determined.
BLUNTSCHLI, Allgemeine Staatslehre. (English translation, The Theory of the State.)
BORNHAKE, Allgemeine Staatslehre.
BOSANQUET, The Philosophical Theory of the State.
BRYCE, Studies in History and Jurisprudence.
BURGESS, Political Science and Comparative Constitutional Law.
CARLYLE, A History of Mediæval Political Theory.
DICEY, Law of the Constitution.
DUGUIT, L'Etat, le droit objectif et la loi positive.
DUNNING, A History of Political Theories, vols. I and II.
GIERKE, Die Staats- und Korporationslehre. (One section translated into English, with an introduction by Maitland, under title "Political Theories of the Middle Age.")
GREEN, Lectures on the Principles of Political Obligation.
HOLLAND, The Elements of Jurisprudence.
IHERING, Der Zweck im Recht.
JANET, Histoire de la science politique dans ses rapports avec la morale.
JELLINEK, Das Recht des modernen Staates.
Die Lehre von den Staatenverbindungen.
Gesetz und Verordnung.
MERRIAM, American Political Theories.
OSTROGORSKI, Democracy and the Organization of Political Parties.
POLLOCK, History of the Science of Politics.
REHM, Allgemeine Staatslehre.
RITCHIE, Natural Rights.
SCHMIDT, B., Der Staat.
SCHMIDT, R., Allgemeine Staatslehre.
SEELEY, Introduction to Political Science.
SIDGWICK, The Elements of Politics.
The Development of European Polity.
WILLOUGHBY, The Nature of the State.
Social Justice.
The Political Theories of the Ancient World.

WORKS OF REFERENCE RELATING TO THE SECTION OF DIPLOMACY

(Prepared through courtesy of David Jayne Hill, LL.D.)

No general bibliography of this subject can be attempted here, but the following special indications may be found useful:

I. The classic conception of diplomacy dates from the time of Machiavelli, whose work *Il Principe*, published in 1532, is an exposition of the theory of a successful state as conceived by Machiavelli and his Italian contemporaries. See, in addition to this work, translated by Detmold under the title of *The Prince*, London, 1882, for the life of Machiavelli, Villari, *Niccolo Machiavelli e i suoi tempi*, Florence, 1877, translated by Linda Villari, London and New York, 1892; for the diplomacy of his time, De Maulde-la-Clavière, *La diplomatie au temps de Machiavel*, Paris, 1892; for the literature, expository and critical, Mohl, *Geschichte und Literatur der Staatswissenschaft*, Erlangen, 1855; and for the influence of Machiavelli, Ferrari, *Machiavel jugé des révolutions de notre temps*, Paris, 1849; Mundt, *Machiavelli und der Gang der europäischen Politik*, Leipzig, 1853, and Symonds, *The Age of the Despots*, London, 1902.

The more modern form of the classic conception of diplomacy may be found in Bielfeld, *Institutions politiques*, The Hague, 1760; Ancillon, *Tableau des révolutions du système politique de l'Europe*, Paris, 1823; De Garden, *Traité complet de diplomatie*, Paris, 1833; and *Tableau de la diplomatie*, Paris, no date.

II. On the relations of diplomacy to history, special references are hardly practicable, owing partly to the great mass of details and to their technical character. Some idea of the labor already expended upon the Archives of Venice, so important for the history of diplomacy, may be obtained from Toderini and Cecchetti, *L'archivio di stato in Venezia nel decennio 1866-1875*, Venice, 1876; and of the historical value of the Papal Archives, hitherto imperfectly explored, from Gachard, *Les archives du Vatican*, Brussels, 1874, compared with the use subsequently made of them. The examples cited, Déprez, *Les préliminaires de la guerre de cent ans*, Paris, 1902, and Péliissier, *Louis XII et Ludovic Sforza*, Paris, 1896, published in the *Bibliothèque des Ecoles françaises d'Athènes et de Rome*, are intended only to illustrate the class of work lately done, and still remaining to be done, with these sources.

For the general history of modern diplomacy may be named Stoffela D'Alta Rupe, *Abrégé de l'histoire diplomatique de l'Europe*, Vienna, 1888; Debidour, *Histoire diplomatique de l'Europe*, Paris, 1891; Malet, *Histoire diplomatique de l'Europe aux XVIIe et XVIIIe siècles*, Paris, 1894; and Bourgeois, *Manuel historique de politique étrangère*, Paris, 1897. The last three contain bibliographies.

III. On the relation of diplomacy to jurisprudence, besides the standard works on jurisprudence and international law, see Ward, *An Enquiry into the Foundation and History of the Law of Nations in Europe*, London, 1795; Wheaton, *History of the Law of Nations in Europe and America*, New York, 1845, translated into French, Leipzig and Paris, 1846; Hosack, *Rise and Growth of the Law of Nations*, London, 1882; Walker, *A History of the Law of Nations*, Cambridge, 1899; De la Guéronnière, *Le droit public et l'Europe moderne*, Paris, 1876.

For the International Tribunal at The Hague, see Holls, *The Peace Conference at The Hague*, New York, 1900; Foster, *Arbitration and The Hague Court*, Boston 1904; Descamps, *Mémoire sur le fonctionnement du premier tribunal d'arbitrage constitué au sein de la Cour Permanente de La Haye*, Louvain, 1903; Penfield,

Some Problems of International Arbitration, address before the New York State Bar Association, January 20, 1904; Dean, *Preserving the World's Peace*, in *The World's Work* for March, 1905.

IV. The literature bearing on the relation of diplomacy to economics is too varied and voluminous for even a partial citation here, for it includes the entire theory and history of population, production, commerce, and colonization. Many interesting facts may be found in Mill, *The International Geography*, New York, 1900; and Adams, *A Textbook of Commercial Geography*, New York, 1901. Synthetic treatment is much to be desired.

The problem of cosmopolitanism *versus* nationalism is discussed from many points of view in Novicow, *Die Föderation Europas*, Berlin, 1901, and other works in French and Italian by the same author.

V. The relation of diplomacy to ethics has received practically no specific treatment, which can proceed only from a moral conception of the state and the conscience of enlightened peoples.

VI. For a knowledge of the place accorded to diplomacy in modern education, reference may be made to the programmes of colleges and universities. Among these, the courses of study offered by the Ecole Libre des Sciences Politiques at Paris and by the School of Jurisprudence and Diplomacy of The George Washington University, at Washington, D. C., are the most complete. For the educational attainments required for admission to the diplomatic service of the various countries, see their respective official foreign office publications.

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- Statistical Abstract for the Several Colonial and other Possessions of the United Kingdom*.
- Administrative reports published in the various colonies.
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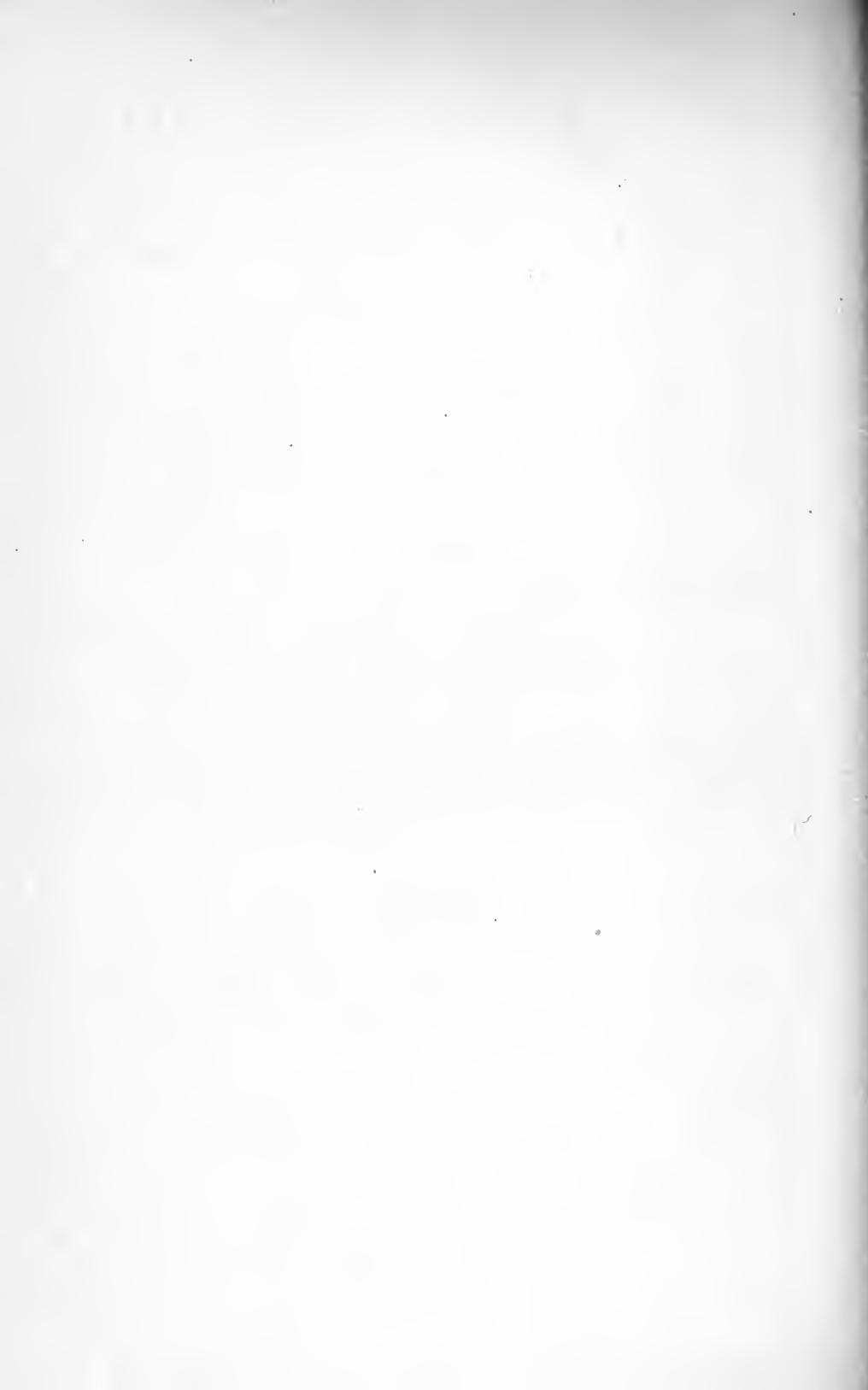
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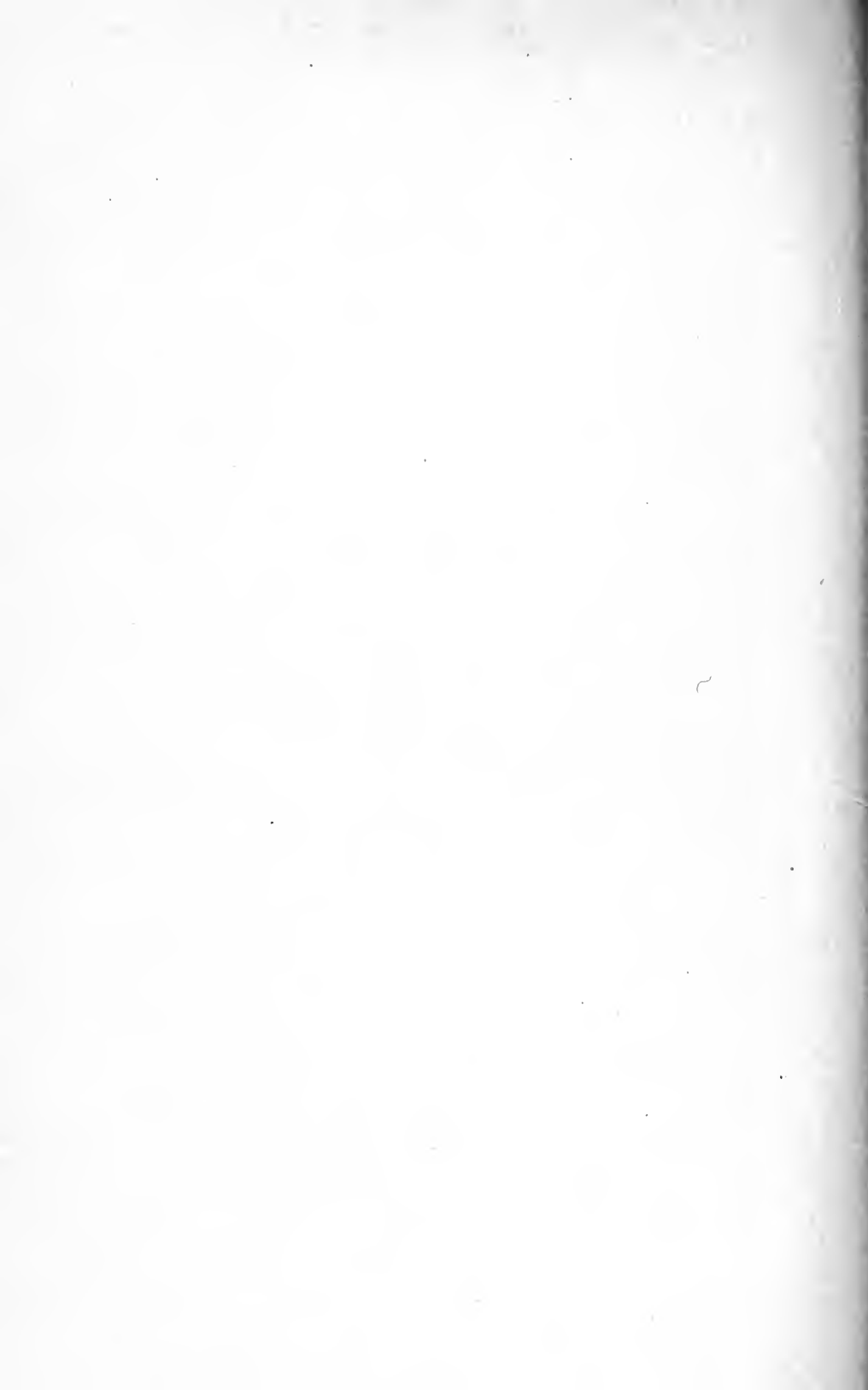
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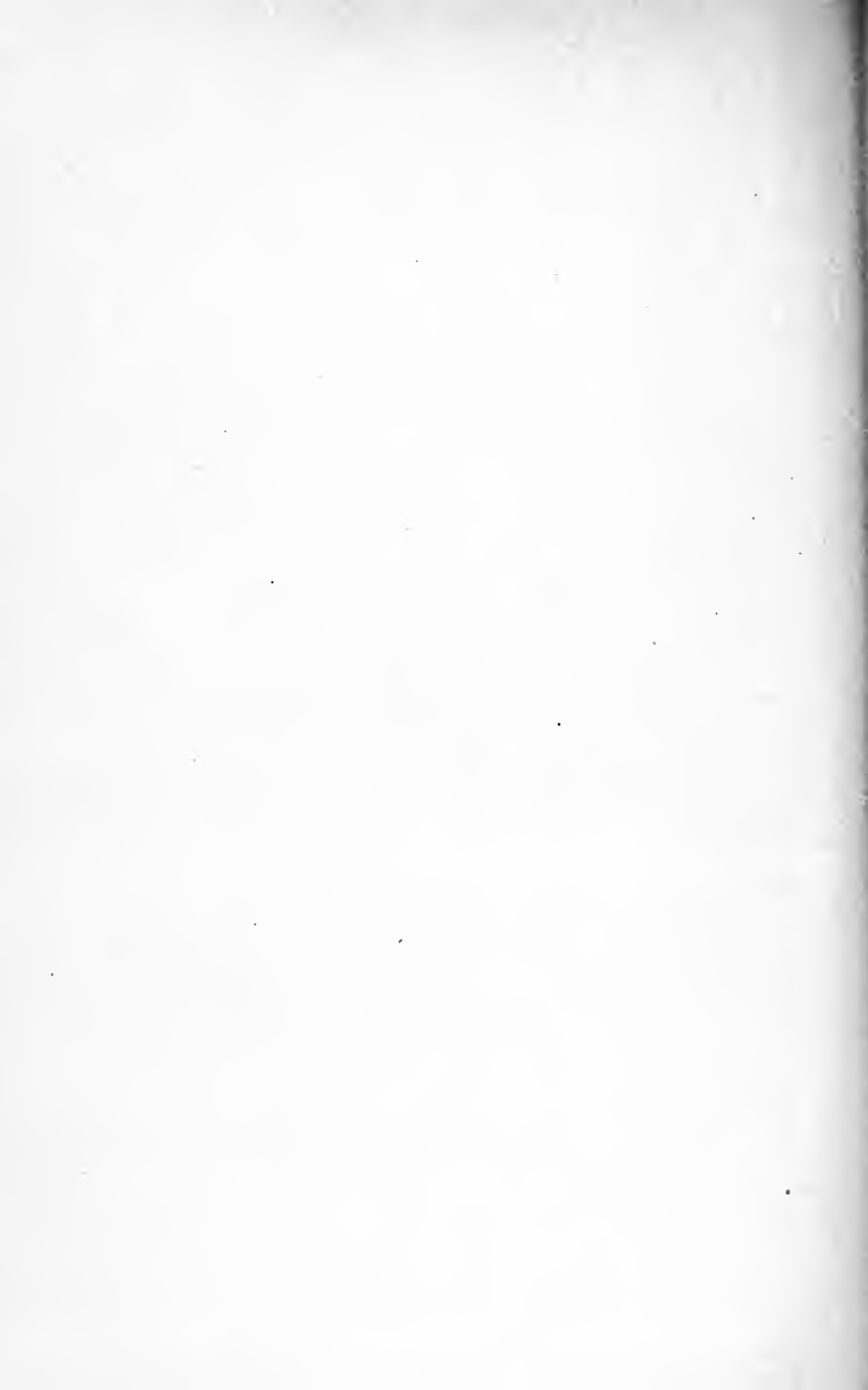


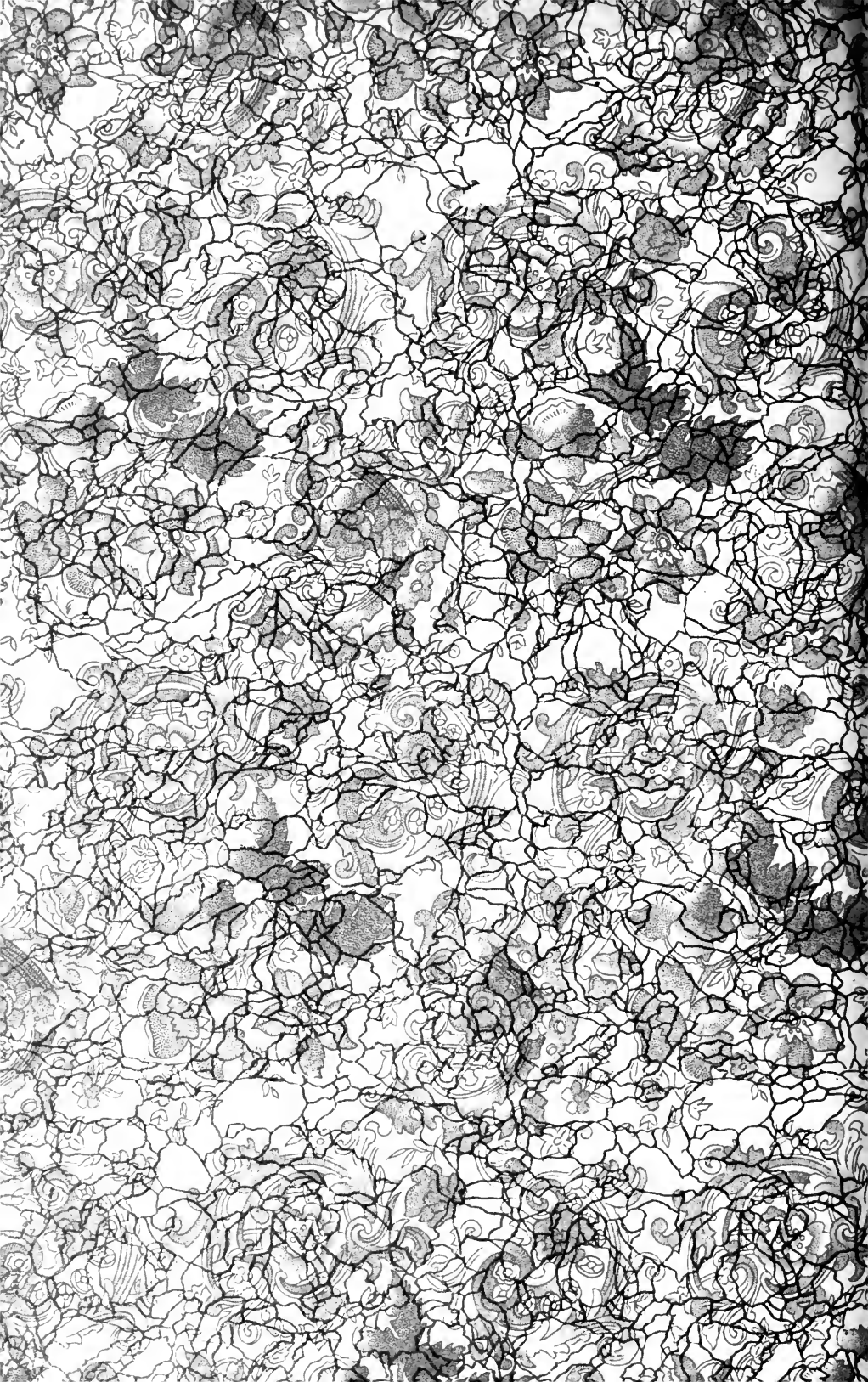














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