To this opinion also has come the Textile Record, of Philadelphia, organ of the woven fabrics manufacturers of the United States, and a staunch protectionist. Wondering how the friends of protection will sustain their demand for continued protection in the face of the fact that American fabrics are underselling those of foreign make even in the foreign market, this protection organ asks:

> If the argument shall be presented that the tariff is necessary for the maintenance of high American wages, will it be surprising if somebody steps to the front with a demonstration that wages, in many protected industries, have fallen under the Dingley tariff?

It is bad enough for protectionists that English workingmen, after visiting this country, report at home that the American workingman cannot make as good a living as the English; but when an American protection organ thus admits that the Dingley tariff, instead of raising wages has reduced them, what is a thorough-going protectionist to do? It would not sound well to advocate protection as the foster mother of trusts and monopolies. Though that is what it is, it could not be popularized by saying so. Yet what other argument will remain to the protectionist when the workingman argument fails him?

Those confiding people who imagine that the rich owners of personal property can be taxed by taxing personal property, should keep their eyes and ears open at taxing time. Many are the tricks by which personal property taxes are dodged. One of the simplest, of the pious sort, is to send as much taxable property as possible out of the jurisdiction. For instance, when personal taxpayers in New York were making their returns, the agent there of a large Chicago house, an agent who has his employers' interests more heavily upon his mind than the interests of the New York city treasury, forwarded a large sum to the home office, with this candid comment: "We send this amount, all we can spare, to avoid paying taxes on cash on hand." That sort of thing is called "tax dodging." And in fact, it is tax dodging. But why shouldn't a man dodge a kind of tax which everybody else dodges to the fullest possible extent, and which the state has no just right to impose? In the natural order of things personal property represents the owner's own earnings. Why should they be taxed at all, while monopoly values go untaxed or only partly taxed? The personal tax dodger is really defending his property against confiscation. But the essential point just here is that while farmers, who can't dodge personal taxation, insist upon retaining that nearly obsolete method of raising public revenues, the rich owners of personal property easily escape. Personal property taxation is a trap which farmers set for city capitalists, but which catches the farmers and lets the capitalists escape.

A new paper, The Herald, has been started in Seattle, under the editorship of Samuel Archer and the business management of Hon. E. W. Way. Its object is to aid in recovering the ground which was lost politically to reform movements in Washington at the late election through the triumph at the polls of the candidates of beneficiaries of special privilege. The chief subjects which this new Washington paper intends to agitate are direct legislation, justice in taxation, and control of the liquor traffic by a state dispensary system. The political exemplars of the paper are Jefferson, Jackson and Lincoln.

FAVORABLE TRADE.

No apology is required for exposing again and again the prevailing commercial fallacy about favorable balances of trade. This notion that a perpetual excess of exports enriches a nation, while a perpetual excess of imports impoverishes it, is at the bottom of nearly all the economic errors of our time, both in politics and out of it.

Let any thoughtful man once see the truth that nations are enriched not by export balances but by import balances, and not only will he cease from that moment to be a protectionist, but the labor question, the money question, the whole tax question, the overproduction question, in a word the entire range of economic and social problems, will be revealed to him in a newer and clearer light. Even such political questions as extraterritorial colonization will be easier of correct solution.

He who habitually thinks of a perennial export balance as favorable trade, is like men standing upon their heads with their feet in the air; he sees everything upside down. Show him that imports, not exports, represent profits, and you have his feet at once upon the ground and his head in the air, so that he sees all things right side up. If any apology were needed for our frequent recurrence to the common fallacy regarding export balances, this would be enough. A fallacy which so disturbs all right thinking in the field of business, economics and politics must be hammered at until it is flattened out.

National exports and imports are the aggregate of the goods which the individuals of a nation send abroad, on the one hand, and receive back on the other. All the goods sent out of a country by its individual citizens constitute its exports; all the goods brought into a country by its individual citizens constitute its imports. The nation itself, as a nation, neither exports nor imports. These commercial terms relate exclusively to aggregates of private transactions.

In considering, therefore, the relative advantages of a perpetual import balance and a perpetual export balance, the real subject in hand is not a question of national profits. It is a question of the aggregate of individual profits. Would the individuals of a country grow richer if the aggregate of goods going out exceeded perpetually or on the whole the aggregate of those coming in, than they would if the aggregate coming in exceeded on the whole the aggregate going out? That is the question.

This question may be more simply considered, and a more accurate result be assured, by dealing at the outset with the comparatively familiar transactions of a single individual. If he prospers by making his sales as an individual exceed his purchases as an individual, perpetually or on the whole, then all the people of the country taken together would prosper if in the aggregate their exports exceeded their imports perpetually or on the whole. What his sales to and his purchases from all other persons everywhere are to him as an individual, such are the aggregate exports of a country and its aggregate imports, to its people in the aggregate. In other words, as the commercial exports and imports of a country are to its people, as a people, so are the sales and purchases of an individual to himself. Let us ascertain, then, whether an individual profits by selling or by buying.

Here is a merchant doing what is called a "profitable cash business." All will agree that such a merchant is prosperous. But is his prosperity attributable to an excess of sales over purchases—that is, of his "exports" over his "imports"—or to the reverse? Let us see.

On the 31st of January, 1897, he takes an account of stock, balances his books, and finds himself with goods on hand to the value, at cost price, of $20,000. As he owes nobody and nobody owes him, he starts the new year, 1898—if, for simplicity of calculation, we assume that exactly all his capital is invested in his stock—with just $20,000 to the good. In the course of that year, from time to time, he buys more stock from city wholesalers to the value, at purchase price, of $50,000, selling from the aggregate of his stock to local consumers—at an average profit of 50 per cent.—to the value, at selling price, of $65,000. His business expenses, let us say, are $10,000.

For convenience of reference we now tabulate these items:

Goods on hand Jan 1, '98		$20,000
Goods purchased Jan. 1 to Dec. 31.		50,000
Total stock at cost price		$70,000
Sales to Cover Expenses.		
Goods at cost price	$20,000	
Profit at 50 per cent.	10,000	$30,000
Remainder of Sales.		
Goods at cost price	$23,334	
Profit at 50 per cent.	11,666	$35,000
Total sales at selling price		$65,000

A glance at this table will show that the merchant has made a profit during the year, over and above his business expenses, of $11,666. Now, was this profit derived from his purchases or from his sales—from his "imports," so to speak, or from his "exports?" The answer requires as a first step that the table be analyzed.

He had $20,000 worth of goods at cost price on hand at the beginning of the year, as stated in the first line of the foregoing table. Further examination of the table will show that he sold during the year, measuring again by cost price, $20,000 to cover expenses, and $23,334 besides, making a total of sales, on the basis of cost price, of $43,334. Deduct this total from the total of goods—those on hand at the beginning of the year, and those subsequently purchased, taken together—which, as shown in the table, amounts to $70,000, and you find that at the end of the year he has on hand, at cost price, $26,666—an increase in his stock of $6,666. Deduct that from his net profit of $11,666, and you find a balance of $5,000.

As the merchant does a cash business, the latter sum must be accounted for either in cash, in purchases for personal use, in investments outside of his regular business, or in some two or all three of these ways. But let that matter rest for the present while we, to avoid possible confusion, take our bearings again by means of another table:

Goods on hand Jan. 1, '98	$20,000
Goods purchased Jan. 1 to Dec. 31.	50,000
Total stock at cost price	$70,000
Total sales (measured by cost).	43,334
Goods on hand Dec. 1 '98	$26,666
Goods on hand Jan. 1, '98	20,000
Increase of stock at cost	$6,666
Cash on hand, expended for personal use, or invested	5,000
Net profit	$11,666

Upon these facts, what would be this merchant's showing upon taking account of stock and balancing his books at the end of the year—the 31st of December, 1898?

Let the $20,000 worth of goods on hand at the beginning of the year be offset by $20,000 of the $26,666 on hand at the end of the year, and by that much simplify the calculation. It will appear then that during the year the merchant has bought, that is to say "imported," $50,000 of goods, the total amount of the purchases as tabulated at cost price; and that he has sold, that is to say "exported," $65,000, the total amount of the sales as tabulated at the selling price. There would thus seem, if no thought be given to the matter, to be an excess of "exports" in this profitable year's business. That view of it would probably be put in this form:

Exports	$65,000
Imports	50,000
Excess of "exports," or profits..	$15,000

But $15,000 is not 50 per cent. profit upon either "exports" or "imports." There is no relation, therefore, between the rate of profit and the excess of "exports." Moreover, the table is contradictory upon its face. By no possibility can any merchant make $15,000 by giving out (exporting) values to the amount of $65,000, and taking in (importing) values to the amount of $50,000. Even his errand boy would know that an outgo of $65,000 against an income of $50,000 would mean not a profit of $15,000, but a loss of that amount.

If the merchant wished to calculate his profit or loss he would tabulate his accounts in substance as follows:

Goods purchased, measured by cost price	$50,000
Goods sold, measured by cost price	43,334
Purchased goods left in stock..	$6,666
Use of store, assistance of clerks, etc., purchased with profit on $20,000 of goods sold.	10,000
Remaining profit used to purchase personal goods, or to purchase property for outside investment, or on hand in cash	5,000
Excess of purchases over sales.	$21,666

That this calculation is correct is proved by the fact that the "excess of purchases over sales," $21,666, is exactly 50 per cent., the assumed average profit on sales; the sales, measured by cost price, being $43,334. That is to say, the excess of purchases coincides to a penny with what the profits are. Thus we see that profits, and excess of purchases over sales, are one and the same.

But, as stated at the beginning, and as no one can intelligently deny, a merchant's sales are his "exports" and his purchases are his "imports." It follows that his profits coincide not with his "exports," but with his "imports," and that his "favorable balance of trade," so far from being an export balance, is an import balance.

To reverse the calculation, let us suppose the merchant to have sold $50,000 of goods, measured by cost price, for only enough let us say to purchase $43,334 worth—a loss of 13 1-3 per cent. Then he would tabulate his accounts briefly and sorrowfully as follows:

Goods sold	$50,000
Goods purchased	43,334
Excess of sales over purchases	$6,666

Here we find the excess of sales coinciding exactly with the loss, just as in the previous table we found the excess of purchases coinciding exactly with the profit. And as sales are synonymous with "exports," the merchant's excess of exports is proved to tally with his losses, just as in the previous table his excess of "imports" is proved to tally with his profits. To him, a perpetual export balance, so far from being favorable, would clearly be an unfavorable balance.

We may now dispose of the item of $5,000, which appears above in the table of profits.

We have said that it might be used by the merchant to purchase, that is, to "import," personal goods; that it might be used to purchase, that is, to "import," property for investment outside of his business; or that it might be found in his cash drawer. In fact, it would probably be distributed in all three directions.

Part of it would be used to purchase personal satisfactions. They would be "imports." As to that part, therefore, the sum is properly treated in the table as an import.

Part of this sum would be cash in the drawer, which is not usually regarded as an import. But it is, nevertheless, an import potentially. Merchants sell their goods for money, not because they want the money, but because they want what the money will buy—because they want imports. In time, therefore, the money would be exchanged for goods, and thus become actually what it already is potentially, an import item.

But part of this cash profit might be devoted to outside investments of a character that could not be personally appropriated — investments in property like real estate. If so, however, it would not be for the sake of the real estate, it would be for the sake of what the real estate would yield in profits, that the investment would be made. Should it never yield to the investor as much as he pays for it, then it is a losing investment. And in that case only would the "exports" with which it was bought be a perpetual "export" item uncanceled. In order that his "exports" for investment may perpetually exceed his "imports," his investments must never return him as much as they cost—they must be losing investments! Here again we may see that a man's "export" balances must in the long run coincide not with his profit, but with his loss.

In this connection the creation of credits as a mode of accounting for export balances, consistently with profits, may be considered. The example of the merchant will again serve for illustration. Let us suppose that our merchant does a credit instead of a cash business, and that of his $43,334 of sales, $25,000 are unpaid for, though well secured. While that would leave his profits the same as shown in the table above, $21,666, it would cut down his purchases from $50,000 to $25,000. This would make his sales exceed his purchases, his "exports" exceed his "imports," by $3,334 (for which he would have to resort to his accumulated stock of the previous year), thus giving him an "export" balance to that amount, along with a profit of $21,666. This seems on the surface to indicate that exporting balances may be profitable.

But what are these credits? If they are never to be liquidated of what profit can they be to the merchant? Are they aught but evidence of imports deferred? Some time they must be paid, either in goods, or in money, which will be expended for goods, or cause the merchant loss. Should they never be paid, the transactions would be profitable only on paper. As an actual business fact, they would in that case result in a loss equal to the face value of the credits.

Any man in profitable business may, it is true, during a particular interval, appear to have sold or "exported" more than in the same interval he has purchased or "imported." But in all such instances, if the business be really profitable, the purchases or "imports" are merely deferred. Within a reasonable time they must come in to him, and on the whole they must exceed his "exports." No individual can prosper whose sales or "exports" perpetually or on the whole exceed his purchases or "imports."

The theory that a business man profits by his sales instead of by his purchases, by his "exports" instead of by his "imports," originates in the generally accepted notion which in thought substitutes for an end the means whereby it is usually attained. Because men seek work in order that they may get wages with which to buy goods, we fall into the habit of thinking of the work instead of the goods as the real object of their desire. Likewise, because men seek money in order to buy goods, we are prone to forget that what they want is after all not the money, but the goods, for the purchase of which the money is but a medium. Again, because men persistently try to sell goods which they do not need, in order to get money with which to buy goods that they do need, we think of their desire to sell instead of their desire to buy as the impulse of their action.

An instance of this is worth noting as illustrating in a simple way the whole subject of this discussion:

An intelligent professional gentleman, holding an official position in Ohio, had been invited to subscribe for a Chicago paper, the subscription price of which was a dollar a year. This paper had taken some pains editorially to point out the fallacy of the balance of trade theory; and the gentleman in question, jocularly as to the special instance, but in all seriousness as to the principle involved, specified, as one of his reasons for declining, that upon the trade balance theory which the paper adopted he feared his subscription might tend to impoverish the publisher. This was his language:

A sale of a year's subscription to me, might run your sales that much above your purchases, make you sell more than you buy, and if your logic be true make you that much poorer. I must decline to subscribe, for I do not wish to contribute to your poverty.

In these brief words the commercial theory of favorable trade balances was admirably set forth. And as will be observed, the dominant thought was that the publisher's main and ultimate purpose, so far as profit was concerned, was not to sell his paper in order to buy things, not to "export" in order to "import," but just to sell his paper, just to "export" without regard to "importing." Such was not the publisher's idea of business, however, as his reply may show. He said:

You have entirely misunderstood my proposition. I did not offer to send the paper to you for nothing. That would be all export and no import. What I did offer was to export to you a paper which costs me about 50 cents a year, in exchange for imports of Ohio food stuffs (which would have been bought by myself and my employes with the check you sent me) food stuffs which in the Chicago market would be worth $1. Had you accepted my offer, my accounts would stand like this:

Imports of Ohio food stuffs	$1.00
Exports of one weekly paper for 1 year.	.50
Excess of imports	$0.50

You may think it would impoverish me to import more than I export, but I find, nevertheless, that it is upon my imports, not upon my exports, that I live.

The principle is universal that it is the desire to buy and not the desire to sell, the desire to get and not the desire to give, that sets the economic mechanism of the world in motion and keeps it going. The desire to sell is a means to an end, not the end itself.

But that simple and obvious principle is ignored, and the world of trade looked at as in a camera, where everything is upside down, when questions of international commerce arise. The people are urged to believe, and great problems of public policy are made to turn upon the theory, that international trade balances, to be favorable, must be perpetually or on the whole export balances.

The idea behind this notion is that a people export their surplus, what they don't require at home, and in return for it get gold and silver from abroad, secure credits abroad against which they may draw at will, and obtain titles to foreign bonds and real estate. The theory is as fallacious in the case of a whole people considered together, as it would be in the case of any one of them considered individually.

If an exporting people were to get their pay in gold and silver, those metals would not be useful to them (especially if theirs were a great gold and silver producing country), except as they could exchange them sooner or later for imports of goods or use them in the arts.

If they were to get credits abroad, the credits would serve them only as they set imports to flowing in their direction through drafts against the credits.

If they were to make investments in foreign real estate, that would be useless to them except as it brought imports from time to time in payment of rents, or, in the case of corporations, of dividends. Even were it possible for the people of one country continually to send "surplus" products abroad as exports for investment in foreign bonds and foreign lands, though their export balances might thus be kept steadily up for a long period, the time would have to come when rents, interest and dividends imported from abroad would more than offset all exports invested in foreign property; and after that the investing people would find their imports perpetually exceeding their exports, which would be significant, according to the export balance theory of trade, of approaching bankruptcy. As soon as the investments began to pay, the investors would begin to suffer!

The plain truth is that a perpetual export balance is utterly inconsistent with commercial prosperity. To be prosperous in their commerce a people's imports must on the whole exceed their exports.

American exports for the past three years are pointed at as evidence of American prosperity, because they enormously exceed our imports during the same period. But why stop with three years? If our merchandise exports during the past three years have exceeded our imports by more than $1,000,000,000, they have exceeded our imports during the past 30 years, as shown by the monthly summary of the treasury department, by more than $2,800,000,000. And our imports of gold and silver, instead of having risen above the exports of those metals during that 30 years sufficiently to pay off some part of the enormous export balance of merchandise, have actually fallen so far below, as to carry our total excess of exports—merchandise, gold and silver—several millions above $3,000,000,000.

If a perpetual excess of exports means that gold and silver are being imported in payment, why have we for the past 30 years exported more gold and silver than we have imported?

If a perpetual excess of exports means that we are running up a credit balance against which we may draw at will, why were we not able to draw during the past 30 years, when we were piling up an export excess of over $3,000,000,000, of which two-thirds was piled up three years ago? Instead of being at liberty to draw against a former credit we were during all those years piling up a foreign debt.

If a perpetual excess of exports means that we are investing in European securities or property, where are the evidences of title? Thomas G. Shearman asserts that whereas American securities are daily bought and sold in Europe, European securities are not traded in in the United States.

If a perpetual excess of exports means prosperity, why have we had two long and exhausting periods of industrial depression during those 30 years of enormous excess of exports?

The simple answer to it all is that continuous exports in excess of imports imply not prosperity, but exhaustion. They have the same significance regarding a people that continuous sales in excess of purchases have regarding a man. Representing what goes out, over and above what comes in, they cannot be persistent in the affairs of either a person or a people without culminating in complete commercial prostration.

What our vast excess of exports really means, in largest part, is that foreigners are drawing, in the form of American products shipped abroad, dividends on American securities, interest on American mortgages, and rents for American real estate. For these exports there are no counterbalancing imports. Hence the "favorable balance." But in sober truth could a trade balance be in character more unfavorable?

NEWS

On the day of our going to press last week, January 12, Commissary General Eagan testified before the presidential committee for the investigation of the mismanagement of the war, in such manner with reference to Gen. Miles as to have become the subject of a court-martial which may result in an authoritative and complete investigation into the quality of the food supplied last summer to the troops. This investigation may even probe the whole army scandal.

Replying to Gen. Miles's previous testimony that much of the beef furnished to the army was unfit for use, and especially to Gen. Miles's statement that it had been supplied "under the pretense of an experiment," Gen. Eagan said:

> It was not furnished under the pretense of an experiment, nor even as an experiment; and when Gen. Miles charges that it was furnished as a 'pretense of experiment,' he lies in his throat, he lies in his heart, he lies in every hair of his head and pore of his body, he lies wilfully, deliberately, intentionally and maliciously. If his statement is true that this was furnished under 'pretense of an experiment,' then I should be drummed out of the army and incarcerated in state's prison. If his statement is false, as I assert it to be, then he should be drummed out of the service and incarcerated in prison with other libelers. His statement is a scandalous libel, reflecting upon the honor of every officer in the department who has contracted for or purchased this meat, and especially and particularly on the commissary general —myself. In denouncing General Miles as a liar when he makes this statement I wish to make it as emphatic and as coarse as the statement itself. I wish to force the lie back into his throat. I wish to brand it as a falsehood out of whole cloth, without a particle of truth to sustain it, and unless he can prove his statement he should be driven out of the clubs, barred from the society of decent people, and so ostracised that the street bootblack would not condescend to speak to him, for he has fouled his own nest—he has aspersed the honor of a brother officer without a particle of evidence or fact to sustain in any degree his scandalous, libelous, malicious falsehoods—viz.: that this beef, or anything whatever, was furnished the army under 'pretense of experiment.'

The foregoing attack upon Miles was made with great deliberation. It was not a spontaneous outburst, but was read from a carefully prepared paper, which was left with the investigating committee, but which on the following day the committee returned with a request that Gen. Eagan revise its language before again submitting it as testimony.

Gen. Eagan sent to the commission on the 14th a revised statement, from which the objectionable language had been eliminated. He accompanied this with a letter explaining that such monstrous charges as those which he had long been compelled to endure in silence were calculated

> to work upon an honorable man in such a way as to goad him to a species of desperation, and that it was but natural, when the proper opportunity was given him to meet and refute the charges, that he should characterize them in harsh language and in terms that are deemed improper no matter what the provocation.

The statement as Gen. Eagan had originally made it, caused much excitement and gave rise to a belief that it would force the issue which Gen. Miles had raised with the war department. The president and the secretary of war were in consultation upon the subject, and at a cabinet meeting on the 17th the president announced that he had ordered a court-martial for the trial of Gen. Eagan. The order was made public on the 18th. It summons a general court-martial to meet at Washington on the 25th at 10 a. m., "or as soon thereafter as practicable, for the trial of Brig. Gen. Eagan, commissary general of subsistence, United States army, and such other persons as may be brought before it." The members of the court named in the order are Gen. Merritt, and Cols. Hains, Gillespie, Suter and Guenther, of the regulars, and Gens. Wade, Butler, Young, Frank, Pennington, Randall, Kline and Comba, of the volunteers. All the volunteers except Gen. Butler are attached to the regular army with inferior rank. Deputy Judge Advocate General Geo. B. Davis is appointed judge advocate of the court-martial. Maj. Gen. Wesley Merritt will preside.

In Cuba the process of reorganizing civil government subject to American military authority is well under way. Gen. Ludlow, as military governor of the department of the city of Havana, appointed on the 12th a mayor, five assistant mayors, 27 councillors, a secretary of the council, a secretary to the mayor, a civil governor, a chief of police, a city attorney, an auditor, and a treasurer—all Cubans. The mayor is Perfecto La Coste, late president of the Havana revolutionary junta; the chief of police is Mario G. Menocal, late commander of the insurgent troops in Havana and Matanzas provinces; and the civil governor is Federico Mora, a member of the late revolutionary junta in Havana. These appointments took effect on the 14th.

Gen. Brooke, military governor of Cuba, has appointed a cabinet of four advisers for the administration of the island. Their portfolios respectively are department of government, department of finance, department of justice and public instruction, and department of agriculture. The minister of government is Domingo Mendez Capote.

The Bank of Spain in Cuba has been reestablished by the war department, with temporary authority to collect the general property tax in the island for the fiscal year ending June 30, 1899. Its compensation is to be a commission of 5 per cent., and it is required to give a bond of $1,000,000. This bank is in bad odor in Cuba on account of its aggressive methods of collecting taxes under the authority of Spain.

Friction with the military authorities has brought about the resignation of the subordinate civil authorities—the mayor and the entire city council —of San Juan, in Porto Rico. As the cause of their resignation, which took place on the 13th, they assigned inability to raise sufficient funds under the present tariff, and dissatisfaction with what they describe as the abrupt commands of the supervisory military government.

The Chinese question in connection with our newly acquired Hawaiian territory has been simplified, —or complicated, according to the