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Marshall McKusick

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UNIFORMITY OF LAW AND ITS PRACTICAL APPLICATION IN THE NEGOTIABLE INSTRUMENTS ACT

DEAN MARSHALL MCKUSICK*

DURING the last quarter of a century there has been an earnest and persistent effort on the part of the legal profession to simplify and unify American jurisprudence. This effort has resulted in codifying many branches of the law both substantive and adjective, and in presenting such codifications to the legislatures of the several states and territories for adoption, hoping thereby to ultimately assimilate a body of law which shall be recognized by all states alike; this iridescent legal Utopia is much like that proposed by Bentham and his followers, one in which everyone should readily know the law or be able to quickly find it by turning to a code, and in which the professional lawyer would be abolished; such an idealistic dream vanishes like the mists of the early morning under the influence of the rising sun, for we know that what is right at one time and place is not necessarily universal truth; that "so long as the skein of human affairs is full of difficult tangles the law controlling those affairs cannot be simple or easily understood by uninstructed persons; that much of our law is in too vague a form to be written down; that new cases may arise tomorrow for which the common law will find an answer though neither the question nor the answer could be suggested by the one who framed a code to-day." The situation is tersely summarized by Dean Roscoe Pound, when he says, "Law must be stable and yet it cannot stand still." The vice of law uniformity is most excellently stated by Mr. Justice Cardozo of the New York Court of Appeals as follows: "Better that they (lawyers and

* Dean of School of Law.
University of South Dakota.

† From an address delivered by Professor Williston before the Law Association of Philadelphia, December 18, 1914.
judges) should stray as they are straying in the wilderness of precedents with all the snares and entanglements of dicta, than that they should lose the divine impulse to move onward and upward in the slow and toilsome process of renewing the foundations and the structure of justice upon Earth."

The great bulk of the work in preparing and initiating uniform laws has been born by the commissioners on Uniform State Laws of the American Bar Association. There have been in all thirty-two uniform acts drafted and approved by the Conference. Wisconsin leads the other states in the number of uniform acts passed by the legislature, twenty in all. Tennessee is in second place with seventeen, sharing this honor with Louisiana. The Negotiable Instruments Act has been adopted in fifty-one states and territories. Georgia is the only state that has not adopted the act. The act provides one standard for negotiable instruments as to their form or requisites of negotiability, and it provides a uniform rule as to methods of their transfer. When it is taken into consideration that ninety per cent of all interstate commerce is taken care of through the medium of some form of negotiable paper, it becomes immediately apparent that uniformity of law is necessary in order that commercial enterprises may be free from embarrassments resulting from a diversity of law in the several states in regard to the requisites and negotiability of bills, notes and checks. As expressed by Mr. Justice Winslow, "The purpose of the law is not to make radical changes in long established and fundamental principles, but to wipe out the many differences in minor details existing among the laws of the various states by adopting in each case that rule which was best adapted to the needs of the business world." "It is a matter of common knowledge that the Negotiable Instruments Act was drafted for the purpose of codifying the law upon the subject of negotiable instruments and making it uniform throughout the country through adoption by the legislatures of the several states and by the Congress of the United States. The design was to obliterate state lines as to the law governing

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3 Bills of Lading Act (1917); Cold Storage Act (1917); Conditional Sales Act (1919); Desertion and Non-Support Act (1911); Extradition of Persons of Unsound Mind Act (1919); Flag Act (1919); Foreign Acknowledgments Act (1915); Foreign Probated Wills Act (1915); Fraudulent Conveyance Act (1919); Limited Partnership Act (1917); Marriage and Marriage License Act (1917); Marriage Evasion Act (1915); Migratory Divorce Act (1901); Divorce Procedure Act (1901); Annulment of Marriage and Divorce Act (1909); Sales Act (1911); Stock Transfer Act (1913); Warehouse Receipts Act (1909).


4 State Bank v. Michel, 152 Wis. 88, 139 N.W. 748, rehearing denied, 152 Wis. 96, 139 N.W. 1131.
instrumentalities so vital to the conduct of interstate commerce as promissory notes and bills of exchange, to remove the confusion or uncertainty which might arise from conflict of statutes or judicial decisions amongst the several states, and to make plain, certain and general the controlling rules of law. Diversity was to be molded into uniformity."

In the United States there was, prior to the drafting of the Negotiable Instruments Law, a codification of the law of bills, notes and checks in some states. The earliest codification of this law is found in the California Code of 1872. A number of other states, including North and South Dakota, codify this law along practically identical lines.

In England the uniform bills of exchange act was passed in 1882 and has operated successfully ever since. It has been adopted by over two-thirds of the total number of the various colonies and dependencies of the British Empire.

The German Code on Negotiable Paper, called the German General Exchange Law, was adopted in 1849, was slightly modified in 1869 and has been in practical operation ever since in all the German states. The French Code was adopted over a century ago and has followed substantially ever since.

"The evils of diversity of law, which have afflicted France and Germany may in some respects have been worse than those which we find in United States. Whatever our differences of law may be, the main stream is with slight exception the same—the common law of England, which is the source of all our laws, excepting the slight infusion of civil law, which still persists in the territory obtained by the Louisiana Purchase and The Mexican War."

The first step taken toward uniform legislation with regard to negotiable instruments dates back to the year 1895 when a conference of commissioners from nineteen states was held and a resolution adopted requesting the committee on commercial law to procure the draft of the bill relating to commercial paper, based on the English bills of exchange act and such other sources of information as the committees might deem proper to consult; and to prepare a codification of the law relating to bills, notes and checks. The matter was referred to a sub-committee consisting of Lyman B. Brewster of Connecticut, Henry C. Wilson of New York, and Frank Bergen of New Jersey. Mr. John J. Crawford was employed by the sub-committee to draft the proposed law; it is important to note that the committee in drafting the law fol-

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*63 U. of Penn. L.R. 200.
lowed the decisions of the federal courts wherever the laws of the state courts were in conflict. When completed, the draft was printed and a copy sent to each member of the conference, also to many prominent lawyers and law professors, and judges of the English Bench asking them to offer suggestions as to changes or additions to the proposed law. The draft was submitted to the conference at Saratoga, New York, in 1896. The commissioners in attendance were twenty-seven in number and represented fourteen states. The proposed law was gone over section by section, and amendments were made thereto. The finished product was recommended for enactment by the state legislatures and approved by the American Bar Association.7

There are a number of obstacles to be met in securing uniformity of law: first, the inexpert drafting of statutes, second, the leaning of courts towards the decision of legal points in a controversy in the light of case precedent irrespective of statute law, third, judicial legislation, and fourth, local conditions.

First, the inexpert drafting of statutes. In prefacing the first obstacle to uniformity of law may I suggest that a large share of the responsibility for the draftsmanship of a statute rests upon the lawyers, who are members of the legislatures. In regard to those statutes which modify in effect, the common law, almost the entire responsibility for the draftsmanship, both as to substance and form, rests upon the lawyers in the legislatures. If such a statute miscarries by reason of want of knowledge of the common law, or want of art in drafting a statute, the blame falls principally upon the lawyers. An authority upon statutory construction has said, "the quality of the statutes in each state is not a bad index to the average quality of the bar in that state." Whether this statement is correct or not is not material to this paper. The fact remains, however, that to draw a statute modifying the common law in such language as to effect the result intended is one of the most difficult achievements of legal skill. Instances of such statutes, ancient and modern, might be cited to corroborate this statement. The statute of uses passed by Parliament in 1535 was intended to abolish uses; it resulted in placing uses on a much firmer foundation than before. Inexpertness in drafting the statute was not the only cause of this result; judicial legislation assisted materially.

When the Negotiable Instruments Act was adopted in Wisconsin in 1899 some alterations were made and among others a sub-section to section 120 of the original act.

7An interesting commentary upon the Negotiable Intruments Law as a result of the Ames-Brewster controversy is found in a review by Professor Joseph Brannan in his text on the Negotiable Instruments Law. (Third Edition) 418.
Section 120 reads as follows:

"A person secondarily liable on the instrument is discharged:

"(1) By any act which discharges the instrument.
"(2) By the intentional cancellation of his signature by the holder.
"(3) By the discharge of a prior party.
"(4) By a valid tender of payment made by a prior party.
"(5) By a release of the principal debtor unless the holder's right of recourse against the party secondarily liable is expressly reserved.
"(6) By any agreement binding upon the holder to extend the time of payment or to postpone the holder's right to enforce the instrument, unless the right of recourse against such party is expressly reserved."

The sub-section added by the Wisconsin Legislature was as follows:

"By giving up or applying to other purposes collateral security applicable to the debt, or, there being in the holder's hands or within his control, the means of complete or partial satisfaction, the same are applied to other purposes."

Clearly, this sub-section was either not properly drafted or was intended to change the existing law already decided by the Supreme Court of Wisconsin. Mr. Justice Winslow, in referring to the Plankinton Case, says: "It seems to be demonstrated that the new sub-section was based upon this decision, by the fact that the syllabus of the Plankinton case is quoted in full in the note to the entire section under the heading, 'Releasing Security.' It is equally clear that there was no intention to change the law as laid down in Plankinton v. Gorman but rather an intention to incorporate the principle of that case in the Negotiable Instruments Law, because no mention is made in the note of any change in the law of Wisconsin, and it is quite plain that the Plankinton Case is cited as the basis upon which sub-section '4A' rests." Granted that this is true, nevertheless, the language of the sub-section does not express that result. Mr. Justice Barnes in the dissenting opinion says, "The statute under consideration seems to me to be as plain as the English language can make it. . . . If the creditor applies collateral security to other purposes than the payment of the debt which it was given to secure, the surety is discharged. I do not see how this provision can be read to mean a partial discharge only, when the value of the collateral surrendered or misapplied is less than the debt which it was given to secure. If the legislature had so intended, it would have said so. The second contingency provided for, even more clearly if possible, shows that the legislature intended what it said—a discharge—which obviously means nothing short of a complete discharge. This provision is to the effect that where there is in the creditor's hands or

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*Plankinton v. Gorman, 93 Wis. 560, 67 N.W. 1128. (June 1896).*
under his control the 'means of complete or partial satisfaction,' and he fails to make the proper application of them, the person secondarily liable is discharged. The same results follow whether the property is partially or entirely sufficient to pay the debt. In either case there is a discharge. I think it is unfair to the legislature to say that it had the intent found by the court. To do so is to convict it of being extremely careless in the use of language in enacting an important statute. At best we have another case of 'hindsight' being better than 'foresight.' If the matter had been called to the legislature it might have provided for pro tanto discharges only, in proper cases, and then again it might not. It would not be difficult to express such an intention so that it could be easily understood. Not having done so one of two things is apparent: either the legislature did not think of partial discharges or else it did not intend to provide for them. If the first 'horn of dilemma' is correct, the legislature should remedy the defect; and if the second is correct, there is nothing to remedy." The Supreme Court in the majority opinion in this case corrected the error—if there was one—but in doing so exercised the function of the legislature. The writer has used this illustration at length to show the possibility of error in drafting a statute.

Second, the leaning of courts toward the decision of legal points is a controversy in the light of case precedent irrespective of statute. The present era of our jurisprudence is one of case law, the lawyer having obtained the facts in his case, examines the statutes of his state to determine the legal status of the controversy. If, perchance, there is no statute in point, he begins a search for authority involving the common law principles of his case, and the courts of last resort, in turn, exert themselves to explain their decisions on the bases of other cases handed down either by the courts of that state or of other states that may have decided the question of law at issue. The Uniform Negotiable Instruments Act is framed in such language for the most part, that resort to legal precedent is unnecessary. The language of the court in *Columbian Banking Co. v. Bowen* expresses in no uncertain terms the plain duty of the courts under a uniform statute law: "such a statute (referring to the Negotiable Instruments Law) was enacted for the purpose of furnishing in itself a certain guide for the determination of all questions covered thereby relating to commercial paper, and therefore, so far as it speaks without ambiguity as to any such questions, reference to case law as it existed prior to the enactment is unnecessary and is liable to be misleading. The Negotiable Instruments Law is not merely a legislative codification of judicial rules previously existing in this state, making that written law which was before unwritten. It is, so far as

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*134 Wis. 218, 114 N.W. 451.*
it goes, an incorporation into written law of the common law of the state, so to speak—the law merchant generally as recognized here—with such changes or modifications and additions as to make a system harmonizing, so far as practicable with that prevailing in other states.”

The disposition of some courts to follow prior decisions in their own states rather than the explicit provisions of the Negotiable Instruments Act will in time decrease the efficiency of any uniform law and render chaotic, legislation which was intended to simplify and clarify law which was previously uncertain and confused. Chief Justice Rugg, in Union Trust Company v. McGinty, gives an excellent exposition of law uniformity as follows: “It is a matter of common knowledge that the Negotiable Instruments Act was drafted for the purpose of codifying the law upon the subject of Negotiable Instruments and making it uniform throughout the country through adoption by the legislatures of the several states and by the Congress of the United States. The design was to obliterate state lines as to the law governing instrumentalities so vital to the conduct of interstate commerce, as promissory notes and bills of exchange, to remove the confusion or uncertainty which might arise from conflict of statutes or judicial decisions amongst the several states, and to make plain, certain and general the controlling rules of law. Diversity was to be molded into uniformity. This act in substance has been adopted by many states. While it does not cover the whole field of negotiable instrument law, it is decisive as to all matters comprehended within its terms. It ought to be interpreted in such a way as to give effect to the beneficent design of the legislature in passing an act for the promotion of harmony upon an important branch of the law. Simplicity and clearness are ends especially to be sought. The language of the act is to be construed with reference to the object to be attained. Its words are to be given their natural and common meaning, and the prevailing principles of statutory interpretation are to be employed. Care should be taken to adhere as closely as possible to the obvious meaning of the act, without resort to that which had theretofore been the law of this Commonwealth, unless necessary to dissolve obscurity or doubt, especially in instances where there was a difference in the law in the different states.”

Some of the courts have followed an unfortunate and ill- advised tendency in their construction of several sections of the Negotiable Instruments Act. The courts of New York—which was the first state to

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adopt the act—offer a conspicuous example of the possible damage that may be done law uniformity. Let us take Section (25)\textsuperscript{12} of the act as a concrete illustration; this section reads as follows:

"Consideration. What constitutes the value of any consideration sufficient to support a simple contract? An antecedent or pre-existing debt constitutes value; and is deemed such whether the instrument is payable on demand or at some future time." This section, it was supposed, would settle for all time the perplexing question as to whether a person was a holder for value of a promissory note or bill of exchange taken in payment of, or as collateral security for an antecedent or pre-existing debt. The "New York rule," which had its inception in 1822 in the case of Coddington v. Bay,\textsuperscript{13} held that a pre-existing or antecedent indebtedness did not constitute value for the purpose of establishing bona fide ownership of negotiable paper. A number of cases involving this issue have been decided by New York courts since the Negotiable Instruments Act was passed. In only a few of the cases was the Negotiable Instruments Act mentioned and the old case of Coddington v. Bay was frequently referred to as the law of that state. The first decision of any of the state courts to construe Section 51 was Brewster v. Shrader.\textsuperscript{14} A part of the language of this decision by Mr. Justice Werner follows. The court said, "The language of this section when given its usual and ordinary signification ought to leave no room for doubt upon the subject. There is, however, such a universal disposition among lawyers to look for some hidden or subtle meaning in the most simple language, that it has become quite the fashion for the courts to construe statutes, which, to the average lay mind, seem to require no construction. If the language of this section was not obviously clear and unequivocal and there was need of ascertaining the legislative intent in order to give proper effect to such language, the history of the subject, of the judicial decisions in England and the states of this country, and of the proceedings of the commission on uniformity of laws, leave no possible doubt as to the purpose of this section. James W. Eaton, who was at the time instructor in the Law of Bills and Notes in the Albany Law School, in his published edition of the New York Negotiable Instruments Act in a note to Section 51, says: "It is to be inferred that the above section extends the New York law to include instruments given merely as collateral security." Mr. Justice Werner in the Brewster case gives a very scholarly exposition of the law of this section and it would seem that the matter had been settled, but in 1903 in the

\textsuperscript{12} Section 51 of the Negotiable Instruments Act of New York.

\textsuperscript{13} 20 Johns. 637.

\textsuperscript{14} 26 Misc. (1899).
case of Sutherland v. Mead, the court of five judges unanimously overruled the decision in Brewster v. Shrader and returned to the New York rule in Coddington v. Bay. This is all the more extraordinary in view of the fact that in 1903 decisions of other states had passed upon Section 51 and concurred with Brewster v. Shrader; it is strange, too, that none of these decisions were even referred to.

Without an analysis of all the New York cases—for the scope of this paper will not permit—it appears that the judiciary of New York, up to the time of the decision of Kelso v. Ellis, lacked the true juristic conception of the law in Section 51 and tenaciously clung to a decision obviously in conflict therewith. Satisfied with that principle asserted over a century ago, they failed to recognize the necessity of examining the subject anew in the light of the uniform act of 1897. Nor did they deign to notice the decisions of courts of last resort decided under this section. The decisions of other states in construing this section of the act, for the most part, do not hesitate to apply the law in its natural meaning, even though to do so is to overrule some pet theory adopted by their courts for many years. And why not? What is the use of a uniform law unless we can have uniform decisions thereunder? And how are uniform decisions to be reached except by recognizing the decisions of other states under the same law?

Third, judicial legislation. It has already been pointed out in an early part of this article, that courts have been known to supply by judicial legislation deficiencies, so called, in a statute because of inadvertence or careless draftsmanship by the framers of the statute. State Bank v. Michel (Supra). Whether this is legally justifiable is a matter about which there seems to be a difference of opinion among laymen and even members of the Bar. But at all events this practice is a serious menace to the achievement of uniform law. A case was decided in Iowa not long since in which the question at issue involved the liability of an endorser of a non-negotiable instrument. The court, after stating the law applicable to the endorser of a non-negotiable instrument and that he was practically a primary debtor, quoted the sections covering endorsement in the negotiable instruments act as applicable to non-negotiable paper. Clearly, it was never intended by the framers of the Act to make any rules controlling non-negotiable instruments whatever. A strict adherence to the letter of the text will always justify a court in declaring its decision and if this is unpopular the legislature may be invoked to enact the rule which the people demand. In the words of

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15 88 App. Div. 103.
16 224 N. Y. 528, 121 N.E. 364, (1918).
Mr. Justice Gates in *Harris v. School District*,16 "We must construe the law as we find it. It is no part of our duty to determine what it ought to be."

Fourth, *local conditions*. Finally, to secure a uniformity of law there must be uniformity of local conditions or in other words, for commercial purposes, the Negotiable Instruments Act must adapt itself harmoniously to the business conditions in all localities indiscriminately. But, as Lord Coke once remarked, "the law must follow business." This has been exemplified already in the Negotiable Instruments Act, for some important changes have been made in the original draft and others are contemplated. While this is the most serious obstacle to law uniformity and will continue to be so, it is not fatal. Let us examine some of these changes critically. By a provision of the Act, days of grace are abolished. Grace originally became recognized before the age of steam, when communication was slow and difficult. It is said to have been a mere matter of indulgence at first, at the holder's election; custom finally established it as a matter of right in favor of the party who was primarily responsible for the payment of the paper. The framers of the Act were governed by the principle that since the reason for the rule ceased in these modern times the rule should cease also; hence, the days of grace were abolished. Cutting off days of grace has not been satisfactory to business interests and in several states three days of grace have been granted sight drafts.19 Thus, the statute has been modified because of local needs. Section 85 in its original draft, has been materially changed in Arizona, Kentucky and Wisconsin by the omission of the sentence "instruments falling due or becoming payable on Saturday are to be presented for payment on the next succeeding business day, except that instruments payable on demand may, at the option of the holder, be presented for payment before twelve o'clock noon on Saturday when that entire day is not a holiday." There is probably more discord over this section than there is over any other in the entire act. Section 87 also presents another apt illustration of a rule which is not acceptable to many of the states.20 This section reads

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19 States allowing days of grace are Mass., N. H., N. M., Okla., and R. I. Colo. allows three days of grace on demand paper at the option of the holder, N. C. allows days of grace on paper payable within the state, at sight in which there is an expressed stipulation to that effect.
20 This section omitted in the original draft of the Ill., Neb., and S. Dak. Acts and has been repealed in Kan. and N. Dak. The Minn. Act, whether by inadvertence or not, declares that the making of an instrument payable at a bank shall not be equivalent to an order to the bank to pay the same for the act of the principal debtor. General statutes 1913, Section 5899.
as follows: "Where the instrument is made payable at a bank it is equivalent to an order to the bank to pay the same for the account of the principal debtor thereon." Prior to the statute there was some conflict in the decisions as to the authority of a bank to pay a note or accepted bill of exchange made payable there. No doubt the rule itself is a most convenient one in practice, but, nevertheless, local conditions in some states either entirely eliminated this rule or materially changed it. It can easily be seen that even after the passage of the uniform act the legislature may amend it materially, and each amendment detracts from the uniformity desired. The commissioners on uniform laws of the American Bar Association saw this danger and have advocated a remedy which consists in placing before the commissioners of uniform state laws the proposed amendment. If any proposed amendment is undesirable or unimportant all will agree that no legislature should adopt it. On the other hand, if a suggested amendment is a desirable one it should be adopted, not in one state only, but it should be adopted in every state where the law is in force. It is useless to expect all these states to adopt the same amendment precisely unless it comes from some source as an authority to which all will defer. The commissioners on uniform state law compose the only body in existence of that kind, and, therefore, before any legislature adopts an amendment to the negotiable instruments law it should obtain the opinion of this committee as to the advisability of the proposed amendment. When thus approved the committee should also recommend its adoption by the legislatures of all the states that have adopted the law. Unless this is done the desired uniformity cannot continue.

It has been argued by many that Article I of Section 10 of the Constitution of the United States can be evoked to supply the remedy needed against amendatory legislation by one state alone. Article I of Section 10 makes the following declaration: "No state shall, without the consent of Congress, enter into any agreement or compact with another state"; the necessary implication being that with the consent of Congress the states may enter into an agreement or compact with each other. The states can therefore agree among themselves with the consent of Congress that a uniform law adopted by them shall not be amended unless an amendment proposed shall receive the approval of the commission of the American Bar Association on Uniform State laws and shall be adopted in all the states that have adopted the uniform law it is proposed to amend. If amendments are to be lightly undertaken and adopted, separately, without concurrent action in any one of the states that has adopted a uniform law, uniformity is at once ended. The plan suggested would prevent this, but the necessity for its course has not yet
become manifest enough to arouse a public sentiment that would demand it.

No agency, perhaps, plays a more important part in producing law uniformity than the courts. It is a surprising fact that many courts have interpreted and construed the various provisions of the Negotiable Instruments Act without any reference to the Act at all. In the study of a hundred cases taken at random the writer has found that forty per cent of these cases have been decided by courts of last resort involving sections of the Act with no reference thereto whatsoever. It is to be regretted that the Negotiable Instruments Act is not devoid of defects, but the assistance of experience, the demands of business and the hearty cooperation of the bench and bar will in time perfect the law of commercial paper and give thereby an impetus to uniformity of law along other lines.

The American Law Institute is at the present time engaged in a monumental undertaking in the restatement of the principles of the common law. Judge Benjamin N. Cardozo says that there are those who say that: "The bench and bar will find new subjects of contention in the uncertainties which the restatement will develop, however well the work is done. Now those who think and speak thus have missed altogether the end and aim of our endeavor. They forget that the judicial process...is a technique that is founded upon the experience of judges and not a technique that is founded upon the interpretation of authoritative texts. They fancy that we shall impose shackles when we seek to loose and free. They fancy that we are building a new labyrinth in which justice will be imprisoned when we are seeking to give a key to the ancient labyrinth from which she has long cried to us for outlet and escape." 21 Law uniformity will be greatly promoted through the organized effort of the high minded and distinguished members of this Institute. It will give us scientific statements that will lend the virtue of stability and aid in the ultimate establishment of an American corpus juris.