NOTES AND MEMORANDA.

SAMUEL BAILEY ON APPRECIATION.

It may be of interest to economists, and perhaps also of some profit, to become acquainted with the remarkably clear and logical analysis of the causes and effects of appreciation, published early in the century by the English philosopher and economist, Samuel Bailey.* As Bailey's work is probably not only little known, but also in general difficult of access, I need make no apology for quoting from it somewhat at length.

In the course of his discussion on "The Effects of Variations in the Value of Metallic Money on Pecuniary Contracts," Bailey says:—

> In the case of a pecuniary loan, four changes may take place affecting the contracting parties:—
>
> 1. Money may rise in value, in relation to other commodities, from an alteration in the market, originating on its own side.
> 2. It may fall in value from a similar cause.
> 3. It may rise in value from an alteration on the side of other commodities.
> 4. It may fall in value from such an alteration.

Of these cases the first and second have had abundant discussion from economists, nor does Bailey offer anything new or peculiar. The third and fourth cases have been less fully discussed, and what Bailey says of them is especially deserving of attention. To make clear the course of his reasoning, it will suffice to state very briefly his treatment of the first case, and then to consider more fully that of the third case, as typical of the second pair. I will use Bailey's own language freely:—

> 1. To ascertain the effects of the first occurrence, suppose that A. lends B. one hundred pounds in the year 1830, and B. repays the same in

* *Money and its Vicissitudes in Value; as they affect National Industry and Pecuniary Contracts: with a Postscript on Joint-stock Banks.* By the Author of The Rationale of Political Representation, A Critical Dissertation on Value, &c. [Samuel Bailey]. London, 1837. 8vo, pp. 224.

1840. In the interval the difficulty of obtaining an adequate supply of gold has increased to so great a degree that the same quantity of metal will purchase double the quantity of other commodities. When, therefore, A. receives back the sum lent, he obtains, indeed, only the same quantity of money; but that quantity has double the power in the market. He is, therefore, a fortunate man.

B., on the other hand, has to pay what A. receives. . . . Through the whole process of the fall of prices, he is continually losing, obtaining less and less for his commodity, and having to pay the same sum for the use of the money. At the expiration of the ten years he will probably have lost a considerable part of the original hundred pounds which he borrowed, and will have to repay the loan to A. by a sacrifice of his other property or by a tax on the products of his future industry in the shape of an annuity, or interest. . . . The whole affair resolves itself into a transfer from one to the other.

That such an appreciation would have a harmful effect directly upon industry itself, Bailey demonstrates in another place. Industry in general is crippled, because the progressive element, "the industrious capitalist," is subjected to an increasing burden as regards his fixed charges of all sorts and to a constant depreciation in the value of his stock, and because of "that want of confidence which always attends a general lowering of prices." *

3. The third case to be considered is a rise in the value of money from a change originating on the side of other commodities. Suppose the facility of producing all commodities except gold were so increased that they could be supplied at prices 50 per cent. lower than when A. lent the one hundred pounds to B. What would be the effect on the parties to the contract?

In regard to A., the lender, the effect would be the same in many respects as if the increased value of money had arisen from circumstances acting directly on the precious metals. He would be enabled at the end of the term to command double the quantity of commodities. He would not, however, be able to command double the quantity of labor; and there might be a few other cases of exception.

To the borrower, B., the effects of a reduction of prices in this case would be very different from those in the other. In the supposed fall of prices from a deficient supply of the precious metals, he was obliged to sell his commodities for a low price without a proportionate diminution in the cost; but now he sells them at a less price only because they cost him less. The fact of their costing him less implies that he has invented or adopted improved methods of production; and it is probable that these

* See pp. 82, 83, 87, 111–113.

new methods have enabled him, at the outset at least, to obtain extraordinary profits. The fund, therefore, out of which he has to pay interest on the loan is, on the least favorable supposition, undiminished, and in all likelihood increased. But there is still another advantage which he possesses in this case beyond what he possessed in the former one. *Then*, although the prices of the commodities which he personally consumed, fell in the same proportion as the commodity which he prepared for market, yet, his profits being more than proportionally reduced, he could no longer command the same quantity of such commodities out of his net residue; *now*, not only the prices of commodities are proportionally reduced, but his net residue remains undiminished or is even augmented, so that he can command a larger quantity of desirable articles.

In this case, therefore, while A., the lender, obtains a great advantage, B., the borrower, sustains, at the worst, no loss,— nay, even participates in the general gain.

In the former instance of a rise in the value of money originating on its own side, there was no fund out of which A. could gain, but the loss sustained by B. and others. Here, on the contrary, there is a fund out of which both draw an advantage; namely, the increased quantity of commodities produced by the same quantity of labor. Of these commodities they both simultaneously obtain a greater portion.*

Now what has actually taken place of late years in the western world is a realization of Bailey's third case. Speaking in round terms, there has been no diminution in the quantity of metallic money either absolutely or relatively to population. If we take into account the devices which economize the use of specie and multiply its effect, the quantity of money has greatly increased. Nevertheless, there has been a marked general fall of prices, or appreciation of the money unit, which must thus have arisen from "an alteration on the side of other commodities." That the rapid march of invention and enormous extension of business is a sufficient cause for this "alteration" can be readily understood. Under this régime of falling prices, however, no one has suffered absolute hardship because "such alterations in prices, unlike those which spring from variations in the quantity of money, are always limited to the commodity in which the improvement takes place." † That is to say, if the price of the product of any particular industry has fallen even more rapidly than the average rate of fall, there has been no hardship, because this

* Pages 115–117. † Bailey, p. 86.

has been accompanied by increased productive power. The price of the commodity has fallen (barring violent changes in demand) precisely because increased powers of production have depressed the market with a greatly increased output.

There has been, therefore, under these circumstances, no absolute hardship as regards the producers in any industry considered as a whole, as a homogeneous body. In any large industry, however, the body of producers is not homogeneous, so that, if individuals and groups of individuals (as of different countries) are not to suffer, it is only on condition that the lowered prices, the result of increased output, are due to improvements which all share alike, and that the market is elastic enough to take off the whole of this output.

As a matter of fact, the improvements do not spread equally over the whole body of producers in a widely extended industry; and, moreover, for most commodities the elasticity of demand is confined within rather narrow limits. Those producers who for any reason lag behind in a progressive age, and have lower prices thrust upon them by the improvements of others, suffer hardship, and may even be driven from that industry altogether. The improvement which in the last twenty years has occasioned such a heavy fall in the world's prices of agricultural products has been chiefly the opening up of new lands, first in America and later in Russia and Argentina. This, in the nature of things, was something which could not be repeated on the old lands. The margin of cultivation in the older parts of America as well as in Europe has been receding, and the surplus cultivators have been forced into other occupations. But these are questions of the particular inequalities of industrial conditions, and the necessary readjustment of industries relatively to each other in a progressive world. They are wholly different from the general question as to how the quantity of money affects as a common cause the prices of all products in all industries. While "general prices," or the "average" of the scale of prices at any time, is made up of particulars, the position of the particulars relatively to each other in the scale is quite outside the monetary problem. The question of justice in the matter of prices is not one of correcting the "unearned increment" of some producers or the earned or unearned losses of others. It is a question of securing a just expression in terms of money of the value of the product of the average producer in the average situation.

To continue, let us now turn to Bailey's treatment of the ethics of the two sorts of appreciation,— the adjustment in accordance with "rigid justice" of the effects of each sort. So far as the means of adjustment are concerned, Bailey nowhere considers that a manipulation of the money supply might be resorted to in order to keep its value constant, *i.e.*, to maintain a certain level of general prices. He considers only the possibility of some sort of court or commission which should so modify pecuniary contracts as to secure equitable satisfaction in each instance. This latter method, while far more difficult of application than the former, would have the merit of being much more exact. By manipulation of the money supply the prices of all products would be affected alike, both those which had fallen the average amount and those which had fallen more or less; while those which had risen would be raised still further. As to the question of "rigid justice," he reasons as follows: —

It appears in case No. 1 that an adherence to the principle of quantity, though it would be literally according to agreement, would be virtually unjust, and that, if value were the criterion applied, neither party would be at all injured. As A. could gain only by the loss of B., and that in a manner not contemplated by the parties themselves, it would seem quite fair, were it practicable, that at the end of the term during which the loan continues they should be placed in the same virtual position as they were in at the beginning. . . .

In the case numbered 3, where the facility of production is supposed to be doubled, both parties are gainers. One does not profit at the expense of the other; and consequently there can be no pretext for interfering with the literal construction of the contract, as a contract for quantity without reference to value. There is not even the ostensible ground that the alteration in prices has originated on the side of the metal in which the bargain has been made.

It is true that A., at the expiration of the loan, obtains a quantity of money, which, although the same in weight, commands double the quantity of commodities. But this is an advantage common to the whole community. It is shared by the borrower B. If B., nevertheless, were to repay only half the sum originally borrowed, under the notion that £50 would give to A. the same command of commodities that £100 did when the loan was originally advanced, A. would be the only person not benefited by the progress of society. B. would be twice benefited,—once in the way already described, and once by repaying only half the quantity of money borrowed. There is no reason why A., the lender, should not partake in the advantages derived by the community at large from improvements in production, in which his capital is, in truth, one of the instruments. It is a participation in a newly created fund, and not a mere transference of property belonging to others.*

To these latter propositions the present writer cannot agree. The lender in the case supposed does profit at the expense of the borrower. Not to the latter's absolute loss to be sure, but, nevertheless, to his detriment. The borrowers, as a class, have made the improvements in production; and they, as a class, should reap the whole advantage of them. The "newly created fund" of wealth is theirs; and, no matter how rich they are getting, if any other class has any "participation" in it, without their wish or consent, they may well feel aggrieved.

But, while there may be injustice of this sort arising from an appreciation of money from causes acting "on the side of other commodities," it is not of sufficient urgency to warrant the running of great risks to find a remedy; and any sort of remedy to be applied by a democratic government is full of risks. Yet something is gained in the discussion of this and other social questions by the frank acknowledgment of the existence of difficulties, even though no feasible remedy may be in sight.

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*Pages 119-121.

At its last meeting, held in December, 1897, the Council of the American Economic Association appointed a Committee on the Scope and Method of the Twelfth Census, which is expected to make a report at the meeting of the Association to be held toward the close of the current year. The committee consists of Professor Richmond Mayo-Smith, chairman, and Messrs. W. F. Willcox, C. D. Wright, R. P. Falkner, and D. R. Dewey; and it is now engaged in inquiries on the scope and method of the Eleventh Census, the impressions of those who have used it as to the accuracy and helpfulness of the published results, and the lessons taught by the experience of this country and of others as to the plan on which the census should be conducted. The committee invites the co-operation of all competent persons, and suggestions and criticisms addressed to the chairman or to any member will be welcome.

A similar committee was appointed by the Association on Currency Reform, of which Professor F. M. Taylor is chairman, the other members being Messrs. J. W. Jenks, D. Kinley, S. Sherwood, and F. W. Taussig.

During the quarter, two important books, already announced for publication in previous bibliographical lists, have claimed the attention of students of social questions,—Mr. and Mrs. Sidney Webb's *Industrial Democracy* and M. Levasseur's *L'Ouvrier Américain.* We note also several important additions to the helpful literature on monetary subjects, in Mr. A. D. Noyes's *Thirty Years of American Finance*, Mr. H. B. Russell's *International Monetary Conferences*, and Major L. Darwin's *Bimetallism.*

The firm of Guillaumin in Paris announces a *Dictionnaire du Commerce, de l'Industrie, et de la Banque*, under the editorships of Messrs. Yves Guyot and A. Raffalovich, with a long list of able collaborators. It is addressed to men of affairs as well as to the general public and to students of economics, and exact and detailed treatment of the facts of industry is promised. Two volumes will be issued, in parts, beginning in March of the present year. The price for the whole is 50 francs.

THE act for the purchase of the main lines of railway in Switzerland by the state, to which reference was made in the last issue of this Journal, was submitted to referendum on February 20, and was approved by a heavy majority, 384,146 votes against 117,130. It may be regarded as settled, therefore, that public ownership and management of railways will take the place of private in this democratic community.

THE correspondence recently published between the British government and the American Commission on International Bimetallism states the precise proposals which were submitted by that commission, and the course of the negotiations with regard to them. The commission, it will be recalled, consisted of Senator Wolcott and Messrs. Paine and Stevenson, and was sent abroad in the spring of 1897. Senator Wolcott gave a summary account of the negotiations in a speech delivered in the Senate on January 17, and the correspondence has been printed as an appendix to this address as well as in the British Parliamentary papers.

It appears that the commission first secured some adhesion from the French government; the extent of this adhesion being, as stated by the French ambassador at a conference held in London July 15: (1) that France desired the reopening of the mints of all commercial countries to the free coinage of silver at 15½ to 1; (2) that the reopening of the Indian mints alone would not be regarded by France as ground for reopening the French mint to free coinage; (3) that the annual purchase of silver by England of, say, £10,000,000 "nominal value," though "only a palliative," would not be "excluded from view" as a contribution by England towards maintaining the value of silver.

The American commissioners laid before the British government (July 12) the following proposals: —

1. The opening of the Indian mints and the repeal of the order* making the sovereign legal tender in India.
2. The placing of one-fifth of the bullion in the issue department of the Bank of England in silver.
3. (*a*) The raising of the legal tender limit of silver to, say, £10.
(*b*) The issue of 20-shilling notes based on silver which shall be legal tender.
(*c*) The retirement, gradual or otherwise, of the 10-shilling gold pieces, and substitution of paper based on silver.
4. An agreement to coin annually £—— of silver. [Present silver coinage average for five years about £1,000,000, less annual withdrawal of worn and defaced coin for recoinage, about £350,000.]

Alternative proposal.— 4. Agreement to purchase each year £—— in silver at coinage value.

5. The opening of English mints to the coinage of rupees and of a British dollar, which shall be full tender in Straits Settlements and other silver-standard colonies, and tender in United Kingdom to the limit of silver legal tender.
6. Action by the colonies and coinage of silver in Egypt.
7. Something having the general scope of the Huskisson plan.†

Clearly, the question to be disposed of before any further steps could be considered was as to the opening of the Indian mints to silver. That question was referred by the British government to the government of India, whose negative answer, dated September 16, 1897, brought the negotiations to an abrupt close. The answer was framed on the supposition that the United States and France would coin freely at 15½ to 1. It stated in substance that the proposed action by France, the United States, and India "certainly could not . . . succeed in establishing stability in the relative value of gold and silver";

*This is perhaps to be construed as an expression of desire that no such order should be issued, since this precise step seems not to have been taken.

† The "Huskisson plan" here referred to is contained in a paper prepared by Huskisson in 1826, and apparently first printed in 1868 in the *Wellington Despatches*, 2d Series, vol. iii. p. 98 (the document was sent by Canning to Wellington). It is reprinted in Mr. H. H. Gibbs's *Colloquy on Currency* (1894), Appendix, p. xlvii. Huskisson proposed the receipt by the English mint, on deposit, of silver in quantities of not less than 200 ounces; the issue of certificates (none less than £50), which should state the equivalent value of the silver in "our money," *i.e.*, gold, at the ratio of 15½ to 1; "these receipts to circulate as money in all transactions."

that, in any case, such a three-sided agreement was in great risk of termination; that the proposed change, so far as it attained the object, would depress Indian industries for some time, if not permanently; and that the experiment of closing the mints begun in 1893 had better chances of success than a partial international agreement. It was intimated also that the rate of exchange between gold and silver desirable for the interests of India was about 22 to 1, *i.e.*, the rupee at 16*d*. The British government, on communicating the decision from India, politely asked whether the American and French representatives desired to proceed; but, as Senator Wolcott stated in his speech reviewing the negotiations, "the refusal must be considered as final until the failure of the experiment upon which the India government has entered shall be demonstrated."

SOME recent decisions of the Supreme Court of the United States have defined, in terms new in some respects, the constitutional powers of a State as regards the taxation of corporations organized under the laws of another State; while the conditions under which the cases arose, and the mode in which the taxes were applied, illustrate once more the anomalies of the traditional American tax methods.

An Ohio statute of 1893, known as the "Nichols law," * had provided that telegraph, telephone, and express companies should be taxed on "the true value in money of the entire property within the State of Ohio . . . in the proportion which the same bears to the entire property of the said companies." The proportion of the "entire property" within the State and taxable by it was to be ascertained by a State board appointed for the purpose. From the taxable sum made out by this board the assessed value of real property taxed within the State was to be deducted. The remainder was then to be apportioned among the several counties. As to express companies, whose treatment, as typical of the whole, may be followed in detail, each county was to be assigned the proportion which the gross receipts from business in its

* 90 *Ohio Laws*, 330 (April 27, 1893).

limits bore to the total gross receipts in the State. On this sum taxes were to be levied by the county authorities at the local rate on property in general. In the case of the Adams Express Company the State board took as measure of the "true value of the entire property" the market value of its total capital stock, while the proportion in the State of Ohio was measured by the mileage of the company's lines within the State as compared with the total mileage in the country at large. By this process the company was assessed for taxes on the round sum of $533,000.

A similar statute was passed at the same time in Indiana.* It differed from that of Ohio in applying tax machinery of this kind to sleeping-car and dining-car companies, as well as to telegraph, telephone, and express companies, and in providing specifically that the market value of stock plus bonds was to be the measure of each corporation's total property, while the mileage of lines within Indiana was to gauge the proportion of property taxable within the State.

The Ohio courts declared this method of taxation to be not repugnant to the constitution of the State.† The question was then carried before the Supreme Court of the United States as to its validity under the federal Constitution. It was contended that it was in violation of the clause giving Congress the power to regulate commerce, and also of that inhibiting deprivation of property without due process of law. A divided court (5 to 4) held that the Ohio statute and the similar statute in Indiana were not unconstitutional.‡ The decision, if not in reversal of others of earlier date, was at least of different trend. The power of Congress to regulate commerce, and the consequent limitations of the powers of the States, had been the basis of decisions which tended greatly to restrict the application of taxes to other property than that existing in tangible form within a State's borders. Under the construction now given to the federal Constitution a wide field is opened for the taxation of corporations carrying on operations within the several States but not incorporated under

* *Indiana Laws*, 1893, p. 374. † *State* v. *Jones*, 51 Ohio State, 492.

‡ *Adams Express Company* v. *Ohio*, 165 U. S. 194, 166 U. S. 185, February and March, 1897.

their laws; the mode in which this shall be done being left to the discretion of the States, and subject to their views of expediency and equity.

If every State were to adopt the Ohio method, and were to content itself with that, the result would not be inconsistent with the traditional American tax system. Not only this. If combined with its logical corollary, the exemption from taxation of the securities issued by the taxed corporations, it would have important administrative advantages. To tax interstate corporations in every State on their property or income-yielding operations within the State, in some reasonably ascertained proportion to their total property or total operations, is, if not an easy task, certainly no such hopeless one as that of taxing the shares held by individual stockholders. But it is an obvious corollary that, where the corporation is so taxed at the source, the stockholders should not be taxed once more on their individual holdings. If every State were to tax interstate corporations as Ohio and Indiana do by the legislation described, and were also to tax securities of the corporations held by individuals, the result would be flagrant double taxation.

As it happens, the State of Ohio, under the letter of its laws, taxes doubly in precisely this manner,— nay, does more, and may be fairly said to tax triply and quadruply. Shares of the Adams Express Company are taxable to the holder in Ohio to their full market value; and, if they fail to be taxed in fact, the result is due not to any virtue in the law or its administrators, but to those evasions and equivocations which have brought the entire American system of taxing personal property into such disrepute. Further, in Ohio, horses, wagons, and like tangible personal property of express companies (to follow this particular case to the end) are taxable by the local bodies, notwithstanding the taxation of the corporation itself for the "entire property" in Ohio. Fourthly and lastly, express companies are taxed in Ohio on their gross receipts in the State at the rate of 2 per cent. This excise had been imposed in 1894,* on the recommenda-

* 91 *Ohio Laws*, 237 (May 14, 1894). The revenue from the tax on gross receipts is covered into the State treasury.

tion of the able Ohio Tax Commission of 1893, being designed as a substitute for the Nichols act of 1893, whose constitutionality was then thought more than doubtful. As it happens, this statute has been upheld and is still in force; and the substitute also remains. The result is an accumulation of exactions which, if imposed and enforced wherever such a company carried on its operations, might easily be ruinous, and certainly could be defended on no grounds of principle.

In the decision of the federal Supreme Court on the Ohio statute, it was pointed out that the security for rational taxation must lie in the sense of equity among the people and legislators of the several States, and that constitutional restrictions should not be stretched in this case or in others to cover objects possibly desirable in themselves, but not properly within their scope. The soundness of this principle is incontestable; and, if the liberty which it leaves for the several States sometimes results in anomalies such as have just been pointed out, the remedy must be sought in the good sense and good faith of the people and their representatives. The initial step in the course of legislation in Ohio, that of taxing the corporation itself on its "property," is in many ways commendable. It remains to be seen whether the State will content itself with accomplishing this once for all, or will continue to exact double and treble taxes from the same source.