

William Smart



THE RETURN TO PROTECTION

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THE RETURN TO PROTECTION

BY

WILLIAM SMART

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IN THE UNIVERSITY OF GLASGOW

"In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest."—ADAM SMITH.

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To my Wife

PREFACE.

THIS book is based on a series of lectures delivered to popular audiences in Glasgow and Edinburgh during February and March of the present year. I had no thought or intention of publishing them, and I have done so only in deference to the many friends and hearers who urged it on me.

Those—if there are any—who read this in future years, may be reminded that it was written during the universal discussion which accompanied and followed Mr. Chamberlain's propagandism of Preferential Tariffs, and Mr. Balfour's advocacy of Retaliation. It seemed to me that both these proposals led back to the system discarded in 1846, and that any adequate discussion of them must begin with some consideration of the theory of international trade and of the principles which underlie the rival policies. Mindful of M. Yves Guyot's warning that we, in this country, are so used to the blessings of Free Trade that we do not appreciate its merits—"just as a man is in good health when his organs work without his feeling them"—I have given some space to the

consideration of Protection, especially to its aspect as delegated taxation. There are two sides to the question now before the nation; the gain or loss, economically and politically, of the return to Protection, and the gain or loss, economically and politically, of the abandonment of Free Trade. It is only, I think, when these two sides are fully considered, that the dangers of the present proposals reveal themselves.

The fourteen teachers of Political Economy who signed the Manifesto for Free Trade in August of last year have been much abused as "men of theory"—as if theory were not the soul of facts. But, although proud to be one of the fourteen, I may claim exemption from the reproach of knowing nothing practically about business. I was a Free Trade manufacturer in this country, and a Protected manufacturer in the United States, long before I became a teacher.

My most grateful thanks are due to the staff of my department for their affectionate help in revising, suggesting, and, particularly, in the collection and checking of statistics. And I am under deep obligation to the anxious care of one who read the proofs with microscopic eye, and let no careless expression pass without a note of interrogation and remonstrance.

WILLIAM SMART.

UNIVERSITY OF GLASGOW,
April, 1904.

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CHAPTER I.

WHAT TRADE IS.

All Trade, home or foreign, is an exchange of goods. In modern societies, the real co-operation of producers to serve each other as consumers takes the form of competition with each other. But, in home trade, the competition is most prominent ; in foreign trade, the co-operation.

IT is impossible to come to a fair judgment on the comparative merits of Free Trade and Protection without understanding, not only how trade between nations is carried on, but what all trade essentially is.

Trade is an exchange of Services. The services are generally embodied in material goods, and then called Commodities, but in many cases they are simply rendered by personal acts. It is these mutual services which explain the whole industrial organisation. As received, they fill and satisfy our lives : as rendered, they are our claim for wages, salaries, interest, profits, and we take our payment in them.

We are all servants of each other—sitting in a ring, as it were, making goods to our own demand, and throwing them into a heap in the

centre. If we could see more clearly, it would be our pride and pleasure, as it is our interest, to add more and more to the heap ; for, the greater the heap, the more there is to eat, to wear, to use, to satisfy that strange complex of wants and desires and energies which we call Life. But, in historical development, this essential co-operation of the working life has taken on the outward form of competition. Producers no longer work for their own hand and to satisfy their own wants. Industry is divided up and organised into producing units. The simple "hand-process" has developed into the "production-process," extending over long periods and gathering its material from all quarters. It becomes more difficult to see the end from the beginning—to realise that, as always, it is the Services for which we work, and the Services in which we get paid. And, with this, the great common issue and goal of producing more goods is obscured by the differences of interest which emerge as to the distribution of the goods ; that is to say, the essential co-operation of the workers to make and increase the heap of goods becomes more difficult to remember ; the competition of the workers to get their share comes more to the front. Thus it seems to those engaged in the industrial life as if they were all struggling against each other. The working man thinks he is bargaining with a greedy employer, and fighting against "blacklegs" who would fain take his job. The employer thinks he is struggling to keep his feet with workers ready to revolt, and knows that he is fighting for life or

death with his brother employer in the next street. All the time, the truth is that we are sitting in a ring, just as before, feverishly adding to the heap of things in the centre—competing with each other for the chance of adding most. It seems as if I were trying to steal your thread, and you were trying to sneak away my needle. So, often enough, it is ; but, all the same, the heap of things in the centre grows. And the end of the things is Life.

It reminds one of a foursome at golf. Two of us are partners, and we play into each other's hands. But each couple fights for all it is worth against the other couple. In the end one couple wins. Does the other lose? Yes ; it loses the match. But both have won,—both have gained in what, after all, is the end of the game : both go home to their dinner, richer in skill, in exercise, in health, in appetite. Or, perhaps, it would be truer to say that, after being one up and one down all the round, the two couples come in square. This is merely a lighter reading of the phenomenon we put in economic terms when we say : Industry is the making and exchanging of Commodities and Services for the support of man's life.

It is a hierarchy of Service. A gang of negroes, under a burning sun, cultivate and gather cotton ; fighting among themselves, with lowering glances at their overseer, but—gathering cotton. Ships compete to carry it home ; the lowest freight gets the cargo ; fighting again, but—the cotton is shipped. In a Lancashire mill, workers are on

the brink of a strike ; trade union men watching the owners, watching the "blacklegs" ; employers keeping a smiling face with fear in their hearts ; fighting all, but—the cotton is spun and woven. In a Manchester warehouse, are half a dozen travellers trying to sell cloth, watching and waiting, fawning or bullying ; fighting again, but—the cotton is sold. In a London street lines of shops are offering the same cloth ; some keeping back the truth, others adding to it ; all advertising that this and this only is the best ; and we—for whom the whole long struggle of competitive service is undergone—we carry it off to cover our shivery bodies withal.

All the long struggle ends in Service to us. It is a struggle to serve—Service through Competition.

What, in a word, is the constant and daily struggle of competitive industrial life but the effort to make goods "cheap"? But what is Cheapness? It is only another expression for Abundance. Things fall in value and in price just as we get more of them. In the Garden of Eden there could be neither value nor price.

In home trade, it is the Struggle that catches the eye more than the Service—for, indeed, in the long production-process the end is so far from the beginning, and each worker makes such a little bit of a thing, that it is difficult to realise that, what men work for, is the things that support our many-sided Life. A man who spends his life turning threads on a screw can scarcely be

expected to realise that he is making part of his own kitchen table.

But, in trade between nations, it is the Service that is brought out rather than the Struggle. For the chief phenomenon here is that countries *supplement* each other. Almost no modern civilised life can be supported, no breakfast table covered, by anything less than the co-operation of goods and services from all the world we know. Nations send to each other what they alone can grow, or dig, or make ; or what they can grow, or dig, or make better and cheaper than the others. In this view, the type of mutual service is, say, an exchange of oatmeal from Scotland for claret from France, or, better perhaps, an exchange of steam coal from Wales for hematite ore from Spain.

The Struggle does come in, and, in late years, has come in very bitterly. It scarcely emerged so long as each country had the "natural protection" of distance, and accordingly exported only products for which it had obvious natural advantages—in days when France sent wines, and America maize, and Norway timber. We do not grow these things, and we had to pay heavy freights, and so a heavy price, if we wanted them. But now when America sends wheat, and France woollens, and Norway butter, the Service they render becomes somewhat obscured by the Struggle which ensues with our own producers. We sell cheap ships to Germany and cut the feet from under her own builders. She sells cheap steel to us, and our makers cry out.

That is to say, as nations become drawn together by steam, and electricity, and the international post, and international banking, and as sea carriage becomes cheaper than railway carriage, the struggle to serve becomes almost as keen between Britain and Germany as between Lancashire and Glasgow; and we British makers do not like it, any more than Glasgow weavers like Lancashire competition. But, seen from above, it is just the same old struggle to serve on the larger scale—Germans and Englishmen competing to serve Germany, and Englishmen and Germans competing to serve England.

There are, of course, some who speak against Competition in itself as a bad thing. So it would be, if it were that kind of struggle where nations try to blow each other to pieces. But when competition is clearly seen to mean the struggle to provide you and me with Abundance, the matter puts on another aspect. If we ever get that all-sided Free Trade which everybody seems to think so desirable, there will be a struggle to serve such as we have never seen before, and I only hope that England may be able to hold her own in it. Anyhow, through it international trade is, on a large scale, what home trade is on a more restricted one—the Struggle to Serve. If we shut out foreign competition, we shut out foreign service. These things will come out pretty clearly when we go on to ask what our Foreign Trade consists of.

CHAPTER II.

OUR FOREIGN TRADE.

A glance at our Imports and Exports shows, as we should expect, the special importance to us of foreign trade. In essence, it is an extension of home trade—an exchange of goods; similar in its motive and conduct; similar, too, in its method of payment, for, as gold does not pass, the values of goods either way are put in contra-account, and Exports tend to balance Imports.

IT would be rather short-sighted to gauge the importance to us of foreign trade by the fact that it is perhaps only one tenth or one eighth of our total trade. If the United States were to shut herself up inside a prohibitive wall of tariffs, she would still be almost self-sufficient.¹ But we lie between 50 and 60 degrees north latitude; ours is a very small country at best, with a dense population; and we have, besides, sunk much of our capital and specialised much of our labour in industries which depend on other countries for

¹ "When, on Pike's Peak in Colorado, the thermometer is down to 12° or 13°, and, in the North-west is only a few degrees above freezing point, in New England it will be moderately cool—say 43°; in the Mississippi valley it will be comparatively warm—say 52°; and in Florida it will be at summer heat—75°."—Lawson, *American Industrial Problems*, p. 43.

their material and for their market. It seems, too, as if we were destined by nature to be ocean carriers.

Take one short excerpt of our Imports for the last fiscal year. It comprises, in round figures, £5 millions of Wines, £5 millions of Petroleum, £5½ millions of Tobacco, £6½ millions of Caoutchouc and Gum, £8 millions of Leather, £8¾ millions of Tea, £11¾ millions of Maize, £14¾ millions of Sugar, £25 millions of Timber, £41¼ millions of Raw Cotton. It is needless to say that we require all these things for immediate consumption and as materials for our industries, and that we must, for the most part, import them.

Another excerpt comprises £6¼ millions of Eggs, £6¼ millions of Cheese, £12 millions of Barley and Oats, £17¼ millions of Bacon and Hams, £20 millions of Wool, £20½ millions of Butter, £27½ millions of Meat living and dead, £36 millions of Wheat and Wheat Flour. These, indeed, are all products which we could raise or make at home, but we could scarcely provide the whole of them without encroaching seriously on the provision of other things.

Take, again, a few of our Exports. There are £5½ millions of Linen Manufactures, £5¾ millions of Ships, £6¼ millions of Apparel and Slops, £17 millions of Machinery, £21¼ millions of Woollen Manufactures and Yarn, £26¼ millions of Coal, £29¼ millions of Iron and Steel, £65 millions of Cotton Manufactures and Yarn. These figures show how much we have specialised in making

goods for foreign countries. But a more gratifying feature is that the long list of our exports shows that, in addition to these great staples, we are exporters of "odds and ends": it indicates a healthy state of things that there is scarcely an industry one could name which does not export something.

Our foreign trade, then, altogether amounts to £877,000,000; made up of £528,000,000 of Imports, and £349,000,000 of Exports (£65,000,000 of these being re-exports). These are values of solid Commodities brought in and taken out over British seas; and—partly as reflex and consequence—of the 32,000,000 gross tons of shipping in the world, we own the half.¹

How is this foreign trade done?

A good deal of the mystery which seems to surround the subject would disappear, if it were realised that it is done *freely* by individual merchants and manufacturers in the various countries, working for a profit, with no consideration for

¹The above figures of Imports and Exports, taken from the Statistical Abstract 1903, do not include Bullion and Specie, of which we imported, in 1902, £21,629,000 of gold (£8 millions from South Africa, £3½ millions from India, £5 millions from Australia), and £9,764,000 of silver (£8 millions from the United States), and exported £15,409,000 of gold and £10,716,000 of silver. Nor do they include, either as imports, exports, or re-exports, excisable foreign merchandise transhipped under Bond, (£13,683,000). To the imports should be added £5,380,000 of diamonds from the Cape, not declared to the Customs. It may be noted that fish of British take, landed in the United Kingdom, are not included among imports. The value of these in 1901 was £9,000,000.

national interests ; and that it would not be done unless there were a profit in it.

A sugar merchant here, for instance, appoints an agent abroad and supplies him with samples and quotations. The agent either sends orders at these quotations, or wires home what price he can get. If the price is below the quotation, the merchant goes down to Greenock, and sees if he can induce some refiner or other to quote lower. But there is no reason that the refiner should sacrifice his profit because the sugar is wanted for a foreign country. And, although the sugar merchant may do so on occasion, it is only from considerations of future profit.

Or, say that the manufacturer is the exporter—as, evidently, he is tending to become. He has not one cost for goods sold at home and another for goods sold abroad. He will sell at cost (including profit) in the one market as in the other. Sometimes, indeed, he will sell under this cost abroad in order to “get in,” but so he does at home. There is nothing preferable in foreign trade unless he gets a better profit by it, or, it may be, gets his cash more easily, or sells in larger bulk. The motive in both cases, then, is the same—profit.

Nor is the method different. A merchant here receives an order from a town in Great Britain, and sends down the goods packed to the railway. By the same post comes an order from New York, and the goods packed are sent down to the harbour. In the latter case, the goods require to be more carefully invoiced and described, and the invoice has sometimes to be sworn to before a

consul as accurate, but this should not be very difficult for an honest man.

Nor yet is the way in which payment is made essentially different. In due time, home goods are paid by a cheque; foreign goods, by a bill of exchange.¹ Indeed, in many cases, when goods are put on board ship, the Bill of Lading is given to a bank here, which does not give it up till cash is paid abroad, the bank meantime giving an advance to the exporter to a large proportion of the value. In either case, the sender gets his payment, in British money, through his own bank, and each transaction ends with a payment. The export of goods, again, from other countries to us takes place in exactly the same way—merchants and manufacturers, there also, sending out goods for a profit, getting paid in their own money, and the transaction ending with the payment.

What we have, then, in international trade is just an extension of home trade. We send goods as naturally to France as we send them across the other channel to Ireland.

If there is one thing more prominent than another as to the means of payment in home trade, it is that Gold does not pass between buyer and seller, debtor and creditor. It might

¹ Without going into the mysteries of banking, it may suffice to say that the reason why payment for foreign goods is not made by cheque is that each country's banking system does not extend beyond its own shores.

pass ; but it never occurs to anyone to take this cumbrous method when an easier and more economic one is within everybody's reach, and when there is one great class of traders waiting and anxious to make a profit by arranging payments through their books. Why, then, this persistent assumption on the part of some people that, when goods are sold to foreign countries, they are paid for in gold ?

As in home trade, they may be paid for in gold. Gold will pay for them, and sometimes it may be more convenient to pay in gold than in anything else :—it is quite clear, for instance, that gold-producing countries pay for much of their imports with gold. But it is just as true that they may be paid for in any other kind of goods.

It takes a little thinking to realise that, in home trade, payments are made by setting debts against debts, and that this is merely another way of saying, "setting goods against goods." You send me £100 worth of goods, and I, for the moment, am in debt, and send you a record of it in the shape of a promise to pay in three months. On the other hand, I send you £100 worth of goods, and you give me a promise to pay in three months. The promises may be bought and sold and pass into other hands ; in any case, they remain in existence as debts for three months. At the end of that time they are brought together and cancel each other.¹ What really has happened,

¹ It is strong testimony to the literal "trust" which underlies the credit system that, in the great majority of home transactions, the promise is not put in documentary shape at all ; goods are

of course, is that the one sending of goods has been put in contra-account against the other. So banking is just a vast complex system of contra-accounting—value of goods represented for the moment by documents put to the debit and credit sides of bankers' books. Happily, this need not be dwelt on, because, in international trade, the foundation of the contra-account is quite obvious and prominent.

To one standing at Gravesend, and watching the innumerable ships that pass in and out of the Port of London, it must be evident that valuable goods are being brought in and valuable goods are being sent out of the country. All these goods must be paid for. And if there is, in all countries, a special trade set aside for, and doing almost nothing else than, arranging payments between buyers and sellers, debtors and creditors, it is evident that these valuable cargoes will be set against each other. There are bills drawn from the one side and bills drawn from the other; these put the values of the goods into figures, and afford documentary records of the transactions; and these records can be easily set against each other in debtor and creditor account. But, underlying all these records, is the something recorded, and that something is the valuable goods sent either way.

As has been said, all these cargoes could be paid

sold on customary terms of credit, and paid on a mere reminder that payment is due. Perhaps there is no better instance of the recognition of a "common interest" and a "general will" among whole peoples than this.

for in gold. It is conceivable that there might be a constant current of gold crossing the seas either way. But, as the chief function of gold is not for consumption but for circulation, it would be a singularly futile and wasteful proceeding to send gold oversea, only to get it sent back again.

Gold does, indeed, pass between nations : every week, the financial journals tell of so much bullion or so many sovereigns sent out or brought in. But this gold current evidently pursues a course of its own, regulated for the most part by the needs of the nations for bank reserves : instead of making payment, it is, perhaps, more often than not, going counter to the course it would take if it were being sent in payment of goods.

If, then, the only object of sending goods abroad is to sell them ; if the only object of selling them is to get paid for them ; if goods cannot be paid in mere promises ; if they are not paid in the universal commodity, gold ; and if, as a rule, no man is conscious of not being paid—why, then, we should naturally expect to find that there is a contra-account in goods : that Imports are paid for and balanced by Exports.

CHAPTER III.

THE BALANCE OF TRADE.

The constant excess in our Imports over our Exports is due to statistical necessities. It is explained, from the side of exports, (1) by shipping charges; (2) by bankers' and other commissions—these two are "invisible exports": from the side of imports, (3) by returns on capital lent and invested abroad; (4) by boarding expenses, and by some smaller items.

ALLOWING for time and accidental disturbances, there should, apparently, be equivalence in value between the Exports and Imports of a country.

No sooner, however, do we get this length in deductive reasoning than we have to face the fact that, according to the last statistics, Spain is the only country whose exports and imports do balance each other. Germany has a balance of Imports over Exports of some £57 millions; France, some £23 millions; Holland, £22.4 millions; Belgium, £12 millions; Italy, £8.7 millions; Norway, £7 millions; Denmark, £6½ millions; Sweden, £6 millions; Portugal, £5 millions; Japan, £5.8 millions. On the other hand, the United States has a balance of Exports

over Imports of £118 millions; Russia, £9 millions; Austro-Hungary, £6 millions; Egypt, £1.6 millions; Argentine Republic, £7.7 millions; Chili, £3.3 millions; Uruguay, £1.5 millions.¹

This is the phenomenon called the Balance of Trade, of which we hear so much.² Practically every country has a balance the one way or the other, and, as a rule, the balance is a persistent

¹The above figures are averages of the last five years, taken from the *Statistical Abstract for Foreign Countries* of 1903.

²The expression Balance of Trade is intelligible; not so, to modern ideas, the adjective "favourable," applied to a balance of exports over imports, and "adverse" to a balance of imports over exports. The explanation is historical, and rests on the importance attached to gold and silver by early mercantilist writers. "Adverse" related to the effect, or supposed effect, of carrying gold and silver out of the country, caused by an excess of imports. The extraordinary importance attached to the precious metals was perhaps justified in times when there were no bankers; when Europe was starving for a sound currency, and industry hampered by the want of it. All countries took strong measures to attract and retain gold and silver; even Spain—the depot of these metals—prohibited their export under the most drastic penalties. When in time it was seen that such measures were useless, it was conceived that there was a more natural way of effecting the same object; if encouragement were given to exports while imports were handicapped, there would tend to be a "favourable balance"—that is, the excess of value would come in gold and silver; hence bounties on exports and duties on imports. So, said Adam Smith, "the attention of Government was turned away from guarding against the exportation of gold and silver to watch over the balance of trade as the only cause which could occasion any augmentation or diminution of these metals. From one fruitless care it was turned away to another, much more intricate, much more embarrassing, and just equally fruitless." It is notable that, in this regard, duties on imports were not, primarily at least, intended for the protection of home industries so much as for the protection of gold and silver.

and not a passing one. And the state of the case with us is that, taking the average of the last ten years, excluding bullion and specie, our country shows a Balance of Imports over Exports of £155,000,000, or, taking 1902, £179,000,000. If, however, exports tend to be equivalent in value to imports, how is this balance to be explained?

I. The first item in the explanation is not very difficult to understand. Those who love things in the concrete might consider what would be the state of imports and exports in Tyre when the Phoenician fleet set sail from the east, with cargoes of dyed wool, gems, and spices, and, after many days, brought back tin and other products of the western isles. If the voyage were conducted on commercial principles, the imports would exceed the exports in value.

In international as in home trade, payment is made for goods, not only by other goods but occasionally by Services—just as a physician may square his butcher's bill by medical attendance on the butcher's family. It happens that there is a trade, and a great trade, which is carried on outside our national boundaries, and, equally, outside the boundaries of any other nation—on the No Man's Land of the sea. It is peculiarly a British trade. But it has no material product. It is a transport service—the service of ocean carriage, including insurance. It sums up a great number and variety of costs incurred after goods have left our shores, or other shores, as statistical exports, and these costs must be added

to the selling price of the imported goods if other nations are to get our goods, and if we are to get other nations' goods.

Where these Services, then, are rendered to foreigners by persons residing in Great Britain, they must be paid for to Great Britain. They are paid, as usual, in goods, and the payment appears as an import against which there is no export recorded in our official trade returns—for, as I say, this trade is carried on outside the national boundaries.

It is merely another way of stating this, to say that our Exports are entered F.O.B. and our Imports C.I.F. In the official returns of imports and exports, occur the words: "The values of the Imports represent the cost, insurance, and freight; or, when goods are consigned for sale, the latest sale value of such goods. The values of the Exports represent the cost and the charges of delivering the goods on board the ship, and are known as 'free on board' values." In other words, our Exports are entered at home prices—that is, free on board ship—the same prices at which they would be delivered to a warehouse in this country. But they appear as Imports in other countries at our home price *plus* freight and insurance. On the other hand, goods which appear in the official books of other countries as their Exports at their "free on board" price, are entered in our official books as Imports at their foreign or exported price *plus* freight and insurance. Thus, where our ships carry the goods, the exports will always appear as less than the

imports which pay for them by the amount of the freight and insurance.¹

One can see the reason of Sir Robert Giffen's suggestive name for this—"Invisible Exports." Suppose that neither England nor France owned any ships; that all the trade between the two was conducted by the Channel Islands; and that these islands did no other foreign trade—as was very much the case with Venice in old days—would it not be true that the Channel Islands' official returns would show all imports and no exports? And if the Channel Islands' returns were not entered separately, but lumped with the British returns, would there not be a permanent excess in our statistical imports over our statistical exports, while France showed a balance the other way about?

It may be expected, then, that a nation which owns half the world's shipping, and carries for foreigners as well as for British merchants, will be paid a very large sum for this service. The amount was estimated by Giffen, in 1898, as £90,000,000. An independent calculation,² on

¹ A convenient formula for this is as follows: Suppose that freight is 5 per cent. on the value of goods, and that our ships carry the goods both ways, then £100 worth of our exports appears as £105 worth of another country's imports, and £105 worth of the other country's exports appear as £110 worth of our imports.

² *Memoranda, Statistical Tables, and Charts, with reference to various matters bearing on British and Foreign Trade and Industrial Conditions*, p. 99. This is the Blue Book called out by the present fiscal enquiry (Cd. 1761), and published in August, 1903. It should certainly be in the hands of all who wish to make a serious study of the fiscal question. As I shall have constantly to refer to

quite different lines, was put forward by the Board of Trade in 1903, and makes it £89½ millions.¹

This is the first item which explains our apparent Balance of Imports. Our exports are really £90,000,000 more than the *statistical* exports shown by the official returns.²

II. There is another Export of Services, or Invisible Export, which works out in the same way. It is not only ships that do business outside the boundaries of our country, but Men.

If a journalist, sitting in his study in London, writes an article for a German newspaper, that newspaper has, presumably, to pay him. His export of service goes under a postage stamp, but

it, I may, for convenience sake, call it in future references the *Board of Trade Blue Book*.

¹ Giffen's calculation was first made in 1882 (*Essays in Finance*, Second Series, p. 132), and was revised in 1898 (*Royal Statistical Society's Journal*, 1899, p. 11). His method was to take the British gross tonnage earnings at £15 and £5, for steamers and sailers respectively, at the former date, and at £12 and £4 at the latter. The Board of Trade, on the other hand, took the total exports and imports of the principal countries of the world, which are, of course, the same goods valued at points of departure and arrival; accepted the £224,000,000 difference in their value (see p. 41) as representing freights and insurance; halved this sum to represent our share of the carrying tonnage of the world; deducted 9 per cent. for colonial ships, and further deducted £12½ millions for coals and stores purchased abroad, harbour and other dues; and arrived at the figure of £89½ millions.

² The importance of Shipping as a British export industry may be realised by remembering that £90,000,000 is just about the value of our cotton and woollen exports combined.

the value of what is contained in the wrapper is not, one may hope, represented by the stamp. If the German paper pays him by sending a couple of guineas' worth of German books, then this is an import of goods, although, as passing through the post it would not appear among official imports.

This is merely an illustration of the fact that there are very large classes in this country who perform services for foreigners which have no embodiment in material goods. If one considers what is involved in the statement that London is the clearing house of the world—that a bill or draft on London is the best and most widely known form of international currency—one will understand that British bankers, sitting in London, do business all over the world, and that the payment for these services must come in goods, or in other services. But, besides bankers, there are the fire and life insurance companies, and the great army of commission merchants, who do business very much in the same way.

Services like these cannot be put into statistical figures—there is no possible means of getting at them—but, the more one considers the magnitude of this business, the more one will be disposed to say that several millions should be added to our statistical exports on this account.

One may question the exactness of any figure put on these invisible exports—take a few millions off it, or add a few millions to it. But a country which does half the shipping trade of the world, and is, at the same time, the headquarters

of the banking trade of the world, must have a very large sum due to it by way of payment, and this must come in some valuable shape. If it does not come in imports of goods or services, in what does it come? Or where does this "invisible" export appear as a statistical export?

III. There still remains a good deal to make up the Balance. But there still remains a large department of international relations which has not yet been taken into account. Nations buy from and sell to each other. But they are also connected with each other as debtors and creditors. Let us see how this affects imports and exports.

The third item of the balance is due to the fact that we have, notoriously, been lending to all the world and investing capital all over the world, and that the returns come home annually in the shape of goods.

How much our capital lent and invested abroad may amount to, is a matter of rather rough calculation. It is variously estimated from £2,000,000,000 to £2,500,000,000.

The corresponding returns which pay income tax in our country amount to £62½ millions, but this includes only the interest on foreign and colonial securities, coupons, and railways. To this must be added the dividends on miscellaneous industrial undertakings abroad. After all deductions on account of other countries which have lent and invested capital with us,¹ we

¹ "Unfortunately, there are no official figures with regard to the investments of foreigners in this country, though they are certainly

may accept the Board of Trade conclusion that "£62½ millions is a minimum figure, which is probably largely exceeded." In 1898, Sir Robert Giffen estimated it at £90 millions, and probably more.¹

It will be noticed that, while the Invisible Exports should be added to the statistical exports, the income from capital invested abroad takes shape as, and accounts for, a permanent excess of Imports. In other words, if from this moment we stopped lending and investing abroad, we should still receive, year after year, till the capital was repaid, some £60 to £90 millions worth of value, and most of that value would be embodied in goods.

It is not quite correct to say that this represents an import against which there is no export. In many cases, there may have been an export of goods, at the time when the loan was made, to the full amount of the loan, as, for instance, when a colonial government borrows to build a railway, and gets the rails and rolling stock from England. It may, on the other hand, represent no sending of goods at all. If India wants to borrow another million from us, and is owing us £18

very much smaller in the aggregate than British investments abroad. America is the only foreign country, so far as known, which has made important investments in the United Kingdom in recent years," *Board of Trade Blue Book*, p. 102. On this whole subject, the admirable article in the *Blue Book* should be referred to.

¹ *Royal Statistical Society's Journal*, March, 1899. Giffen's calculation, however, includes Pensions, etc., from India and other countries to civil servants living here, of which the Board of Trade says nothing.

millions a year as it is, all she has to do is to lay hands on a million's worth of goods that otherwise would have come home to us as imports, and keep them—in which case the loan would take shape as a diminution of imports into this country.

The point to emphasise is that, in any case, the contracting of the debt, or the investment of the capital, is in the past. But the obligation to pay the interest is a permanent obligation to export a stream of value from foreign countries to our shores as imports.

Here, again, one may question the exactness of the figures. But if Great Britain has sent out capital to other countries and these countries have not sent a corresponding amount of capital to it, it seems undeniable that there must be a permanent excess of imports into Great Britain to pay the interest.

IV. There is another class of Imports which stands on the same line with the returns from capital invested abroad. It has been happily called "Boarding Expenses"—values sent from one country to another, not to sell or invest, but to consume. This is not a small item. Italy has been credited with £14,000,000, and Switzerland with £8,000,000 spent by sightseers. Americans are said to spend some £20,000,000 a year in foreign travel. How much of such boarding expenses comes to this country, it is impossible to say, but it must be very large. London is the centre of the world, where everybody who can

afford it goes once in a lifetime at any rate. Our own Highland hotels get a considerable share. This category includes remittances sent home to families and schools in England by Civil Servants and military men abroad, furlough expenses, and the like; and under it, perhaps, fall professional earnings of Englishmen temporarily abroad, such as the gains of theatrical and concert companies on tour. These all represent imports against which there is no corresponding export.¹ It must, however, be remembered that large sums are sent abroad by us to other countries for similar purposes, and, as Englishmen travel perhaps more than any other nation, the imports on this account may not very greatly overbalance the exports.

¹ At the risk of being tedious, I may repeat here that such boarding expenses involve sending of goods to pay for any balance there may be between countries. All the traveller knows, of course, is that he takes with him, say, circular notes, and, on presenting these, gets money of the country handed over to him. But, suppose that English tourists, in the course of a year, have cashed £100,000 of circular notes in Rome, and that Italian travellers have cashed £50,000 of their circular notes in London, the Italian and English bankers have simply honoured each other's promises. England is now in debt to Italy to the amount of £100,000, and Italy is in debt to England to the amount of £50,000. The two sets of promises are set against each other, but there remains a sum of value of £50,000 due to Italian bankers. How is this to be paid? If the London bankers send drafts on London, this only gives the Italian bankers a claim on gold in London—promises to pay gold there. Even a Bank of England note is, after all, only a promise to pay gold on presentation of the note at the Bank. Some time or other, unless London is to run deeper and deeper in debt to Italy, the accounts must be squared. But, as has been demonstrated, it is usually more convenient to send Bills of Exchange than gold—that is, to give claims on goods sent to Italy in the ordinary course of business—in which case the real payment of the balance is in goods.

Smaller or more occasional items are :

(a) The price of old ships sold on the high seas. It is well known that we are continually selling our ships and replacing them with new ones, and these ships do not appear as exports.¹

(b) Profits which accrue from capital that was neither lent nor invested abroad, but is yet owned. There are many businesses, or branches of businesses, which have grown up from small beginnings into dividend-paying concerns. Many Englishmen, again, own land in foreign countries which may have risen indefinitely in value owing to growth of population or the finding of minerals, etc.

(c) Gifts, Charities, and Subscriptions, such as the sums sent home from Irishmen in the United States.

All these go to swell the stream of imports against which there is no, or practically no, corresponding export. Together, they must run into many millions.

The summing up, then, is this :

Our Statistical Imports are £528,000,000. Our Statistical Exports are £349,000,000 ; to which fall to be added, at least, another £90,000,000 of Invisible Exports of shipping ; making a total of £439,000,000. This leaves a Balance of Imports of £89,000,000. But it has

¹ It should be noted, in comparing exports of past years with present figures, that new ships, sold from this country, were not included among our exports before the year 1899, and are properly excluded in comparisons with years before that date.

been shown that what we should expect is from £60,000,000 to £90,000,000 of annual imports from capital lent and invested abroad, not balanced by any annual exports. All this is to leave out of account the many millions of imports which we receive as Bankers' and other Commissions, as Boarding Expenses, and from the smaller items just mentioned.

The probability, in fact, is that our real Balance of Trade is the other way about from what it is usually considered to be; that it is a Balance of Exports. The excess may be accounted for by the fact that a good deal of interest and profit never comes home, but is invested as capital in the countries where it is made.¹

In all this, certainly, there is nothing to shake our faith in the deductive conclusion that, given the exceptions and disturbances noted above, Imports and Exports tend to balance each other.

¹ Compare the calculation of the French balance by Professor Gide: "As regards France, if, on the one hand, we put to her debit 4500 million francs of imports, 360 millions for carriage of that part of her merchandise which sails under a foreign flag, some hundreds of millions (say 500) for Frenchmen travelling abroad, or against French property held by foreigners—in all, 5400 million francs: and if, on the other hand, we put to her credit 4000 million francs of exports, 1100 millions as interest on capital lent or invested abroad, 600 millions for expenses of foreigners living in France—in all 5770 million francs; we see that not only is the required equivalence restored, but that there should remain a considerable surplus to her credit."—*Principes d'Economie Politique*, 8th edition (1903), p. 283. See also Giffen's remarks on the Balance of other countries: *Royal Statistical Society's Journal*, March, 1899, p. 12.

CHAPTER IV.

THE EQUIVALENCE OF IMPORTS AND EXPORTS.

The equivalence we should expect is equivalence simply between a country's total imports from, and its total exports to, the rest of the world. Imports call out a return current of exports, and exports of imports, through the rise or fall of (1) the foreign exchanges, (2) the freights. But payment is made in very roundabout ways; not necessarily in imports from the country to which exports are sent, but from any other country with which there are commercial relations.

WHAT we have found in the phenomena of imports and exports is, first and most important, the Trade Current—a cross-current of exchange—goods sold to other countries calling out return goods from other countries, and *vice versa*. Omitting smaller services, this would tend to equivalence between imports and exports if the great item of sea carriage could be dispensed with, or if the carrying for all the world were done entirely by an independent maritime nation whose only outside industry it was. But, as it is, when our invisible services are added to our statistical exports, the two sides tend to equivalence.

Into these main cross-currents, however, are constantly injected, from one side or other, feeders which make the total cross-currents in any one year quite unequal. The principal factor of disturbance appears under the third head; a steady stream of goods bringing home the interest and profits of foreign loans and investments. But the lending and investing themselves cause a disturbance. The transfer of capital may appear as a temporary excess of exports: it may appear as a temporary diminution of imports. It is clear, for instance, that, if Australia borrows a million to build railways, the rails, rolling stock, etc., are probably sent from here, and the whole million appears among our exports of goods. But suppose she borrows in order to build reservoirs, what she wants is not English machinery so much as money to pay wages. Here the lending body buys up bills representing goods already sent or being sent to Australia, and remits them to the Australian Government. In the ordinary course of trade, the goods thus sent would have called out a return current of goods (imports) to pay for them; but, as it is, the money is retained in Australia as a loan. It is, in fact, as if the Australian Government laid hands on a million worth of goods intended for export into this country, sold them, and kept the proceeds. Here the loan expresses itself, not as an excess in our exports, but as a diminution in our imports. A similar but converse disturbance occurs in the rarer cases where capital, whether loans or investments, is paid back.

When our Balance of Trade is thus explained, it becomes evident that what we have in the relation between the two sides, is not an equivalence of imports and exports so much as an equivalence of debts and credits—an equation of indebtedness.

It must, however, be carefully noted that the equivalence spoken of is equivalence between the total imports and the total exports of a country—the import and export relations between it and the rest of the world. When, as is often the case, this balance sheet of a nation's total exports and total imports is understood as implying or suggesting the real equivalence of exports and imports between a particular country and any other particular country, and as demonstrating that there is something far wrong where there is a discrepancy which cannot be explained by "invisible exports," or other disturbing causes, the conclusion is quite illegitimate. There is no such equivalence except by chance.

There is no doubt that, in still undeveloped countries, if the merchant who brings goods to them will not take in exchange the goods which the home merchants have to offer, the attempt to trade speedily comes to an end ; and so it was in earlier times when the exporter and importer were one, or, much later, when agents abroad sent home the proceeds of a consignment in produce. And if we were confined to trading with one nation, that nation would have to take what we offered or we should not sell ; if there were exchange at all, there would be equivalence.

But in modern circumstances, when each nation does a foreign trade with many nations, it is entirely different. It would, indeed, be a curious coincidence if one country were to find just the things it wanted to buy for home consumption in another country where it found it profitable to sell what it made, and were to buy there just to the same value as it sold. But does any one now think that commerce is impossible between, say, a nation of teetotallers and a nation of wine growers, because, although the wine growers want the cotton of the teetotallers, the teetotallers will not take wine, and the wine growers have nothing else to sell? Surely if a Canadian friend sends me a barrel of apples and has no fancy for Scotch oatmeal, I may pay him by sending a bag of oatmeal to another friend in Seville and getting him to send on a box of oranges to Canada. So the wine growers import the cotton, sell wine to a wine-drinking nation, give claims on the proceeds to the teetotallers, and, finally, though it may be round a long chain, the claims are liquidated by goods imported from some country which has goods to sell such as the teetotallers want. But in this case there is no equivalence between the imports and exports of the two.

The great improbability of equivalence between any two countries may be easily seen if we give up our abstract way of speaking as if "countries" traded, and realise that it is single individuals in each country who trade. Let us consult the facts of importing and exporting between say, Canada and Great Britain. The Canadian

sends his wheat to this country on consignment. There is always a market here for wheat, and it sells at the market price. The proceeds are put to his credit; he gets paid finally in Canadian "money"; and the transaction is finished so far as he is concerned. He may go on increasing his sending of wheat indefinitely; still he sells and gets paid. He knows nothing of any limit in imports. He knows nothing of any payment but in "money." He is simply a grain exporter. There is no direct connection between his exports and any import. On this side, again, is an exporter of cotton goods. He sends them on consignment to Canada; sells them; gets paid in English money; and this transaction also is finished and stands by itself. There is this difference—that the English exporter has to think more carefully of what he is doing; the market is more limited; the goods must suit a particular purpose or fashion; and he has to pass through a tariff of $23\frac{1}{2}$ per cent. But the difference is not essential. Experience tells him that there is a demand at a certain price—the price being determined by competition of Canadian-made cottons and similar goods from the outside world—and, so long as he gets this price, he sends his goods and sells them.

The point—and it is one of real difficulty—is that there is no visible or conscious or arranged connection between the exports of wheat and the imports of cotton as regards Canada, or between the exports of cotton and the imports of wheat as regards England. The exporters and importers have no knowledge of each other's doings. There

is no occasion or motive, thus far, to equivalence of value. May it not be the case, then, that Canada, finding a free market for a universal necessary, may send us hundreds, while we, finding a more contracted market for cotton, may send Canada tens?

The answer is, that there is a real, though unseen, connection between the cross currents. If hundreds are sent from Canada and tens from England, there is an urgent demand for the technical means of payment to Canada, the bills, and an over-supply of the technical means of payment to England. There is something to be gained on the exchange by sending more goods to Canada, and there is something of a handicap in exchange on the sending of goods from Canada. On such inducements, those who make their living by small percentages and large turnover are not slow to accelerate or retard the movement of goods.

There is another connection of a similar nature in freights. If, to put it popularly, ten ships come from Canada and there is return freight for only one from England, shipowners are content to take a low return freight from England; shipowners command a high freight from Canada; and this calls out sendings in the one case and discourages further sendings in the other.

The point is that it does not matter to the exporter how he makes his profit, so long as he makes it. He will not go on sending goods abroad unless he makes the same profit as at home. But there are three items on which he may gain or lose: the goods themselves, the freight, and

the remittance. If the freights come down, or if the exchange be favourable, he can afford to invoice his goods a little cheaper; and, if an extra profit is to be made on freight or exchange, this will tend to increase his sendings.

Where, then, the sendings to and from two countries consist of widely used commodities like wheat and cottons, the sendings on either side will be very sensitive to such inducements, and there will be a tendency to equivalence of imports and exports between these two countries.

But where one country is sending a universal necessary like grain, and the other is sending manufactured articles that meet a small and fluctuating demand, it is hard to believe that the advantages to be gained by exchange or cheap freights will ever call out sufficient sendings to adjust the balance. It seems as if, in the absence of any direct and causal connection between importers and exporters, there might be any amount of margin between the real exports and imports of either country—that is, even when freights both ways, commissions, interest, etc., are fully calculated and allowed for.

But why should we expect equivalence between Canada and Great Britain if there is any significance in the illustration of the wine-growers? If Canada sends us hundreds and we send her only tens, it is as certain that the Canadian is getting paid for his hundreds as that we are getting paid for our tens, but it by no means follows that we are paying the difference by exports, visible or invisible, to Canada. Precisely as in the case of

the wine-growers, we may be squaring the transaction by exports, visible or invisible, to some other country.

It is misleading to describe this, as the text-books do, as "triangular exchange," as if goods exported from A to B were paid for by a third country, C, with which both countries have commercial relations. The notorious fact is, that the whole world is now such a network of commercial, banking, and debt relations, that every country has become a mere province of the great industrial and commercial commonwealth; and we should no more look for equivalence between the exports and imports of any two countries than we should look for equal sendings of goods between London and Glasgow, or, indeed, should expect a cotton spinner to pay for his coals by sending yarn to the colliery. Every sending of goods from one country to another takes for the moment the form of a debt; these debts are bought and sold as "third commodities," or cancelled by being set against each other; and the debt relations, created by one country sending goods to another, may be balanced by debts created by sendings of goods between quite other groups of nations. The only equivalence, I repeat, which we ought to look for, is that between the total of a nation's exports and the total of its imports, or, more scientifically, the equation of its debts and credits.¹

¹ On the subject of this chapter, the reader should consult Clare's *A B C of the Foreign Exchanges*, or Mr. Ewing Matheson's pamphlet, *The Principles of Foreign Exchange as affecting Preferential Dealing with the Colonies*.

CHAPTER V.

SOME CONCLUSIONS AND A MORAL.

Conclusion I. : the foregoing explanation disposes of the suggestion that our excess of imports is paid by "selling securities"—which is, in any case, an appeal to the unknown. Conclusion II. : the Balance of Trade in itself never indicates either prosperity or decay. Moral : whatever checks imports, checks exports.

IF what has been said is true, there seem to be two obvious deductions to be drawn, and at least one practical warning to be given.

I. The first is that, if the balance sheet of our foreign trade, as drawn up in Chapter III., be accepted, and the apparent discrepancy between our exports and imports acknowledged to be statistical and not real, there seems no place for the rival explanation that Great Britain is "living on its capital."

I confess I have some difficulty in understanding this explanation, particularly in face of Sir Robert Giffen's rejoinder that a nation cannot be living on its capital till it has ceased to save.¹

¹ In 1877 he calculated that the national savings were some £200,000,000 a year. In a letter to the *Times* of 3rd December, 1903, he puts them down at £264,000,000.

It assumes that the statistical discrepancy is a real one; or, at least, that the invisible exports, the stream of interest and profits from abroad, the boarding expenses, etc., are much over-stated; and it finds another "invisible export" in the shape of Securities.

John Bull is like a spendthrift farmer, sending out £349 worth of crops to sell, and spending £528 on his household expenses. If one asks, "Is John Bull then running into debt?" there are some who do not hesitate to answer that he is. "A statement was actually brought to me on one occasion," says Giffen, "showing that the country had become indebted to foreigners in twenty years to the extent of £1,000,000,000, which had never been paid and was all represented by bills, the non-payment of which would bring out, some day, a financial collapse."¹ Considering that it is not nations which import and run into debt, but individuals, and that our importers have not as yet shown any sign of being in any such parlous state, this ridiculous explanation may be passed by.

The other answer is to the effect that John Bull's father left him some money in United States Bonds and other good securities, and that this reckless son is taking these out of his safe, and selling them to pay the balance. He is "drawing on his capital," and everybody knows what that ends in!

But, to follow out the simile, suppose it were discovered that John Bull had other sources of

¹ *Essays in Finance*, Second Series, p. 161.

income—say that, in addition to selling his £349 worth of crops, he was getting £90 for doing the carting for his neighbours ; that he was doing a little quiet insurance business among them, which brought him in something ; that he was boarding a maiden aunt as a “paying guest” ; that he got a good many presents from married sons at Christmas ; and that, besides, he had, some years before, invested money in a gold mine, which was sending him another £90 in dividends ;—why, there would seem every justification for him spending £528 on his household expenses, and for the suspicion that he was probably laying by money besides. And, if it were still found that John Bull was selling out his United States Bonds, would it be reasonable to say that he was doing so because he had to pay his debts ?

It may very well be that our people every now and then sell out their securities—wise men often do when they get a good price. It does not seem to me that it is any sign of distress to withdraw capital from foreign investments and employ it at home, or even to build a house with it. Or, assume that it be true—as is often asserted—that, ten years ago, two-thirds of the Pennsylvania Railway Company’s stock were held in Europe, while now two-thirds are held in the United States, what does that prove ? I suppose the Americans know their own business ; but, if they parted with Caledonians in order to buy Pennsylvanians, it is difficult to see that they are any better off, or we any worse.

If Englishmen do sell their foreign securities, they get value for them. Why is it assumed that capital is a good thing abroad and a bad thing at home? Is it possible that some people yet think that selling a thing for money is parting with a good thing in exchange for a bad ; or imagine that, when a man "realises his money," he goes straight away and drinks it, or throws it into the sea?

There is undoubtedly much movement of national securities as a recognised form of international currency. What the extent of this movement may be, it is impossible to say, seeing that securities go through the post, and that no periodical census of the stock—whether national securities or industrial scrip—held by people of different nations is possible. For one class of prominent securities that is largely sold on any special occasion, there may be hundreds of lesser known securities that are being quietly bought.

All this, then, is an appeal from the known to the unknown—I rather think, to the unknowable. But there is one thing we do know ;—that the returns to Income Tax of interest on colonial and foreign securities, coupons, and railways, were £30½ millions in 1881, £54¾ millions in 1891, and £62½ millions in 1901—over 100 per cent. increase in twenty years. With these figures before us, it seems as if we might rest satisfied that we are not selling out our foreign securities at any rate.

II. The second deduction is, that the Balance

of Trade tells us almost nothing as to the prosperity or adversity of a nation.

Our own Balance indicates two things. One is that several of our greatest trades, such as Shipping, Banking, and Insurance, are engaged in producing and sending abroad goods that never take any material form, and are not entered in any table of exports. The returns to these trades come to us in imports, and make up an apparent excess of something over £90,000,000, the reason being that the real exports which balance and pay for them are not counted at all. The other is that we have for long been the money lenders of the world, and that we have invested very large sums abroad. This accounts for a permanent excess of imports of some £60,000,000 to £90,000,000.

The presumption, of course, is that these trades are prosperous—the Income Tax returns seem to show that they are—and that the interest and profits represent a fair return to our capital abroad. But, from the Balance of Trade, all we know for certain is the two facts, that we have these large trades, and that we have large investments abroad.

But another country, from choice or necessity, may not number Shipping among its industries, and yet be employing all its labour and capital profitably. And it may not only find a remunerative use for all its savings at home, but may find it cheaper to borrow largely from other countries, getting a better return from the using of the capital borrowed than another country gets

by lending it—just as one sometimes finds a very rich man borrowing from a very poor relation. As consequence of this, such a country may have a balance the other way about. No one now-a-days thinks that America is any the less prosperous that, in 1902, she had a Balance of Exports of £100,000,000.

If this be true, it follows that even a positive fall in our exports might indicate nothing but a change in our industries or in our fields of investment—just as, in the converse case, America seems no less prosperous that, this year, her imports show a large increase and her exports a considerable diminution. One is disposed to think that the enormous activity in our Municipal enterprises of late years, and the ease with which such local bodies have borrowed huge sums, would have some effect in putting the drag on our exports. And yet it is by no means certain that Municipal industries may not be as profitable as gold mines.

But if anyone still thinks that an excess of imports is a proof of growing decay, let him consider this. We have statistical records, more or less accurate, of the exports and imports of all the great nations. The total imports of these nations are £2,516,000,000; their total exports are £2,292,000,000. Here is a "debit balance," a balance of imports over exports of £224,000,000. Either it must be believed that more goods arrive in port than ever set sail, which seems a little curious; or that all the great nations are going downhill at a very rapid rate—for the balance is

growing; or the Board of Trade explanation must be taken, that the balance is accounted for by shipping charges;—that is, costs incurred after the goods have left any shore as statistical exports.

The practical warning conveyed by the tendency towards equivalence of exports and imports seems to stare us in the face. It is that anything which checks imports is a check to exports. This follows inevitably from the fact that foreign trade is an exchange of goods and services, goods sent out paying for goods brought in. A tariff not only shuts out foreign goods; it shuts in home goods. If we were to set up absolutely prohibitive tariffs against imports, we should make it impossible to export. For, if the consignee in the foreign country found that, since no goods had been sent to England, he could not buy a bill to cover his remittance, he would send gold. If this were to continue on any large scale, the export of gold from the foreign country would be reflected there in a fall of prices—the prices of imported goods among others. As the only object of exporting goods is to sell them, the low prices realised by our exports would make further exporting on our part unprofitable.

If, again, we were to set up tariffs which did not exclude foreign goods but made them dear, we should diminish the consumption of and so the demand for them, and reduce the amount of the exports which we could send in return. If, in these circumstances, we still exported goods in

the former amounts, the consignee in the foreign country would find that there was a premium on the means of remittance, which would make the transaction *pro tanto* less profitable, and act as a check on our further exports.¹

These things are not less real because they are unseen—hidden by the fact that, in foreign trade, each transaction of exporting and importing stands by itself, and ends with a payment in money. Only those who do not see, or who choose to ignore, any mutual and causal relation between imports and exports, can believe that putting a tariff on imports will have no effect in checking exports. This is the meaning of the

¹ This is amply confirmed by experience. When Peel, in 1842, took off or reduced duties on over a hundred articles, the exports rose from £46 millions to £60 millions in 1845. When the Corn Laws were repealed, the exports rose from £60 millions to nearly £100 millions in 1853. In the late tariff wars, exports suffered correspondingly with imports. See Cd. 1938: Commercial, No. I. (1904). "Every time," says Gide, "that a treaty of commerce or any other cause has considerably increased a country's imports, its exports have never failed to increase in like proportion. Thus when, in 1860, France threw open her ports to foreign products, her imports rose from 2,521,000,000 francs (the average of the previous five years) to 3,231,000,000 francs (the average of the next five years); but her exports likewise rose, between the one period and the other, from 2,813,000,000 francs to 3,449,000,000 francs. Thus the increase in imports was 23 per cent., in exports, 28 per cent." On the whole question, the chapters on International Trade, in Professor Gide's *Principes d'Économie Politique*, as the utterances of a French economist, are particularly interesting and suggestive. The above quotation is from the 3rd edition, p. 261, but, as very considerable changes have been made, the 8th edition (Larose, Paris, 1903) should be studied.

homely adage :—"Look after the imports and the exports will look after themselves." It simply suggests that, if no restrictions are put on imports, there will be competition from all nations to send in what goods they can, and the necessity of paying for them will bring out a return flow of exports to the same value.

CHAPTER VI.

THE RIVAL POLICIES.

Every nation needs a revenue, and so levies customs duties. But, while a Free Trade country has in this no object ulterior to revenue, a protected country has. Apart from political considerations, which, in many cases, determine fiscal policy, the protectionist argument is based on the assumption that the interests of the producer are not the same as those of the consumer, and come first.

THE difficulty of defining Free Trade seems very much due to this; that the word "free" is itself so entirely ambiguous.

Freedom, as a philosophical conception and as a practical thing, never means the absence of restraint. It is not opposed to Law or Morality. It means putting ourselves under conscious and purposed restraint—the drunkard who drinks as much as he likes is the very last man we should call "free."

For this reason, internal trade is never free in the sense of having no restrictions placed on it. We are a Free Trade country, but we keep as sharp an eye on the manufacture and sale of liquors as any other nation does on their entry: there is no freedom to purvey these as we like. This reminder gives us the cue to a definition.

Every nation needs a revenue for national purposes. A Free Trade country is one which imposes duties on imports with no other consideration than that of revenue. This comes out quite clearly in the case of spirits and beer. We make them pay Customs duties when they come from abroad, whether from other nations or from our own Colonies; but any idea that we make them pay because they come from abroad is at once dissipated by the knowledge that we put similar and equivalent duties on spirits and beer made at home, calling the duty, in this latter case, Excise. A distillery or a brewery, in fact, is a kind of island on a lake. We do not allow their products to be imported from them into the surrounding country, without paying the same amount of duty as is paid on similar products coming from countries which are really outside.

The actual figures suggest the extent and intention of this government interference. We raise by Customs on foreign beer and spirits, at the gateways of our island, £4 $\frac{3}{4}$ millions. But we raise by Excise on our own distilleries and breweries no less than £31 $\frac{1}{2}$ millions. These two things hang together. It is for the purpose of taxation that we put a duty on home spirits and beer, and we put a similar duty on imported spirits and beer that the foreign articles may not be favoured. Thus the sole explanation of this Customs duty is Taxation: not taxation of the foreigner, not a price for admission, but taxation of the home consumer.

In our country, then, we have Import Duties,

and heavy import duties, but there is not a shadow of anything ulterior to revenue purposes. It is pure and simple taxation, imposed, as it should be, on ourselves by ourselves,—the special mark of a free nation.

What, on the other hand, we call a Protected country is one that frames its Customs duties with an aim ulterior to simple taxation of its own citizens. It does not object to the revenue, but the revenue is not its sole purpose, nor even its main purpose. How such a system works out may be understood if one notices what would happen if we imposed duties on spirits and beer from abroad, and imposed no excise at home. Whatever the object of this might be, it is evident that it would handicap foreign imports and favour the home distiller and brewer.

These, then, are the rival policies which we are asked to set against each other.

Free Trade, it may be said at once, is the economist's policy. From his point of view, it seems as if there were no question between Protection and Free Trade. He looks on men as wealth producers and wealth consumers. To get the largest amount of wealth-production with the least amount of human exertion, the greater the division of labour the better. He would like the boundary walls of empires broken down entirely as regards trade and industry, and the division of labour made territorial. Whether goods come from Ireland or from France, is to him the same, so long as they are good and abundant. The whole

world of man ought to be a vast co-operation of industrial servants, and all hindrances to this co-operation should be removed. So far as pure economic theory goes—and putting aside considerations of revenue—customs, excise, duties, tolls, octrois, are remainders of the dark ages. For all these things cause friction and expense, and the resources of the world are not fully exploited. It looks almost as foolish to impose a tariff at Calais and Hamburg, as it would be to tax goods passing through Berwick-on-Tweed.

All the same, I am inclined to accuse English economists of being too economic. I think they forget that it suits us to put economic interests first, and the rest nowhere; they forget how peculiarly favoured we are as compared with most other countries.

Shakespeare put it long ago, in words that ring through us like the blast of a trumpet:

“This royal throne of kings, this sceptred isle,

This fortress, built by nature for herself
Against infection and the hand of war;
This happy breed of men, this little world,
This precious stone set in the silver sea
Which serves it in the office of a wall,
Or as a moat defensive to a house
Against the envy of less happier lands;
This blessed plot, this earth, this realm, this England
This land of such dear souls, this dear, dear land
Dear for her reputation thro’ the world—
England, bound in with the triumphant sea.”¹

¹ *King Richard II.*

But the very words which emphasise our insular strength also bring out how peculiar our position is among nations. Between us and attack lies the silver sea—a wall or moat defensive of our house. We have no Alsace and Lorraine to atone for. Our boundary is not a river across which one may throw a stone, like the Rhine, crossed and re-crossed in the past by invading armies. We are not like an old Hanse town, set in a plain, within whose walls we might be shut up, and forced to grow our food in the city streets and make our arms in the city smithies. Our little island is what Venice and Holland were a few centuries ago—a country too small to have many internal resources, but seated, like a spider in its web, at the cross roads which lead to and from the great world.

Thus it is that, secure against invasion and the hand of war, our island life is more purely economic than that of any continental country. Hence, perhaps, the angry jibe of Napoleon at the “nation of shopkeepers”—a very poor jibe, as the Parisian is notoriously the very type of shopkeeper. It annoyed him that we, and we alone, of European nations, could give most of our time and energies to industry. No continental economist, I imagine, would hesitate to say that Free Trade is the policy for us, and that nothing but Free Trade would have given us the position we hold.

But Frenchmen and Germans are like Nehemiah's men; they have still to hold the trowel in one hand and the sword in the other. The

atmosphere of two centuries ago is still around them. Wars, in which they personally take part—and not by a shilling a day deputies—keep alive a narrowed national and patriotic life which is strange to us. To guard it, they have to sacrifice—not, like us, in pocket only, but in time, in ease, and sometimes in blood.

This is the defence and explanation of the fact that continental economists are, many of them, Protectionists. They aim at making their countries self-sufficient first and rich afterwards. They are not willing to depend too much on nations that might some day encircle them with fire.

And so we might imagine that our economic policy of Free Trade is the “natural” policy—the policy to which they have yet to come when the barbarism of war disappears.

Here, however, we come right against the fact that there is a country where economic pursuits are even more absorbing than with us; a country with no army to speak of; with absolutely no foreign question except what she brings on herself; perfectly secure against attack or invasion; and that in it Protection has reached its highest point. The country in question is, of course, the United States. Evidently we must find another explanation of Protection beyond the political point of view.

There is an explanation, which, if not economic, is at least based on an economic consideration. It is that the continued existence of a nation, as a nation, depends on its finding employment for its own people.

The Protectionist finds that the world of man is divided into two categories, although the people who occupy these categories are pretty much the same, Consumers and Producers. As a consumer, everybody's anxiety is to get things plentiful and cheap; and there is no difficulty so long as he has plenty of money in his pocket to buy with. But the only way in which, as a rule, he can get the money is by industry. Thus industry comes first. Although the producers, numerically, are a smaller body, they are, economically, more important. Give a man plenty of work and he will have the money.

Here seems a plausible case: that the interests of the consumer are selfish, short-sighted, tending to national disintegration. It is especially plausible in the ears of the working man. "The rich are those who have the means of benefiting by cheap goods. The poor—well, there is a previous process with them before they get any goods at all, cheap or dear." Therefore, it is said, the attention of government must be directed to protecting the interests of the producer *qua* producer.

One part of the argument certainly appeals to the economist. He could wish that every man had so much capital at his back as not to be dependent altogether for his daily bread on his daily work. As things are, however, the great majority of the nation have nothing to earn money with but their two hands. Continuous, steady employment, then, is certainly a much more important thing than a halfpenny off the loaf.

It is a common idea that economists underrate the importance of steady employment. Only very ignorant people can think so. What can be worse than intermittent work, if the object of work be the increasing of the wealth that supports and satisfies life? What can be worse for the skill and habits of industry than days spent out of work? Nay—although it is often said that the economist has nothing to do with any but material things—what can be worse for moral beings than compulsory idleness? I confess I have never been able to find a satisfactory place in economic theory for the Non-Worker. Certainly he has no place in God's universe. He is not even a sponge—for one can wash with a sponge. Work—independent of its product, but necessitated by its product—is the education in which, and only in which, we become men. In idleness alone, as Carlyle said, is there Eternal Despair.

Prove, then, that Protection will permanently give the people of this nation fuller employment at the same rate of real wages, or more continuous employment even at a slightly lower rate of wages—to say nothing of higher rates of wages—and we economists will at least reconsider the question. But what we must ask is, first, to be assured that producers need the help of government, and, second, that government can give this help. This is what we are inclined to deny.

CHAPTER VII.

PROTECTION.

Protection is protection against competition from outside. It does not say that home producers must for ever be subsidised. It uses generally the Infant Industry argument, which might, indeed, have some weight if it were not for the notorious fact that these infants never grow up. What does grow up is the Vested Interest, against which nothing short of an economic revolution seems strong enough to prevail.

ONE may very well deprecate the word Protection. It seems to assume that industry can be put under the government as the citizen is put under police—that is, under a power which can protect honest people against those who would do them harm.

But the Protection with which we are dealing is not protection against evil doers: in spite of the militant expressions of many of its advocates, the foreigner who sends us cheap goods is not an evil doer. It is protection against Competition from outside, and therefore from Service from outside. It always seems to me remarkably like that kind of protection which closes the entries of village sports against the, presumably, stronger

outsider, and so secures the prizes—raised by subscription from the countryside, of course—to the villagers. And, being protection against competition, it is protection against Cheapness—protection against Abundance.

Other nations want to send in their goods at what we may, roughly, call “cost price”—meaning cost *plus* carriage. The protected country says, “No, you shall not, because our people cannot produce so cheaply even when the ‘natural protection’ of distance is taken into account; they must not be undersold; they must be allowed to sell at their cost price.” That is to say, the home consumer must pay a higher price in order to let the home producer sell his goods at all. For, if the protected country could make as cheaply or more cheaply, the argument for Protection would disappear.

The rationale of the matter comes out in the absurd provision of the United States, that “works of art by American artists temporarily residing abroad are admitted free; all other works of art, including paintings, pastels, pen and ink drawings, and statuary, pay a duty of 20 per cent.” American artists, evidently, are regarded by their government as tradesmen. No wicked nonsense of Art for Art’s sake there. If Americans will buy pictures from Italy and France—well, they must pay for passing by their own countrymen. It is a very good illustration of the contagion of Protection: if a people, with government funds and powers, protect one industry, they must protect all, even the professions!

How, then, does Protection protect?

Let us suppose that, in England and America, the cost price of equal goods is 100s. And, for clearness sake, let us disregard the additional cost of ocean carriage. America puts on a tariff of 50 per cent. English goods, then, would require to be sold in America for 150s.

At these prices, if the American goods are of equal quality, the English goods will not be sold at all. In this case, American producers find that they have the monopoly of their own market, and it would be remarkable if they did not take advantage of it to raise their prices. So long as they can get something under 150s., they keep the English goods shut out and that is all they want. This is certainly protection of American producers. But the question, of course, is, Where, in this case, is the need of Protection? If there were no tariff, the American would sell at 100s. and have his profit. Why penalise the American consumer to give the American producer an extra profit?

Take another extreme case. Suppose that the English cost price is 100s. and the American cost price 200s. Then the English goods sell in America at 150s. The result, of course, is that the Americans cannot sell at all. The American consumer gets his goods cheap enough, but there is no American manufacture.

Take, lastly, the more likely case, that the English cost is 100s. and the American cost 150s. Then the English goods come in on an equal footing of competition with the American goods. The American consumer has, indeed, to

pay 50 per cent. more for his goods than he need have paid if he had taken them all from England, but the American manufacturer has his profit, and his industry is "protected."

Of course it would not appeal to anybody, if the claim were baldly put forward that a country must, permanently, pay a half more for its goods than it need pay, in order that certain home manufacturers may get a living. The nation would naturally ask, "Cannot we get on without these manufacturers; are there not other industries that do not need such a costly poor-rate; would it not be wise to devote our labour and capital to these, taking the cheap goods from abroad with thanks?" And, certainly, a nation like America, which sends us every year some £127 millions, mostly the produce of her magnificent natural resources, would know that she had plenty of industries which need no protection, and that the exported products of these industries would pay for all the imports she wanted.

But this bare-faced claim, of home producers to live permanently at the expense of home consumers, is not put forward. What is put forward is an argument that appeals to everyone on the face of it, and has even met with some countenance from economists, the Infant Industry argument.¹ Here Protection is defended as a kind

¹ This argument, unanimously adopted by American protectionists on the appearance of Alexander Hamilton's famous *Report on Manufactures* in 1791, was elaborated by Friedrich List in his *National System of Political Economy*, published 1841. Protection, he said, was a "national apprenticeship"; a stage in a

of Patent Law privilege, or Copyright for a certain limited period; or, to use a favourite metaphor, a kind of apprenticeship, during which the apprentice simply spoils things, and cannot earn a wage. It is the contention, not so much that manufactures are profitable *per se*, as that a varied industry is necessary to a nation's continuous growth, just as a varied diet is. Free Trade, it is said, would condemn a young country too long to mere exploitation of its natural resources, to the neglect of industries for which the country is naturally fitted, or is, at least, under no disadvantage: these industries are prevented from rising by this exclusive attention to what is easiest, or by some artificial or removable cause. Cotton spinning and weaving in America are cases in point. It seems most natural that they should be carried on where the raw material grows, and where power and coal are abundant. But how are these industries to arise among a population bred in agriculture, unskilled in machinery, unaccustomed to an indoor life, unless steps are taken to protect them in their first stages?

nation's progress, not its final form. List is often quoted as an out-and-out Protectionist. He was nothing of the kind. He said, for instance, that the maintenance of Protection in England at the time he wrote was a mistake due to the stupidity of the ruling class. Going over the history of the great nations, he showed that they had all had this period of apprenticeship: first, Free Trade in the agricultural stage, when there were no separate manufactures on a great scale; then Protection; last, he said, should come Free Trade. The same ideas, and the same moderation, are found in Alexander Hamilton.

The argument is very plausible. Owing to the progress of science and invention, quick and cheap transit, the mobility of capital and of highly skilled men, Mill's words are much more true now than when they were written, that "the superiority of one country over another in a branch of production often arises only from having begun it sooner," and that a country which can get or hire skill and experience may, in other respects, be better adapted to the production than those which were earlier in the field. I am not, however, going to contest Mill's statement that "a protecting duty, continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment,"¹ because it has no bearing on our present problem.

¹ This concession of Mill has so often been torn from its context and used to support doctrines which he would have abhorred, that it is advisable to quote the next sentence: "But the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will, after a time, be able to dispense with it; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."—*Principles of Political Economy*, v. x., I. One may read along with this Sidgwick's statement: "I hold that, when the matter is considered from the point of view of abstract theory, it is easy to show that Protection, under certain not improbable circumstances, would yield a direct economic gain to the protecting country; but that, from the difficulty of securing in any actual government sufficient wisdom, strength, and singleness of aim to introduce protection only so far as it is advantageous to the community, and withdraw it inexorably so soon as the public interests require its withdrawal, it is practically best for a statesman to adhere to the broad and simple rule of taxation for revenue

I consider it fallacious to say that Protection is necessary for the rise of a diversified industry. Industries would naturally take root in an agricultural country by the growth of what one might call the supplementary industries ; beginning with the jobbing and repairing trades that merely put things together, and make things that cannot be imported—just as the smith and the joiner set up repairing sheds in country districts, and are found ere long to be taking contracts for making and building.¹ But the argument has no application to us. If we are going to adopt Protection, it will certainly not be because our industries are infants. And, as it happens, this is exactly where the argument breaks down as regards America.

only.”—*Principles of Political Economy*, book iii., chap. v. It may be said that we, in this country, have statesmen with such wisdom, strength, and singleness of aim. But how long should we have them if they were exposed to the influences which attend Protection?

¹What is meant may be illustrated from the history of Barrow-in-Furness. Fifty years ago it was a sandhill. Then hematite ore deposits were discovered, and steel-making settled down beside the raw material. Next came shipbuilding to take advantage of the steel. Clustered round this are now all manner of subsidiary industries, making machinery and other auxiliaries for shipbuilding and steel-making, and the prosperity of the town is no longer dependent on any one industry. Or take the familiar phenomenon of the overflow of capital in South Africa from the gold mines to coal fields, water supplies, machinery making, etc. Does any one think that the working out of the gold mines would leave nothing but a few holes in the ground? Has not, indeed, gold-mining set many communities on their feet, and left them with the “varied industry” desiderated?

The suggestion is that manufacture, in a new country, is a child which requires to be protected against winter and rough weather, till such time as it is fuller grown and is able to take its place in the competition of nations. Unfortunately, experience shows us that this time never arrives. Once an infant, always an infant.

Sir Charles Tupper declared long ago that, given fifteen years of Protection, the infant industries of Canada would be able to stand alone. The fifteen years are gone; twenty-five years are gone. The infants are still in arms.

So with America, whose favourite argument this still is, even as regards that Mellin's Food baby, the Steel Trust. Practically, all industries there are protected. We must conclude, then, either that all the industries are yet in their infancy—and a century is a long time for long clothes—or else we commit ourselves to some theory of permanent infancy.

When the question, then, is put—as it should be put—why America is still protectionist, the answer may be given in a sentence. It is the strength of the Vested Interest.

It is not sufficiently remembered that, while Free Trade may be called the “natural” policy, inasmuch as it applies to foreign trade the policy and principles which we find every country adopting in its home trade, it is not the historical policy.

It is only since the Reformation that the idea of the Nation-State began to evolve. The Nation then became an entity—a whole, which

it was worth any sacrifice to hold together, and inspire with a common purpose. Naturally, for some centuries, the course of evolution was that each nation became an object of jealousy, suspicion, and dislike to other nations. When Colbert, Louis XIV.'s great Minister, established a heavy tariff against all other countries, he did indeed draw the French nation together. But, at the same time, he accentuated the enmity of other states, and thus, says Adam Smith, "began the spirit of hostility which has subsisted between the two nations ever since."

This policy was followed by every other country, under the pernicious idea that one nation's gain is another nation's loss. Consequently, down till the middle of last century, all nations were shut in by a tariff based on the principle known in Scotland as "keeping their ain fish guts for their ain sea maws." We ourselves were as heavily protected as other countries; and we had, moreover, enjoyed the very special protection of the twenty years of the Napoleonic war, during which we had freedom to apply the new discoveries and inventions to manufacture, while the rest of Europe was devastated by invading armies, and had enough to do to live.

The abolition of the Corn Laws in 1846, and the adoption of Free Trade, was an almost revolutionary movement, made possible perhaps by the dread of a bloodier revolution. It was a quick, sharp spasm, like the cut of the surgeon's knife. It introduced the "natural" system at great loss and suffering to some, but it cleared

the way for the free development and full use of the great inventions and cheap communication which were changing the face of the world.

That is to say, the innumerable vested interests, which had grown up under Protection, were ruthlessly cut at the root. But in other countries they remained, still remain, and tend to grow stronger the older they grow.

I should not like it to be thought that I mention "vested interests" with any contempt, or that the expression carries its own condemnation. Most of our interests are vested, in greater or lesser degree. I only take it as a fact of human nature that, when a man's bread and butter is bound up with the continuance of a system, however bad, the vested interest that appeals to him is the interest of the wife and children at home; and these interests sometimes make him singularly shortsighted as to the real interests of himself and others.

In early days, it is said, the joiners in Japan protested against the introduction of the fire engine, on the ground that it interfered with their industry of rebuilding the wooden houses.¹ This seems absurd enough, but it is absurd only because the interest is a small one. But consider this case. Of the 39 millions of population in France, nearly one-half are interested in agriculture. Most of them are small peasant proprietors.

¹At the end of the eighteenth century, the southern counties of England petitioned Parliament against the opening of the Great North Road, on the ground that it would bring the products of the northern counties into the London market.

They are the salt of France. But these peasants could not compete with foreign grain introduced free. Free Trade would mean an entire re-organisation of agriculture, and, probably, of the land system. It would be an economic revolution.

Here is one vested interest which extends over half a nation, and makes it impossible for any ministry such as France has known for thirty years to even mention the free import of grain.

But America never had an economic revolution such as we had. She had no need to protect her agriculture. Hence her people could always get the prime necessities of life cheap and good. They never knew what it was to have wheat at 80s.—the price which, it was thought, the agricultural interests in this country should have for their own safety; and they, consequently, never saw rents rising, and one privileged class flourishing, while the people starved. This cheap agricultural produce, moreover, they could export, and with it buy what they wanted of other things. But at an early stage they adopted Protection for their manufactures, and the beginning of it was perfectly natural and explicable.

Up till 1808, the nation had remained very much as when it was a number of British colonies—exclusively agricultural; importing manufactures, and paying for them (1) by exports of agricultural produce to the West Indies and to those countries of Europe where the French armies were trampling down the fields, and (2) by the invisible exports of shipping, shipbuilding being then a chief industry of New England.

Then came the Berlin and Milan Decrees of Napoleon, the Embargo, and the Non-Intercourse Act of 1809, followed by the war with England in 1812. Practically all foreign trade was stopped, and America thrown on her home resources.

This, of course, gave an enormous stimulus to those branches of industry whose produce had before been imported, and the manufacture of cotton goods, woollen cloth, iron, glass, pottery, and other articles sprang up like mushrooms.

When the war was over, there remained, naturally, a feeling in favour of these manufactures, and higher duties were imposed to give them a chance in competition with the English goods which then began to pour in.¹ This was

¹ "The manufacturers of Great Britain, well knowing the needs of the American markets, made haste to send over their goods, which, in the early summer of 1815, began to arrive in fleets of merchant vessels, in such quantities as had never before been known. Coming over consigned to nobody, the goods were hurried by the supercargoes and captains in charge of them to the auction block, where, to the surprise of the owners, high prices were obtained by the sharp competition of eager buyers. . . . During April, May, and June, 1815, the duties paid at the New York custom houses on goods, wares, and merchandise brought from England amounted to 3,960,000 dollars. When the news of the quick sales and great profits at auction reached Great Britain, whole fleets of vessels were loaded and despatched to America. One day in November, 1815, twenty square-rigged ships came up the harbour of New York. On another day fifteen ships and eight brigs arrive; and what went on at New York was repeated at every seaport along the Atlantic coast. The gainers by this unusual trade were the British manufacturers, the British ship-owners, the auctioneers, and the Federal and State treasuries. The sufferers were the American importers, manufacturers, and wholesale merchants, who without delay appealed to Congress for protection."—Prof. M'Master in *Cambridge Modern History*, vol. vii. p. 354.

strengthened by the shutting out of agricultural produce from England under the Corn Laws. It was, in fact, very much our stringent protective policy which forced America into manufacturing for herself. She was not allowed to pay for her imports by agricultural exports. For twenty years from 1816, the protective policy was continuous, and it was based on the Infant Industry argument. By 1830, or perhaps earlier, the "diversified industry" was attained; the Infant Industry argument lost its force. In 1833, for instance, it was said that the cotton industry was ready and able to meet imports on a free-trade footing. Between that and 1860, there was great vacillation in the tariff policy; high and low tariffs succeeding each other in a very unprincipled way. From 1846, indeed, the country seemed to be approaching Free Trade.

Then, unhappily, came again the old spring and excuse of Protection. To raise revenue for carrying on the Civil War which began in 1860, every possible article, home and foreign, was taxed, and taxed heavily. The statesmen in power were protectionists, and Protection ran riot. After the war, the removal of internal and excise taxation was not accompanied by removal of the customs tariff. The war tariff of 1864 remained in force for twenty years without reduction. The growing feeling towards Free Trade disappeared. Many industries had grown up, or been greatly extended, under the influence of the war legislation. That some were unsuitable to the country did not appeal to those who had sunk their fortunes in them. The infant industry, crippled from its

birth, appeared as good a subject for protection as the infant industry that only required benevolent care during its early years.¹

And, ever since, the Vested Interest has riveted its hold. What appears, then, in America is the phenomenon of the employers in practically all manufacturing industries crying out, in the name of justice, for equal Protection ; and the workers are easily persuaded that their living depends on the continuance of these industries.

At the back of it all are the two facts : that America is a country of such vast natural resources that it would be difficult for any fiscal system to keep back the progress of the nation, and that, within its great area, there is absolute free trade.

¹See *passim* Taussig's *Tariff History of the United States*, and Rabbeno's *American Commercial Policy*.

CHAPTER VIII.

THE PRINCIPLE OF A PROTECTIVE TARIFF.

What principle regulates the differentiation of rates in a tariff? Is it prohibition, or equalisation of labour costs, or equalisation of costs generally? Whatever principle be alleged, experience shows that rates are determined by warring interests, either as a victory or as a compromise.

SO much for the genesis of Protection and its continuance. It does not arise from a thought-out policy: the economists are not consulted. During the restriction of a war, a country starts making things for itself, without regard to "natural advantages," or, indeed, to anything but necessity. When the war is over, it is thought that the producers have deserved well of their countrymen; the government undertakes to secure them from rapid extinction at the hands of more advanced nations; and it is only a question of time till the vested interests can neither be overlooked nor silenced.¹

¹This, of course, does not account for the rise of Protection in our self-governing Colonies. Here the explanation is the natural tendency of a tariff for revenue to pass into a tariff for protection. Every colony, however new, needs a revenue. It is difficult to

But a tariff is not a simple thing. It is not a uniform rate. It consists of a great range of differential duties, some low, others high, some few prohibitive. And, inevitably, at every revision—and the American tariff has been altered some forty times since 1789—the question is raised as to what is the principle of these differences.

I cannot answer this question. It is not as if the protected country drew up a tariff with the object of getting the largest revenue at the least hardship to the consumers. It admits foreign goods of compulsion and unwillingly. A self-sufficient country like the United States, for

get it from internal taxation (whether levied directly on income or land, or, levied indirectly, on commodities), on account of the small and scattered population ; and the obvious course is taken of imposing heavy taxes on imports. Behind these import duties, gradually rise vested interests. It is represented, in the usual way, that a "diversified industry" is necessary, and cannot spring up without enough protection to overcome the natural handicaps. The infant industries, once supported by government crutches, never willingly abandon them, and the vested interest does the rest.

There is another explanation forcibly put by Fawcett (*Free Trade and Protection*, p. 11). It is that emigrant artisans have difficulty in finding in a colony the kind of employment to which they have been accustomed. They do not take willingly to the land ; even gold mining is found not always a short cut to wealth. So they naturally favour the establishment by Protection of industries where their old skill can find opportunity. And, in several of our Colonies, "labour legislation," as it is called, is almost alarmingly prominent. While these sheets were passing through the press, the Premier of New South Wales had to point out to a deputation of men unemployed through the cessation of public works that the government did not borrow money merely to find employment for the citizens.

instance, might be quite content to have no imports. But, as Sumner says, "As soon as we get the home market firmly shut, so that nobody else can get in, we find that it is a question of life and death with us to get out ourselves."¹ And the exports inevitably bring the imports which pay for them. Hence the need of differentiating the tariff, so as to admit imports with the least harm to home producers. In such circumstances, a principle is scarcely to be looked for. But I may quote some utterances which seem to admit that the need of a principle is felt—if it be only to make the tariff respectable.

President M'Kinley, presented his revised tariff Bill with the following words: "The object of tariff taxation is not the raising of revenue, but, on the contrary, the reduction of revenue, and ultimately the extinction of revenue, by duties to be raised to a height sufficient for the accomplishment of this end."

Here is a confession that the aim of Protection is Prohibition. First put on a tariff. If foreign goods come in, raise it higher. If they still come in, raise it again, till "revenue is extinguished"; that is, till no goods come in at all.

With more plausibility, President Roosevelt, in the Message to Congress, December, 1901, said: "Every application of our tariff policy to meet our shifting national needs must be conditional upon the cardinal fact that the duties must never be reduced below the point that will cover the difference between the labour here and abroad."

¹ *Protectionism*, p. 88.

This seems to assume that the American labourer has, somehow or other, got his wages up so high that the wages have raised the cost of production of American goods, and that the goods coming from other nations must be taxed to raise them to the same price, or else wages will be brought down. It is the so-called Pauper Labour argument—an argument, by the way, which was used by ourselves in 1779 in regard to Irish labour, when Lord North proposed to allow Ireland to trade with the Colonies and with foreigners on the same footing as England. But it reads very strangely to those who remember that France and Germany urge the need of protection against America for precisely the opposite reason, namely, that American labour is so well paid and productive!

One could understand this if the high wages of America were artificial; if, for instance, Trade Unionism were there so powerful that wages were raised quite apart from the product of work. But, notoriously, this is not the case. Trade Unionism in America is weak. The high wage is evidently the result—the natural and happy result—of high industrial skill, working with cheap raw material, and fed on abundant food. “This claim for Protection to American industry, founded on the high scale of American remuneration, is a demand for special legislation and in consideration of the possession of special industrial facilities—a complaint, in short, against the exceptional bounty of nature.”¹

If the proposition is read in any other way,

¹ Cairnes, *Some Leading Principles*, p. 385.

it seems to amount to this : that prices generally in a protected country are high ; living, accordingly, is dear ; and workers need high wages to pay the high prices. But, as wages are "labour cost," the high prices are assumed to be the result of high wages ! High prices explain high wages, and high wages explain high prices—a very pretty example of circular reasoning.

All this is exceedingly crude ; so I turn to a principle suggested by an American economist, for whom we all have a very high respect, Professor J. B. Clark, of Columbia University.¹ "It would be entirely reasonable," he says, "to reduce each duty to an amount that equals the difference in cost between the American and the foreign article. Find out accurately how much the owner of an

¹ *The Control of Trusts*: Macmillan, 1901. Economists in America are in rather a difficult position. If they speak in defence of Protection, they lose their scientific reputation. If they speak fearlessly against it, even if they escape being turned out of their Universities, they lose their influence with the people—for Political Economy in America, it has been said, is regarded as the science of tariff regulation. Besides, they have always the consciousness that an industrial system which is protected from head to heel requires a revolution to change it, and they have to weigh the advantages of setting industry on a sound economic basis against the gigantic disturbance and loss which would, in the first instance, accrue. "Whatever may be said about the wisdom of having tariffs at all," says Professor Clark, "a country which actually has one, and which under it has built up industries that are still in some degree dependent on it, will be cautious in abolishing it." But they are all tariff reformers ; and, in the present case, Professor Clark, acknowledging that the actual tariff is "irrationally protective," puts forward a principle which, without saying anything for the abolition of Protection, would show that a reduction of tariff was "entirely reasonable."

American mill has to spend in the creating of a particular product, ascertain with the same accuracy how much the European spends for the same purpose, and make the duty on the completed article equal to the difference between the two sums. The European can then place his goods on the American market at an outlay which, when duties are paid, equals the outlay incurred by his American rival. The two will then be more nearly on an equal footing, and success will come to the one who improves his processes more rapidly, and makes the largest savings in the advertising and selling of his wares. The public will get the benefit of this rivalry in economical production, and will get its goods at the maximum of cheapness."¹ The principle is, that a tariff should put home producer and foreign producer on a footing of perfect competition; competition, in Professor Clark's view, being "the regulator of prices and wages, and the general protector of the interests of the public."² The idea that a tariff should give any monopoly to the home producer is expressly disclaimed.

This is not the place to go into any detailed criticism of the principle thus laid down. It is enough, perhaps, to say that, when Professor Clark says "European," he seems to have been thinking of "British"; in other words, to have been thinking of the difference of cost as between a protected and a free-trade country. But other protected nations send their goods into America, and every nation has a different cost. A tariff based on his

¹ *The Control of Trusts*, p. 43.

² *Ibid.* Preface, p. v.

principle, then, would seem to involve differential duties against every separate country. And I do not think he has sufficiently considered the difficulty of arriving "accurately" at cost in any country except by taking the selling price. Apart from all this, it seems clear that few Protectionists would admit that the end of a tariff is merely to equalise costs and secure competition. They always aim at partial or total monopoly.

But one gets tired of seeking for a principle in a tariff where, at each revision, the changes are so obviously determined, not by sober scientific and economic calculation, but by the weight of the influence brought to bear on the politicians.¹ In 1882, Congress appointed a Tariff Commission to collect evidence and report. With the exception of one person, it consisted entirely of Protectionists. It recommended a reduction of 25 per cent., saying wisely: "Excessive duties are positively injurious to the interests which they are supposed to benefit. They encourage the investment of capital in manufacturing enterprises by rash and unskilled speculators, to be followed by disaster to the adventurers and their employés, and a plethora of commodities which deranges the operation of skilled and prudent enterprise." Its recommendations were simply put aside; and the new tariff of the next year was "kicked about

¹ I once asked a manufacturer in the United States why the duty on his goods was 40 per cent.—not 30 per cent. or 50 per cent. His answer, I fancy, put the truth in a nutshell. "Our Congressman," he said, "came round and asked, what duty do you want? and we said 40 per cent. would do."

in committee till it came out a grotesque compromise of warring interests."

The experience of France is the same. To quote M. Yves Guyot: "Not only does Protectionism plunge the country which adopts it into a war of tariffs with all other countries, but, even within the country, it rouses a spirit of antagonism in every district which thinks itself sacrificed to other districts, and in every industry which demands to be protected over and above other industries, and at their expense. Under Protection, economic rivalry gives place to political rivalry. This is confirmed by the daily experience of every Protectionist country. I have had special opportunities of seeing how private interests combine against the public interest in the French Parliament. The whole art of M. Méline, who has been the Protectionist leader for close on 25 years, has consisted in uniting groups of often contradictory interests, paying court to them, effecting bargains between this and that party, always to the detriment of the consumer, who is the general public. 'Beetroot strikes a bargain with Wine; Cotton and Iron come to an understanding.' There, in a nutshell, you have the part which Protection plays in parliamentary life."¹

Lastly, take our own experience. In 1840 a Committee of the House of Commons reported as follows: "The tariff of the United Kingdom presents neither congruity nor unity of purpose. No general principles seem to have been applied.

¹ *Fortnightly Review*, July, 1903.

The tariff often aims at incompatible ends ; the duties are sometimes meant to be both productive of revenue and for protection, objects which are frequently inconsistent with each other. Hence they sometimes operate to the complete exclusion of foreign produce, and in so far no revenue can of course be received ; and sometimes, when the duty is inordinately high, the amount of revenue is, in consequence, trifling. They do not make the receipt of revenue the main consideration, but allow that primary object of fiscal regulations to be thwarted by the attempt to protect a great variety of particular interests at the expense of revenue, and of the commercial intercourse with other countries. Whilst the tariff has been made subordinate to many small producing interests at home, by the sacrifice of revenue, in order to support their interest, the same principle of interference is largely applied by the various discriminating duties, to the produce of our colonies, by which exclusive advantages are given to the colonial interests at the expense of the mother country."

The conclusion seems inevitable ; that, where duties are differentiated with the view of protecting, not the industries which should exist but the industries which do exist, and where the amount of the differentiation is arrived at by a struggle of competing interests and unequal weight of influence, it is useless to look for a principle.

CHAPTER IX.

POSSIBILITY OF A SCIENTIFIC TARIFF.

In the framing of a tariff by a country hitherto Free Trade, certain broad principles would be accepted, but each presents its own difficulties. (1) Exotic goods allowed in free would not, indeed, compete with home industries, but they are the favourite objects of revenue taxation. (2) Free food conflicts with the interest of the home agriculturist. (3) Free raw materials conflict, not only with agricultural and mining industries, but with those who use home-produced raw material. But the attempt to define "raw" material presents endless difficulties. And the importance of cheap raw materials, as compared with the importance of cheap manufactured materials, if these should happen to be the basis of national industries, is not obvious. (4) Taxed manufactures encounter the latter objection, and, besides, include tools. One begins to see why it is that a country which once adopts Protection ends by taxing everything.

BUT even if one is convinced of the impossibility of revising a tariff on anything like economic principles, when once vested interests have tightened their hold, there may remain a belief that a scientific tariff could be drawn up by a country which had hitherto been Free Trade.

Without attempting to define the adjective "scientific," which would, perhaps, prejudice the

case, let us look at certain deductions of experience as to the taxing of imports.

I. Common sense dictates the free admission of things a country cannot grow or make. Dear goods, as dear goods, are bad. If, then, a government, in order to protect certain industries, is going to make many things dear, there is all the more reason that it should let in non-competing things cheap.

But here steps in the Chancellor of the Exchequer. He must have a revenue, and he cannot raise all that revenue by direct taxes. He knows that, in proportion as the protective tariff is successful, there will be little revenue; if it be completely successful, none. Such luxuries, then, as Tea, Tobacco, and Spirits are the things on which he can most easily raise an assured revenue, with a minimum expense of collection. So, under a protective tariff like that of Canada, heavy import duties, amounting to an average of 170 per cent., are put on such goods.

II. Common sense seems to dictate the free admission of Food. The prosperity of a community surely depends, fundamentally, on getting the animal basis of life as cheap as possible. The human worker is, after all, the great Tool. The argument is strengthened, in our case, by the consideration that many of the countries with which we compete do not require to protect their agriculture. Nature has done it for them. For us to put on such a duty, seems like

deliberately handicapping ourselves in the international race by raising the cost of production of Man. Hence, up till the present, it was thought that, if there be a form of Protection which would be totally indefensible in this country, it is the taxation of food.

But here steps in the agriculturist, and asks, with some heat, if the manufacturing classes are to be favoured, while the oldest industry in the world, and still the largest, is to be left to merciless competition with cheap food from every country under heaven? Indeed, in our case, if there is an argument for the protection of any class of producers, it almost seems as if it should be protection for the producers of food, seeing that we are actually at a natural disadvantage, as compared with many other countries, by reason of our climate and the narrow area of land suitable for each crop. And if there is an industry in the country which has some reason to think meanly of Free Trade, it is Agriculture—remembering, always, that the agricultural interest which can and does make itself heard most, is the interest of the landowner. In fact, it was made a special claim for Ireland—in a Royal Commission—that its agriculture was destroyed by Free Trade, and that it never had the manufacturing industries on which to make up the loss.

III. If a country has sunk most of its capital and specialised most of its energies in manufacturing, the free import of raw materials seems

almost necessary. This has generally been recognised by the most protectionist countries.

There is scarcely room for difference of opinion as to the admission of materials a country cannot produce for itself. But, beyond such imports, the free admission of raw materials encounters the opposition of those who raise similar or competing raw materials at home, and naturally object to the competition of countries which can raise them more cheaply. At this point arise the most serious conflicts of interest. Wool, for instance, is a raw material of many manufactures. But if, to suit the woollen manufacturer, it is admitted free, this comes into rough collision with the interests of the farmer—one of his staple products being sheep. Say, however, that wool is not admitted free, then, in many countries, the silk, cotton, and linen manufacturers are favoured; as using foreign raw material, they get the basis of their industries presumably more cheaply. For it should not be forgotten that woollens do compete in use with cotton and linen and silk. Everyone knows the position which flannelette—a cotton fabric—has taken in the clothing of the poor. In certain shop windows, one sees a strenuous attempt—backed by expert evidence—to prove that linen is a healthier underwear than wool, while Dr. Jaeger brings his own evidence to prove the contrary. Silk, of course, is an active competitor with wool in the same line, except that it is so expensive. In socks and stockings, again, there is competition between Lisle thread, silk, worsted, and mixtures. So in

carpets, hangings, table covers, and the like, with the addition here of jute as a serious competitor.¹

The endeavour to secure cheap raw material for the manufacturer who employs imported material as his base, and yet to give equal treatment to the manufacturer who uses home raw material, becomes almost hopeless where the protected country not only produces the raw material, but works it up. Here the grower clamours for protection and the manufacturer for free admission. One would think that, if there is a raw material which should be admitted free into France, it is silk fibre, silks being, of course, the traditional export of France. Yet, in 1892, the Communes could scarcely resist the agitation for the protection of the home cultivated cocoon, and only escaped it by offering a bribe to the home producers, in the form of a grant of over 3,000,000 francs for primary and technical education in agriculture.²

Here is another case, difficult to put under a category. It is where two raw materials are necessary for one fabric, and the one material comes from abroad, while the other is produced at

¹In 1902, the Agrarian Party in Austria asked for a duty against raw cotton, with the avowed object of protecting wool and flax. The argument used was: If raw cotton from abroad is admitted free, cotton goods are produced more cheaply than woollen and linen goods, whose raw material is grown at home, and a blow is struck at the farmer and flax grower.

²*Economic Journal*, September, 1896.

home. Farrer gives an example which might be paralleled, in all probability, from other industries. Everyone knows those mixed cotton and silk fabrics, made in the factories of Lyons. Here cotton yarn is woven along with silk yarn. But cotton yarn is an import heavily taxed in order to protect the cotton spinners of Lille. The Lyons weavers, then, complained that many of their yarns could not be obtained except from England, and, moreover, that they were suffering competition from Switzerland, where cotton yarns were admitted free. The Lille spinners, on the other hand, urged that "the distress among the Lyons weavers was nothing to that prevailing among the Lille spinners." Here it is French spinners against French weavers.¹

The fact is, that any particular raw material may be the sole base of one manufacturing industry, or one of the bases, or only a trifling auxiliary; while it may, at the same time, occupy a different position, as basis or auxiliary, in several competing industries. It is impossible to reconcile all these interests.

But what is a "Raw Material"? The term is not a scientific one. No definition of it appears in the *Dictionary of Political Economy*. It is not even a Board of Trade or Custom-house category.

¹The remedy suggested by the President of the Lille Chamber of Commerce shows the ridiculous *impasse* in which attempts to reconcile warring interests often land. It was to raise the duty on agricultural products, in order that French agriculturists might grow rich and become better purchasers of French manufactures!—Farrer, *Free Trade versus Fair Trade*, p. 167.

Generally, we are left to infer that what does not appear under the category "manufactured," is raw material—so long as it is not "food and drink." According to our official trade accounts, Sawn Timber is not a raw material, which would seem to show that only tree trunks are "raw"; in which case a thing remains raw if an axe is laid upon it, and is manufactured when passed through a saw mill. In the German and French tariffs, Pig-iron is a raw material, excluded from the category of "manufactured"; with us, and with the United States, it is included. Even Slates and Stones with us are manufactures.

In highly protective countries, one has to infer what is counted raw material from the fact of its paying the lowest rate of duty. With us wool, dirty or clean, is considered raw material. But there is a refinement in the American tariff which is very suggestive.

Unwashed wools are wools shorn from the sheep's back without any cleansing. Washed wools are wools washed with water only, on the sheep's back or on the skin. Wools washed in any other manner are "scoured." The importance of the subtle distinction comes out in the provision that washed wools pay double the duty of unwashed wools, and that scoured wools pay three times the duty. So that, if a bottle of sheep-dip is put into the water at the washing, it would seem that treble duty is payable, while leaving sheep altogether unwashed allows the wool to get in at the lowest figure—a premium on dirt and disease which, I imagine, would not be

without its effects. So far as this goes, it seems to indicate that the difference between "raw material" and "partly manufactured" material is a question of soap and water. Those people, then, who speak so glibly about letting in raw material free, have evidently some work before them when they try to determine at what stage any material is "raw," and at what stage it should be taxed.

But this is not a mere difficulty of classification. Even if we could define a raw material with absolute accuracy, the proposal to admit it free, while taxing all other "material," is exceedingly serious. What affects the home producer is not in the least whether the material he buys is really "raw" or something very far from being raw. The thing that affects him, and his trade, is that the material with which he starts should be cheap. Why is it that the non-taxation of raw material appeals to everybody as reasonable? Is it not that it is the interest of the producer, of the consumer, and of the exporter, that goods should cost as little as possible? If the raw material accounts for a large part of the selling price of the manufacture, and we tax that material, we make the finished article proportionally dear. But if our national manufactures happen to begin with a material which is not "raw," but has already passed through some processes of preparation before it comes here, is not the hurt of import duties to these industries—their producers, consumers, and exporters—exactly the same as if we taxed the raw material? Can anyone say

why our manufacturers should begin with the so-called raw material, or be penalised because they do not? Is it not as profitable perhaps to begin with material already partly manufactured?

It is quite clear that, in home trade, the manufactured product of one industry becomes the material and substance of another. Our weavers do not spin; they buy yarn from the spinners and weave it. The tailor begins with the cloth. The watchmaker begins with a whole complex of ready-made components. Why should it be made a misfortune that the first—and, presumably, less skilled—process of manufacture should not be done in this country? Is it a misfortune that our silk manufacturers begin with silk that has already passed through several stages; that our cycle makers begin with a few components bought from America; that our joiners do not begin with tree trunks, but with sawn timber, or even with ready-made doors and window sashes? Is not the taxation of partly manufactured materials in flat contradiction to all we have been taught, since Adam Smith, of the advantages of the division of labour?¹

The only ground I can find for the belief that raw material should be admitted free, as compared

¹As regards the Brewing trade, it has been pointed out that staves come from Norway, hoops from Holland, capsules from Germany, casks from Sweden, hops and grain from various countries: that, as a matter of fact, all this country contributes in the way of raw material is the water used in the manufacture, and the straw for packing. But brewing is one of our staple British industries.

with everything which has passed through a process, is the ineradicable belief of some people that we ought to do everything ourselves ; and that, if an article passes through six stages before it comes out a finished good for consumption, we are somehow defrauded if we do not secure more than five of them. It seems to me almost as absurd as insisting that we teachers should read nothing but English books, or, perhaps, should write our own books.

One would think these are difficulties enough, but I should like to note one more. It is that of distinguishing between Food and raw material. For, as it happens, imported food is the raw material of much of our new agriculture. It is said, indeed, that the salvation of modern farming has come from the possibility of getting cheap feeding for cattle. Mr. Balfour put this strongly, in May of 1903, when defending the abolition of the tax on grain. "Let me ask farmers," he said, "if they really think that, from the point of view of feeding stuffs, the tax is really to their advantage? . . . I maintain that the tax has operated as a burden on the *raw material used by farmers*."

Flour, again, is a Food. But is it not also the raw material of several things we undoubtedly call manufactures? Maize is the substance of corn-flour, and corn-flour is a food ; but the spoiled corn-flour goes into starch, and starch is a manufacture. If, again, meat is taxed as food, is this not a tax on leather, the raw material of many industries ?

IV. The only class of goods remaining for consideration, after foreign products that we cannot make, food, and raw materials, is what we call Manufactures. And generally, ever since the days of Colbert, the opinion of rising countries is that the import of manufactures should be prohibited or handicapped wherever they interfere with or threaten similar home manufactures. Manufactured commodities, it is assumed, are the goal of industry. It is in order to manufacture them cheaply that we admit food and raw material free. If we allow free entry to the manufactures of other countries, we give away the case for free entry of food and raw materials.

The inadequacy of this argument appears the moment we notice our own classification of manufactures, as "manufactured and partly manufactured." Suppose that we could put the "manufactured" into a category of their own called Consumption Goods, meaning by that, goods ready for being consumed in the support of human life and not requiring any further process of labour, the difficulty would at least remain as regards all the others. For all "partly manufactured" goods are simply the substance and base—the "material"—of further home industries. To tax them, as I say, has exactly the same effect as to tax raw materials.

But, again, among "manufactures"—one would say, among "finished manufactures"—appear tools of all descriptions. But tools surely stand on the same line as raw materials; they also are necessities and foundations of all in-

dustry. To agricultural countries, the taxing of agricultural implements is a recognised and serious evil. To judge of its effect, one has only to take a walk anywhere in rural France, and witness the peasant working with ploughs only fit for a museum—such ploughs as might be seen on a Roman frieze, but never in English fields.

So it comes that, if a country adopt this protection against manufactures, it is driven to make such a complex and detailed tariff, that it is very expensive, very difficult to work, very vexatious, and, at the same time, very open to evasion of all kinds. The contents of any shop window, with its huge variety of articles which must be called “manufactures,” show how impossible it is to group them into intelligible classes. And thus one finds in tariffs such absurdities as that of certain house furnishings being taxed, not as single goods, but as complexes of wood, steel, copper, brass, etc., on each item of which is levied a different duty. It reminds one of the old railway casuistry whereby a bicycle was charged for under the classification of “a perambulator with two wheels.”¹

From all these considerations, one begins to see

¹ Cf. a recent decision affecting an American fruit dealer who imported from Italy, along with a shipment of lemons, a bushel of snails intended for his own table. The authorities decided that a duty on the snails was necessary, but were for a long time at a loss under what category to place them. Finally, they paid duty as “wild animals”!

why it is that, when a government once adopts the protectionist faith, it is driven by force of circumstances, not to select and categorise, but to tax everything; and when it tries to let in some things free, or at a reduced rate, is met with a storm of opposition from hundreds of vested interests.¹

¹ The kind of problems presented may be illustrated by the treatment of colza oil in France. It is manufactured from the seeds of a kind of turnip, which is also a valuable feeding stuff. To protect the growers, in 1890-2 the Commission of Customs proposed that colza should be protected by a 6 per cent. duty. But the oil is burned in lamps, and the consumers rebelled. To protect their interests, it was proposed that other illuminating oils should be admitted free. Again, colza is largely used in the making of certain soaps, and these soap makers rose in arms. To propitiate them, it was proposed that oleaginous substitutes used in the making of other soaps should also be taxed, and all soap makers put on an equal footing of disadvantage. Thus, to favour the farmer, colza was taxed and lamp oil made dear; oleaginous substitutes were taxed and all soap made dear. The later development, I believe, is that, in 1903, the home colza growers asked for the taxation of all oil-producing grains as well. To propitiate the French Colonies on the West Coast of Africa, it was proposed to admit their colza free. The Colonies refused the offer, knowing that they "would have to pay for it" in other ways! One may judge if Sumner exaggerated when he said: "Tax A to favour B. If A complains, tax C to make it up to A. If C complains, tax B to favour C. If any of them still complain, begin all over again." — *Protectionism*, p. 78.

CHAPTER X.

CONCLUSIONS AS TO PROTECTION.

A protective tariff which does not present all manner of anomalies and inequities is impossible. Protection tends to political and commercial immorality. It raises cost and checks exports.

FROM what has been said, four conclusions seem to suggest themselves.

I. That it is beyond the wit of man to draw up a tariff which will protect whole ranges of industries without causing all sorts of anomalies and inequities.

Under Free Trade, self-interest, urged by competition, directs capital into the industries which pay, and buys its material and tools wherever it gets them cheapest and best. But Protection, having for its object the restriction of competition, even where it allows the free entrance of food and raw material, taxes other material and tools differentially, according to the circumstances and needs of particular home trades; that is, not according to any principle of suiting the needs of those trades which use the material and tools, but according to the circumstances and needs of

other home trades. Thus one industry may get in its material at a low rate because the home producers of that material do not need much protection; another industry, which competes with it, may have to pay a high rate for its material because the home producers are at a natural disadvantage. Every industry, again, in this artificial system knows its own weakness or strength against outside competition; but outsiders do not know, and every man keeps his own trade secrets. Even granted, then, that there are, in each business, experts or men who know just what amount of Protection is needed to "protect," no Legislature has the knowledge or the means of getting at the knowledge. If the Legislature simply asks each industry how much Protection it needs, what kind of answer will it get? Or suppose a tariff is based on the cost of thoroughly efficient home producers, how will this suit the average, or the inefficient? Will it not tend to throw industry, as it has done in other countries, into the hands of great combinations, and end in monopoly?

II. That Protection tends to political immorality.

Under Free Trade, the statesman is the voice of the nation. He is elected, indeed, by a section, and he is bound, to a certain extent, to look after the particular interests of that section, but the interests of the wider community are always paramount. He takes his seat as a member of one political party, but that party has, and tries to

carry out, a national programme. At the very worst, he stands for no selfish or sordid interest. But what becomes of the purity of political life when every elector looks to his member, not to think of the local and national interests, but to give him a tariff high enough to let him earn a profit? Nay, what becomes of the party to which he belongs when the whip calls one way and the vested interest another? How, in these circumstances, can the State remain the "armed conscience of the community"?¹

III. That Protection tends to commercial immorality.

Law ought not to lead men into temptation. And nations should have some regard to the temptation which their laws put in the way of other nations. We are all too apt to think that our obligations to obey stop at the boundaries of our own country and the limits of our own laws. There are very few Englishmen who will not do a little smuggling when they cross the channel—the tariffs of other countries, they argue, are "so irrational." And when it is found, not only that tariffs are irrational, but that, on the one hand, the adminis-

¹ Where an industry can be made or unmade by a few lines in a tariff schedule, the interest which people take in politics tends to become absorbing in a wrong direction. Although one does not like to cast reflections on one's neighbours, there is some truth in the statement that Americans regard politics as a "business proposition," and spend large sums in it and on politicians as a business investment. "The day we adopt Protection," said Sir John Brunner, "we may say goodbye to honesty in the House of Commons."

tration of them is modifiable by influence or bribery, while, on the other, custom-house officers are ready to pounce, with fine or confiscation, on the error of a careless invoice-clerk, the temptation to regard the tariff as a fair mark for ingenuity is all but irresistible. But this need not be dwelt on. The annals of Protection are full of tales of evasion, of connivance, of bribery—to say nothing of smuggling.

IV. That Protection, as it raises the price of everything imported, and, as consequence, the price of everything raised or made at home, increases cost and handicaps exports to neutral markets. Only great natural resources, great superiority of skill, or production on a very large scale, can outweigh this handicap. Unless, indeed, recourse is had to the complicated and mischievous machinery of “drawbacks” on export, with the extraordinary corollary that the producer charges dear for his goods at home and sells them cheap to the foreigner!

CHAPTER XI.

PROTECTION AS INDIRECT AND DELEGATED TAXATION.

Taxation is a price paid to government for common services rendered. In its indirect form, certain goods are charged customs and excise duties, and the extra we pay goes first to the government, and then comes back to us, minus the expenses of collection, in benefit. But, under Protection, the government, wishing to benefit its producing classes, delegates the power of taxation to them; it shuts out foreign competition; and the extra price, made possible by taxing foreign goods, is taken by these producing classes. It is as if a government, recognising the services of distillers as employers of labour, were to impose customs duties on foreign spirits and no excise on home spirits. Protection, then, is paid for by the nation in indirect taxation.

WE know that government does certain things for us. We realise, probably, that these things cannot be done for nothing, and that our taxation is the price of these services. In the annual Finance Accounts is found, on the one hand, the cost of the services which the State renders, and, on the other, the price we pay. Last year the price was £151½ millions.

What, then, is Taxation? It is, as a whole, the annual sum paid to the government—and the

government, of course, is just a grand committee of ourselves, put in power by our own votes to carry out our own wishes—in exchange for which the government gives back to us the whole amount, less the expenses of collection and administration, in Common Benefits. If Protection, then, be added to the recognised functions of the State, it is not to be expected that such a function can be performed without heavily adding to the taxation.

But we are so accustomed to hear that Protection “taxes” the people—meaning, by that, “burdens” the people—that we do not so readily realise that, if a tax does burden the people, it is a bad tax. It seems, then, of the last importance that we should understand where Protection stands in the scheme of taxation. For, indeed, the term Taxation is too good for it.

The thesis of the present chapter is that, by Protection, a government delegates and gives away its sacred and sovereign power of taxation, and permits certain of its citizens to impose taxes in their own interest.

In old times, when a sovereign wished to befriend a favourite, he gave him a monopoly of some import. The favourite, having a monopoly of the goods, charged what prices he liked, or could get, and the public bore this burden. They paid the subsidy to the favourite in high prices just as certainly as if they had given a sum out of their pockets. This, in ordinary circumstances, was Burden. It was quartering a

worthless character on the homes of England. Only in form was it taxation.

Suppose, however, that Elizabeth gave the Earl of Essex leave to levy sixpence a barrel on every cask of wine that came into the port of London, because Essex manned and maintained a fleet of ships to patrol the entrance to the Thames against pirates and foreign fleets, then the monopoly was only payment for services rendered to the nation. It might be a bad way of paying him—bad taxation; that is all that could be said against it.

This, however, is the kind of taxation that Protection is. The government might go straight to the people; take a sum openly out of their pockets called, perhaps, the Industrial Subsidy; and spend this in giving each deserving manufacturer a sum equivalent to what he would have got in profits under Protection. There is no doubt that this would be direct taxation. As it is, the government gives a monopoly of the home market; not indeed to a favourite, but to a favoured class, the producers—they being considered to render services which deserve recognition—and by this allows them to charge as high a price as they can get under the monopoly. Thus all who buy the goods are forced by the government to pay a subsidy out of their pocket for the maintenance of this favoured class.

Fully to understand the difference between the two systems and the difference between their effects, we must go a little deeper into what Taxation always means and always does. Usually

the individuals of a nation provide each other with goods and services by each making and selling what he likes. But, as a nation, we have many common interests which can best be provided for in common. National Defence is one of these. In times not very long ago, the noble surrounded himself with a band of retainers, whom he fed, uniformed, and housed. Many of them were domestic servants of various sorts ; many of them were merely private policemen. When, again, a rich citizen went to supper at a late hour through one of the parks, he hired an armed escort. When we learn that Sir Robert Peel first established the splendid force we still, in grateful remembrance, call Bobbies or Peelers, the fact suggests—what was true—that, before his day, men took their local defence into their own hands ; they carried swords, and their servants were armed. But from very early times it was seen that national, as distinct from local and personal defence, was not a matter for private effort. An army and navy were provided by the central authority, and were paid for by a subsidy levied on the citizens. Justice is another common interest. No man should get more than justice because he is rich and able to hire lawyers or employ strength, and no man should get less than justice because he is poor ; it was to secure this even-handed justice that the expenses of courts, judges, and administration generally were got from the citizens by way of a general levy. So even with the more ornamental parts of the constitution. For some time after the Conquest, kings

paid to be kings. They had immense expenses for armies, the administration of justice, etc., and they paid for these out of their own estates. When they spent more than they could afford, they generally took simple ways of getting their subjects to assist them. Taxation was called Benevolence, Aids, Gifts, Contributions, and, when appealed for on higher motives, Duty. And one reason given for the fact that there was so little friction between our early kings and their people, was that the Scottish kings lived within their incomes, and did not come on the people for taxes. But, some time ago, it was discovered that it was a bad thing for the sovereign to defray anything of his kingly duties out of his own purse. We do not like unpaid secretaries even now. We were not willing to be under an obligation; we wanted to have some control of what he spent. So we put him on a salary like any other government servant, and the "Civil List" of £470,000 appears in the same category of the Finance Accounts as the £5 paid to the Precentor of the Town Church of Glasgow.

The idea of taxation, then, is that of a sum, contributed by each man out of his income, in payment for the great common services. It is compulsory indeed. It could not be otherwise. However good the things we buy, we all naturally want to escape paying for them if we can: and, as natural men, I have no doubt we should be quite willing that Mr. Carnegie should pay the heavy end of our taxes, as he does our

University fees. But this is not consistent with political freedom. We want every man to pay taxes ; to know that he is paying taxes ; and to have the right to say to the government, "You shall not spend my money except in a way that I approve." By imposing the duty of paying, we give him the right of dictating the spending. In this, as in many other directions, we compel a man to be free—just as we ourselves are not free till we put ourselves under the compulsion of the Good Will.

Unfortunately, we cannot carry out the idea of taxation as we should like. Although we are the most enlightened of all peoples as regards the bearing of taxation, even we cannot stand a 15d. income tax unless in time of war. It seems too much to give up all at once. Besides, if we raised all our taxation by income tax, we should get no contribution from the poorer incomes—at least more would be spent in collection than was collected. Yet as all men should pay taxes, we get them to pay in another way—both those who object to pay too much income tax and those who would escape because their incomes are too small. We stop tobacco, spirits, tea, etc., at the Custom House. We make the importer pay a certain duty on them, and then he recovers that duty in the price which he charges us for the tobacco, spirits, and tea. Thus every one who purchases these commodities, pays part of his taxes every time he buys. This we call the "indirect taxation" of Customs Duties.

Here, then, is taxation taking the shape of a raised price—an extra above the price at which the goods would otherwise be put in the shops. And this is the form which protective taxation takes. It is an extension of the Customs Duties for revenue. If the United States had no internal taxes, but raised a sufficient revenue from a tariff on goods coming into the country, this might very well be the sole taxation of the United States. It would all be indirect taxation, but there is no doubt whatever that it would be taxation. So when the tariff is not for revenue purposes but for protective purposes, it is not essentially different in form. It taxes the consumers inside the country in high prices.

But there is a difference. We tax tea by Customs Duties, and so tax all tea, for we have no tea but what comes into the country. Hence government gets all the revenue; that is, all the tariff charges. I say the government gets it all, and, when we pay the extra price, we know that the extra is coming back to us in services. The natural man might grumble at having to pay a tax on tea which amounted to 6d. a week, but he could have little reason to do so if he found that the government was paying this 6d. to a policeman to guard his house. This, then, is the idea of taxation: we pay, but it all comes back to us.

In the case of a protective tariff, however, we pay, but it does not all come back to us. The government taxes foreign cotton cloth, and raises, say, £1000 by this tax. The money

goes to the Exchequer. When the cloth is sold, the £1000 is added to its price, and the consumers of the cotton cloth pay their taxes to the amount of £1000 in proportion to their purchases. But, unlike the tea, other cotton cloth is made inside the country—say, as much again. If it also passed through the custom house, it also would pay £1000, and here again £1000 would come back to us. But it does not. There is no excise. The home-made cloth pays nothing. But, nevertheless, we are charged the same price for it as we are for the imported cloth. Where does this second £1000 go? To the home makers of cloth. We are being taxed £1000 for their benefit. Notice, then, that, if there were no home trade, a double quantity of cloth would be imported from abroad; £2000 would be raised from it; we should pay higher prices as in the other case: but we should get all the £2000 back. Taxation, indeed, is like evaporation. The moisture is taken out of the ground and rises into the clouds. But the clouds dissolve in rain, and give it back again. And what I am trying to bring out may be suggested by this; the moisture may be taken out of the soil of Great Britain, but the rain may fall in Ireland.

The difference emerges in the absence of an excise. We tax spirits coming into the country, and the government gets the whole of the customs duty. We tax spirits made in the country—isolating the distillery as if it were an island on a lake—and, again, the whole of the excise goes

to the government. The price of all spirits, whether imported or made at home, is raised by the same amount in either case, and the whole of the tax comes back to us in services. But if there were no excise, the home distiller would be in the position of the home producer of cotton cloth under Protection. He would charge the same—or nearly the same—price as the importer,¹ but the whole of the sum, which otherwise would have gone in duty, goes to him as private gain.

The question is:—Is this as good a bargain for the nation? Is it as good that £1000 should go to the few makers of cloth as if it came to all who wear cotton?

The answer may be this, "No; it is not so good; but it is advisable as a temporary measure—on the Infant Industry argument. It only needs time till the home maker can set up on a large scale, and then the cost of making at home will come down. In time, the home-made cloth will be able to undersell the duty-paid cloth. Given more time still, and the duty can be

¹ This, of course, would not be true in all circumstances. There would remain competition among the home producers, and, if foreign goods were shut out by the duty, the high profits would induce a rush of capital which probably would for a time make the competition very severe and reduce prices. This, indeed, is a common phenomenon of Protection, and has already been emphasised in the quotation from the Tariff Commission of 1882, on page 73. But such competition, under Protection, usually ends in a Trust or price agreement, whereby prices are put up again to a monopoly level just sufficient to prevent the competing foreign goods coming in—in which case, the country loses the revenue it would otherwise have had, and the consumers do not get either relief or compensation.

removed altogether. Then we shall have no £1000 of revenue, but we shall have cheap cloth. We lose in one way to gain in another."

All this may be admitted. But, if the desired does not happen: if the manufacture of cotton remains an Infant Industry all its days, and the cost of making does not come down: what does it mean but that the nation continues to be taxed and burdened as Consumers, to give a profit to the Producers?

The momentous point of difference is, perhaps, better illustrated from Local Taxation, where the government services rendered are largely industrial.

The Municipality of Glasgow has raised large sums by borrowing, and sunk them, as capital, in providing the machinery for the great common services of water, gas, and tramways. For these sums, it has to pay interest; and, to cover the interest and the running expenses, to provide for depreciation, and to lay aside a sinking fund to wipe out the capital borrowed, it charges a price in the shape of water rates, gas rates, and tramway fares. Here, then, are three great industries carried on by the local government. Who pay for them? Those who burn gas; those who use water; and those who ride in tramway cars;—in other words, the Consumers.

Perhaps it has never occurred to many people that, when they pay 1d. for a Municipal car fare, they are paying taxes.¹ It would be quite clear,

¹It should be said that, in the literature of economic science, there is considerable difference of opinion as to what payments to

were it not for the obstinate idea that a tax is a "burden"—something one does not get full value for. Suppose that, each morning, the Municipal scavengers cleared our ash bins, and charged us each morning a halfpenny for the service. Would this be different from charging 3d. a week? Would it be different from charging 1s. a month or 13s. a year? Suppose, then, that the Municipality, instead of charging by an ordinary bill, sends in a blue tax paper saying that, under the Statute Labour provisions, the tax—or rate as it is called—for cleansing amounts to 13s.: what is the difference? In this case, we should see clearly enough that a tax or a rate is a payment made to the Municipality as doing certain things for the great body of the citizens, which otherwise the citizens would have to do for themselves, or get others to do for them.

If this is clear as to the carrying away of ashes, is there any difference between this and the carrying of persons in a tramway car? The difference, of course, is merely in the mode of

government are properly called Taxes and what called "fees" or "prices." Many restrict the word to cases where the attempt to measure and assess benefit, if present at all, is a minor matter, thus making the method of assessment the criterion of whether the payment is a tax or not. This would exclude such charges as postage stamps, gas rates, tramway fares. Others, again, while including such services as those of the Post Office in the purview of taxation, would restrict the tax proper to the net revenue or "profits." There are great difficulties in any classification. But, for the present purpose, the academic distinctions may be left out of account, and the word may be used to include all payments for government services to large bodies of general consumers, however rendered, and however assessed and measured.

payment and the basis of assessment. We pay the car every journey; we pay the rate once a year. If there were "free ferries" across the Clyde, does anyone think that we should not pay for them? We should, of course, have to pay for them by an annual rate.

But, in the case of Tramways, it is only a few years since the Municipality followed another method. It gave a private company the monopoly of the car lines, and charged them a rent of several thousands a year for it, allowing them within limits to charge what fares they liked. This rent was paid by the private company out of the car fares, and a dividend was earned besides.

In this latter case, the tramway fares represent the kind of taxation the protected consumer pays. The protective government—with one significant exception, that it charges nothing for the grant of monopoly—deals with the industries of the country as the Glasgow Municipality formerly did with the tramways. It gives its producers a partial or total monopoly of the national market. It charges importers a heavy sum on foreign goods, which they pay on entry of the goods, and this is the indirect taxation called Customs Duties. The people who bear this taxation are not the importers, but the consumers, who thereafter buy the goods and pay the heightened price. This is very simple and quite unexceptionable. It is, so far, merely taxation for revenue—the same kind of taxation as is levied in colonies where the tariff is not primarily protective.

But something else ensues. Within the country, there are a number of manufacturers making the same kind of goods as those imported. Probably they cannot make the goods at the same cost. But, whether they can or cannot, one thing is certain: that they will not sell their goods under the price of the imported articles—except in so far as they have over-production, and cannot dispose of all the goods at the high price. Thus it comes that all these goods, imported and home-made alike, carry a tax contained in the price.

The government has practically said to its home producers: "We know that you cannot produce so cheaply as an old country, and that your prices must, accordingly, be higher if you are to exist at all. But we want you to exist; and, instead of giving you a direct subsidy or bounty, we shall shut out, wholly or partially, the goods of other countries. This will cut off a good deal of the competition"—it would probably be called the "unfair competition"—"at least, it will prevent your being undersold; and you will be permitted in peace to charge a price that will cover your necessarily higher costs."

The result is, that all who buy goods in a protected country—that is, the Consumers—are taxed, although they do not know it, for the benefit of their own Producers. Only now and then does it seem to occur to the citizen of a protected country that he does not gain much if he gets twice the wage and profits that we get, on condition of paying twice as much as we do for everything he buys.

What this indirect subsidy costs in figures, it is impossible to say. It was an American who said: "The tribute which a few rich men are enabled by this system to levy upon the rest of the community—at the most moderate estimate—is three times the amount of duties actually collected by the government upon such products"¹—which means, one may suppose, that, for every £1 which the government gets in customs duties, private individuals get £3 in excise. What should we say if our breweries and distilleries were managed on such a system?

This, then, is the answer to the question, Who pays for Protection? The Nation pays for it in Indirect Taxation.

And what it pays in this way is quite additional to, and independent of, the costly—indeed extravagant—machinery of collection of import duties. This is always an expense. When I said that the community gets its taxation back—that it is not a burden but a price—I should have added "*minus* the expenses of collection." These expenses are always and necessarily Burden.

Happily, with us, the expense of collection is reduced to a minimum. One of the things we aim at is a system of taxation which shall take out, and keep out, of the pockets of the people as little as possible. But in Protection, where everything entering is watched, and generally taxed, the machinery of collection is

¹ T. G. Shearman, *Natural Taxation*, Putnams, p. 24.

enormously costly, and all this must be paid for, as pure burden, by the nation through its ordinary taxation. So that, apart from this heavy indirect taxation just spoken of, there is a second taxation—both of them for the benefit of the protected industries.

CHAPTER XII.

PROTECTION JUDGED BY THE CANONS OF TAXATION.

Such taxation, as indirect taxation spread over a large field of commodities, cannot distribute the charge equitably; it is an income tax levied on all consumers without abatement or exemption. Protection introduced in our country, then, would throw out the whole of our carefully arranged scheme of taxation; would tax, not according to the circumstances of the tax payer, but according to the circumstances of the producer; and so give a legitimate grievance against those who benefited by the high prices.

SUPPOSE, then, we grant that Protection is taxation of the people; that it is of the nature of a subsidy given to producers: it must, as such, be gauged by the ordinary canons of taxation. Is it good taxation or bad? Does it spread the inevitable charge equitably?

It might be an argument for it if it could assure the community a better distribution of the charge of taxation. But all our experience of indirect taxation is that its incidence is entirely indeterminate. When we put a full income tax on incomes above £700, and a degressive rate on certain incomes under it, and no tax at

all on incomes under £160, we at least know where we are. We have made the attempt to free small incomes, to put a moderate rate on moderate incomes, and to lay the heavy end of the charge on the rich. But if we tax consumption—as is done in indirect taxation—we cannot secure this.¹ If liquor is taxed, and the rich man is a teetotaler, he escapes; if the poor man spends a third of his income on liquor, he pays enormous taxation.

But if a man is forced to pay taxes on all goods he buys, and if the amount of tax which the goods contain is determined, not by anything in the circumstances of the consumer, but simply by the needs—often, I am afraid, the needs of inefficiency—of the producer *qua* producer, what guarantee is there that there will be even an approach to equitable taxation? If the poor man buys woollens, and the woollen manufacturers are protected by 100 per cent. duty, while the rich man buys silks, and the silk manufacturers are protected only by 50 per cent. duty, how can this work out but inequitably?

This disposes of the shallow idea that Protection takes from the rich and gives to the poor. It is difficult to see how raising the prices of everything, and raising them unequally, affects the poor more favourably than it affects the rich. In the matter of prices, it is the rich who know where to find the bargains, not the poor. Given one man who spends his wage on a small range

¹ The ordinary, but necessarily very rough, calculation is that the poor pay three-fourths of the taxes on consumption.

of articles, as compared with another man who can distribute his income over a very wide range, it is evident who can avoid the dear, and double on the cheap.

The objection was well put by Fawcett: "A protective duty, by making the commodity on which it is imposed, unnecessarily dear, virtually levies a tax from all those who purchase it. When such commodities are in general use, the effect of the duty is precisely the same as if an income tax were levied from the entire community. Such a tax cannot, however, be adjusted or equalised as is the case with the income tax in our own country. Small incomes cannot be exempted; for, however poor a man may be, the tax will fall with unerring certainty on all that portion of his income or his wages which is expended in the purchase of the protected articles. But, besides, when, by protection, the instruments and the plant of industry are made more costly, their products become necessarily more expensive."¹

When we pay a tax for police, we get police service in return for it. And, if a man is considering whether he should take a house in any particular city or not, he always asks, "What police rates shall I have to pay?" He first, as a natural man, thinks of police rates as a burden, and then, as an economic man, he puts against that what he gets in return, the security which the police give him. So when an Englishman emigrates to the United States, he finds and

¹ *Free Trade and Protection*, p. 118.

grumbles, as a natural man, that he has to pay much higher prices for almost everything he buys. But, as an economic man, he asks himself what he gets in return for the high prices. If he finds that he gets no better goods, he seeks some other explanation. Possibly he finds it in the fact that, in his own business, whatever it is, he gets high prices for the goods he makes. But, again, he has to weigh against this, the high price he has to pay for all his material where similar material is taxed on entry, the high wages he pays because high prices need high wages to pay the high prices, and so on. In short, he never thinks that high prices are an unmixed good ; he finds all sorts of makeweights against them. He is told then that the duties put on goods are taxes levied on the citizens to ensure the prosperity of the citizens. He is not stupid enough to think that taxes, as taxes, are anything but money taken out of his pocket—deductions—and so he asks how the deduction on the one hand is balanced by the “value received” on the other. If it is simply a game of raising prices all round how can that do him any good, unless the system allows him to impose more taxes than his neighbours?

It comes down to this : Can the wealth of a country be increased by its tax system? The first aspect of taxation is deduction from income ; and, to this extent, the citizen is poorer by his taxation. But the sums handed over to the government, even after allowing for the expense of collection, may be used by the government

more wisely and beneficently than they could be by the private citizen, and wealth thus economised is wealth gained. It all depends on how the money is used. If Protection is taxation of this kind, then Protection is justified in the same way as our Telegraph service is justified: the citizen pays sixpence for services which, we may say, he could not get otherwise for less than sevenpence. If this economy cannot be proved, then the argument for Protection must be that of the Infant Industry;—that the tax is the seed which the husbandman buries in the ground with tears, in the hope of, some time, rejoicing in a more abundant harvest. If this argument is not proven, what is to be said for the tax? What is the sense in paying sixpence to the government to get back sixpence? Who pays for collecting the sixpence? And if a penny is paid for collecting the sixpence, is not the net result this;—that the citizen pays sixpence to get back fivepence?

There is, then, one great objection to any change in our fiscal system which would reintroduce Protection in however modified a form, and I do not think it has been fully weighed. It is that it would make a serious change in our system of taxation. The taxation of a country is always one of its greatest problems. With all its faults, we in Great Britain have probably the most perfect tax system of any nation. It did not come to us out of the brain of one man. It is the result of the labour and study of Chancellor after Chancellor, each thinking how he could adjust the taxes

so as to raise larger and larger sums, and yet throw the burden on those who were best able to bear it—to tax according to Ability. We have, as the backbone of our system, the degressive Income Tax, to get at the incomes of the well-to-do and yet not burden the smaller incomes unduly—a tax which can be increased on due occasion with least disturbance to industry. We have the Death Duties, a kind of cumulative income tax, designed to further get at the larger incomes; and these follow the principle of Progression, so that the very rich pay very heavily, and pay at the time they feel it least—that is, when they can feel nothing at all. We have the Indirect Taxes to get at incomes which escape—taxation which can be avoided by the thrifty poor, and strikes particularly at those who buy superfluities and luxuries. We have the Postal and Telegraph services, by which a man pays strictly according to the measurable Benefit that he gets.

Of course, these are merely the great broad lines of theory on which our system is conducted. It does not always work out equitably. But, at least, it has a principle, and its defects are the subject of anxious thought and attempted remedy. And, besides, when a tax is old and can be counted on, it is generally found that the burden has gradually been shifted and shifted till it rests where there is a surplus which can bear it. It has, moreover, the crowning merit that it cuts the cloth according to the coat. The government does not first get a sum of money, and then think how it is to spend it. It finds what the

necessary services will cost, and then imposes taxes to raise the necessary sum.

And is all this old and thought-out system to be interfered with by a form of taxation of which no one can say on whom it will fall? All that is known is that it will fall upon those who buy certain goods and in proportion to their purchases: that the home producers will be permitted to tax their consumers in high prices—all their consumers, rich and poor. And, of the amount that will be raised in this way, all we can know is that, if the taxation be successful in its end—that is, the keeping out of foreign produce—it will yield nothing.

It is only when we consider this indirect taxation aspect of it, as well as the directly protective one, that we understand how an American economist should describe Protection as “at the same time a social abuse, an economic blunder, and a political evil.”¹ It exhibits such faith in the power, and wisdom, and impartiality of governments, while, at the same time, it makes impartiality impossible. Government, with our money, can maintain an army and navy to protect us against invasion—justice and police to protect us against criminals—poor rates to protect us against starvation. Therefore, government can protect us against Competition! And then, the government, being given this terrific power, delegates it; allows producers to collect the taxes and police their own

¹ Sumner, *Protectionism*. Preface, p. vi.

interests. It is simply another form of the old abuse of "farming out the taxes"—giving individuals a right to supply the city with bad water, and bad gas, and inefficient service, at non-competitive prices.

One admirable feature of our British taxation is that it gives us no class to complain of. Before the abolition of the Corn Laws, whenever there was depression of any sort, there was one target for all attacks—the landowners; those who were supposed to be keeping up the price of food in their own interests. But under our present system, even in the misery of a strike, when the poor man has to cut his expenses down to bare bread, he cannot feel resentment against any class which is making his bread dear. We see distillers, brewers, publicans grow rich, but we do not ascribe it to the high prices they charge us. When a man is reminded that he is paying part of his taxes every time he buys tobacco, he feels no grievance against any one connected with the tobacco trade. It may be that he is a very heavy smoker, and so is paying more taxation than he need pay, but, at any rate, it is like money spent at a bazaar—"for a good cause." He knows that the government will do its best to use his money in the interests of everybody. But if it were ever to come into his head, that he was paying taxes in order that some tobacco company should make a profit; if he were further to suspect that, although he might be a very poor man, he was paying a very high price for his necessities in order to add to the fortune

of some millionaire;—he would have a real grievance, and that even though he paid just a very little in taxation every time he bought a dutiable article.

What needs to be emphasised is that the amount of taxation which one pays in a protected country is not determined, as it should be, by the circumstances of the taxpayer, but by the circumstances of the home producer. This annihilates the very idea of taxation. Take Tinplates. Suppose the American government had consciously resolved to spend their £5,000,000 on rooting this industry in America. There was nothing against that in itself: the Americans may be presumed to know their own business. But they should have said to themselves: This is taxation; we must see that the payment of these £5,000,000 falls on the right people; that, at the very least, the rich pay the heavy end of it. As it is, they have levied it in such a form that everybody who buys a tin of canned anything has to pay according to his purchases. No one knows where such a tax will light with most severity: we only know that it is the poor who must buy, and the rich who can choose not to buy. Then, making tinplates dear, they damage their own growing trade in canned fruits; that is to say, they fix the tinplate trade as a parasite on the canned fruit trade. Finally, their steel makers throw their steel below cost into England, and our makers selling cheap tinplates to Germany, Canada, Australasia, etc., give these countries the canning trade.

But why, it may be asked, do the consumers in protected countries not rebel against the system if it be, demonstrably, so bad?

Two reasons have been suggested, at any rate as regards America. One is that, where there is no tax on food, the badness of the system does not come home to the poor. The other is that, even if Americans were aware of the truth, they would rather submit to taxation than be thrown back, as they fancy they would be, to the dull monotony of purely agricultural life.

I suggest a third. It is that the great mass of the people do not compare prices—have not, indeed, knowledge sufficient to enable them to do so. Without knowing the prices of goods in other countries, they cannot compare home prices. Nor can they judge of prices of different things within their own country, for they do not know what should be cheap and what must be dear. One knows how thoroughly deceived a man may be in an auction room. He is tempted to buy this, that, and the other thing by the assurance that they are cheap; but the shop prices are not within his range of experience, and, when he goes home, he may find that he has paid twice what he should. Very much the same is it in a protected country where there is no experience of anything else than a range of prices dictated by the interests of the producing classes.

CHAPTER XIII.

RETALIATION.

If Retaliation be not Revenge, the suggestions concealed in the word require careful analysis. We find action called for on two perfectly distinct grounds :—(1) hostile tariffs abroad, (2) dumping here.

IT may be that I am a man of peace, but I cannot see that the case for Retaliation is self-evident. "Revenge," said Adam Smith in a celebrated passage,¹ "naturally dictates retaliation." But revenge is perhaps the stupidest and most immoral gratification in which man can indulge. That you hurt me, is no reason why I should hurt you—although I grant that, in the heat of a blow, one does not pause to think of that. It is a very good reason why I should recover damages from you, but that is not because the damages hurt you, but because they recoup me. To do people justice, revenge does not play any important part in the real world, however largely it bulks in innumerable novels. It generally takes time to plan and to carry

¹ *Wealth of Nations*, book iv., chap. ii.

through, and I, personally, have never met the nasty sort of person who "harbours a grudge," and is really pleased when he pays the other party out. I do not believe he exists in decent society. What is often called "revenge" is something very different. It is best seen in that pleasant form of retaliation called the lovers' quarrel, where the one does not want to hurt the other, but only to show how much he or she has been hurt. It is a compliment, indeed, which hurts one to pay! The very first glance, then, shows that the word Retaliation covers and conceals suggestions as to motive, purpose, and policy, and requires most careful analysis.¹

The subject of Retaliation seems to divide itself into two according to the grievance which calls for it. The first grievance is, that we are injured by foreign tariffs; the second, that we are injured by what is called "Dumping."

I. When we ask what is the harm done to us by foreign countries which prompts Retaliation

¹ Again and again, during this fiscal enquiry, I have been reminded of my old friend's warning: "There are masked words droning and skulking about us in Europe just now, which nobody understands, but which everybody uses, and most people will also fight for, live for, or even die for, fancying they mean this or that, or the other, of things dear to them. There never were creatures of prey so mischievous, never diplomatists so cunning, never poisoners so deadly, as these masked words; they are the unjust stewards of all men's ideas: whatever fancy or favourite instinct a man most cherishes, he gives to his favourite masked word to take care of for him; the word at last comes to have an infinite power over him,—you cannot get at him but by its ministry."—Ruskin, *Sesame and Lilies*, p. 20.

on our part, we are told that they have raised hostile tariffs against us so that we cannot, or can with difficulty, get our goods through.

I confess I cannot see that this calls for retaliation. If they want to keep themselves to themselves, they have as much right to do so as we have to lock our front doors. We cannot very well deny to foreign nations what we have allowed to our Colonies—the right to surround themselves with tariff walls. Is it reasonable for Englishmen to arrogate to themselves the right to dictate to other nations what they are to do with their own property?

But, it is said, they have taken unfair advantage of our free ports; they send and sell us what they like.

The reply is obvious: Is not "open ports" the policy deliberately adopted in 1846 as one that suited us? There was no bargain with other powers. It was our own selfish policy;¹ and, for sixty years, we have been boasting that it was the very best policy that ever was. Are we, in sober earnest, complaining that these nations enter our free ports? I thought we were always saying how good a thing it was for us that they did; we got cheap food, cheap material, cheap everything. How is it we have only now discovered that some wrong is done us when we get what we asked for?

It must come to this: not that any wrong is done us, but that we made a mistake in not making a bargain for reciprocity, and that we are

¹ See Peel's words, Jan. 27th, 1846, *Hansard*.

now going to try back and find the means of making one. This is a quite sound and intelligible proposition. Entire free trade on our part, it may be said, suited us for half a century and more. So long as nations kept their tariffs moderately low, we could pass through them. But now they have raised them higher and higher; we find it more and more difficult to get our goods in; and we mean to call a parley. But why call this "retaliation"? Why cause bad blood among nations, and stir warlike feelings among ourselves, by speaking of "big revolvers"—of "hitting back"? Let us return to common sense. We said, and we thought, that our free imports would be balanced by at least moderate protective tariffs abroad. They have not been so. Then, as Mr. Balfour says: "The only alternative is to do to foreign nations what they always do to each other, and, instead of appealing to economic theories in which they wholly disbelieve, to use fiscal inducements which they thoroughly understand."

The first proposal of Retaliation, then, is: that, on due occasion, we should put on import duties against certain nations, in order to take them off again when they have succeeded in bringing these nations to their senses; which, being translated, means, when they come prepared to make some modification in our favour. "At no time during my career," says Mr. Chamberlain, "either as a business man or as a politician, was I ever able to make a satisfactory bargain unless I had something to give."

II. The second argument for Retaliation takes entirely different ground. Up till lately, as was said, we congratulated ourselves that, under free trade, we got all goods cheap, and we used to point out that other countries, by taxing imports, were making everything dear, and so preventing themselves from competing with us in neutral markets. But now we have an outcry against the admission of certain goods on the ground that they are too cheap. And the proposal is, that we should take measures against other countries to prevent this evil.

The essential difference of these two grievances should be realised before we assume that one remedy will cure both;—will lower other countries' tariffs to admit our cheap goods, and will prevent them sending us their cheap goods.

CHAPTER XIV.

RETALIATION ON PROTECTIVE TARIFFS: PROSPECTS OF SUCCESS.

The only justification of Retaliation is success. Did the retaliation before 1846 succeed? Have the tariff wars since succeeded? Granted, however, that other nations are anxious to keep our great Free Trade market, and are open to conviction through force; (1) we are quite unprepared for a retaliatory policy; (2) they believe in Protection, and, besides, could not give us better terms without giving the same to others.

IN this and in the succeeding chapter, we shall consider Retaliation simply as a weapon employed to lower the protective tariffs of other nations in our favour.

As those who advocate Retaliation generally call themselves Free Traders, we must assume that it is a temporary measure. If retaliatory duties are imposed, it must be on the understanding that they are to be taken off whenever they have served their purpose. Retaliation is a weapon used solely "for the purpose of increasing free trade."¹

The first thing that strikes one as to this proposal is: that, as putting on duties will evidently

¹ The words are Mr. Balfour's.

do some harm to our own people, in preventing them getting the cheap goods which other nations wish to sell, it must be shown that the advantage which certain of our producers are to gain at least warrants the sacrifice.

If, then, Retaliation aims at anything worth doing, its justification must be its success; that it will give us what we want, and not merely inflict an injury; particularly when—as in the lovers' quarrel—the Retaliation is likely to hurt most the person who retaliates. Has Retaliation of this kind ever succeeded?

Adam Smith, at least, did not think it had, and he lived in a time of bitter tariff wars. He said there "might be good policy in retaliations when there is a probability that they will secure the repeal of high duties and prohibition," and then he went on to show that the first result of Colbert's tariff was actual war between France and Holland, and "the rise of that spirit of hostility between France and this country which has subsisted ever since, and prevented either nation from moderating its duties against the other." Adam Smith, then, can scarcely be cited as a witness for Retaliation.

Coming down three-quarters of a century, what do we find? In 1843, J. L. Ricardo spoke of the commercial wars as "now bringing us such calamities." In 1844, the tariffs of France, Austria, and Germany were "restrictive," that of Spain was "tyrannical," that of Portugal, "inconsistent and capricious"—I am quoting the words of a former Secretary of the Board of Trade.

In 1845, the *Edinburgh Review* said that a war of tariffs was being carried on between the civilised nations of the world.

It was amid such circumstances of Retaliation and Counter-Retaliation that Peel said : "Wearied with our long and unavailing efforts to enter into satisfactory commercial treaties with other countries, we have resolved at length to consult our own interests, and not to punish other countries, for the wrong they do us in continuing their high tariffs upon the importation of our products and manufactures, by continuing high duties ourselves."

But this is ancient history, and it may be reasonable to think that we can manage better now. Take, then, more recent experience. We have had tariff wars within the last few years. In 1893, Russia raised the duties on all German goods by 50 per cent. Germany replied by raising her own tariff—already higher for Russian exports than for those of any other country—against Russian goods. The war lasted only eight months—not long enough to dislocate permanently the conditions of trade, particularly as it took place during the winter, when, for most of the time, the Baltic ports were closed by ice. Nevertheless the suffering and loss caused by it were very considerable, as appears from the confessions made on both sides when the struggle was concluded. In the opinion of both governments, a continuation of the war would have led to very serious consequences—some of a political character—and there appears to have been great relief when peace was concluded.

There was another tariff war between France and Switzerland from 1893 to 1895. By the substitution of the general for the minimum tariff, Swiss goods entered France at an increase of duty of 41 per cent. French goods entered Switzerland at an increase of 190 per cent. The decline in the French exports to Switzerland, in three years, amounted to nearly 45 per cent., while the decline in Swiss exports to France was nearly 35 per cent. In the end, Switzerland obtained some small concessions from France. The trade relations between the two countries have not even yet recovered their prosperity of thirteen years ago.

France and Italy played the same game from 1889 to 1898. Special duties were imposed by the two nations on each other's goods, and differential dues and surtaxes were imposed on each other's shipping. In ten years, the import of Italian goods for consumption into France fell off by $57\frac{1}{2}$ per cent., and the imports of French goods into Italy fell by fully 50 per cent. The whole loss of trade to the two countries during the continuance of the war has been estimated at £120,000,000. Italy now finds the French market practically closed to her exports of silks and wines, which formerly represented the most important part of her trade with France. In spite of the new Commercial Treaty, Franco-Italian trade has not shown any permanent indication of improvement since—the total volume not exceeding the half of what it was before.¹

¹The above details are taken from *Reports on Tariff Wars between certain European States*, Cd. 1938: Commercial No. 1

As a fact, the explanation of the monstrous tariffs of continental countries is not hostility to England, so much as hostility to and fear of each other; each country keeping a very high general tariff in order that it may be able to "give something off"; one tariff rising as another rises, on the principle that one bad turn deserves another. Meantime, during those tariff wars, England stood by, holding the hats; stealing away what trade she could; and enjoying afterwards, under the Most Favoured Nation Clause, what little good result came from it. It is not, perhaps, known that we have forty-two treaties with foreign powers which contain this clause, giving us the same minimum tariff as they give to any other—even to the nation with which they may have just been fighting.¹

Perhaps, too, the corollary is still less realised; that, if we engage in Retaliation against any one nation, and manage to reduce its duties, other nations, under this clause, get the same advantage

(1904). These reports are particularly interesting as indicating the diversion of trade during the struggle to other countries and other routes.

¹The Most Favoured Nation Clause may be defined as that clause in a commercial treaty which binds the parties to give to each other, in certain matters, the same treatment they give, or may afterwards give, to the nation which receives from them the most favourable terms in respect of these matters. Of course, the clause does not operate in our favour in two cases: where we cannot export, and where we should probably be the largest exporters but for the duty. The German reduction on petroleum to Russia does us no good; and duties, say, on textiles, are not likely to be lowered to any other country.

as we do. There is a beautiful unselfishness about Retaliation which one cannot but admire.

This is worth remembering when we are told that we made a mistake in giving up our duties ; that, if we had kept them on, we should at any rate have had "something to give away." Other nations have not made this mistake : they have always had plenty to give away : if they offered to conclude treaties giving mutual concessions, and failed, then they put on something more, in order to give it away : and what has it all ended in ? That the tariffs of protected countries against each other have risen and risen, and that we are at least as well off as any of them—under the Most Favoured Nation Clause.

If, then, it be the case that other nations have not been conspicuously successful in their retaliatory wars, while we have gained by them, the question comes to be if there is any good reason for thinking that we shall succeed better than they have.

The chief argument for the success of Retaliation on our part is that we are the largest market for the foreign trade of most other countries ; that the stake which they have in keeping this market open is very great ; and that they are, accordingly, very open to conviction if our persuasion takes the shape of a "revolver." Indeed, it is freely said that the only reason why we have not got better terms is that we have done no more than show uneasiness ; we have not even asked for them. So, it is argued, quite honestly I believe,

that Retaliation will be no more than an unloaded revolver ; it will not require to be fired.

This is a respectable argument, and respectable arguments deserve respectful answers. One sees quite well that the industries of new countries to-day are a kind of hot-house growth. These countries do not pass slowly and by centuries from the wilds and wastes of barbarism to the condition of England. They have—what no state in past time had—every rich nation waiting at their gates, hat in hand, offering to lend them money. They pledge their future against loans, and instantly the whole resources of civilisation are at work turning the desert into a rose garden. "Take our money," we say. "Let us send you goods and men ; build your towns ; reclaim your land ; net it over with railways. We simply ask your note of hand for the amount, and an annual sum for interest." This explains their rapid growth. But that growth would be arrested were it not that the old countries provide them with a market infinitely larger than their own. Could the United States, for instance, or Canada, or Australia, have developed so fast were it not that this great hungry England has taken all their millions of wheat and maize and meat and wool and timber ? This, too, explains why new countries, when they start industries, go in for buildings and plant on the same large scale as ours : they cannot afford, they say truly, to manufacture at greater cost than old countries ; they want the best and they get the best. And then, perhaps, they discover, when

the mills are up, that they have forgotten to ask where the trade is to come from; for the new country cannot buy more than it has wealth to buy with, and a nation of corn growers may not have a use for millions of yards of fine cloth, or even for steel girders. But what matters? They have this great free market of Great Britain to fall back on. They can sell their goods in their own country, under Protection, at a high price, and they can get rid of the balance to us. Surely such countries are very open to the "argument of the revolver."

Undoubtedly, the contention is a strong one. Our gigantic imports show that it is. The amount that the great nations send us in comparison with what they take from us, shows that it is. One is tempted to believe that the mere showing of our teeth would bring other nations to their senses. And certainly if, by a threat, we could lower the tariffs of other nations, we should have done a great thing.

But "bluff" is a game which a nation dare not play without showing that it is ready to follow up the threat, and we must look into a good many things before we begin.

I. The first consideration I would put forward is, that retaliation by import duties is a thing for which we are utterly unprepared. It is like an English civilian accepting a challenge from a German officer when he has forgotten his fencing—if he ever knew it. Putting on duties and taking them off—heightening and lowering—is

part of the day's work with other countries. They have all the machinery for Retaliation. A few instructions to the port officers, that such and such goods are to be taxed 10 per cent. or 50 per cent. more, and the thing is done. But we have no such machinery except the limited tariff for revenue goods, and we chose these revenue goods for taxation very much because they involved so little machinery in their collection.¹ We have, as I say, forgotten our duelling weapons.²

II. The second consideration I would put forward, is to ask : How will other nations take this new departure?

To answer that such a question is "pusillanimous" ; that we have nothing to do with how

¹ It is, of course, quite misleading to point to our action as regards bounty-fed sugar as an example of how easily Retaliation may be carried out. To say nothing of the facts that sugar is already a revenue article, and that, as coming in bulk—often in whole cargoes—it is easily watched and detected, it cannot already be forgotten that we are only one member in an international combination, all taking similar prohibitory measures.

² There is a special difficulty which comes of our freer political organisation. Other countries have a much stronger and more irresponsible Executive than we have. A German Chancellor "hits back," and afterwards comes to Parliament to confirm the mandate : the German government is not liable to votes of censure. We should not allow our Executive any such power. Every act of Retaliation would have to be submitted to Parliament ; argued out there ; all the details made public, so that our enemies might be well prepared ; and, if there were a strong Opposition, I am not sanguine that any government would get a very clear mandate at the best. For this is not a political matter. Every interest hurt, as well as every interest advantaged, would make itself heard, and the most rigorous party discipline would not be able to secure a party vote.

other nations take it ; that they have done as they liked, and we are going to do as we like ;— is mere folly. Looked at from the standpoint of other countries, this Retaliation of ours seems to me, as regards the end it proposes, little short of an impertinence. We are urged to retaliate in order to force other nations into free or freer trade. Force, however, is not usually the weapon by which you make a person reason ; you may “bring him to reason,” but it is not his own idea of reason you bring him to. It is an old theological argument that the fear of hell was a means of compelling people to walk straight ; I never heard of it being of any use to make a person love God.

One must remember that Protection is not mere stupid adherence to a shibboleth. It is at least a respectable creed. Rightly or wrongly, the protectionist country believes in Protection just as firmly as we believe—or did believe—in Free Trade, and is as little disposed to be patient under dictation or compulsion as we should be.

Nor should it be forgotten that the taxation system of protected countries is bound up with Protection—that they calculate on it to provide them with a great part of their revenue—that their peoples have become accustomed to be without internal taxes which are familiar to us. One may see how this works out by the obstinate refusal of France and America to face a direct Income Tax.

If, then, we practically declare : We shall tax your products in order to make you go against

your own cherished convictions ; how will a strong nation take it ? It is only to be expected that, in the first instance, it will re-retaliate—for this, of course, is not in the very least contrary to its policy. Indeed, the adoption of Protection on our part would be less of a challenge. A protected nation cannot possibly object to other countries becoming protective, but it may very well object to be threatened with the object of making it give up its own Protection.

Thus if our Retaliation is aimed undisguisedly at making Germany or the United States reduce their duties, so as to allow us to send in our goods, surely the first answer of these nations will be : We did not frame our tariffs primarily to shut you out. It was not a hostile measure, but a policy framed to “protect” our own manufacturers. That you are kept out, is an incident. At any rate, the intention to favour our own people must not be interpreted to be the same thing as the intention to injure other people. Be sure that, if we forbid you the house, it is not to punish you, but to keep our family from your influence. And now you ask us to drop our tariff because it hurts you ; that is, to abandon the policy which we have deliberately entered on for the protection of our own children ; and you threaten us that, if we don’t comply with your demand, you will do us an injury. It is an impertinence which we resent.

And their second answer will be : Suppose that, as an incidence of our policy, our tariffs shut you out, they shut other nations out as well.

Whether, then, it might or might not suit us to reduce our duties to you, we have no intention to reduce them to other nations which either do not treat us so well or cannot use so big a revolver as you can.

This brings us back to the Most Favoured Nation Clause. It seems to me that this clause makes it very difficult for any protected country to "back down" over our Retaliation—even if it wished to—even if it suited it to do so. With true British conceit, we are always thinking ourselves first and other nations nowhere. So we ask indignantly, "Why do these countries not give better terms to us—us, who give them free ports, while the rest of the world shuts its doors?" What we forget is, that, in its commercial policy, every other nation has to think of its tariff relations with the whole of the world—of which we are not always the largest part. And what we should remember is, that it would be a very serious thing for a protected country to give us advantages that it might otherwise be inclined to give us, when, under its Most Favoured Nation Clause, it would have to give the same advantages to other nations.

Here, then, is a consideration which may well make us doubtful of the success of Retaliation. We are asked to engage in a war at which the other nations stand by rejoicing. We fight their battles and our victory is theirs. And, in refusing our demand and fighting, the other country is not fighting us alone, but fighting all our temporary allies—those who will get the Most Favoured

Nation treatment whatever happens. America, for instance, might be very sensible of our claims to better treatment, and inclined to give it, while she would not be willing to give the same to, say, Germany. This seems to me a very strong presumption against our success.

CHAPTER XV.

RETALIATION ON PROTECTIVE TARIFFS: METHOD AND EFFECTS.

If we retaliate by Import Duties, what kinds of goods are we to tax without greatly hurting ourselves? And will any possible Retaliation seriously hurt the country retaliated on? Meanwhile, the effect in disturbing our own industries may be serious enough. Protective tariffs already do us two injuries; let us see that Retaliation does not add a third.

SUPPOSE, however, that, in spite of all the considerations just advanced, the government gets a mandate from the country to retaliate.¹ How is it to retaliate? The only way suggested as yet is by Import Duties against the offending country. But import duties cannot be imposed without raising prices, and the bearing of this must now be considered.

It is not a small matter for Great Britain to shut out anything. We have so long been free traders that our industrial organisation is very much based on buying everything as cheap

¹ There is nothing in the theory of Free Trade against Retaliation as retaliation. It is "an expedient; not a policy." It must be judged by its success and its effects.

as the world has offered it. If, then, we resolve to make a retaliatory attack on a country whose tariff, in our opinion, is too high, we must look at the various kinds of imports which we might tax, and consider the effects.

I. Are we to tax goods we cannot make or grow ourselves? What would be most prominent in such a case is the cost of it—and the futility of it. It would be taxing a foreign monopoly. Say we tax Bechstein pianos from Germany. This would mean dear Bechsteins here. But would it hurt Germany? Would not our consumers, as for the most part rich persons, pay the extra price, and the import from Germany continue as merrily as before? There might be a slight falling off in demand; that is all.

II. Are we to tax Food? This would be very serious. It would not only raise the price of imported grain, but raise the price of our own grain; thus raising for us the cost of production of everything made by human hands.

III. Are we to tax Raw Materials? But we have held the lead in the world's manufacture so long because we got the cheapest raw materials from all countries.

IV. Are we to tax Manufactures? It has already been pointed out that there are certain manufactures, the taxation of which is open to all the objections urged against the taxation of raw materials. It does not matter to us whether a material is "raw" or "partly manufactured," so long as it is the foundation and substance of our

industries.¹ And to tax machinery and tools seems suicidal.

Beyond these, a somewhat careful calculation seems to show that there are some £50,000,000 of manufactures which it would be possible to tax without hurting British industries. On these fifty millions, then, we might retaliate, in some confidence that the only hurt would be to our consumers who would pay dearer prices. This is, perhaps, the most innocuous form of Retaliation in which we could indulge.

This is the one side—the side of what we suffer. But I suppose we are going to retaliate to make other countries suffer; for, unless they suffer, we should have all the trouble and expense for nothing. I do not believe in kicking a bicycle that has thrown me. Nor do I believe in the blow that hurts the man who gives it, and falls on a person who does not feel it. If we are going to retaliate, let us first see what it is going to cost us, and then make sure that we hit hard.

Perhaps £50,000,000 looks a large figure—large enough to retaliate on at any rate. But the fifty millions come from all the world, and we are

¹ It may be thought that no harm is done if we accompany such taxation by drawbacks on exports—a drawback system, as has been said, being the safety-valve of Protection. This is very short-sighted. Does it seem reasonable to make it easy for our producers to sell goods abroad cheap, while the same goods are sold to us dear? Is foreign trade the only thing to be considered? Have our own people not some claim on us for cheap goods? But, even if there were no other arguments against it, the drawback system is notoriously an inadequate compensation for dear material.

not going to retaliate on all the world. And some of the goods we do not make ; while others of them are goods—even if “made in Germany”—which are better than anything of the kind we do make. It is when we come to Retaliation in practice that the full difficulty meets us.

Take Russia, sending us £25½ millions of exports. £13½ millions of these are food-stuffs, and £10 millions are raw materials. This leaves a field for retaliation of £2,000,000. Would it be common sense to retaliate on a couple of millions worth of goods? Really, it reminds one of the “Private Secretary” :—“If you don’t stop, I shall be compelled to give you a little knock.”

Or take the United States, sending us £127,000,000 of exports. Of this, £106,000,000 are raw material and food-stuffs, leaving £21,000,000 on which to retaliate. But these £21,000,000 are scattered over forty categories, of which only five are over a million ; namely, Leather manufactures, £3½ millions ; Iron and Steel manufactures, £3½ millions ; unwrought and partly wrought Copper, £2¼ millions ; Oil, £1.3 millions ; Oilseed Cake, £1.1 millions.

The possibility of retaliating on Germany is a great deal less. Of her manufactured exports, only two categories are over the million ; namely, Woollen manufactures, £1½ millions, and Cotton manufactures, £1.1 millions. The next items are Musical Instruments and Toys, some three-quarters of a million each.

Consider, again, what must be done in the process of giving this “little knock.” One,

perhaps, thinks of a million and a half worth of Musical Instruments and Toys coming over from Germany all in one ship ; it seems so easy to put 10 per cent. duty on the cargo. But these goods come in small lots, in perhaps hundreds of ships, along with other cargo which is not being retaliated on ; yet every ship must be arrested and searched to see if there are not a few toys or fiddles on board. Nor is it only German ships that are to be arrested and searched. It is all ships from Germany, including our own that carry for Germany. Duties, again, call out smuggling devices. So Belgian imports must be watched, and Dutch, and Austrian, and Italian ; even French and Swiss, in case the German goods should be sent through these countries.

I can only say that, if this is the answer to how we are to retaliate, it seems to be a very inadequate one. The Retaliation is calculated to take the most skin off our own knuckles with the least damage to the skin of the foreigner.

But there is another effect besides the raising of prices to our consumers, and hurting the foreigner. According to our principles, we are bound to take off the retaliatory duties whenever the policy has secured its object. Under tariff duties, as we have seen, vested interests spring up, and have a claim on consideration. Under retaliatory duties, it may be said, there will be no time for vested interests to spring up. But the Retaliation may last long enough to have very unpleasant effects.

Suppose that we decide to retaliate on Germany, for the injury done us in that she sends us £33½ millions of goods and takes from us only £22¾ millions; and that we impose a retaliatory duty on Toys.¹ The immediate result is a rise in the price of toys here. This comes, not from the "rapacity" of the English toy makers, but from the sudden shutting off of so large a part of the supply: the old demand cannot be met at the price. And, it may be added that prices are likely to rise all the higher if competition has hitherto been very keen, and if it is suspected that the "close time" will be short. The further consequence will be—perhaps not that capital will rush into this trade and give hostages to fortune in the shape of new mills and machinery, but—that those who are already in the trade will spread their sails to catch the favouring breeze. They will extend their operations as far as they can; probably add to their buildings, certainly, to their plant. Meanwhile our children suffer so far as the family purse cannot afford the raised price of Noah's Arks.

This, let us say, brings Germany to her senses. She gives in, and reduces her tariff, on condition of our taking off the retaliatory duties. What now is the position of the English toy makers?

¹ The illustration looks a little ridiculous, but that is the fault of circumstances. The alternative to taxing toys seems to lie between taxing woollen or cotton manufactures and taxing musical instruments. The consequences of the incidental protection to our woollen and cotton manufactures would, probably, be too serious, while a tax on pianos at any rate would not have any appreciable effect in diminishing the sale.

For a time, they have been sunning themselves in the warmth of Protection—a Protection they did not ask. Unaccountably, so far as they were concerned, the British government gave them Protection. As unaccountably, from their point of view, the government withdraws it. The favouring breeze dies down, and the free import of German toys begins again. The British toy maker finds himself with extended premises and increased plant, and possibly with long contracts for supply of material. And a large part of his demand has suddenly fallen away. Will it not be a little difficult to convince him that his trade should have been trifled with and upset, for the benefit of the trades which export to Germany?

The question is not, Are we injured by foreign protective tariffs? Of course we are. We are not injured so much as we appear to be when we look at our small direct exports to such countries; for, happily, other countries are always anxious to export, and the door that opens outward opens inward. They must be paid for their exports; and, though they may not take the payment from us direct, they must take it from other nations to which we export. But, all the same, we are injured. And we are injured in another way that does not so readily meet the eye. Protection, in itself, as I have tried to show, does not increase the wealth of a nation; so far as it is indirect taxation, it fetters its growth by redistributing its wealth in the wrong way, giving to the rich and taking from the poor. But this hurts us, for these nations are our customers,

and our exports depend on their purchasing power. It is not only, then, that we are not allowed to send them so much as we would, but that they, not being so rich as they might be, have not so much to send us. We are doubly injured by protective tariffs.

But this Protection is the settled and believed-in policy of other nations. It is a pity, perhaps, that they were not content that we should remain the "workshop of the world." But they were not content. They determined to be manufacturing nations. At great cost, as we believe, they have made themselves so by Protection, and, rightly or wrongly, they consider that their manufacturing still needs the protection of high tariffs. And before we try to break down these tariffs by Retaliation, I should like to be sure that we are not going to make things dear in this country, and so inflict a third injury on ourselves all to no purpose. Certainly we shall expose ourselves to the ridicule of the protected world as well, if we have no thought-out policy of how to retaliate beyond the expedient of Bluff.

But, so far as I can see, the only part of Retaliation for which we are prepared is the threat of it. So great is the power of the British Lion's roar that it even seems enough to show that he is opening his mouth ominously. Suppose the other beasts of the forest do not fall down and creep to his feet, what then? Would it not be better to change his mind? It will scarcely be dignified to pretend that he was only going to yawn.

CHAPTER XVI.

DUMPING.

We cannot object to the import of "naturally cheap" goods. But the double monopoly of Trusts, dumping their surplus, presents new features, the most serious being that the dumping is intermittent. But (1) it has compensations, not so much in cheap goods as in cheap material for many of our industries—a Nemesis which the dumping countries are beginning to notice. And (2) its extent as yet seems exaggerated; "dumping" is often blamed for inability to compete when "inefficiency" would be a better word.

WE do not and cannot object to the importation of cheap goods as cheap goods. Our fruit growers may find it hard when the weather is more friendly to France than to us, and the imports of French fruit prevent them raising their prices to compensate for a short crop at home; but this is an incident in Free Trade. We have not refused cheap wheat, although it meant ruin for many agricultural interests. Nor shall we object to Belgian iron or American steel if the reason of their coming in is that they are more cheaply produced in Belgium and America than they are here. Show us, in short, that cheap goods mean "naturally cheap goods," whether the cause of cheapness lies

in better natural resources, in better labour, or in better organisation, and we shall accept them—just as we should never have signed a Sugar Convention if it had been the case that beet was, by nature and not by subsidy, a cheaper sugar than cane.

It would, indeed, be rather unreasonable if, after having for years pinned our faith to a policy based on the international division of labour, and deluged foreign markets with cheaper goods than they could make for themselves, we should now object to the import of their naturally cheap goods. As a fact, England went far beyond “natural cheapness.” We very often sent our goods to other countries at a loss—either a loss of profit or an absolute loss. I have known articles sent to India year after year at half the home price, in order to accustom the natives to the goods, with the view of ultimately raising the price to a paying level. In this we did nothing more internationally than we do nationally. If any home manufacturer wants to introduce his goods, the “natural way” and the first thing he does, is to sell them cheaper than other people. If a man wants to “get in” to the London market, he will sell his goods there under the price at which he sells them in Glasgow, so long as he is not afraid of their being brought back and underselling himself. And it was generally safer to undersell abroad, for goods would not usually pay the carriage back. We could not, then, in reason, complain if foreign producers treated us in the same way.

But, a few years ago, there appeared, in several countries, the phenomenon known as the Trust or Kartell. This phenomenon altered things very considerably, and made a good many of the old arguments against Protection not quite up-to-date.¹

Twenty years ago, Fawcett could say: "The amount of manufactured goods which is sent from America to England is so extremely small that it could make scarcely any difference if this particular part of the trade between the two countries were to cease altogether." And again: "No single case can be brought forward in which English trade suffers, to any appreciable extent, by foreign products underselling in our own markets the same articles of English manufacture."² This could scarcely be said now.

¹ The Continental Kartells are looser forms of combination than the Trust. The constituent firms, retaining their separate organisations, sell to a central agency, the output and the price being both fixed. The methods in which Kartells are formed and worked are not always similar, but the principle is generally the same—the regulation of prices, by curtailment of home production and so of home competition. The way in which this system affects other countries is most clearly seen in the Austrian Iron Kartell. Here each constituent member is limited in the amount which it is allowed to produce, but "in the contract of limitation are *not* reckoned products which are exported, either by being sold directly into the foreign country, or through being sold to manufacturing establishments (*e.g.* manufacturers of wagons or locomotives), and by them used for export." Thus large production and cheap production are secured; and, even if the maker makes nothing on what he exports, he gains an extra profit on what he sells to or through his Kartell. See the exhaustive memorandum in the *Board of Trade Blue Book*, p. 297.

² *Free Trade and Protection*, pp. 75, 83.

A Trust, in itself, is quite unexceptionable. It is simply the amalgamation of a great number of businesses, to get the well-known economies of large production. The one great firm does all the business that was done formerly by the smaller firms then in competition ; only it reduces costs in a dozen ways.¹ The danger of Trusts, of course, is that they become monopolies, and use their economies not to reduce prices, but to make excessive profits. But a Trust, under a Protective system, is a double monopoly. In virtue of Protection, it gets rid of competition from outside, and, in virtue of being a Trust, it has got rid of competition at home. There is thus every encouragement and motive to keep its prices high and its profits high. But the largest Trust can do so only up to a certain point. It is, after all, no more than a producing unit. There is a limit to the consumption of everything produced : there comes a point in production where any further output can be got rid of only by reducing price.

Take, merely for purposes of illustration, Motor Cars. When the price is, say, £800, only a comparatively few people will buy motor cars. Suppose the price should come down to £500, it will probably not much increase the demand. If, however, it came down, say, to £250, the demand might easily double. Suppose, then, a Trust has started this manufacture : its interest is to make cars as cheaply as possible, and, the

¹ On the whole question, see my paper on "Industrial Trusts" in the *Journal of the Society of Arts*, Jan. 16, 1903.

larger the trade, the more cheaply it can produce. But there is this limit I speak of. If it produces more than will be taken off its hands at £800, it will not be able to sell appreciably more unless it reduces the price to £250. So what happens is, that it makes more cars than it can sell at the high figure in the protected country; but sells abroad the surplus it cannot sell at home without bringing down the price. Thus it may pay quite well to sell the surplus cars abroad at or under cost, while it sells the limited number at home at the high price: the gain being in the cheap cost consequent on making the larger quantity. This is the phenomenon to which the term "Dumping" seems now to be confined: where a protective system enables makers to charge an artificially high price and obtain artificially high profits in the home market, and to sell their products abroad at or under cost.¹

This is freely called "Unfair Competition." It is a special grievance of a free-trade country. It looks like an abuse of our hospitality. The

¹The expression "at or under cost" may very well be objected to. Total Cost in a producing unit includes, roughly, Fixed Charges and Running Expenses. A manufacturer, unless he is selling in agreement with others at a fixed price list extending over all markets, very seldom distributes his fixed charges proportionally; he adds to some goods, or in some markets, more of the fixed and less of the running expenses, and he may, indeed, lay the whole of the fixed charges on certain goods, or certain markets, selling in the others at what is usually called Prime Cost. So, if a manufacturer sells some goods at high prices and others at low, it may be questioned if he is selling "under cost," so long as, in the price of his total output, he covers all his cost, fixed and running, and has his profit over.

protected country, on the one hand, forbids our entry to its market, and, on the other, comes into our market, and undersells our makers in virtue of the tax it is enabled to levy on its own countrymen. It is not that such countries compete with us in neutral markets; it is that they invade us in our own market under the encouragement of a kind of bounty.

Dumping, then, depends on two things—on Protection and on the Trust. Without Protection, the Trust, as an economic producer, would be formidable enough, but it might be met by similar economic combinations on our side. And, without the Trust, Protection would scarcely allow the manufacturer to dump, as there would generally be enough competition at home to prevent monopoly prices and profits. It is this combination of evils that we have to reckon with.

Dumping is a very serious thing for the home manufacturers whom it affects. I am not convinced that we should welcome it from any point of view. I have heard it said:—"If anybody would dump me my breakfast every morning for nothing, I should only feel grateful." This seems to me rather short-sighted. *Timeo Danaos et dona ferentes.*

If we knew that, for all time, some kind foreigner would send us our pig iron and steel sheets 50 per cent. under our price, we should know what to expect, and no one in this country would make pig iron or sheet steel. But what we know is, that this dumped supply will be

intermittent, and that it will remain cheap only so long as we continue making the same goods. Its uncertainty is its evil. When other countries are prosperous, little comes in, and our makers get a decent price; when those countries are depressed, in come the dumped goods, and wipe out the profits. I can scarcely believe that this intermittent underselling is a good thing for us. It is not a spur to invention and economy. I hesitate, indeed, to call it "unfair competition." But it is not competition that can be counted on and prepared for. No watching and economy of costs will meet it. At any moment, a manufacturer may be put on short time, because a good line is snatched from his fingers by a foreign firm which wishes to get rid of its surplus.

But, as the dumping is intermittent,¹ employers do not sacrifice their fixed capital and change their trade. They hang on, hoping that it will stop. They go on short time—which means waste of fixed capital, waste of organisation, waste of labour. Similarly, workers do not change into other trades. They put up with the short time, hoping that it will be short. And short time

¹See, for instance, the statement in the *Board of Trade Blue Book*, page 326: "The details given in the appendix show that, while the manufacturers of this country were free from the competition of American iron and steel in 1899, the first months of 1900 saw the United States begin an invasion of the British market, which was carried on with remarkable energy until the early part of the following year, after which this campaign came to an end." But the United States Steel Corporation has just now announced its intention of selling steel rails abroad at \$20 per ton, while its price at home is \$28.

is wasted time. Our manufacturers may deserve well of the community. They may have done all that men can do: kept profits low and prices low. It does not seem healthy that, for no fault of theirs, they should now and then be thrown idle. If there had been makers of manna among the Israelites, who had specialised and sunk their fortunes and energies in supplying their fellows with the morning bread, I think they would have had something of a grievance even against high Heaven that sent it for nothing.

On the other side, however, there is a good deal to be said.

I. Dumping has compensations. One remembers the argument used against doing anything to check the Sugar Bounties; not only that we enjoyed cheap sugar for home consumption, but that, on cheap sugar, was based a new group of industries—Jam, Confectionery, Biscuits, Condensed Milk, and others—employing larger numbers than Sugar Refining ever employed.¹

¹ A good deal has been made in controversy of the threatened destruction of our "primary" and "staple" industries. "Free imports have destroyed sugar refining," said Mr. Chamberlain, "one of the great staple industries of the country, which it ought always to have remained. . . . Sugar has gone; let us not weep for it: jam and pickles remain." The sarcasm takes a good deal for granted. It may be questioned whether sugar refining was ever more than a local industry, and whether it was one which we could expect to keep. It may be questioned whether a few large staples are a healthier basis of prosperity than a great many smaller ones—particularly as regards exports. It may be questioned whether any peculiar sacredness attaches to a "primary" industry which begins with raw material as compared with an

So now the argument is, not so much that the consumer gets cheap goods, as that other producers get cheap raw material. The steel maker cannot be expected to rejoice in dumping, but the shipbuilder, the galvaniser, and the tinplate worker openly do.

There is an almost ludicrous Nemesis in the compensation. America makes her own tin plates excessively dear, and spoils her own trade in canned goods. At the same time she dumps cheap steel into South Wales. Our tinplate manufacturers, in consequence, send out cheap tin plates to Germany, Russia, Australia, and Canada, and give them a hold on the canned fruit and meat trade which otherwise America might have kept from them. It reminds one of a besieging army smuggling ammunition and food into the beleaguered town.

The *Board of Trade Blue Book*, quoting our Consul-General at Hamburg, says that there are four surveyors from Lloyd's Registry stationed at Düsseldorf to superintend and standardise the shafts and other heavy iron forgings which are being sold to English shipbuilders at cheaper prices than they are to German. So Germany, at great expense, is doing all she knows to establish a shipbuilding and shipping trade, while her own manufacturers are giving us the materials for underselling her. It is playing our game as

"inferior subsidiary" one which begins with partly manufactured material. And it may be questioned, in the present case, whether sugar refining ever employed as much capital and labour as the group represented by "jam and pickles" does.

effectually as if Germany sent her best football players to play for us against a German team!¹

In face of this Nemesis, then, even if we consider that the compensations do not outweigh the injury, it would be well to have a little patience. It is not unnoticed in Germany at least. Even protectionist Chambers of Commerce are complaining, in so many words, that "cheap German exports of materials make it possible for firms abroad to offer serious competition in Germany." Suppose we found that our Clyde steamers were being built in Germany because our Lanarkshire steel makers were supplying that country with plates cheaper than they would supply to Glasgow, we should, I think, have something to say. But this is what is happening with the Rhine steamers. "The building of boats," says the *Board of Trade Blue Book*, "for the Rhine river navigation has passed over almost entirely to Holland, because the works in the Rhenish Westphalian district, producing heavy plates, deliver in Holland at lower prices than in the interior of Germany." Evidence, in fact, is accumulating that this selling of material below cost to the industries of a rival country is pulling down with one hand what is being built up with the other.

¹At the annual meeting of the Palmer Shipbuilding and Iron Company in 1903, the chairman, announcing a large increase in their exports to Germany and the United States, said that, for the past three years, the firm had purchased in Germany steel castings and forgings at 30 per cent. below English prices, built them into ships and machines, and sent them back to Germany.

II. The amount and value of the goods dumped is not, as yet, very serious.

It cannot have escaped notice that the word Dumping is being applied very loosely; that everything coming in from abroad cheap is said to be "dumped," from aliens to French plays. It is not correct, according to our definition, to speak of Belgian joists, girders, rails, and plate glass as dumped; nor yet of the light-blown glass and chemical apparatus from Germany: if we say that such imports are dumped, we must admit that we ourselves deserve the name of the "champion dumpers" of the world.¹ It would be well, then, to remember the statement of the Board of Trade in 1902, as regards the imports from the United States and Germany, in a *Memorandum on Comparative Statistics*: "The increases have been comparatively small in amount, and there is nothing which can in any way be described as an inroad on our home market."

It is, of course, from our iron and steel industries that we hear most complaints about dumping. Germany exports to us pig iron, blooms, angle iron, girders, rails, rolled wire, rolled tubes, wire nails. America exports pig iron, iron pipes, bars, bedstead angles, steel, ship plates, rails, boring machines. Most of these are products of Kartells and Trusts; but,

¹ I have heard an east coast farmer say that he was suffering from the dumping of German potatoes. Considering that he was a seller of that highly-favoured monopoly article, the Dunbar red-soil potato, the complaint seemed to me rather suggestive.

considering the cheapness of coal and transport, and the difficulty of getting comparative prices—German bars, for instance, have often been of inferior quality—it is impossible to say what, and how much of them, are, properly speaking, “dumped.”

The total value of the iron and steel trade of Great Britain, Mr. Hugh Bell tells us, is something between £150 and £160 millions. Of this very large total, £15 $\frac{3}{4}$ millions come as imports; the remainder is home produced. Of this £15 $\frac{3}{4}$ millions, £8 millions come from Germany, Holland, and Belgium. “Is this paltry quantity,” he asks, “going to destroy the whole of our great industry? In the year in which they sent us the £8 millions, we sent them £6 $\frac{3}{4}$ millions of similar articles. In the same year, we sent America upwards of £10 millions of iron and steel. I should be interested in knowing,” he continues relentlessly, “the names of firms whose liquidation has been due to foreign dumping. I know of none, but I do know of many who would have had the greatest difficulty in weathering the bad trade of the last three years had cheap foreign steel been denied them.”

It almost seems that the iron and steel makers who most complain of dumping are crying out before they are much hurt. Like many, perhaps most, manufacturers, they would welcome Protection, restriction of competition, and high prices; and one may expect to hear them saying that the future contains terrible

possibilities.¹ But when official returns tell us that, in 1891-2, the gross income returned to Income Tax as "Profits of Iron Works," was

¹ It would not be fair to quote any single case unless the facts had been examined in the fierce light of the public press. But the following, which was discussed for weeks, may be taken as an instance. Mr. Joseph Brailsford, the Chairman of the Ebbw Vale Steel, Iron, and Coal Company, wrote an alarmist letter to Mr. Chamberlain, which Mr. Chamberlain sent to the *Times* on 31st November, 1903. In this letter, he said: "It is only a matter of a few months before the English steel makers will be crushed out of existence, and the English market will be at the German's mercy." He was promptly reminded that, in the years when dumping was unknown, before 1892, his firm had paid practically no dividend; that, in the eleven years since, it had paid 4½ per cent., and in the present year, 5 per cent.—which, he had said, considering that their stock stood at £3 in 1892, and at £7 now, was equal to 15 per cent. to the great majority of the shareholders. Mr. Brailsford replied that his Company made its profits by coal mining as well as by iron and steel making, and that it was only the steel that was hurt by dumping. Then his own words were brought up against him: that, in coal, the improvement in gross profits was £49,000, while, in steel, the improvement was £84,000. Further reference to his Chairman's speech of June, 1903, showed that, in 1892, "the concern was insolvent"—"on the verge of bankruptcy"—its "machinery and rolling stock fallen into disrepair"—its steel plant "entirely obsolete." Since 1892, when the new management came into power, the net profits, which for ten years before had shown an average of £500 a year, had jumped to £50,000 a year for the last eleven years—to say nothing of a trifle of £250,000 laid aside out of net profits, during these eleven years, to reserve and improvement account. The assets had doubled; the yearly output had increased by 40,000 tons; wages for the last year had increased by £2000. And, finally, he recommended an expenditure of £150,000 on new plant.

When a responsible gentleman says that the steel industry in England will be crushed out of existence within a year, and yet recommends a new expenditure of £150,000, it reminds one of nothing so much as the action of the late Mr. Baxter, who prophesied that

under £3,000,000; in 1900-1, was nearly 5½ millions; and, in 1901-2, was £6,000,000, one is tempted to say that the iron and steel trade is a very majestic ruin.

There are, undoubtedly, a good many concerns which are heavily hit. But when so many others are doing well, one suspects that the causes of this may be found nearer home. It has been said of textile factories in America that no firm can compete which is not content and able to put in new plant every ten years: perhaps, in view of modern improvements and changes of process, the unwillingness to make rapid and expensive changes may explain the general statement that "our iron trade is in a bad way." South Wales certainly needed a lesson. Its mills were, many of them, ill-situated, in valleys far away from the sea and dependent

the world was coming to an end within twelve months, and took a new lease of his house for twenty years!

The instance points a moral. There is not the slightest doubt that great employers like Mr. Brailsford and Sir Thomas Wrightson—who said the same kind of things before, and met with a similar rejoinder, that in five years his concern had paid dividends to the amount of three-quarters of its capital—are perfectly honourable men. They think their case so clear that they do not hesitate to put it before the nation and to ask Protection. The case is examined from all sides, and the verdict is, at least, Not-Proven. But if these same gentlemen had been living under a government which was very willing to lend its ear to those who cried out before they were much hurt, and could have put their case, thus persuasively and strongly, before their representatives and before members of the Cabinet who had not the means of checking their statements by cross-examination or public discussion, is it not in the highest degree probable that they would have got Protection?

on single railways; and many were "family affairs," "seething in corruption and bristling with abuses," as the Ebbw Vale Company itself was eleven years ago. The future course of this industry must be in the direction of consolidation, amalgamation, and economy. We can only meet gigantic Trusts like the American Steel Corporation by combinations at least large enough to secure the same efficiency—and, remembering that, beyond a certain point, size is a weakness and not a strength, this should be quite possible. Certainly, regret it or not as we may, the day of the small iron and steel maker is as much past as the day of the small miller.

Two facts should not be forgotten. The first is that, except where it is the "selling off" of practically bankrupt stock, as has been the case with Germany for the last two years, dumping is possible only where it is a small proportion of the total output that is thus sacrificed. "You can afford to sell 10 per cent. of your make at a loss if you thereby reduce the cost of your whole production by an amount greater than the loss on the 10 per cent. But this proposition cannot be true if you are consuming 10 per cent. and dumping 90 per cent., and the advantage of dumping disappears long before you have got anything like these figures."¹

The second is that, where there is any considerable elasticity of demand, it would generally

¹ Mr. Hugh Bell, in *Spectator*, 1st November, 1903.

be more profitable for the Trust to reduce its prices and sell all its output at home, than to sell a smaller quantity at home at a high price and sacrifice the surplus abroad. There are comparatively few things for which the demand would not increase in greater proportion than the reduction of price.

These two considerations seem to suggest that, annoying and depressing as it is, dumping can scarcely be considered an established trade policy of other countries.¹

¹ "Some of us may easily be misled into supposing that a Cartel or Syndicate is created for the express purpose of dumping. No doubt the severe economic depression of Germany during the years 1900-2 (caused by over production) forced the syndicates into their export policy for the purpose of relieving the congested home market. But that was an incident, like the blood-letting of an apoplectic patient. The real object of German Cartels is to proportion production to the market demand, and so to avoid overproduction. In other words, the Cartels exist to do away with the necessity for dumping, so far as human foresight can do it. The dumping is not calculation, it is mis-calculation."—C. H. Oldham, in current issue of the *Journal of the Statistical Inquiry Society of Ireland*. Mr. Oldham calls attention to the latest development of the Kartell system, the syndication of syndicates, in the Steel Works Association now being formed for the whole of Germany, and already signed by all but two of the great groups. "What has brought about this Association seems to have been the necessity of doing away with the dumping policy of the syndicates controlling raw materials (coal, coke, pig iron, and half finished steel products) by which German home manufacturers of finished iron and steel goods have been placed at a disadvantage as compared with foreign firms in the exploitation of the mineral resources of Germany."

CHAPTER XVII.

RETALIATION ON DUMPING.

We cannot very well ask a foreign government to stop its individual citizens doing in foreign trade what it cannot stop them doing in home trade. We know how underselling is met in home trade—by similar underselling. But the only retaliation yet proposed against underselling nations is the imposing of Import Duties here, and this, surely, is merely a defensive measure. Will this, however, cure dumping in our case when it has not cured it elsewhere? But, once admitted that dumping constitutes a claim on government protection, where are we to stop? And who or what is to define what “selling at or under cost” means?

GRANTING, however, all the compensations of Dumping; granting that it is more harmful to the nations that dump than it is to us; and granting that the extent of the dumping is small: let us assume that the actualities are so annoying, and the possibilities so great, that we must seek a remedy. In the present chapter, then, we shall consider Retaliation as the proposed remedy. We premise, as before, that we have no thought or intention of protecting home industries; that we are Free Traders in theory, and mean to return to Free Trade in practice whenever we have attained the end aimed at.

Is it duly realised that Dumping is not a government policy like a protective tariff, but a thing done by the individuals of a nation as one of their business methods—"unfair" competition, perhaps, but still individual competition? It is not even a bounty; it is only an indirect result of two things, the government policy of Protection and the private Trust.

In other words, protective duties by themselves are part of a specific government policy. We can fight them either by free imports, as Cobden advised us to do, or by another government policy, namely, counter protection. But this dumping is not an organised attack of the American or German nation on the English; it is not, indeed, a thing recognised by the American or German nation at all: it is an act done by individuals, by Trusts or Kartells, in their own self-interest. What happens is that some individual foreign exporter, for one reason or other, offers goods for sale in this country to some individual firm of importers at a low price. All the nonsense one hears about dumping as a "national conspiracy," is derived from that fallacious idea which thinks of another nation as an industrial unit.

When, then, we find our trade interfered with by foreign Trusts and their policy of dumping, are we to go to the Government of these countries and say, "You must stop this or we shall—do something"? Why, the American government is as convinced as we are of the evils of Trusts, but it can do nothing; it cannot even prevent one State dumping in

another State. Is it reasonable to ask it to muzzle its Trusts when they affect *us*—to stop this international dumping—to prevent underselling in other countries, when it cannot stop underselling at home?

In what way, then, is the proposed remedy to be worked? What the merely academic person, who assumes that words have a meaning, understands by Retaliation, is "hitting back," and, from long experience of a trade where cutting of prices was one of the commonest incidents, I venture to say that this is what the business man means by it. The "negotiation" to which I was accustomed usually took this form: "You are underselling us in X, where you have a small trade and we have a large one. It doesn't hurt you much, but it is serious to us. If you don't stop it, we shall go to Y, where you have nearly all the trade and we have very little, and cut prices 30 per cent. or so. This won't hurt us, but it will be very serious to you." This was Retaliation; and, as between a large firm and a small, it was very effective. There was simply no answer to it—on the part of the small one. As between two large firms, however, it usually involved a bitter war of cutting prices, much bad feeling, and great loss to both parties and to the whole trade.

But, being curious to find out if the advocates of international retaliation meant this or anything like this—if, perhaps, they contemplated some method of government subsidy by which we could attack some large, and therefore vulnerable

and sensitive trade of other nations, without much hurting ourselves—I put this question in a letter to several of the leading newspapers last autumn: How is our Government to take effective measures against the actions of individuals not recognised by their Government?

The answer I got was the answer I expected—that the way to stop dumping was to put a tax on the dumped articles.

Precisely. But why is this called Retaliation? It is not “reprisals”; it is not a counter attack. It is simple defence. America and Germany dump steel on us; we are to answer by putting a duty on American and German steel. May one ask in what this differs from what we used to call Protection of the steel industry? If it differs in nothing, then I submit that the retaliation has overshot its mark. It stops the “unfair” competition, but it does a great deal more. It presumably aims at securing our manufacturers against loss,—against being obliged to meet dumping, and bring down the home prices to, or under, cost. What it does, is to secure them in a quasi-monopoly profit, by giving them the power to raise the price of home steel by something under the amount of the retaliatory duty. What I think we must ask, then, is: Is Mr. Balfour’s Retaliation, after all, anything different from Mr. Chamberlain’s undisguised Protection of home manufactures?

The next question is fairly obvious: Will this stop dumping?

Why should it? Suppose we put a 10 per cent. tax on foreign steel, it is pretty certain that our price in England—the price of home steel as well as the price of imported steel generally—will go up, either 10 per cent. or a little less. Say it goes up 10 per cent. Then we shall be precisely as we were. The foreigner will dump his steel at 10 per cent. higher price than he did before, but he will be as much under our price as before. In other words: If our home price for steel is 100, and America has been dumping at 90; then, if our price goes up to 110, the American will dump at 100, will still be 10 per cent. below our price, and will not make a farthing more sacrifice.

It would be different if, when the 10 per cent. duty was put on, our steel makers kept their prices unchanged. Then the foreigner who meant to undersell as before would have to pay the 10 per cent. duty, and would be 10 per cent. worse off than he was. But it is more than human nature to suppose that the price of home steel would not go up. Suppose it went up only 5 per cent. Then the foreigner would have to sacrifice 5 per cent. in addition to what he sacrificed before in dumping. This would make dumping a little more expensive, but I am by no means convinced that it would stop it. Whether it would stop it or not, depends on the proportion of his home trade to his dumping trade. If the home trade is 96 per cent. of the whole output in the United States, as Mr. Carnegie says it is, then it might pay to send

away the other 4 per cent. to be sunk in the sea.¹ It paid the Dutch East India Company in past times to destroy some of its produce, and even some of its plantations, rather than sell the produce too cheap. It used to pay Billingsgate to destroy its fish rather than let the surplus spoil the market and bring down prices. Similarly, it might pay America to get nothing for her surplus if the surplus is a small proportion of the total output.

But, as it happens, we have an instance of what a 10 per cent. import duty cannot do. Belgium has a tariff, not of 10 per cent., but of some 13 per cent. *ad valorem*. The imports of wrought iron and steel into Belgium were 6,885,000 kilos in 1891; 13,223,000 kilos in 1900; 21,423,000 kilos in 1901.² These imports were, I believe, dumped from Germany. How did Belgium save herself? In the Consular Report, No. 3104, on the state of Belgium in 1902, Mr. Hertslet says: "The iron and steel industries suffered, not only from local over-production, but from that in the neighbouring countries. A market, however, was found for a large quantity in the United States. The crisis was thus averted, and the end of the year saw a general improvement."

¹ The Census statisticians say 93 per cent. Giving the figures for 1900 as follows:—Agricultural products, £950 millions; manufactured products, £2600 millions; mining products, £210 millions—total, £3760 millions; they add:—"This was all consumed at home, except the sum of £275 millions, or about 7 per cent., representing the value of all articles of domestic merchandise exported in the year 1900." *Twelfth Census of U.S.*, 1900, vol. vii., p. lviii.

² *Foreign Statistical Abstract*, p. 98.

Here, then, is a much needed correction of an ordinary assumption ; that we, as the great Free-Trade country, are "the one dumping ground of the world."¹ In the above case, we have first Germany dumping wrought iron and steel into Belgium—a protected country—and then Belgium saving herself by dumping her iron and steel into a much more heavily protected country. Similarly, we find from the *Board of Trade Blue Book*, that Germany dumps coke into Austria and France, and coal into Holland and Belgium ; and that Bohemia in turn dumps lignite into Germany "at any price obtainable." Finally, we hear that German manufacturers are in a panic at the promised invasion of the United States Steel Trust.²

What it all comes to is ;—that this Retaliation, which was to prevent dumping, and may or may not do so, is to end in Protection of the iron and steel industries, and, as a probable sequence, the formation of Trusts on the American model. Our steel makers are to have the privilege of making steel dear at home, and the second privilege of selling it at or under cost to other countries, our rivals. And the *Times*, in its issue of 5th December, 1903, confirms this by telling us that "an average 10 per cent. duty may be reached by charging 100 per cent. upon some, 50 per cent.

¹The words are Mr. Chamberlain's.

²This possibility of dumping into other countries may remind us that, if the dumping is diverted from us to neutral markets in which we compete, any success we may have in excluding dumped goods from our own country will not necessarily protect our exporting industries at any rate.

upon others, 15 per cent. upon another category, and nothing at all upon the remainder," and that the principle upon which Mr. Chamberlain would act is, that, "when the Germans charge 30 per cent. upon steel bars, he would put the business on a free-trade footing (*sic*) by putting the same duty on German bars." It reminds one of the simple-minded proposal of some people, that we should "let other countries make our tariff for us," by putting on their goods precisely the duty they put upon ours!

If, however, Protection is the only remedy for Dumping, we may well hesitate. A man may be suffering from a slight cold, but may object to take a medicine that will throw him into fits.

The moment we admit that Dumping is a claim for counter duties, we seem to have taken a long step and a perilous one. At what stage in the dumping is the aid of the State to be invoked? Is it when a thousand tons have been dumped, or a hundred thousand, or a million? Surely, a smaller trade may be ruined by dumping before any large figure is reached. Or are we to stop the danger before it emerges, by putting an "average duty of 10 per cent." on all manufactures?

And who is to decide what is Dumping, as distinguished from "fair competition"? Is it selling at cost?—or under cost?—or far under cost? What is "cost"? When students in a Political Economy class have got the length of answering

that question, they have very little more to learn. Even economists are not agreed as to what elements should be regarded as entering into "cost" and what should not. The wonderful ideas of some Municipalities, as to the place, function, and extent of Depreciation Funds and Sinking Funds, emphasise this.

Or may one take the rough and ready way of saying that a country dumps when she sells at a higher price at home than she does abroad? This, however, as I have hinted, would be to admit the contention of other countries that we are the "champion dumpers," and justify them in retaliation. I cut this out of an interview with a Canadian woollen manufacturer last autumn: "The outlook is gloomy. Canadian manufacturers are menaced by conditions that make it profitable for British woollen manufacturers to dump their goods in Canada at prices which the home industry simply cannot meet. Canada is being used as a slaughter market."

Finally, when dumping is so glibly spoken of, has it been considered that low prices are a concomitant of large orders, as well as of dumping? A million tons of coal will not be sold to Germany at the price per cwt. here. Who is to determine that a low price in a foreign country is not due to the economies of having a large order, or to a long contract taken at a time when prices were low?

It is not too much to say that every claim for counter duties against dumping would require a Royal Commission to itself. And one can see

the probable corruption and bribery that would be let loose to secure this government aid.¹

¹ In the present chapter, I have assumed that Retaliation is directed against foreign nations. But our own Colonies dump. In 1901-2, Germany, Holland, and Belgium together landed 78,615 tons of pig iron on our shores. The United States landed 45,973 tons. Canada, under a direct bounty, landed no less than 103,262 tons. Dumping by kinsfolk is very much the same as dumping by strangers.

CHAPTER XVIII.

TESTS OF PROSPERITY.

National Income: Pauperism: Wages: Income-Tax returns: Savings: Banking statistics: Shipping: Import of Raw Material: Leisure: little luxuries. Measured by all these tests, the country is prosperous and progressing.

BEFORE coming to the more drastic proposals now before the country, we may profitably ask how the nation stands as measured by the ordinary canons of prosperity.

According to the famous calculation made by Sir Robert Giffen, the National Income, in 1875, was £1,200,000,000. His revised calculations in 1885 put it at £1,350,000,000. In a paper read by him before the British Association in 1903, it was estimated at £1,750,000,000.¹ At the other end of the scale are the figures of Pauperism. In 1862, 47 persons per 1000 were at some

¹This is the total money income earned by the people of this country, based on the statistics of the Income-Tax Returns, and on calculations for other earnings. As to the method in which the figure was arrived at, see my *Distribution of Income*, book i., chap. ii.

time or other in receipt of poor relief in England and Wales. In 1901, there were only 25 persons per 1000. Or, to take a more adequate calculation, while population has increased 18 per cent. in fifteen years, pauperism has decreased by 9 per cent.¹

First, as to Wages, the earnings of the great mass of the people. The *Board of Trade Blue Book* takes five groups of trades—Building, Coal Mining, Engineering, Textiles, and Agriculture—and, going back twenty-five years, finds that wages have risen, since 1878, in the five groups, from a figure indicated by 85.27 (or, in the four groups, excluding Agriculture, from 82.84) to 100 in 1900. Since then, there has been no fall in wages as regards Building and Textiles, and there has been a rise as regards Engineering and Agriculture. The average, however, has been brought down to 97.70 by a fall of some 12½ per cent. in the wages of Coal Mining.

This seems fairly satisfactory, especially when it is remembered how the purchasing power of money has risen: that 69d. to-day buys as much as 100d. did in the average of years about 1873.

¹ Pauperism, it should be noted, does not necessarily go *pari passu* with Poverty. If one might amend Scripture, the statement "the poor ye have always with you," might be changed to "the pauper ye have always with you." There is nothing very optimistic in saying that the time is near at hand when working-man poverty will cease out of the land. But so long as we have drink, thriftlessness, vice, insanity, and friendless old age; so long as there are men who marry, make their wives dependent and incapable of working for themselves, and then desert them; so long there will be pauperism.

Or, to use another calculation, 100d. to-day buys as much as 140d. did twenty years ago.¹

Comparing this with the progress of Germany, an elaborate calculation in the same *Blue Book*, p. 275, shows that German and British money wages have risen about equally since 1886. But, in the last twenty years, the purchasing power of money in Germany has risen only 12 per cent. as compared with 40 per cent. in Great Britain. That is to say, taking quinquennial periods, "in the last five years, a German worker has been able to purchase as much food of the kind to which he is accustomed for 100 marks as he could get previously for 112 marks, while the English workman has been able to make 100 shillings go as far in purchasing food as 140 shillings would have gone twenty years before."²

Take, next, the earnings of the comfortable and wealthy classes. The following is the comparison which emerges from the Income-Tax returns; that is, the incomes which people with over £160 of income³ admitted to the government that they were earning :

1868-9.	Gross Income,	-	£398,794,000
1875-6.	"	-	544,376,000
1894-5.	"	-	657,097,000
1901-2.	"	-	866,993,000

¹ For the course of prices from 1873 till now, see p. 191.

² *Board of Trade Blue Book*, p. 226.

³ Before 1894-5, incomes over £150 were taxed.

It should be noted that the comparison with the decade 1868-76 is a comparison with years of abnormal prosperity.

Confirmation of this is given by the well-known calculation of what the Chancellor gets for every penny he puts on the Income Tax.¹

In 1872-3, the penny yielded	-	£1,741,088
In 1882-3, „	-	1,962,871
In 1892-3, „	-	2,239,856
In 1902-3, „	-	2,580,000

One must be careful in applying this comparison to the corresponding returns of other nations. It has been asserted that Income-Tax returns in Germany show even better than ours. But Prussia taxes incomes down to £45: thirty per cent. of the population show incomes between £45 and £150: less than five per cent. come under the assessment over £150—which permits us to guess how many come under the £45.² But, as we do not impose Income Tax till £160 of income is reached, and give degressive abatements on incomes under £700, our Income-Tax returns witness to the prosperity of the comfortable and wealthy class only. As regards those whose income is under £160, the evidence of prosperity is got from the rise of wages.

Next, as to the Savings of the people. In 1882, Sir Robert Giffen calculated these, as a

¹ The later yields per penny would be greater but for additional abatements made to the smaller incomes.

² It seems to be the case that about two-thirds of the population of Prussia, the richest state of Germany, have wages under £45.

whole, at £200,000,000 per year. In a letter to the *Times* of 3rd Dec., 1903, he estimated them at £264,000,000.

The Post Office and Savings Banks deposits have grown as under: In 1871, £55 millions; in 1881, £80 millions; in 1891, £114 millions; in 1901, £192 millions; in 1902, £197 millions.

A very improper use of statistics is sometimes made in comparing the amount per head of Savings Bank deposits in protected countries with that in our own. According to this, Denmark appears at the top with £15 11s. 6½d., and Great Britain at the bottom with £4 2s. 5¾d. The fallacy of the comparison may be suspected on noticing that France appears second last on the list, with £4 8s. 8¼d. The reason, of course, is that France limits her deposits to £60, and Great Britain hers to £200, while, in most other countries, there is no limit. Thus the savings of the comfortable and richer classes are compared with those of the working classes.

Such comparisons, too, are of no validity unless account is taken of the other opportunities there are for small investors. In a well-banked country like our own, for instance, it may very well be the case that people, having risen to thrifty habits through the savings banks system, may pass on to invest their money in other things—precisely as, in the life of the individual, the money box is exchanged for the savings bank, the savings bank for the ordinary bank, and the bank deposit for wider investments. Mr. Brabrook, indeed, called savings bank deposits “infantile efforts in thrift.”

Unfortunately, though there are very many ways of investing small savings in this country, the figures are not easily obtainable, particularly over periods of time. It is well known that great numbers of the working classes own their own houses and house property generally, and hold considerable stock in industrial companies.¹ Trade Union Funds are all working men's money.² Two figures, happily, are available. One is the funds invested in Co-operative Societies. Comparing the returns for the United Kingdom for the years ending December, 1891 and 1901, the increase was from £16½ millions to £40¾ millions. The other is the deposits in Friendly Societies. Here the increase is from £8 millions in 1871 to £14 millions in 1881; to £26 millions in 1891; to £43 millions in 1901.

Banking statistics offer another test of prosperity. The deposits of all the Joint-stock Banks publishing accounts show the following advance: in 1883, £400 millions; in 1888, £470 millions; in 1893, £633 millions; in 1898, £781 millions; in 1903, £834 millions.

The Clearing-House returns—that is the value of cheques, bills, etc., passed through the London Clearing House—have increased as follows:

¹ The 2000 Building Societies in Great Britain and Ireland have £62 millions of funds.

² The 600 Trade Unions have more than a million and a half members, and nearly £5 millions of funds. The figures here and above are taken from the Presidential Address to Section F of the British Association in 1903 by Mr. Brabrook, Chief Registrar of Friendly Societies.

£4 $\frac{3}{4}$ milliards in 1871; £6 $\frac{1}{4}$ milliards in 1881; £6 $\frac{3}{4}$ milliards in 1891; £9 $\frac{1}{2}$ milliards in 1901; and £10 milliards in 1903. Whatever the precise importance attached to this as evidence, it shows one thing at least—the universal use we make of banks. But, for people to make use of banks, at least shows that they have money enough to open a banking account, and the figures are, of course, generally, a witness to the increase of trade and the position of London as the banking centre of the world.

The state of Shipping is a test of prosperity peculiarly significant as regards this country. The increase in our net tonnage, from 5,690,798 in 1870, to 7,978,538 in 1890, and to 10,054,770 in 1902, speaks for itself, particularly if it is remembered what the “net tonnage,” of a nation, constantly renewing its mercantile fleet, means when translated into “carrying capacity.”¹

Another test one might apply. It is notoriously difficult to get any figures of home trade, inasmuch as every man keeps his business secrets to himself: and yet such figures would give us, perhaps, the best test of national prosperity. But we can get at something that lies at the foundation of many of our industries—the import

¹ Statistical comparisons in regard to Shipping are very complicated, and, therefore, very often misleading. See Appendix for a full treatment of the subject. (Reprinted, by kind permission of the Editor, from an article contributed by me to the *Glasgow Herald* of 26th November, 1903.)

of raw material. We can do nothing with raw material but make it up into finished goods. If these goods are exported, there is a check on one employment of it. But if they are not exported, it shows that the raw material has been used up by the industries of the country, and remains in the shape of goods for consumption at home. If, then, the quantity of raw materials coming into a country increases, it is as good an indication as may be of progress in a great many directions. The following is the increase in quantities of imports from 1886 to 1901 :

India-rubber, in cwts.,	194,000 to	466,000
Copper, in tons,	197,000 to	264,000
Timber, in loads,	5,500,000 to	9,200,000
Cotton, in cwts.,	15,300,000 to	16,300,000
Leather, in lbs.,	77,800,000 to	148,300,000

But, beyond these formal and statistical tests, take some not so easily reducible to figures. Where else are the hours of labour so short? Where is there a country that has an almost universal half holiday on Saturdays and a universal whole holiday on Sundays? In what other nation does one find whole populations of cities pouring out for a week or ten days in summer, and spending what must be called lavishly at coast or country? Or take a little thing, and therefore all the more significant. The bicycle is, probably, the most beneficent invention of the last generation as regards the health of the people—men, women, and children.

One may go for twenty miles in the populous parts of rural France, and never meet a working man riding a cycle. In what part of Great Britain, outside of the mountainous districts, would this be possible?

Such, then, are some of the material evidences of our prosperity at the present time. Let it be granted that they are no evidence of national character, of virtue, even of happiness. At least they are not evidence of want of character, of viciousness, of unhappiness. The moral life may be difficult above a certain income; below it, it is impossible: considering how far most other countries are below our level of income, there seems no doubt, that we are ahead of almost every nation in the material conditions of the Good Life.

CHAPTER XIX.

EXPORTS AS A TEST OF PROSPERITY.

If a country is progressing, its Trade should increase: not necessarily its foreign trade. Falling exports may indicate fuller employment of home industries which do not export, and increasing exports may indicate Trust dumping or home depression. Free Trade exports, not being exports of superfluity, are no adequate gauge of overflowing abundance.

AMONG the ordinary tests applied to measure a nation's prosperity, there is one that has not yet been mentioned, the Exports. Before discussing statistics, it would be well, perhaps, to ask what we should expect, as regards its exports, of a country which was otherwise progressing.

There is no question that we should expect such a country's total Trade to increase, for the very obvious reasons that the number of mouths to feed is increasing; that the working capital—the tools and instruments for creating more wealth—is increasing far more rapidly; and that the Standard of Life is rising, which itself involves that the wealth we are consuming, and taking out of existence as wealth, is increasing, and demands more labour to reproduce it. And

if our trade were altogether foreign trade, or if our foreign trade were, and must be, a constant proportion of our total trade, then, of course, our foreign trade ought to be increasing.

But, this is an altogether different thing from saying that a nation's exports, by themselves, are any adequate measure of its prosperity and progress, or that the evidence of exports outweighs the other evidences. Only a couple of years ago, it was generally accepted that the reason why America was not exporting steel, but, on the contrary, importing it, was the extraordinary demand for steel in America: her great prosperity at that time was taking the form of increasing fixed plant, railways, and buildings. The same was said of us in the early nineties. We were then so busy that we had relatively little to send abroad. This was the time when other countries got their chance. We absolutely refused foreign orders, not that we did not wish them, but because we could not execute them. It is a suggestive reminder of what people seem so often to forget—that our capital and labour are limited, and that we cannot possibly continue, at the rate of the world's progress, to be the world's provider.

So, when one sees falling exports quoted as a sign of national decay, the first thing to do is to look around us at home. And when we do so, and see the enormous development in the trade called House Building; when we inquire at the Local Government accounts and find that the Local Debt of England and Wales alone—to say

nothing of Scotland and Ireland—has increased from £93,000,000 in 1874-5 to £316,000,000 in 1900-1; and that £145,000,000 of that, or 46 per cent., is entered as Reproductive Debt, this is, capital borrowed for the starting of what are virtually State Industries;—the question arises if it may not very well be the case that the growing capital and labour of this country are finding fuller employment in occupations that do not export. And one may ask, further, if the vast sums now being sunk in better and more sanitary housing for the working classes, are not perhaps a better investment, as regards the nation, than sending out steel rails to develop other countries, or sinking gold mines in the Transvaal. Suppose the vast bogs of Ireland were found to contain a new fuel, or that new sources of coal, petroleum, and the like were discovered in this country, would not capital be withdrawn alike from exporting and from foreign investments and be employed at home? ¹

¹ So, when Mr. Chamberlain compares the alleged $7\frac{1}{2}\%$ increase in our exports since 1872 with the 30% increase in our population within the same period, and asks, "Can you go on supporting your population at that rate of increase?" (Glasgow speech, 6th Oct., 1903), the only rejoinder is, "What necessary connection is there between exports and the support of the population?" But even here one may join issue with Mr. Chamberlain. His inference is that, if population has increased while exports have not, there must have been less employment for the people. Sir Robert Giffen, however, reminds us that this is not the case theoretically, and is not the case as a fact. The value of manufactured exports contains two elements, the price of the raw materials and the expenses of manufacture. It is the latter only that indicates and measures the employment of British capital and labour. Even

But, if falling exports are not necessarily any sign of national decay, are increasing exports any necessary sign of progress? Look at other countries. The dumping of iron during the last two years from Germany, it is acknowledged, was the dumping of practically bankrupt stock. Yet, no doubt, it accounted for a considerable increase in her exports. Is the dumping from America a sign of her prosperity? It is a sign of Trusts, but Trusts and prosperity are not synonymous. We are told continually that it is in times of

suppose, then, that our manufactured exports, as expressed in terms of value, have not increased, there has been more employment for labour and capital if the price of the raw material has fallen. Now, in 1877, Sir Robert calculated that "the net produce of British labour and capital exported abroad was £140,000,000." According to the Board of Trade estimate for 1902, it is no less than £224,000,000, the difference being £84,000,000, or 70% of an advance over 1877, in the part of the exports which concerns us. This is confirmed by the calculations of Mr. Bowley. He takes the year 1881 as starting point, "partly for convenience, partly because by that date foreign trade had begun to recover from the sustained depression of 1879." Between 1881 and 1902, the fall in price of the imported raw materials of our textiles was from a level of 100 to a level of 75, or 25%, while the fall in the price of exported textile manufactures was from 100 to 84 only, or 16%. In the same years, the fall in price of imported unmanufactured metals was from 100 to 96, or 4%, while the exports of metal products actually rose from 100 to 112. The conclusion seems inevitable that, even if the values of our exports had remained constant within these years, the amount of labour and capital employed by them had greatly increased.—*Economic Journal*, Sept. and Dec., 1903, and *National Progress in Wealth and Trade*. Mr. Bowley's calculation of and deductions from the changes in price of imports and exports, and his comparison with the relative figures for Germany, are among the most valuable contributions which the present controversy has called out.

depression abroad that we may expect dumping, and that, in particular, the dumping we have most occasion to fear is that of the United States Steel Corporation, which is just now paying off its operatives by tens of thousands. But this dumping will no doubt increase her exports. To say that a country is going to the dogs because her exports do not increase, seems to me about as reasonable as saying that, if a man does not go to the Riviera in spring but stays at home, it is because he cannot afford it!

It is always interesting, and sometimes profitable, to ask the hidden reason of some widespread belief. Why should exports be counted the gauge and measure of national progress? It seems to be the assumption that what a nation exports is its Surplus.

In Professor Gide's *Principles of Political Economy* occur these words: "It is certain that for Tyre and Carthage in the old world, and for Venice or the Hanse Towns in the middle ages, trade was everything, and even to-day it holds a very large place in the national life of England. All the same, in great countries at the present time, trade with other nations plays only a moderate part in the general movement of their trade. In this respect, the position of a country differs from that of individuals: in our modern communities, the division of occupation has been pushed to its utmost limits; no one of us produces almost anything except on behalf of his neighbours, or consumes anything but what has been

produced by his neighbours. Thus everything we produce and everything we consume must pass by way of trade. It is not so in the case of a country, and particularly of a great country. If we wish to compare such a country with an individual, we should compare it with a landed proprietor living on his estate, who, himself producing the greater part of what he consumes, has no need of buying outside anything but what he does not himself produce, and, consuming too the greater part of what he produces, has no need of selling outside anything beyond the surplus of his crops.”¹

All this is quite true from the standpoint and ideal of a protected country. Since the days of Colbert, France has set before herself the object of being self-sufficient as regards agriculture and manufacture. It is the Nemesis of Protection that her very prosperity makes the realisation of this ideal impossible; she has a surplus and exports it; and, in spite of all her planning, the imports which pay for these exports compete with her home producers and prevent the self-sufficiency.

But it is equally the aim of a Free-Trade country to break down these national barriers, and send its goods for sale anywhere in the world that it can get a better price than, or even as good a price as, at home. If, then, we think of our exports as the sale of a surplus which we cannot

¹ Third edition, p. 257; English translation, p. 237. It is characteristic of the author's anxious and laborious revision that the words do not appear in the last (8th) edition.

consume or do not want at home, we shall, of course, regret to see our exports going down ; for the exports, in this case, are thought of as the superfluity of our wealth—the part we can spare and send away in order to buy other things. But when it is realised that foreign countries are not the “ dumping ground for surplus,” but part of the one common market of a free-trade country, all that a diminution of exports tells us is, that we are not doing so much trade abroad as we did—which may be a good thing or may be a bad thing.

The point is that a country may gradually find it more profitable to invest its capital at home, and that the growing wealth may find full employment in industries which do not export. If one considers how much of the trained intellect of this country is finding its way into personal services—professional, journalistic, artistic, to say nothing of domestic service—this should be clear enough.

CHAPTER XX.

THE STAGNATION OF EXPORTS.

The statistical stagnation proved by reference to 1872 is quite fallacious ; scarcely less so the comparison with the period 1871-5. For these were years (1) of abnormal expansion and activity, due, among other things, to the war ; (2) of the highest prices, just before the great readjustment of the price level. True, other nations show a greater percentage of total increase in statistical exports. But the only real criterion is exports per head, not per nation ; and here we have a long lead and are increasing it.

ALTHOUGH we may freely admit that Exports are not by themselves an adequate gauge and measure of prosperity and progress, there is a good deal to cause us uneasiness if our exports fall off. At least the matter calls for investigation ; and one might have expected the appointment of a Royal Commission long before this to examine and report on it. In 1882, our exports were £14,000,000 under those of 1872. In 1885 and in 1886, they were £43,000,000 under, and we did not take fright. There was the further excuse for alarm that these were years of great depression. But it was recognised then that times of great prosperity were always

succeeded by periods of dull trade. Depressions were so regular that some people began to connect them with the appearance of spots on the sun.¹ We expected them, and some who were prudent prepared for them. But when things were very bright, producers generally went ahead rushing up mills and increasing output as if the sun would always shine. Then some trade found that it had gone, for the moment, beyond the limits of consumption at paying prices. This trade had to call a halt, and went on short time; wages and profits were reduced; purchasing power was thus restricted; the shops felt it, and curtailed their buying from the manufacturers; the manufacturers, in turn, limited their demand for raw material and stores; and, in a short time—no one knew how—trade was found to be “depressed.”

Then, when we had just realised that the outlook was looking very black, it was suspected that things had taken a turn. Perhaps relief works were started for the unemployed, only to find that the unemployed were finding work in their usual occupations. And, before we well knew what was happening, we were going uphill again, and we heard no more of the depression.

These ups and downs of trade were so common that sensible people accepted them as all in the day's work, and no one thought of blaming Free Trade for them—indeed, we were all ready enough to point out how much worse things were in protected countries. But it seems to

¹ Jevons' explanation of the coincidence of the sun spots with bad harvests is well known.

be the case that the past wave of prosperity lasted so long before it broke, and carried us so far, that we think there is something mightily far wrong when there begin to emerge even signs of depression, and we never think of grinning and bearing it, but call lustily for government to "do something."

Where, then, is this terrible handwriting on the wall that tells of coming decay, and "descent to the rank of a fifth-rate power?" The answer given is that, although, by all other tests, the country is prosperous as it never was before,¹ the Exports are stagnant.

The first thing to do is to look into the facts. If we go back ten years, our exports seem to present a fairly continuous growth, from £216,000,000 in 1894 to £287,000,000 in 1903.

But when the protagonist of the new movement opened his campaign in Glasgow on 6th October, 1903, he looked back thirty years, and saw that the increase in exports over 1872 was the very moderate one of £22,000,000.

¹ "Judged by all available tests, both the total wealth and the diffused well-being of the country are greater than they have ever been. We are not only rich and prosperous in appearance, but also, I believe, in reality."—A. J. Balfour, *Economic Notes on Insular Free Trade*, p. 28. Compare Mr. Chamberlain's words in the beginning of 1902: "I see no imminent and present danger to the prosperity of this country. During the last five years we have enjoyed an absolutely unparalleled condition of trade, and, although we cannot expect that to last for ever . . . to my mind the prospects are extremely good."

There is great virtue in round numbers. "Thirty years ago" looks so much better in a speech than thirty-two or thirty-three or thirty-four. But if he had taken thirty-two years, the increase would have been, not £22,000,000, but £78,000,000. If he had taken thirty-three years, it would have been £88,000,000. If he had taken thirty-four years, it would have been £99,000,000.

But no statistician would ever take a single year as his starting point, or compare one single year with another. To eliminate special causes, an average of years must be taken. Let us, then, take quinquennial periods since 1856—figures before 1854 not being comparable. This comes out as follows :

1856-60,	-	-	£124.2	millions.
1861-65,	-	-	144.4	"
1866-70,	-	-	187.8	"
1871-75,	-	-	239.5	"
1876-80,	-	-	201.4	"
1881-85,	-	-	232.3	"
1886-90,	-	-	236.3	"
1891-95,	-	-	227.0	"
1896-1900,	-	-	249.1	"
1901, -	-	-	270.8	"
1902, -	-	-	277.6	"
1903, -	-	-	287.0	"

Here we have a very different story. The average exports of the last three years are nearly £40,000,000 above the average of the "boom years" of 1871-5. For these were "boom years" in two distinct senses: they were years

of abnormal activity, and they were years of the very highest prices.

I. They were years of rapid expansion, of immense railway development, of great activity in the coal and iron trades. But consider, besides, what was happening in Europe. The proudest military monarchy in the world had just collapsed. The Franco-German war began in 1870. Napoleon surrendered at Sedan within the year. Then came the long agony of the beloved city, wrecked inside by its own citizens, and ringed outside with fire; and the Third Republic was established in 1871. The indemnity was £200,000,000, £40,000,000, payable the first year, and the remaining £160,000,000 in three years thereafter. In direct cost, it was a cheap war, says Giffen, although two great nations carried on unremitting hostilities against each other for nearly eight months, employing altogether some $2\frac{1}{2}$ millions of men. But it cost France, he calculates, £600,000,000 in permanent capital.¹

One can understand that here was an immense hole left in the middle of Europe which all nations set themselves to fill up by the products of their industry. In particular, France set our factories to work, buying our products to pay Germany. No wonder our exports, which had risen previously by five to ten millions a year, rose with a bound from £200,000,000 in 1870 to £256,000,000 in 1872. Nor was this all; while the two nations were at deadly grips with one another, we slipped in, and

¹ *Essays in Finance*: First Series, I.

took the increase of trade they naturally would have had.

II. The figures given by the statistics of export are, of course, Values, and values depend not only on quantities, but on prices of these quantities. Let us take, then, the movement of prices during these years, using Sauerbeck's Index Number.¹

In 1871, the price level was 100. In 1872, it rose to 109. In 1873, it touched 111, the highest point reached since modern prices were established by the gold discoveries in the middle of the century. In 1874, it fell to 102; in 1875, to 96;

¹ It may be as well to explain the method of Index Numbers. Sauerbeck selected 45 leading and distinct classes of commodities, thus covering fairly the field of human consumption. He collected the wholesale price of these in England between the years 1867 and 1877, so as to eliminate both the years before 1872 and the "boom years" of 1872 and 1873. Taking the average price of each article during these eleven years, he represented it by the figure 100, and thereafter any rise or fall in its price appears as a percentage figure. If wheat, *e.g.*, rose from 25s. to 26s., the figure for wheat would rise from 100 to 104. Thus are conveniently registered changes in the Price Level. Objection may be taken on the ground that each commodity of the 45 has as much importance attached to it as any other; a rise in pepper affects the price level as much as a rise in wheat. To meet this, other Index Numbers, such as those of Palgrave, have been "weighted"; that is, each article has been given an importance relative to its consumption. Practically, however, it is found that all Index Numbers differ very little in results, and Sauerbeck's, which appears each month in the columns of the *Statist*, is generally taken as trustworthy. The Index Number begun by Newmarch is still continued in the columns of the *Economist*. For full discussion of Index Numbers see C. M. Walsh, *The Measurement of General Exchange Value*, and Professor Edgeworth's *Memoranda* in the Reports of the British Association for 1887, 1888, and 1889.

and from that year it fell fast and heavily till, in 1886, it was 69. But this was not the bottom. The lowest year was 1896, when it touched 61. For the ten years, 1888-1897, it averaged 67, and for the ten years 1893-1902, it averaged 66.

This was a stupendous fall of prices. It meant that, as a whole, every article which sold for 100 shillings, or pence, or pounds in 1871, was selling in 1896 for 61 shillings, or pence, or pounds. The fall was due to the interaction of two causes. One was the immense cheapening of costs, by the inventions which increased the speed and carrying power of ships, and by the opening of the Suez Canal, which saved a journey from Western Europe to India of 3750 miles, and brought goods direct into the heart of the Continent. This stimulus to production and increase of trade gave money more work to do—just as an increase of traffic would make a greater demand on railway trucks. The other cause was that, just at the same time, there was a great falling off in the money supply available. Up till 1873, silver was a full-valued money, used as legal tender by France, Germany, Italy, Belgium, Holland, and the United States. It was linked with gold by the bimetallic system, formally established at the beginning of the last century, whereby 15½ oz. of silver were accepted as equal in value to one oz. of gold practically all over the world. That system collapsed in 1873, and silver became no longer the money of

Europe. The whole of the money work had to be done by gold, plus the credit instruments superimposed. Unfortunately, the production of gold did not respond to the call upon it. Its output, after rushing up to a certain point, rather fell off. It was not till near the end of the century that the discoveries in the Transvaal and Australia began steadily and greatly to increase the output, and even this was checked by the Boer War. The result was that the exchange value of every commodity had to be named in a smaller number of coins, at the same time that the number of commodities which had to be named had enormously increased.

We are still under the influence of that readjustment. Prices went up from 1896 to 1900, when they reached 75. Then they fell again. Now they are at 69. That is, the prices of to-day are practically the same as the prices of 1886. The impropriety, then, of comparing the values of exports in 1872 with the values of exports in 1902, needs no further proof. It is comparing a time when prices were at a level of 9s. 1d. with a time when they were at a level of 5s. 9d.

Thus "stagnation in exports," between 1872 and now, means that we are sending immensely more goods than we were, and probably employing more labour and more machinery to produce them, while the fall in prices alone makes this appear as if the increase were trifling. It is not stagnation; it is change of price.

This is confirmed by the following calculation. If the prices of 1873 had been maintained till now, our exports would have been as under :

1873,	£255	millions.			
1883,	295	millions,	instead of	£240	millions.
1893,	329	"	"	218	"
1902,	418	"	"	278	"

On these grounds, it must be said that, to take the year 1872 as the basis of a comparison, is utterly unpardonable; at least, it would be unpardonable in a statistician or an economist. Indeed, one may go further, and say that, to take even the quinquennial period embracing the years 1871-5, as a basis for comparison with any other quinquennial period, is quite inadmissible.

But, it may be said, granted that our exports, by comparison with previous years, are not stagnant, is it not the case that the exports of other countries have increased faster than ours?

This is quite true. It is the case that, between the years 1891 and 1901, Norway has increased her exports by 24.7 per cent.; Portugal, by 31.3 per cent.; Denmark, by 40.9 per cent.; Italy, by 57.1 per cent.; Japan, by 107.1 per cent. England, on the other hand, has increased hers only by 13.3 per cent.

All the same, this is a good instance of what is called the Fallacy of Percentages, now so

common among careless or dishonest controversialists. It was delightfully illustrated by Mr. Asquith in a recent speech. During one of our wars, he said, the temperance people in this country set on foot an inquiry as to the relative healthiness and powers of endurance of the total abstainers in the army as compared with the free drinkers, one regiment being taken as sample. The return made was that, of the total abstainers in this regiment, 50 per cent. had died and the other 50 per cent. had been invalided home, and this was very terrible and disheartening to the temperance people. But a different aspect was put on the matter when it turned out that, of the total abstainers in the regiment in question, one was killed in action and the other had had a sunstroke! The truth or falsity of such comparisons altogether depends on the quantum with which they start. Thus, when we notice that Japan, in 1891, showed £12,664,000 of exports, while Great Britain showed £247,235,000, the reason of the disparity in percentages stands revealed. A girl of twenty-five will double her age in twenty-five years; a man of fifty never will.

But there is no such fallacy in comparing, with our own, countries like Germany and the United States, whose exports are very much on the same scale as ours. Taking 1872 as the year of comparison, Mr. Chamberlain pointed out that, while our increase, under Free Trade, was only £22,000,000, the increase of Germany in the same time, under Protection, was

£56,000,000, and the increase of the United States £110,000,000.¹

Assuming the accuracy of these figures, and the propriety of taking 1872 as start, the question immediately emerges whether this is a legitimate comparison, and the answer is that it is not. It is comparing nation with nation, instead of the individuals of one nation with the individuals of another. It is no better than comparing the wealth of two households, without asking whether the two households contain the same number of persons.

This is a grave matter, and it cannot be put too plainly. What does material progress mean to us? One may take it to mean that we, as individuals, are "making more money" as we say, and the ordinary way of making more money is by

¹ It is not necessary to say any more as to the alleged £22,000,000, or 7½ per cent., of British increase since 1872. As for the German increase of £56,000,000, it is impossible to say much, for a different reason—that I do not know where Mr. Chamberlain got the figure. The German Empire came into being only in 1872. Bremen and the greater part of the State of Hamburg did not come into the Zollverein till 1888 and 1889 respectively. The *Board of Trade Blue Book*, in its table of exports from Germany, leaves a blank before 1880, with the words "information not available." And again, in 1897, there was a complete break in continuity; a large proportion of the "improvement" traffic was added to the special exports, "so that for any years before and after that date," says a Foreign Office Report, No. 490, "no correct comparisons can be made." As regards the American increase of £110,000,000, it should be noted, in addition to the other considerations mentioned, that America has meantime given up competing for the oversea traffic, and that, if she increases her foreign trade, either of importing or exporting, her visible exports must increase from the mere necessity of paying for our invisible exports.

doing more trade. If then, we, individually, find that we are doing more trade this year than we did last, we are satisfied. If, again, we look across to France, and find that their individuals are progressing in the same proportion, we may conclude that both "nations" are doing equally well. In short, it is the prosperity and progress of the individual that concerns us. We should never think of judging the "Standard of Life" of a people by anything else than their consumption per head. Neither should we count that a firm of two partners was worse off than a firm of four, if the latter firm was making £2000 a year and the former £1000. If this is true of income and of trade generally, it is no less true of that department of trade which exports. It is the exports per head that concern us.

This calculation was made in 1899 by Sir Alfred E. Bateman, then Comptroller General at the Board of Trade. The figures were as follows: Since 1875, the exports per head of the four great countries remained nearly stationary, and stood in the following rank: Great Britain, £6; France, £3 15s.; Germany, £3 7s.; America, £2 18s.

Is it a deplorable thing that, head for head, we should not have gone in front of our rivals? What better could we expect than to keep our long lead? Trade is done by individuals for individuals. As individuals increase in numbers it should be expected that they will collectively do more trade, just because there are more of them. If, to take an extreme example

all trade were foreign trade ; if all these millions in the various countries were engaged in exporting ; and if each was making just a living wage by it : then, if the increasing numbers of one generation were to remain in life, they would each require to be exporting just as much per head as the smaller numbers of the previous generation were exporting ; in this case, it would be seen that the absolute increase in exports of one nation over another is a natural phenomenon of growing population, and not in the least a sign of aggressive trade policy. Considering that Germany has a population of some 56,000,000, and America a population of nearly 80,000,000 ; considering also that our population increases about 1 per cent. per year against Germany's $1\frac{1}{2}$ per cent., and America's $3\frac{1}{2}$ per cent. ; it follows that, if German and American exports did not increase absolutely, it would be a sign that Germany and America were falling back—assuming, of course, that exports are a fair indication of progress. In light of these figures, the idea that we are losing ground because America makes up on us, or passes us, in total value of exports, or that France is losing ground because her total exports do not increase, disappears.

There seems to be an idea abroad that we should not only be ahead of the world in foreign trade, and keeping our lead, but should be increasing it. How, in reason, can we expect this ? Even if the populations of the various countries were the same, how could we expect it ? Is it

true that we are the most enterprising, or best educated, or most inventive? But as neither populations nor rates of increase are the same, Germany and America may well be expected to forge slowly ahead, because, in these countries, there is a cumulative increase of producing units. And this is not an increase of ill-fed, ill-educated, lethargic black or yellow races, but an increase of people as good as ourselves, and, in the case of America at least, of people who have some business qualities which are not so prominent in the mother race. I submit that, unless we are to take the absurd view that we should increase our foreign trade as we increase our fleet—that is, on the principle of being always equal to the two greatest nations—we may rest pretty well content with the fact that, in spite of our slowly increasing population, we have such a long lead of other nations, and keep neck for neck with them in increase.

But, as it happens, the latest figures show that we are actually increasing our lead. Since the above calculation was made, three years have passed. Taking the triennial period 1900-2, we find that Great Britain heads the list by no less than £6 17s. 2d., while Germany shows £4 1s. 11d., and the United States £3 16s. 6d. That is to say, Great Britain and the United States have both added about 18s. per head, while Germany has added only 14s. 9d.

CHAPTER XXI.

EMPLOYMENT AS AFFECTED BY EXPORTS AND IMPORTS.

It is said that we are exporting raw materials which employ little labour, and importing manufactures which, made at home, might employ much. But Coal employs more labour for its value than most manufactures. Most of the manufactured imports, again, are materials of our industries. Of the remainder, there are some our consumers will have ; some, foreigners can make better ; some would require skilled labour, which, probably, is already profitably employed in other ways. But are we not forgetting that all these imports must be paid for, and that, to take over the making of them ourselves, is to displace those who now are making for export ? Neither Free Trade nor Protection, in themselves, can secure employment for a nation.

IF it is proved that there is no stagnation of exports ; that the total exports are increasing satisfactorily, and the exports per head even more satisfactorily ; one would think that there is no reason for alarm, or for any attempt to regulate either demand or supply. The imports from abroad are being paid for in goods produced at home ; as the former increase, so do the latter. But here we encounter an objection which seems to strike many as plausible ;—that the things we

are exporting are not the right things, and that the things we are importing are the wrong things. England, it is said, has long been the workshop of the world and should remain so; to secure this, we ought to be importing raw materials and sending them out as manufactures, whereas, as a fact, we are exporting more and more raw material, and importing more and more manufactures.

The preliminary question, of course, is whether this statement would be accepted if it were found that the export of raw materials is relatively more profitable than the export of manufactures.¹ But we may pass this by, and concentrate our attention on the suggestion which has caught hold on the public during the present controversy, that raw materials employ little labour and manufactures employ much; and that, in these two ways, the character of our foreign trade is diminishing the Employment of the nation.

If one were content with a cheap victory, it might be asked, Is it employment we want? Have we not, up till now, been rejoicing that we are in such comfortable circumstances that we could reduce the working day to nine hours? Have not many good people been saying that the

¹ Mr. Bowley has done good service in raising this point. He shows that, between 1881 and 1902, while our exports of manufactured textiles have fallen from a price level of 100 to a level of 84, exported raw materials show a rise in price from 100 to 114, and he adds that "the price of coal does not account to any great extent for the phenomenon except in 1900 and 1901." This, of course, in itself does not prove relative profitableness, but it suggests questions. Compare footnote, p. 203.

time had come for the golden age : "eight hours for sleep, eight hours for play, eight hours for work, and eight shillings a day"? If, by all the ordinary tests, our people are getting wealthy hand over hand, may we not rest easy in our minds about not having enough work to do?

But the retort would be a little cheap, and is, besides, not quite straightforward. That we have been able to reduce the statutory hours of labour in this country, is certainly not due to any curtailment in our demand for goods, or to any contentment with the amount of wealth we already have. If, indeed, we were satisfied to live as our ancestors did, a very few hours of labour would produce over-supply. But as wealth increases and the standard of living rises, wants increase, and the new wants of a progressive people make more demands on industry than the simpler ones did. There is not less product from the working world, but infinitely more, the explanation being that we have been, in many directions, economising human wear and tear by transferring the heavy work to machinery, and, moreover, sending larger amounts of the growing labour into occupations which know no limit of factory acts and hours. In the abstract, then, there is not the slightest fear of labour, as a whole, having too little to do. But it may be quite honestly argued that the foreigner is taking some of our employment from us.

I. Let us ask, then, what raw material it is, the export of which should give us anxiety. The answer, of course, is Coal. In 1897 and

1898, we exported 35 million tons; in 1899, 41 millions; in 1900, 44 millions; in 1901, 41 millions; in 1902, 43 millions—roughly, about a fifth part of our total output.

There is an argument often advanced about the export of coal which does deserve serious attention. It is that coal is "natural capital," given us by a beneficent Creator; that it is the very source of our manufacturing greatness; that, unlike other forms of capital, it is irreplaceable; and that, accordingly, it is shortsighted to dig it out, as we are doing, and send it away to the foreigner.¹ It is very much the argument put forward by the old-fashioned professor against printing lectures he had repeated for many years; that, if he did, he would have nothing left to say.

Considering, however, that we are not merely sending coal but selling it, it seems to me that we are exchanging a very precarious form of wealth for other forms which are, probably, less

¹It should be noted that a large proportion—probably as much as one-half—of the coal which appears as exported is really for navigation purposes. Very little is sent abroad for manufacturing. It has been pointed out by Mr. D. A. Thomas that "coal enters into the production of every manufactured article, and therefore the export of such commodities indirectly involves the export of coal. For instance, every ton of pig iron requires the consumption of something like two tons in its production, and its shipment abroad virtually means, therefore, the export of two tons of coal, while the export of a ton of wrought iron or steel means considerably more. Consequently if any restriction is placed on the export of coal on the ground that we are shipping abroad capital that cannot be replaced, logically we must place a corresponding restriction on the export of every manufactured article into the production of which coal enters."—*British Industries under Free Trade*, p. 367.

precarious. Our coal will last, according to a moderate estimate, for another hundred years without the cost of raising it being increased. At present it realises a comparatively high price. But what will become of that high price if a new fuel is found, as it probably will be long before the century is out; or if the long-sought-for economy is discovered which will save the 90 per cent. energy that now goes out of the chimney; or if the opening up of coal deposits nearer our foreign markets diverts the supply from us?

But when the export of Coal is objected to on the entirely different ground that it is a product which employs little labour in the getting, there is no hesitation about the answer. It is that the price of our ordinary coal is made up of 60 per cent. of pure wages, while the price of Welsh coal is made up of 80 per cent. of wages. That is to say, coal, value for value, employs far more labour than manufactures generally, the wages element in our cotton manufactures, for instance, being estimated at about 50 per cent. of the total value, less that of the raw material.¹ Is it possible that those who make assertions in this irresponsible way were comparing bulks and not values, and thus came to the conclusion that, as compared with a small parcel of jewellery, a cwt. of coals must contain little labour, because it takes a cart to hold a few shillings worth?

II. What has just been said disposes of the suggestion that, in importing manufactures, we

¹ *Board of Trade Blue Book*, p. 360.

are curtailing the employment of our own people, in so far as we are depriving ourselves of the chance of making such manufactures for export. If we export coal in payment of imports, we are employing more labour than we should by exporting manufactures.

But it does not dispose of the objection that we have been, and should remain, the workshop of the world, and that there is something wrong if we are importing more and more manufactured goods that compete with ourselves. Let us, then, look at the imports complained of.

According to the *Board of Trade Blue Book*, p. 73, our imports of manufactured or partly manufactured articles from the seven great nations, in 1902, were as follows: Italy, £2 millions; Russia, £3 millions; Germany, £16 millions; Belgium, £20 millions; Holland, £20 millions; United States, £20 millions; France, £31 millions. In all, £112,000,000.

Take, first, the partly manufactured articles, and analyse the lists. A mere glance at the £20 millions from the United States shows that, of this, £10½ millions are what certainly would be called "raw materials" by an ordinary un-instructed man. There are £2¼ millions of unwrought and partly wrought Copper, £3½ millions of Leather, £1½ millions of various kinds of Oil, £½ million of pig and sheet Lead, £900,000 of Paraffin and paraffin wax, £136,000 of crude Zinc, £128,000 of Slates, £12,000 of Stones, etc.¹

¹ "These are not the sort of things which we speak of as manufactures' when our own export trade is concerned. It is

There is nothing quite so obvious in the imports from the other countries; but a careful examination would show that there are comparatively few things in the £112,000,000 which do not form the basal or auxiliary materials of many of our industries.

Take, second, the wholly manufactured articles. Among the larger categories, from Germany come Works of Art, Bronzes, China, Machinery, Musical Instruments, Toys: from Belgium, Clocks, Embroidery and Needlework, Hats and Bonnets, Laces, Pictures, Silk Stuffs: from Holland, Buttons and Studs, Leather goods, Silks, Pictures: from France, Embroidery, Artificial Flowers, Hats and Bonnets, Laces, Musical Instruments, £9 millions of Silk manufactures, and over £5 millions of Woollen manufactures: from Italy, Works of Art, Stones. The list is a long one, and contains a great number of small imports. There is no doubt that we could make all these things.

But we forget three things. The first is that we are not only the "workshop of the world," but the wealthiest consuming nation of the world. We demand whatever takes our fancy, and we should not be in the least willing to limit our consumption to the peculiar products of Great Britain. We do not take the word of our milliners and dress-makers that English goods are every bit as good as French; our womenkind send to Paris for hats

an obvious reflection that, if slates, stones, crude zinc, and copper are to be spoken of as 'manufactures,' we might as well include coal in the same category."—Sir Robert Giffen, in a letter to the *Times*.

and dresses, and make special trips to the Bon Marché for frills and furbelows. We should never think of shutting out works of art from Italy because there are artists in England, or pianos from Germany in order to force our musicians to play on English ones. We should regard any such proposals as nothing better than the old attempt to put back the clock of civilisation and enact sumptuary laws to our own hurt.

The second is that, as regards many of these manufactures, there is a very good reason why we do not prefer British made goods. We import, for instance, £4½ millions of ladies' woollen dress fabrics, mostly from Roubaix, because, rightly or wrongly, we consider French colour-dyeing superior to Bradford dyeing.

The third is that, even where we could make things as beautiful, and as cheap, and as good as the foreigner, we have not an unlimited amount of capital, and the capital we have may be fully and more profitably employed in making other things. And we have very far from an unlimited amount of skilled labour. True, in bad times we have a good many unemployed, and, at all times, we have several millions of wage earners below the efficiency standard. But do these millions consist of watch makers, musical instrument makers, artists, and the like? Or are they people who could not be set to such skilled work, whatever wages were offered them? Are the "unemployables" not vastly more than the "unemployed"? Is our employment really

curtailed because we do not import things which we might make?¹

Yet this is persistently represented as "loss"—as if one could lose what one never had! "In thirty years the total imports of manufactures which could just as well be made in this country have increased £86,000,000, and the total exports have decreased £6,000,000. We have lost £92,000,000. £92,000,000 of trade that we might have done here has gone to the foreigner, and what has been the result for our own people? The Board of Trade tells you, you may take one—

¹ If all the labour that is employable were employed, there would, of course, be no question about the advantage of such imports. But the unemployed are always with us. It is a little startling to find that, in the best times, there are always some 2 per cent. of workers, in the organised trades, who do not find work. To whatever cause this may be ascribed, it certainly cannot be laid at the door of Free Trade. But, as regards the present question, what would require to be proved is that the amount of unemployment in protected countries is less than in our own, and this would be difficult to do. There are no adequate and strictly comparable international statistics as to skilled and unskilled labour—remembering that such statistics, to be of any value, must extend over a period long enough to allow of being put into rates of progress—and none which distinguish what Mr. Booth has called the three phases of irregularity, the short, the seasonal, and the cyclical. In this country we have the returns of unemployed made to the Board of Trade by the principal trade unions, the figures including London dock labourers, iron and steel workers, the building, textile, engineering and other trades. It may be noted that the mean percentage of unemployed during 1903 was 5.1. The average percentage for the ten years 1894-1903 was 4.1. Between 1888 and 1903 the percentage varied from 2.1 to 7.5. "It is quite impossible to study these figures," says Mr. Bowley, "without coming to the conclusion that the years 1890 to 1900, at any rate, were years of exceptionally good employment."—*Times*, Nov., 1903.

half of the export as representing wages. We therefore have lost £46,000,000 a year in wages during the thirty years. That would give employment to nearly 600,000 men at 30s. per week of continuous employment. That would give a fair subsistence for these men and their families, amounting to 3,000,000 persons.”¹ This quotation brings us back to first principles. Suppose we did manufacture all these things at home and stopped the imports from the foreigner, would this be pure gain? Have we forgotten the producers here who have, all the time, been making the exports that must be sent to pay for these imports, and whose employment would be curtailed in the same proportion as the new employment increased? As Mill put it—and put it so tersely that the completeness of the statement is apt to be overlooked: “The alternative is not between employing our own people and foreigners, but between employing one class and another of our own people. The imported commodity is always paid for, directly or indirectly, with the produce of our own industry; that industry being, at the same time, rendered more productive, since, with the same labour and outlay, we are enabled to possess ourselves of a greater quantity of the article.”²

¹ Mr. Chamberlain at Newcastle, Oct. 20, 1903. Observe that the £6,000,000 we once had is lumped with the £46,000,000 we never had, and both are called “loss”! Is this any better logic than the schoolboy’s “Pins have saved many thousands of lives—by people not swallowing them”?

² *Principles of Political Economy*, v. 10, 1.

This kind of appeal to popular ignorance is thoroughly bad. It would be just as true, and just as false, if "Englishmen" and "Scotsmen" were substituted respectively for "home producers" and "foreign producers," and the statement were made to London working men that they were losing employment by the goods that Glasgow working men were making for them. What the increase of foreign manufactured imports shows is simply the increased division and specialisation of industry—the area of competitive service widening beyond the national boundaries, in manufactures as in everything else.¹

What very much hides the absurdity from us is the now fashionable way of speaking of foreign competition in terms borrowed from warfare. Imports are an "attack"; when they become numerous, they are a "conspiracy"; and we are asked if we are going "to take all that lying

¹ Perhaps the case may be put shortly thus. Belgium has been employing a capital of £100,000 in making goods for London and Leeds. London and Leeds have each been employing a capital of £50,000 in making goods for Belgium. The import of Belgian goods is stopped by a prohibitive tariff. By the same act, the export of English goods *pro tanto* is stopped. The London capital finds a market for its products in Leeds, and the Leeds capital finds a market for its products in London. Only British goods are now found in the two markets. But has this increased employment? Increased employment could only come from London and Leeds putting down new capital, and exchanging their products. But then they might just as well sell the goods produced by this new capital to Belgium and import Belgian goods in return. There is no more employment in the one case than in the other.

down.”¹ Seeing that we have been doing just the same kind of thing to foreign countries for about a century, the question surely is: Are we all, then, engaged in a mortal struggle to destroy one another’s industries? Or are we sending each other cheap goods to sell in one another’s markets—extending the area of Competitive Service beyond our home boundaries?

The subject of Employment as affected by the character of goods imported and exported suggests the wider subject of Employment as affected by a protective system. It is sometimes assumed that Protection secures the employment of the nation better than Free Trade does. There are really two questions here, and the issue is confused unless they are kept distinct. The first is: Does Protection give more employment? the second: Does it secure more regular employment?

I. The idea that Protection gives more employment seems to argue rather dangerous ignorance of what does employ the nation. Any government can “make work” for its citizens so long as the pockets of the taxpayers hold out; but this is

¹ “Agriculture has been practically destroyed. Sugar has gone. Silk has gone. Wool is threatened. Cotton will go. How long are you going to stand it?” says a great orator. And his hearers, being Englishmen and born fighters, stand on the seats, and cheer. Sir Edward Grey was not far wrong: “The time is coming when, if an Englishman says that England is prosperous, he will be called a Pro-Boer; while if anybody writes telling of a trade that is doing badly, he will very likely be called ‘one of our leading experts,’ and have his letter sent to the *Times*, with Mr. Chamberlain’s imprimatur.”

simply diverting the employment of the people from its ordinary channels into the channels on which the government spends. Any war scare, for instance, that sends the Clyde shipyards a few cruisers to build, gives employment to one of the great trades, and secures the activity of the many subsidiary trades dependent on it. But the extra money taken out of the taxpayers' pockets for any such purpose leaves the citizens generally with so much less to spend, and the other parts of the kingdom suffer by Glasgow's gain. The only thing that can increase general employment is the increase of productiveness; that is to say, in essence, the increase of wealth. The "demand for labour" is not a fund of money in the pockets of employers. If there were no outside employer, and each gang of workers paid one of their number a wage to organise them, the wages of these workers would depend on the amount they could produce and the prices at which they sold it. It is the whole product of the working world that determines and limits the "demand" for all the factors of production which represent the working world; the greater that product, the greater the demand for labour among other factors.¹ In short, we employ each

¹The whole matter is contained in these pregnant words of Marshall: "The net aggregate of all the commodities produced is itself the true source from which flow the demand prices for all these commodities, and therefore for the agents of production used in making them. Or, to put the same thing in another way, this national dividend is at once the aggregate net product of, and the sole source of payment for, all the agents of production within the country; it is divided up into earnings of labour; interest of capital;

other. The more I produce, the more I hold up in my hand as the price of the services which I ask you to render me, and, the more we all produce, the more do we all have to offer. If we call this product the National Income or National Dividend, the question resolves itself into this: whether the National Income is increased by Protection; whether a government, by taking thought, can secure that its individual producers produce more. It is a pious imagination that a very wise government, by taking over the industries of the nation, might do better than private enterprise and produce a greater net product. But this is not the question; all we are concerned with is whether a government, by taxing goods from outside, can give its individual producers greater stimulus and better direction than free competition with other countries can. As a matter of theory, this would be difficult to prove, and experience does not seem to give it any support.

II. The idea that Protection ensures greater regularity of employment seems to rest on the belief that, under it, more security is given to capital by the partial monopoly of the home market. This also seems to verge on the dangerous doctrine that the giving of employment is the end of the matter: it has a family resemblance to the popular belief that, by reducing the hours of labour, the unemployed will be taken up. The

and, lastly, the producer's surplus, or rent, of land and of other differential advantages for production."—*Principles*, p. 609. See my *Distribution of Income*, which is, practically, a working out of this single paragraph.

protected industries occupy much the same position as particular industries favoured by government orders at the expense of the taxpayers; regularity of employment is secured at the expense of the quantity produced; the demand for labour ultimately suffers by the diminution of the national product. Here, again, confirmation by statistics or experience is entirely lacking. That an industry declines and disappears under Free Trade is no proof either that Free Trade has killed it or that Protection would have kept it alive.¹ The fact is that neither Protection nor Free Trade will ensure constant equilibrium of demand and

¹ "The cotton manufacture is generally regarded as the most stable and thoroughly organised of our great industries, but it appears from the census returns that in the single state of Massachusetts 21 mills, with an aggregate of 154,016 spindles, and 1 mill with 180 looms, which reported to the census of 1890, were not in existence when the census of 1900 was taken. Seven of these mills with 47,680 spindles were dismantled and their machinery sold; 13 mills, with 101,156 spindles, stood idle in 1900, or had been turned to other manufacturing purposes. One mill was burnt and not rebuilt; and one was consolidated with a neighbouring mill under new corporate organisation. In addition to these cotton mills there were 15 mills manufacturing cotton small wares, which went out of existence during the decade. Such a record indicates that unprofitable operation is constantly in progress side by side with more successful enterprise. In this particular industry, advance in machinery has been so rapid that it is calculated that a cotton mill must practically renew its machinery once every ten years if it would keep its plant in a condition that will permit profitable production, in competition with other establishments manufacturing the same class of goods, with the latest pattern of machinery, and the most labour-saving devices, the most effective methods of management, and facilities for the largest production at the lowest labour cost."—*Twelfth Census of the United States, 1900*, vol. vii. p. 65.

supply, and this is the only way in which steadiness of employment might be secured. Protected producers, just like Free Trade producers, put themselves at the mercy of demand; they make, for the most part, in anticipation of orders, and, often enough, they find that their anticipations were mistaken. All goes well so long as trade is brisk. But when a lull comes, supply cannot easily be slacked off; more is being turned out than is taken off; and depression sets in, spreading its contagion through the organised web. All this is obviously independent either of Free Trade or Protection. All one would say is that Protection, as tending to attract capital and labour into artificial channels and oversupply them, rather acts against the mobility which is the best security of regular employment.

CHAPTER XXII.

PREFERENTIAL TARIFFS.

Preference to our Colonies involves putting on tariffs against the outside world. Disguise it as we may, it is Protection.

THE proposal of Preference to parts of the British Empire over the outside world is not a new one. It prevailed for two centuries from the passing of the Commonwealth Navigation Act, and was abolished only by the Whig Government which succeeded Peel's, and received his support. But there was this difference at any rate. Nobody thought of calling it Free Trade. It was part of the Protective system under which we lived.

Suppose we now resume the discarded principle of Preferential Tariffs. It is not capable of being carried out unless there is a tariff on which to give a preference—"the penniless traveller sings in the presence of the robber." Thus, as the first step in Preference, we must impose a tariff. In the long contest between the Colonies and ourselves whether they are to adopt Free Trade or we are to resume Protection, the Colonies

have won. The voices of Canada and Australia have shouted down the old country.

We resume Protection then.¹ But it is a very peculiar Protection. Germany and America justify their protective system, and escape its worst evils, by the fact that they have Free Trade within their Empires. The United States is by far the largest Free Trade unit in the world—some of her 45 states are larger than the entire German Empire—and it may very reasonably be contended that her prosperity is due, not to Protection, but to this Free Trade. But we are not to have free trade within our Empire. Every constituent member of it is, apparently, to have the liberty of erecting what tariff it likes against other members, so long as its duties are lower to Great Britain and to British possessions than they are to the rest of the world.² It is best described as a British Empire Series of Reciprocity Treaties.³

¹ It shows what a hold the word has on the unpleasant memories of the nation, that the name of Protection should be vigorously protested against. Just as Mr. Gladstone thought that he had gained something when he replaced the word Boycott by the word Preferential Dealing, so do many try to insist that Preferential Tariffs are not Protection. We want to admit our kinsmen free to our house; if we emphasise it by shutting the door in the faces of our friends—well, it is merely a regrettable incident!

² Even this is not clear. New Zealand proposes to give a preference to Great Britain, but she adds that the same preference will be given to any country which gives her equal terms. All the time, so far as one can make out, Great Britain is the only part of the Empire which is not to have this privilege, but is always to give a preference to the Colonies whatever they do.

³ At present the scheme has scarcely advanced beyond the

Disguise it as we may, it is preferential treatment for themselves against the world outside the Empire, that this small group of self-governing colonies is asking. One might even say that it is Protection for Canada and Australia. We are to impose a tariff against the world, not because we want to shut the world out, but in order that we may take the tariff off the Colonies. Considering that the imports from Canada and Australia into this country amount to £42½ millions, and that the imports from all the six self-governing colonies put altogether amount to only £59,800,000; while the imports from the Free Trade portion of the Empire amount to £47,200,000, and the imports from foreign countries to £421 millions, the demand needs looking into.¹

enunciation of the principle. What, for instance, is to be the relation of one colony to another, or of the self-governing colonies to the other colonies, or of any colony to a "possession"; whether India and the Crown colonies are to remain free trade or to put on tariffs; whether the Protectorates, or countries in the anomalous condition of Egypt, are to be included; whether there is to be preference as regards all the imports taxed; or even what the position of revenue taxes is to be:—all these are details waiting the mandate of the country before they are discussed. One might hint that the possibility of such a scheme—to say nothing of its advantage—depends on the working out of the details.

¹ See *Annual Statement of Trade* (Cd. 1617), 1903, vol. ii., p. 6, and *Board of Trade Blue Book*, p. 408.

CHAPTER XXIII.

THE CANADIAN PREFERENCE.

Its results are disappointing. It changed a decline into an increase, but the increase is not proportional to that of other countries which have no preference. As differentiated, the tariff still presses most heavily on us, and favours the foreigner.

THERE is at least one part of the scheme to which we are not likely to object. It was not our wish that the Colonies ever adopted Protection, but, since they have done so, it seems as if the least thing they could do is to give us a Preference. Perhaps, then, we may begin by considering what has been the result of the Canadian Preference.

For some years after the Federation of the separate provinces into the Dominion, in 1868, Canada enjoyed a comparatively low tariff. In 1874, there was a period of depression, and the Conservative party, under Sir John Macdonald, began an agitation for Protection. This "national policy," as it was called, triumphed in 1879, and, for the next ten years, Protection ran riot. Still,

our imports into Canada steadily increased, till, in 1885, a very severe tariff, directed, to all appearance, against our manufactures, was imposed, and the imports declined rapidly. In 1890, began a reaction against Protection, and, in 1896, Sir Wilfred Laurier came in on a programme of tariff reform. Protection, however, had now established the vested interest. In 1897, the Reciprocal Tariff came into force. Rates were reduced, but not greatly reduced. The standard for the highest duties became 35 per cent. *ad valorem*. It was on this tariff that the first Preference of 12½ per cent. on British goods was given.

No reciprocal obligation on our part was expected. Sir Wilfred Laurier stated, in so many words, that the Preference was not a *quid pro quo*; that Canada did not ask anything in return; it was a recognition, he said, that the Canadians got in the home market of the Mother Country better treatment than in any of the foreign markets of the world.¹

In 1898, the Preference was increased to 25 per cent. But, under our treaties with certain foreign powers, it was found that the same preference was claimed by Belgium, France, Germany, Spain, and many other countries. To remedy this, in July, 1898, we denounced these treaties as regards Belgium and Germany, and, in August of the same year, the Reciprocal Tariff was super-

¹ According to Professor Flux, of Montreal, the Preference was given frankly for the benefit of the Canadian consumer, with no idea whatever of it being a sacrifice.—*Economic Journal*, December, 1903.

seded by the British Preferential Tariff, which gave 25 per cent. of reduction from the general tariff to Great Britain, Bermuda, West Indies, India, Ceylon, New South Wales, and the Straits Settlements.¹

The Preference, however, was not extended to all goods. Exception was made of Wines, Malt liquors, Spirits and Spirituous liquors, Medicines, articles containing Alcohol, Tobacco, Cigars, and Cigarettes. The average rate of duty on these is about 170 per cent. *ad valorem*.

On 1st July, 1900, the Preference was raised to 33 $\frac{1}{3}$ per cent., at which it still stands. Sir Charles Tupper, the Opposition leader, then took the definite position that a *quid pro quo* should be asked if the Preference were to be continued; but Sir Wilfred Laurier held his ground that the Preference was a free gift, and won with an undiminished majority.

The general results were summed up by Mr. Chamberlain at the Conference with the Colonial Premiers in 1902. In the five years, our imports into Canada which came under the preference clause increased 55 per cent. But the general trade, that is the imports from foreign countries enjoying no preference, increased by 62 per cent. And the imports which came in free—that is, subject to no tariff and no preference—increased by 67 per cent. Or, taking it

¹ At the same time, the bounty on pig iron made from Canadian ores was raised from \$2 to \$3 per ton, remaining at \$2 on that made from imported ores. As consequence, the production of pig iron rose from 58,000 tons in 1897 to 274,000 tons in 1901.

another way, the total increase of the trade of Canada with foreigners was 69 per cent., while the total increase of British trade was only 48 per cent. This unlooked-for result calls for closer investigation.

Canada has been passing through a time of extraordinary prosperity. In the last ten years, the country has been filling up. Foreign immigration has doubled. The great railways and the Hudson's Bay Company have been selling their lands rapidly. The Homestead entries have increased 150 per cent., owing to the enormous influx of British settlers. Thousands of American farmers have crossed the border and become Canadians. And, among other phenomena, the foreign trade has doubled in seven years.

It was to be expected, then, that British imports into Canada should have increased. But up till 1897 they were steadily falling. In 1882 and 1883, they were above £10½ millions. In 1890, they were £8,915,000; in 1896, £6,776,000; in 1897, £6,043,000. Succeeding years, however, show as follows:

1898,	-	-	6,678,000
1899,	-	-	7,615,000
1900,	-	-	9,203,000
1901,	-	-	8,839,000
1902,	-	-	10,114,000

On the face of it, this seems very satisfactory. But a glance at the imports from other countries lessens the satisfaction. In the same period

France has increased her sendings from £534,000 in 1897 to £1,371,000 in 1902. Germany has increased hers from £1,334,000 to £2,224,000. But the most suggestive figures are those of the United States. In 1890, their imports into Canada were £10,744,000, and, in 1896, £12,035,000. The succeeding years show as follows :

1897,	-	-	£12,667,000
1898,	-	-	16,172,000
1899,	-	-	19,111,000
1900,	-	-	22,570,000
1901,	-	-	22,702,000
1902,	-	-	24,834,000 ¹

The net result is that France's increase is 156 per cent. ; Germany's, 66 per cent. ; America's, 96 per cent. ; while ours is only 67 per cent. And although France and Germany started from a low figure, and a percentage comparison between their increase and ours is therefore not sound argument,² this is not the case with

¹ *Colonial Statistical Abstract*, 1903, p. 210. The figures include bullion and specie.

² A more detailed comparison with other countries brings out much more startling results when stated in percentages. For instance, in the same six years, Holland increased her sendings to Canada by 133 per cent. ; Switzerland, 148 per cent. ; Portugal, 184 per cent. ; South America, other than British Guiana, 194 per cent. ; Italy, 223 per cent. But, as starting from comparatively small amounts, these are not adequate, but only suggestive comparisons. How, in face of these figures, it could be said that "the increase in our trade with Canada has been very great, but it has *not increased largely out of proportion* to the increase of the trade between Canada and other countries," passes my comprehension.

America, which started from a higher level. It would be difficult to draw an argument for the success of a Preference from figures like these.

The explanation of our failure, however, is not far to seek. What determines imports into a country is not cheapness alone, but demand. Canada wants our whisky because Canada likes it, so our exports of whisky increase although we get no preference, and although all whisky is subject to a duty of \$2.40 per gallon. Canada finds the agricultural implements of America more suitable for her soil, so she imports them, although the duty on our implements is one-third less.

Again, in judging of the effects of a tariff in keeping out the goods of a particular country, it is not the average rates of duty that have to be considered, but the rates on the goods which that country sends. There are certain things admitted free into Canada, such as anthracite, coal and coke, raw cotton, crude rubber, rough sawn timber, undressed hemp, fur skins, hides, steel rails. 70 per cent. of these free imports come from the United States—for obvious reasons—and this free entry does not do us much good. Raw materials, again, of iron, steel, leather, and wood, and many agricultural products, are admitted at comparatively low rates. Here, again, the advantage America has over us is obvious.

The heaviest duties are on textiles—woollens, cottons, silks, and linens. These are the goods we wish to send into Canada, and these are the

goods which the Canadian consumer would very gladly take from us. But they are also the goods which Canada is bent on manufacturing for herself, and here, allowing for the preference, we have to pass our textiles through an actual rate of $23\frac{1}{3}$ per cent.

The rivalry, in fact, which concerns us is not that between foreign countries—particularly the United States—and ourselves for the Canadian trade, but the rivalry between the Canadian manufacturer and the British manufacturer. There is little wonder, then, that the result of the Preference was pronounced "altogether disappointing." "The tariff still presses with the greatest severity on Canada's best customer, and has favoured the foreigner." As Mr. Chamberlain put it to the Colonial Premiers at the Conference: "So long as a preferential tariff is still sufficiently protective to exclude us altogether, or nearly so, from your markets, it is no satisfaction to us that you have imposed even greater disability upon the same goods if they come from foreign markets, especially if the articles in which the foreigners are interested come in under more favourable conditions." If England cannot get in at the front door, it is small consolation that America is kept at the garden gate.

It would not be reasonable to say that, in this comparative failure, we have an argument against Preference. It might have been the case that, but for it, our exports to Canada would have gone on declining, while those of the countries which had no Preference increased. All that can

be said is that it is impossible to see in it any great argument for a Preference where the circumstances are similar.

It must be remembered, however, that the Canadian Preference, such as it is, is a free gift. We gave no *quid pro quo*: we made no sacrifice. But how, in face of this failure, can any British statesman ask his fellow-countrymen to make a sacrifice? Suppose we shut out the foreigner from our market, in order to admit Canada free, how will this help us to get into her market? She admits us at a third less than our rivals now, and we cannot make headway. How shall we be any more able to enter by giving her a Preference on our imports? The expectation seems to be that, by doing so, we shall induce her to increase the amount of her Preference to us. But she has declared, in unequivocal terms, that this is what she will, on no consideration, do.¹ Whether it be from want of humour on her part, or from under-estimation of our common sense, all she does is to hint that she might raise her tariff higher against the rest of the world. Neither we nor our rivals can climb the thirty foot wall; to favour us, however, she will raise it to forty feet against them!

¹ In his Budget speech of April, 1903, Mr. Fielden said that any change they made might favour Great Britain against the foreign competitor—"not over the Canadian manufacturer."

CHAPTER XXIV.

OUR POSSIBLE GAIN FROM COLONIAL PREFERENCE.

When we deduct imports we could not send, and imports we cannot in reason hope to send, the amount of trade which we might possibly take from the foreigner is quite insignificant.

THE above, then, being the actual results of the Canadian Preference, the next consideration is as to what would be the possible gain to us from a preference system adopted by all the self-governing Colonies. What we have to do evidently is to ask how much foreign countries send into these Colonies at present, and see how much of that trade we could take from them under such a system.¹

According to the last returns, June, 1901, Canada imported from outside (exclusive of bullion and specie) goods to the value of £38,400,000. Of this, £8,829,000, or 23 per cent., came from the United Kingdom; £761,000, or 2 per cent., came from British Possessions; £28,810,000, or 75 per cent., came from Foreign Countries.

¹ The details which follow are taken from the *Board of Trade Blue Book*, p. 381.

What we may possibly gain is some of the trade represented by the £28,810,000. But, from this possibility we must deduct:—

(1) Goods which Great Britain does not grow or make, such as Sugar, £1.6 millions; Maize, £1.3 millions; Raw Cotton and Cotton Wool, £981,000; Tea, £463,000; Rubber, £363,000; Tobacco, £349,000; Green Fruit, £347,000; Dried Fruits, £256,000, etc., etc. Such goods make up a total of £6,273,000 of imports into Canada which we could not take from the foreigner.

(2) Many goods we do grow or make, but could not, in reason, hope to supply Canada with—they are almost all United States products—such as Coal and Coal dust, £2,737,000; Wheat, £1,309,000; Wood, £687,000; Oats, £195,000; Bacon and Hams, £149,000; Coke, £140,000; Horses, £125,000; Cheese, £125,000; Pork, £94,000, etc., etc. These make up a total of £6,583,000.

Deducting these two items, there is left £16 millions of imports into Canada which we might possibly take from foreign nations and secure for our own producers. But we have had a Preference since 1897, and we are further away from getting any of it than ever. What new inducement is there for our exporters to do any more than they are doing? Or what new inducement is there for the Canadian consumer to demand that these goods be British-made and not foreign-made?

But, on looking into the details of the

£16 millions, we find something more that makes the possibility still less of a probability. It is that these foreign imports are scattered over some seventy categories of different goods, only one of them amounting to over a million. Is it to be expected that seventy different trades, without any new motive, will show enough new energy and enterprise to wrest these imports from the foreigner?

Pursuing the same line of investigation as regards the other self-governing Colonies, we get the following results :

Cape Colony, in 1900, imported from outside £17,163,000. Of this, £11,053,000, or 64½ per cent., came from the United Kingdom; £2,478,000, or 14½ per cent., came from British Possessions; £3,632,000, or 21 per cent., came from Foreign Countries. The possible gain of trade for us is £2,092,000, spread over some forty categories, only five of them over £100,000.

New Zealand, in 1900, imported from outside £10,208,000. Of this, £6,453,000, or 63 per cent., came from the United Kingdom; £2,239,000, or 22 per cent., came from British Possessions; £1,516,000, or 15 per cent., came from Foreign Countries. The possible gain is £1,276,000, spread over some forty-five categories, only three of them over £60,000.

Australia, in 1900, imported from outside £40,188,000. Of this, £25,113,000, or 63 per cent., came from the United Kingdom; £3,728,000, or 9 per cent., came from British

Possessions ; £11,347,000, or 28 per cent., came from Foreign Countries. The possible gain is £8,007,000, spread over some seventy categories, only five of them over £250,000.

Natal, in 1900, imported from outside £5,912,000. Of this, £3,726,000, or 63 per cent., came from the United Kingdom ; £1,147,000, or 19 per cent., came from British Possessions ; £1,039,000, or 18 per cent., came from Foreign Countries. The possible gain is £539,000, spread over twenty categories, only two of them over £60,000.

Newfoundland, in 1900, imported from outside £1,512,000. Of this, £458,000, or 30 per cent., came from the United Kingdom ; £582,000, or 39 per cent., came from British Possessions ; £472,000, or 31 per cent., came from Foreign Countries. The possible gain is £220,000, spread over twenty categories, only two of them over £20,000.

The total is :—

Canada,	-	-	-	£15,954,000
Australia,	-	-	-	8,007,000
Cape Colony,	-	-	-	2,092,000
New Zealand,	-	-	-	1,276,000
Natal, -	-	-	-	539,000
Newfoundland,	-	-	-	220,000
				<hr/>
				£28,088,000

That is the magnificent total possibility ; the limit of our possible extension of trade if we could secure the whole of the Colonial imports

which foreign countries now send.¹ If we deduct the Canadian £16 millions on which we have a Preference, there remain £12 millions which we might possibly take from the foreigner by the extension of the preference system over all our Colonies. But the probability, of course, is ever so much less. In this list are numbers of things that the Colonies will not take from us, even if they are cheaper than competing goods from other countries: we have seen how it is with Canada—that what determines an import is not so much cheapness as a demand for a special quality or style of article.² We should be well off if we gained a quarter of the £12 millions.

If this possible but extremely improbable increase of trade were the sole ground for overturning our Free Trade system, and establishing tariffs against countries which send us some three-fourths of the goods we import, then one would be inclined to say that nothing so reckless and ill-judged had ever been proposed in the British Parliament.³

¹ It is perhaps unnecessary to remind the reader that this sum of £28,000,000 is possible trade, not possible profit.

² The New Zealand Premier unconsciously testifies to this, in the details of his new scheme of Preference. Foreign goods are to be surtaxed; but that he does not in the least anticipate that the surtax will exclude them, is evident from his estimate that he will raise £70,000 or £80,000 on imports that amounted last year to only £313,000.

³ "The foreign trade of this country is so large, and the foreign trade of the Colonies is comparatively so small, that a small preference given to us upon that foreign trade would make so trifling a

But, it may be asked, what about the future? £28,000,000 is a small sum, but the Colonies are a growing market. Think, it is said, of what they will buy when their white people have increased from eleven millions to forty millions.¹

Is this to be taken seriously? Is it not notorious that Canada, though an agricultural country, and therefore, presumably, a country where population grows fast, is not "holding her own population," but grows from outside?² In the five years from 1897 to 1902, the total population has increased from 5,141,508 to 5,456,931, or under 8 per cent.—not very much more rapidly than our own. At the census of 1901, the rate of increase was found to be less than it had been in 1891. The birth rate and the number of persons to a family are both decreasing. And is it not a fact bitterly commented on that the "natural increase" of Australasia, like that of France, is arrested?³

difference—would be so small a benefit to the total volume of our trade—that I do not believe the working classes of this country would consent to make a revolutionary change for what they would think to be an infinitesimal gain."—Mr. Chamberlain, 9th June, 1896.

¹ "How long are we going to be four times as many as our kinsfolk abroad." . . . "It seems to me to be not at all an impossible assumption that, before the end of this half century, we may find that our fellow subjects beyond the seas may be more numerous than we are at home."—Mr. Chamberlain at Birmingham, May 15, 1903.

² In the year ending June 30th, 1902, the total immigrants numbered 64,634. Of these, 24,000 came from the United States.

³ Mr. Coghlan, the Government Statistician for New South Wales, reports in 1903: "Present indications give no hope of a teeming population springing from Australasian parents, for

But, of course, increase of trade does not depend altogether on increase of population; trade increases also with growing wealth. A family of five may buy as much as a family of ten, if it is twice as rich. Think, then, it may be urged, of the importance of securing this increase of purchasing power.

But, under present circumstances, we have secured the large proportion of the purchasing power in five out of the six Colonies. In Australia, New Zealand, and Natal, we have 63 per cent. of the import trade; in Cape Colony, 64½ per cent.; and that without Preference. Only in the one Colony which gives us a preference is the proportion the other way about—23 per cent. British to 75 per cent. foreign—and the proportion is falling.

If, then, all that Canada's Preference has done for us is to secure a small and a diminishing proportion of Canada's imports, and if, without Preference, we have already the larger proportion of the imports of the other five Colonies, is it common sense to ask us to become protectionist in the hope that we may secure a still larger proportion? What guarantee or hope have we that, under Preference, the five Colonies will serve us any better than Canada has done?

But, if they do not, the argument for Preference goes by the board.

the birth rate in all the States has declined very greatly, especially during the last fifteen years, and, when compared with the total population, the births in three of them are proportionately less numerous than in any European country, France alone excepted."

CHAPTER XXV.

THE PRICE OF PREFERENCE.

If we give a Preference, it must be on articles of importance to our Colonies; hence the proposal to tax Food. This should raise its price. But, if it does not, the Preference has failed. If, however, it does, we are taxed in hundreds to give an extra profit of tens to the Colonies. Would not a direct subsidy be much cheaper?

FROM our possible gain by getting a Preference, we turn to ask what is the price we shall have to pay in giving one.

An economist would say that the price is the giving up of Free Trade with all that this involves, and think he had said enough. Perhaps he would add that we have already paid a heavy price in hoisting the white flag at a time when so many influences and experiences were working for the lowering of tariffs abroad. But, passing this by, it seems clear enough that, unless our Preference to the Colonies is to be a mere empty compliment, we must give them an advantage on things which they send in considerable quantities. This involves that we tax similar articles coming from foreign countries.

It is rather an absurd principle on which to draw up a tariff. The defence of ordinary Protection is that it protects men as producers, though it makes them pay for it as consumers. But here we have a Protection which does not protect our producers, and certainly cannot be a gain to our consumers. It is taxing ourselves for the protection of our children's industries. It is often alleged of the co-operator that he pays a dearer price at the Stores in order to pay himself a dividend. But this goes one better. The British mother is to pay a dearer price to let her daughters have the dividend. It is at least a very unselfish form of Protection. Hence we need not expect to find our new tariff conform to any canons ever yet laid down by other nations in their tariffs.

Accepting the principle, however, let us examine the imports into our country from the principal Colonies, in order to ascertain which articles are of importance to them.

The imports from Canada into this country, in 1902, were £23,000,000, spread over 73 categories. Of this, Wheat, Wheatmeal, and Flour accounted for £4 millions; Cheese, £4.3 millions; Oxen and bulls, £1.6 millions; Butter, £1.3 millions; Bacon, £1.2 millions. The only other import above the million was sawn and split Wood, £4.3 millions.

The imports from Australia, in 1902, were £19½ millions, spread over 65 categories. Of these, Wheat accounted for £4.8 millions; Meat, £1,285,000; Fresh Mutton, £543,000; Butter,

£402,000; Wool, £9,738,000; Unwrought Copper, £909,000; Lead, pig and sheet, £654,000; Leather, £513,000.

The imports from New Zealand, in 1902, were £10 $\frac{3}{4}$ millions, spread over 30 categories. Of this, Meat accounted for £3,915,000 (Fresh Mutton alone constituting £3 $\frac{1}{4}$ millions); Butter, £781,000; Wool, £3,798,000; Tallow and Stearine, £650,000; Hemp, £470,000.

The imports from the Cape, in 1902, were £10 $\frac{1}{2}$ millions, spread over 24 categories. Of this, Precious Stones accounted for £5,380,000; Wool, £3,148,000; Ornamental Feathers, £934,000; Sheepskins, £334,000.

To anyone examining these lists with the view of finding what goods from foreign countries should be taxed in order to give the Colonies a substantial Preference, it must have been evident that the choice lay between Raw Materials and Food. And so we find that the new Protection does not, of a truth, conform to any ordinary canons. For raw materials being barred out by the fact that Great Britain is pre-eminently a manufacturing country, the only alternative is the taxation of food. And this, in all probability, was the genesis of Mr. Chamberlain's famous declaration at Glasgow: "You must tax Food."¹

¹ His proposals are: 2s. on foreign corn, excluding maize, and a "corresponding" (but apparently higher) tax on flour; 5 per cent. on foreign dairy produce and meat, excluding bacon; a "substantial preference upon Colonial wines, and perhaps upon Colonial fruits"; and "a moderate duty on all manufactured goods, not exceeding 10 per cent. on the average, but varying according to the amount of labour in these goods."

It has generally been assumed, as needing no proof, that the taxation of food will inevitably raise its price.¹ But, during the last few months, it has so often been said that a small tax will not have this effect, that the statement must be carefully examined.

I. The first thing I should say is, that it ought to raise the price. The precedent is often pointed out that a small rise in the tobacco duties does not involve a rise in pipe-tobacco, or cigarettes; that the tax is spread over the producers or borne by one class of them. And if the statement above means that, if, and although,

¹ "I do not know whether the honourable member (Mr. Ecroyd) thinks you can tax food without raising its price. I would, at any rate, lay down the axiom, to begin with, that that is impossible; and that it is only by increasing the price that the object of the honourable member can be achieved, and that you can stimulate the growth and prosperity of our Colonies. The modest proposal he makes (to tax grain 4s. or 5s. per quarter) would raise the price of home-grown corn also, and the result would be that the British consumer would have to pay a tax of £40,000,000, £14,000,000 of which would go to the revenue if the foreign importations continue, and £26,000,000 would go, not to the farmer or labourer, for, if anything is proved by the experience of the past, it is that it would go neither to the farmer nor the labourer, but to the landed interests, to enable them to keep up their rents. All I have to say, to a proposal of that kind, is that it could never be adopted by the country; or, if adopted, it would be swept away upon the first recurrence of serious distress."—(Mr. Chamberlain, in House of Commons, 24th March, 1882.) That Mr. Chamberlain holds to his old faith is evident by his proposed exemption, from the Colonial preference, of maize, "a food of some of the very poorest of the population," and of bacon, "a popular food with some of the poorest." Why should they be exempted, unless it be that, otherwise, they would rise in price?

2s. is added to the cost of a quarter of wheat, the quartern loaf will sell for 6d. as before, I say it is quite possible. A tax is only one constituent in cost; everyone knows that the price of cotton cloth is not necessarily higher because oil happens to be dear, or if coal goes up, or even when raw cotton rises. Taking the quarter of wheat at 25s., two shillings on that means a rise in the cost of the raw material of some 8 per cent. This additional cost must be paid in some way, but it need not be by the eater of bread. My thesis is, that it ought to be paid by the eater of bread. The country, under this scheme of Protection, is going to undertake a risk—and perhaps a sacrifice—for a certain common or national purpose. This is a kind of expense that ought to be covered by taxation. If it is added to the price of bread, it is indirect taxation and does tax everybody. In fact, it is an Income Tax against which there is no appeal or escape. It is not good taxation according to any recognised canons, but it is taxation. But if the 2s. charge falls on anybody but the consumer, it falls on classes who, on any principles of equity, should not be asked to bear it. If it falls on the baker:—why, what has the poor baker done that he should bear the burden of a national experiment? The same question arises if it falls on the miller, or the farmer, or the railways, or even the landlords.

I question if one might not go further, and say it should not fall on the foreigner. To get other people to pay our taxes for us is not an “ideal

form of taxation," as it has been called: it is contrary to the idea of taxation. If I am living in my father's house and paying board to him for my expenses, I should not consider it right to take a good friend of mine by the collar when he comes to the front door, and say to him: "You must pay my board for me, or I shall not let you in." Such an idea is just the old fallacy that the foreigner is a stranger: "Let's 'eave 'arf a brick at 'im."

II. The second thing I should say is that, if the price of grain, dairy produce, meat, etc., does not rise, the Preference has failed. Suppose that the tax is imposed; that the foreigner pays it as the price of admission to Great Britain; and that, on account of its being a small one, he continues to send in his foodstuffs as before, what is the good of the Preference to the Colonies?

Canada just now is sending us £4 millions of wheat, wheat meal, and flour, when the price is, say, 25s. It may be presumed that she is sending us all that it pays her to send at that price; that, in fact, she is sending us all she can. What inducement, under the new system, has the Canadian farmer to send more? He must grow more in order to send it. But, presumably, he is growing as much as he can. The question, then, is: What temptation is there for more farmers to settle in Canada and raise wheat? The price of wheat has not risen, and demand in England has not increased. Things are exactly as they were; as much grain coming in from America and other countries; as much

being grown at home; the same amount of competition as now. Where is the inducement? And, if the Preference fails, why have we turned everything upside down?

This probability of failure is surely evident. The very curious thing is that so many people do not see it. They mouth the magic word Preference. He who gets a "preference" is "favoured." He who is "favoured" must increase his sendings. Give Canada a preference and she will double her wheat acreage. Ask what is the inducement to double the acreage, and the bubble bursts. The only inducement to a man to extend his business, is to make more money. But how is this "more money" to be made if the Canadian exporter does not get more for his grain, and if the competition to sell it is just as severe? Suppose I am a poor thread maker, not in the great combine, struggling to keep a small trade against J. & P. Coats, and suppose I am told that a beneficent government, on my behalf, is going to tax J. & P. Coats' profits 10 per cent., how will this help me? I shall not sell one spool more of thread, and the price of thread will not rise. J. & P. Coats are a little worse off, but I am no better.

The fallacy is, that the hurt of one man is the healing of another.¹ The American is hurt undoubtedly. He gets 2s. less profit. But the

¹Of course the revenue gains; it gets 2s. on every qr. imported from foreign countries. This is a gain; but it is a gain to us, not to the Colonies. And we have been told that taxation for revenue is not the aim of a preferential tariff.

Canadian gets no more profit than he is getting now. And if the preference tax does not favour the Colonies, it is useless.

The American, however, is hurt, and, at this point, rises a question. Is it not true that the prejudice to the American grower is, in some sense, an advantage to the Canadian? In one sense, it is true. There is, just now, considerable rivalry between the United States and Canada as fields for emigration. Although Canada is growing from outside, America is growing much faster. But, within the last year, hundreds of American farmers have crossed the boundary into the Dominion to get advantage of the better climate and the virgin soil. It seems reasonable to say that the Preference will give an impetus to emigration into Canada.

This, then, is the possible advantage which the Preference may give to the Colony. It is a little roundabout; it certainly falls far short of what is generally expected of a Preference. It gives no help to the present colonist; it only helps to fill up his country faster. It may be questioned if such a far-away gain is worth the disturbance—if it is worth while penalising our cousins, the Americans, for the sake of an advantage to brothers who are not yet in the country.¹

¹ It is no part of the idea of Preferential Tariffs and the taxation of food, to protect our agriculture. But, as it is sometimes suggested that it would not be a bad thing if they did so incidentally, it may be pointed out that, if prices of food stuffs do not rise, the agricultural interests remain in the same position as at present.

If it be the case, then, that a small tax on food will not raise prices, it would appear that, if we do not gain much by getting a Preference, we gain as little by giving one.

We pass now from possibility to probability. Confining our attention to corn, let us assume that corn rises in price by the full amount of the duty. The position, then, is that the foreigner pays 2s. to get in, but, as he gets 2s. more price, he is as well off as he is now, though, of course, no better off. The Colonies, on the other hand, get their corn in free, and, obtaining 2s. more price, are 2s. better off than they were. Our farmers also get the extra price, and they are 2s. better off. How does it affect us, the Consumers?

We consumed altogether, in 1902, 84,000,000 qrs. of wheat and grain.¹ The rise in price on this, at 2s. per qr., is £8,400,000. This is the extra price which our consumers have to pay.

Of this total, 42,000,000 qrs. come from abroad, and they pay 2s. to the Exchequer, or £4,200,000. This, at least, is not loss; it comes back to us in government services. But 7,000,000 qrs. come from the Colonies, and these pay no tax. The 2s. on each quarter, or £700,000, goes to the Colonies as their share of the new benefits—

Nor does the Empire come much nearer being "self-sufficient"; for, as we see, there is no inducement to the present colonist to add a single acre to his holding.

¹ The figures are taken from a calculation made before the Edinburgh Chamber of Commerce on 23rd June, 1903.

paid out of our pockets, of course, but, presumably, a willing payment for the good of our poor Colonial brethren. As to the 35,000,000 qrs. grown at home, they pay no excise or tax, and 2s. on this, or £3,500,000, go to the agricultural interest in the shape of higher prices.

If it be the case, then, that the taxation of food will raise its price, we shall have to pay for getting a Preference from our Colonies. In the one item of grain alone, even when we have deducted the duty levied on foreign grain and paid into the Exchequer, it will cost us over £4,000,000.¹

But perhaps it is time to remember again that what all this scheme aims at is not our own advantage but the advantage of the Colonies. Its success, then, must be judged by this. Is not the result a little inadequate? To give £700,000 to Canada and Australia—the others do not send grain—we are to impose indirect taxation to the amount of over £8,000,000. Sir Robert Peel

¹ Granting that £700,000 of this is a free gift to the Colonies, it may be said that £3½ millions of the tax come back to a very considerable section of the people, the agricultural classes. True; but even here two serious considerations must be taken into account. The first is that, although these classes get £3½ millions, they have to pay more for their bread, just like the rest of us. The second is that the great bulk of it will never go near the farmer or labourer, but will, inevitably, go to the landowner in raised rents. Of course, if it be true, as alleged by the protagonist of the movement, that the prosperity of one class is the prosperity of all, it does not matter if the farmers have to pay high rents: the landowners will have more money to spend!

once said on a similar question: "If we must do it, for God's sake, let us pay it directly." I ask, Would it not be much cheaper to vote a sum of £700,000 direct from the Exchequer to these Colonies?¹

¹ Mr. Chamberlain's ingenious calculation that, although food rises, there "will be no sacrifice," deserves only passing mention. All that is necessary, he says, is a "small transference of taxation from certain kinds of foods to certain other kinds of food." Man does not live by bread alone, but by sugar and tea. We can reduce the sugar and tea duties in such a way that the working man and his family will save as much on them as they pay extra in bread. His proposal is to take off half the sugar duty and three-quarters of the tea duty, thus relieving the price of these commodities by some £3½ millions. The Exchequer would lose this, but it would be compensated by the new Protective duties—the suggestion, I suppose, being that, instead of the home consumer paying these taxes, the foreign producer would pay them. But, of course, the scheme depends on the sugar and tea duties remaining at the present high level. When it is remembered that, before the war, there were no sugar duties whatever, and a tea duty of 4d, instead of 6d., it is seen that we are to get, as compensation for dear food, what we might have expected to get by the mere return of peace.

CHAPTER XXVI.

HOW PREFERENCE WILL AFFECT AGRICULTURE.

A rise in prices will induce the return to wheat growing here, with the result that when, in time, prices fall again, our farmers will be caught as they were sixty years ago.

AS was said, the scheme of Preferential Tariffs is not intended to protect any of our industries. It has, indeed, been admitted that, incidentally, it might do so, and, without much thought, the suggestion may have been accepted that, if it did, no great harm would be done. But what if the incidental Protection does harm to the very industry protected?

According to the proposal, we are to give a financial inducement to the Colonies to send us wheat. It is always the first step that costs, and the first step is the breaking in of new land. We give a bounty to the Colonies to enable them to take this first step, and the land afterwards is as good, say, as our best land. Foot by foot the Canadian acreage grows, till in time the Canadian exports overtake the American exports.

One thing, however, has been forgotten. It is that the American wheat grower is not suffering. He is not, indeed, getting the 2s. extra like the colonial, but he is getting as good a price for his wheat as he does now—paying 2s. duty and getting 2s. more price. Will the American supply stop? Why should it? Will the mere fact that the Canadian is getting 2s. more, induce the American farmer to grow less?

But as the Canadian import increases, while, at the same time, there is no diminution of the foreign import, there comes the inevitable effect of an increase of supply, a fall in prices.¹

Is there no harm in this? Does it only mean, after all, that our Colonies meanwhile have been paid a bounty, and that our agricultural people have got an extra price? It means much more. The cost of raising colonial wheat, perhaps, will fall; but the cost of raising British wheat will not. It is entirely different with us from what it is with our Colonies. They have millions of acres of virgin soil that only requires to be brought under the plough to make it permanently productive land. But we have no such surplus soil. Just now, all the wheat lands that pay are under wheat. If the inducement of 2s. a qr. extends our wheat fields, it must be by growing

¹This is recognised and welcomed. The confident expectation of Sir Gilbert Parker, for instance, is that, under this inducement, prices will rise in the first instance, then steadily begin to fall, and, ultimately, come below the present level. When it is confidently prophesied that Preferential Tariffs will lead to the cultivation of our derelict land and empty the slums, this should be remembered.

wheat on lands more costly to cultivate than the present. This pays so long as the price keeps up, but what happens when it comes down again? Why, the fall catches our farmers just where the withdrawal of Protection caught them sixty years ago.

Before that time, wheat growing, under the inducement of protective prices, was the staple of farming. An East Coast farmer once told me that, if he had been advised to grow potatoes then, he would have answered that he was not a gardener. Not only were lands entirely unsuitable for wheat put under the plough, but the old pastures, rich in animal and vegetable remains—literally capital accumulated in the course of centuries—were broken up. Then came the withdrawal of the artificial price. In many places, the sweet, short herbage, so suitable for sheep, was gone for ever. But, once a farmer, always a farmer; and our people found there were other crops that would pay, at anyrate if cultivated on a large enough scale. Rents fell, and the landowner has never ceased to sigh for the good old times when rents were £5 an acre, even if the labourers got only 7s. or 8s. a week, and lived on barley meal and Swedish turnips boiled together. But farmers have found a living in pasture and dairy farming, in growing early potatoes, turnips, celery, cabbage, mustard, peas, beans, flowers, and fruit. It was becoming recognised that the function of agriculture in this country was to grow things that could be better and more cheaply grown at home than abroad; that, as the cities extended their areas, the

province of the home farm was to provide them with produce that must be supplied fresh every day ; that the farmer was an employer of labour, and, like other employers, must find his profit by perpetual struggle after better methods, cheaper production, larger results ; that the men with small capital and less brains must be left behind ; that the farmer—like the professional man—must accept the “fine life” as part of his real wage. On the whole, it was a beneficent revolution.

And now farming is to be attracted back again into a channel that is artificial, and depends for its continuance on the continuance of high prices. Then this high price goes—and where are our farmers ? They will have to take their capital out of wheat growing, and go through the long process of depression and loss over again.¹

¹ Of course, it will be answered, and very reasonably, that a protection of 2s. will not do much to induce wheat growing at home. I merely give the above as a statement of tendency—not unneeded, perhaps, in face of Mr. Chamberlain's own words about other nations : “They began perhaps with a low tariff. They continued it so long as it was successful. If they found it ceased to do what it was wanted to do, they increased it.” For there is a danger in the very futility of these proposals. If the 2s. is found to give the Colonies either no advantage or this trifling one, is it likely that a tariff of this amount will be continued when it is obviously futile, or an experiment of this magnitude abandoned for want of trying the “little more” that might transform it into a success ? Now, as always, it is the first step that costs.

CHAPTER XXVII.

THE PRICE OF EMPIRE.

Summing up, the Return to Protection involved in preferential tariffs is a heavy price to pay for an experiment. Granting all the attractiveness of a "unified empire," it is more than doubtful if this would not be a long step towards its disintegration.

THUS we have summed up the gains and losses of Preference. It seems to come to this: that the demands of the self-governing Colonies are to dictate the commercial policy of an Empire which includes the not insignificant free-trade members of the United Kingdom, the Crown Colonies, and India. And, these "demands" are held as a threat over us. It is "the only system by which this Empire can be held together."

It looks a poor return for having given these Colonies self-government. They have Protection; they are to retain it. They have unbounded prosperity; they are to have more. They have cheap bread; they are to have it cheaper.

We have Free Trade; we are to give it up. We have prosperity; we are to imperil it. We have millions to whom cheap food is a vital consideration; we are to tax their bread and meat,

their tables and chairs, their pots and pans, the few poor rags of bedding and napery they possess.

At last we are faced with a straight issue. This is the price of Empire. The Colonies stood by us in the war. Our hearts warmed with pride. It is what we might have expected of the native-born, but we were glad we found it. And now the bill comes in.

The demand for a *quid pro quo* from a mother country which already gives so much, reminds me of a little girl I once knew, whose mother supplied her with pans and flour and raisins, in return for which the child sold the mother her cakes at "shop prices!" Did any other mother country ever give her colonies, not only parliaments and legislatures of their own, but liberty to tax her goods even to the extent of prohibition,¹ while, all the time, she paid almost the entire expenses for the defence of the family? Has she not lent to them freely? Has she not put their securities among her trustee investments? Does anyone think that they could borrow as cheaply as they do unless they were members of the British Empire? Is a preference in their tariffs not "the least they can do"? ²

¹ "Fiscal policy," says Earl Grey, "was not intended to cover the liberty of establishing protective tariffs against us." His explanation is, that, "at the time when Protection was explicitly introduced, we had people in power who had no hope—perhaps no great wish—to keep the Colonies."—*Commercial Policy of the British Colonies*, p. 14.

² In 1897, Sir Wilfred Laurier, introducing his Preference by saying, "We have done it because we owe a debt of gratitude to Great Britain," used the significant words: "Suppose England

Already the Colonies send us the most of their exports. Naturally so; not because they love us and we love them, but because we are the one great country which admits their goods free. They do not, then, need to ask us for free trade, or claim it as their British birthright; they have it. They want more; like spoiled children, they want it all—the right of free trade confined to the children of the Empire. They ask us to tax foreigners, that they may get some of the trade which other nations are getting—trade on which they think they have a claim. Is it unreasonable to remind them that “reciprocity must not be all on one side”?

It is to be noted also that, in taxing foreign people, we may be taxing British capital. If the labour of other countries is foreign, a great deal of the capital is ours. Possibly not less than £100,000,000 of British money is invested in the Argentine Republic. The part of it sunk in railways, docks, warehouses, depends for its dividends on the handling and transport of the wheat, maize, linseed, wool, meat, cattle, raised very largely on British-owned estates. Is it quite reasonable to tax our own capital, even for the sake of our children?

abandoned her Free-Trade record. She would inevitably curtail the purchasing power of her people. And do you not think we should suffer from that, we who alone have natural resources enough to feed her millions from our fertile fields? I have too great a belief in English common sense to think they will ever do any such thing. . . . We know that the English people will not interfere with the policy of Free Trade, and we do not desire them to do so.”

There can be no question that the idea of a "United Empire" is a very grand one. Believing that Great Britain stands for freedom and peace, we must believe in its continued existence and growth as a world power. The patches of red on the map—these eleven million square miles with their population of some 400,000,000—are connected just now, more closely than we quite realise, by the coaling stations, dotted all over the world, that almost secure us the command of the seas. But can we not weld them together into one indissoluble whole? So Imperial Federation has caught the national imagination, and will be worked out in one way or another. But to make Preferential Tariffs the method and the bond, and to say that this is "the only system by which the Empire can be held together," is not only, in my opinion, quite wrong, but is to draw an antithesis between Free Trade and Imperial Federation which might compel us to choose between the two.

Will such a system really make for unity? It looks plausible on the face of it. We are to "prefer" colonial goods, not sentimentally, but at some cost. Colonial merchants, being favoured guests in our ports, will increase their trade with us. The Preference will be a definite motive to the Colonies for remaining within the British Empire; at least a deterrent from leaving it.

The preliminary question is: Is there any sign that they wish to leave it?

What Canada may do¹ seems impossible to tell.

¹ I imagine the other Colonies may be left out of account; thus far, they have shown no thought of leaving the Empire.

She is the most cosmopolitan community on the face of the earth, and, though she speaks through a government which is thoroughly loyal, the government of to-day may not be the government of to-morrow.

Some say that it is Canada's "manifest destiny" to join the United States. The political impulse is geographical continuity; the commercial attraction is that she would thus get a market of 80,000,000 people on a Free Trade basis—with, one supposes, the corollary that she would still keep our Free Trade market of 42,000,000 people, to say nothing of the British possessions.

It may be so. On similar grounds, it might be said that Austria's manifest destiny is to join the German Empire; yet she does not. Old ties of kinship, pride in the British name and traditions, will have something to say against any such union. The name of republic does not attract everybody as compared with the reality of freedom. One would think that the people of Canada, having all the liberty they want, have little political inducement to join the United States. It is not as if she were a colony in the old sense. Do we not respectfully salute her as the Dominion of Canada?

Others say that she is only waiting on our adverse decision to conclude a Reciprocity Treaty with the United States. This, perhaps, would mean the abandonment of her Preference to us, or giving the same preference to America. Against this, however, stands the consideration

that Canadian manufacturers have as much reason to fear American competition as they have to fear ours. Evidently, what the Canadian manufacturers want, is to remain as they are, with sufficient protection against us, America, and all the world.

We hear, again, of aspirations for independence. This seems to me an argument made in Ireland. How much better off Canada would be as a Republic than as a Dominion, is a little obscure, while the burdens she would have to assume in making herself independent, are by no means obscure. And it is not at all clear that aspirations for independence would be in the slightest degree checked by Preferential Tariffs.

But suppose it granted that the preference to our own kinsfolk and the handicapping of the foreigner is, in itself, an act which the Colonies will welcome as at least a sign that we are willing to make sacrifices to hold the Empire together, the question remains: Will this make for unity?

Let us remember what Free Trade is. It is the commercial side of our political faith. It is the extension to the international sphere of the freedom we have at home: the free buying of what others as freely sell at "natural prices"—the prices determined by free rivalry in service. Sixty years ago, a free people exercised their freedom of choice and adopted it. The same freedom of choice this mother-country extended to her self-governing Colonies. Unfortunately, as we think, these colonies chose to restrict their freedom to internal trade, and adopted Protec-

tion against outsiders, including ourselves. Now, under Preferential Tariffs, we are both to go back on our choice ; we each of us restrict our freedom and consent to be tied by each other's hands. We form ourselves into a mechanical unity ; lose our natural relations with the rest of the world ; and seek compensation within our own house. But will this secure unity among the members of the household ?

The first consideration that strikes me is that a family may enjoy the shelter of the one roof and yet be very far from being a united family. We are not, I imagine, going to step down from our own position as the mother country, and become only one of a league of equal states : the family must still have a head, and that head must be Great Britain. But the children, be it remembered, have long ago enjoyed houses of their own, and will not take kindly to the resumption of parental government. And, being the mother country, the question will be continually emerging : Are the individual children of the Empire all getting even-handed treatment ?

In the present proposals, the mother country is asked to favour her children in a way that seems, at first glance, very unfair. One Colony has its chief interest in wheat, and the wheat is to come in free, as against 2s. on foreign wheat. But another Colony has its chief interest in wool, and there is to be no duty on foreign wool.¹ The duty on meat

¹Wool constitutes about half the total exports of Australia and one-third of the total exports of New Zealand to the United

would benefit New Zealand as regards £3½ millions of her exports, out of a total of £12 millions. But it would not benefit Australia in anything like the same proportion. One hopes that, in all this cut-and-dried scheme for the taxation of food and the non-taxation of raw materials, it has not been forgotten that it will be the British Empire which concludes these reciprocal treaties, and not Great Britain alone.

There is, indeed, a more fundamental difficulty in these proposals. A reduction in our tariff to certain Canadian products is not a preference to "Canada"; it is a preference to a certain group of industries in Canada; and any advantage there is goes to the individuals in that group. Thus a preference on grain benefits the North-West, including Manitoba and the Territories—one-eighth only of the whole population—and does nothing for the other Provinces. A preference on meat would be welcomed by Ontario, but would do nothing for British Columbia and the Maritime Provinces. It will be a little difficult to convince the non-favoured provinces, and the individuals of the non-favoured groups, that such a preference is an inducement to loyalty. We, in this country, know something of the bad feeling which can be called forth by an "injustice" to one member of the British Isles.

Kingdom (in 1902 £9¾ millions out of £19¾ millions for Australia, and £3¾ millions out of £10¾ millions for New Zealand). It is one of the inevitable anomalies which would ensue under a Preference that, even if we gave a reduction on wool, Australasia would not appreciably gain, as she already sends us £13½ millions out of our total import of sheep and lambs' wool of £20 millions.

But if we are overborne by this consideration of even-handed treatment, and so far sacrifice our obvious interests as to extend our preference to all the great exports of our Colonies, we place ourselves in a very singular position as regards other countries. We shall come into rude collision with the very principle on which the Retaliatory proposals are founded ; we shall, in all probability, do serious injury to our trade with many foreign countries which have treated us well, and little prejudice to others which have shown us no consideration. This, of course, is only one illustration of the hopeless incompatibility of the two policies which Mr. Chamberlain proposes to run in double harness. It might conceivably be possible to adopt Retaliation without becoming definitely protective, but it requires little judgment to foresee that the adoption of Retaliation and Preferential Tariffs together must land us, in a very short time, in the most illogical and incongruous tariff in all Europe.

All this takes account only of the relation between the Mother Country, the Colonies, and the rest of the world. But beyond this, again, is the relation of the Colonies to each other. To each Colony every other is a competitor, just as much as foreign countries are ; and we may be sure that, in drawing up its tariff, each will attempt to get the greatest advantage from and give the least advantage to every other part of the federated Empire. But, to keep a United Empire, all these diverging interests must be reconciled with the interests of the mother country, and

with those of the Free Trade members which she has in her keeping. Such a task was never yet attempted by any nation under heaven: it seems to me quite beyond human power.

Lastly, there remains the question of permanence. If this bond of Preferential tariffs is once established, it cannot be broken but by the consent of at least the majority. This means that our fiscal liberty is gone, and that the fiscal liberty of the Colonies is equally gone. What, then, if a strong Protectionist party in the Colonies begins preaching that their industries are being sacrificed to English manufactures, and demands drastic revision of the Preference clauses? What, again, if, after a temporary victory of Protection and the establishment of Preferential tariffs, an out-and-out Free Trade government comes into power here, asking if the selfish interests of two or three small sparsely populated Colonies are to outweigh the interests of the Mother Country and of her other possessions?

It seems to me that, wherever we look, the prospects are all of conflicting and comparative interests, compromise tariffs, incessant bargainings, incessant readjustments, incessant bickerings and heart burnings, incessant temptation to disunity and bad feeling. If this is "the only system by which the Empire can be held together," we may well despair of the future. Does not everyone see, indeed, that the unity we now have has already been perilled by the raising of questions which should never have been raised? Is not

the very inquiry we have been forced to make—the gain or loss to us of Preferential tariffs—one which the true patriot must heartily wish had never been necessary?

CHAPTER XXVIII.

TAKING STOCK.

If the case for Free Trade remains unshaken, there are at least two lessons we have learned. (I.) That Free Trade is merely a condition under which men trade; it may be outweighed by the natural resources of other countries; by their wiser government provisions; by their better methods; by their better habits of life. (II.) That circumstances have changed since 1846: the world's growing wealth and population make it quite impossible that England should remain the world's sole workshop and keep the local trade of other countries; the severer struggle of international competition makes the demands on the individual heavier, and the task of the employer more onerous, though more honourable. Finally, must be considered the position which Free Trade has given us in making every new acquisition of Great Britain an open market for the whole world.

AFTER nearly a year's unremitting discussion, during which the old argument has been restated, old history been retold, and present discontent has found voice, one may ask, "Is the case for Free Trade shaken?"

I do not think it is. But the discussion has not been wasted. It is a good thing for a faith to be attacked as a fetichism and its creed as a shibboleth. Free Trade was too easily taken on

trust, and economists at least have long known that the man in the street had very little reason in his mind for the faith on his lips. I think that those who were willing to be taught have learned two things which were worth learning.

I. The first is that Free Trade is after all only a condition under which men trade. And it is not freedom but the use men make of it which tells. Nations may have less freedom, and yet make better use of their opportunities. If we had realised this earlier, we should not have spent so much time over the question why it is that Protected countries have flourished under a system which seems to impose so many handicaps.

There are many reasons for it. Natural resources may outweigh wrong methods of using them. No fiscal system will fill a country with minerals, nor change its climate, nor give its people brains; a country that is well equipped in these respects will not easily be held back, even by a mistaken effort of its government to guide the employment of its people.

Again, a government that we count foolish in its fiscal policy may be wise enough in other directions. Germany devotes large sums to education, general and technical: a university training is not counted a disability for business life: even her military system may drill the people into habits that are useful for industrial occupations. France has a land and succession system which secures peasant proprietorship, keeps people on the soil, and gives them the most personal interest in their work. Denmark, lending a

helping hand to the co-operative organisations initiated by her farmers, gives an example of wise State aid which we might do well to follow.¹ Free Traders do not in the least minimise the work that governments can do. The proof of this is that ours is pre-eminently the country where Factory Acts, Education Acts, and all manner of sanitary regulations have expressed the "broader view" of freedom against unregulated *laissez faire*. All that they insist on is that the sphere of government shall be limited to laying down the conditions which shall allow the citizens as a whole to realise the best that is in them, and

¹ I am tempted to quote from Bulletin No. 6: Department of Agriculture, Ireland, 1903, on *Agricultural Co-operation and Credit*, p. 10: "In Denmark, as in France, the State, in its action in assisting farmers, is closely dependent on the co-operation of the farmers themselves in voluntary associations. A State Department of Agriculture exists, but it aims at encouraging and seconding, not displacing, these organisations. Though the State has aided agriculture for a considerable time, it was not till so recently as 1895 that a separate 'Department of Agriculture' was formed, dealing with agriculture proper, surveys, cattle diseases, forestry, etc. But the staff of officials is small, and is mainly occupied with accounts and statistics. The agriculturists are assisted directly through the previously existing voluntary local organisation with which the Minister of Agriculture consults through a system of experts. The Government spends annually about £108,000 in aid of agriculture; most of this amount is administered through the voluntary associations, such as the Royal Danish Agricultural Society and the Federations of local Societies, which Federations in turn act through the local Societies. These local Societies are, it may be stated, largely co-operative in their nature and methods. In almost every instance—and certainly in the most prosperous agricultural countries—the co-operative organisation of agriculturists has not been initiated by the State, but has preceded the giving of any assistance from the State."

to helping them to stand the firmer on their own feet.

Another thing that may outweigh the handicap of Protection is where other countries adopt better methods of business than we do. Some time ago, we found—I think I may say, with some amazement—that these handicapped countries were disputing neutral markets with us; even coming into our own, and selling goods in the making of which we thought we had a clear advantage. One part of the explanation at least was not far to seek. The American Trust, though born of a bad ancestry, emphasised the neglected economic truth that there is often immense waste in competition, and that cost may be very greatly reduced by combination of effort and enlargement of the unit of production. The excesses and failures of the Trusts leave this fact untouched. Another part explanation is embodied in what we hear everywhere of the German commercial traveller. Granted that England is “dear for her reputation through the world” for honest goods and straight dealing merchants. Yet, when our consuls everywhere inform us that German travellers, speaking the native language, are waiting at every door, selling in measures and money that are familiar to the people, invoicing goods duty paid, making everything easy for the buyers, meeting—we may even call it “pandering”—to the wishes of the customers, we cannot hope that similar success will attend those who content themselves with sending English circulars and price-lists through the post,

or send out travellers who have to use an interpreter and remember cities only by the names of the hotels in which they stayed, or "sell only according to sample." A trade depression which would force our manufacturers to realise that the seller must now wait on the buyer, might not be a calamity.

And there is still another thing that may outweigh the handicap. Other countries may have attained better habits of life than we have. There is no social or industrial enquiry ever set on foot, but brings up the fact that "England free" is not "England sober." The fetters people put on themselves are sometimes worse than any that mistaken governments can make them wear. No one who has thought out the matter will contend that short hours and high wages are in themselves a handicap in international competition. But when the leisure gained is not spent in healthy exercise and relaxation, and when the extra wage goes to the public house, we are terribly handicapped in the struggle with more sober nations. Short hours, in fact, are only possible, economically, if they go along with high productiveness, and high wages are a comparative advantage only if the wages pass into high efficiency. It does not seem too much to say that, if our artisans would add to their other good qualities that of coming into their work when the whistle sounds on Monday morning, and keeping at it till it sounds on Saturday, and would not waste their substance in an indulgence which never ennobles and which generally de-

grades, we should hear little more of these twelve millions on the brink of destitution, who are continually thrown in our teeth whatever "tests of prosperity" we put forward. There is a possible reduction of cost here—every great employer witnesses to it—which would enable us to force our way through almost any tariff. One can but sigh for another Mr. Chamberlain to rouse the country to this peril at home.

II. The second thing we have learned is, I think, that circumstances have changed since 1846. The national stock-taking period of the last year has not been lost if it forces us to weigh these new circumstances, strike the balance of profit and loss, and decide what our future policy is to be. Those who defend Free Trade on principles and on experience borrowed unreservedly from the circumstances of sixty years ago, and who vex their souls defending Mr. Cobden and his prophecies, are taking weak ground. It is not seriously doubted that, in 1846 and for many years after, Free Trade justified itself. It gave us the condition we needed in order to make the most of our resources, and to take full advantage of the great inventions. At that time we had a long start of the world. It is questionable even if moderate Protection would have kept us back.¹

¹ "Sixty years ago open ports were merely an important aid; they were not a necessity as now. Of course, our heavy duties on corn, aggravated by the stupid 'sliding scales,' had to be removed. But, though we had long outgrown the stage at which Protection could benefit any one section of the nation without doing a greater harm

But now it is different. Other countries have pulled up. Their Protection was not able to keep them back. And I do not think we yet recognise the truth that we cannot expect to remain the "workshop of the world." We have no natural monopoly of manufacturing, and we send our capital, our employers, and our workmen freely to other countries.

Two things are forgotten. The one is that it is quite impossible that this little island can supply a world, growing so fast in population and in wealth, with all the manufactures it wants. I have come across no more significant reminder

to others, I think we might have prospered in spite of a tariff averaging, say, ten per cent. For many of our exports were such as foreigners could get only from us, at all events at a reasonable price; and our manufacturers wanted very few foreign products, except crude material, on which a drawback could be granted if it had been taxed on entry. In fact, there never has been, and never can be again a monopoly of so great a share of the best business in the world as we then had. Its origin lay partly in character. The English had combined order with freedom, and therefore had lived strenuous lives longer than any other nation, unless it were the Dutch. That was one cause. The second was that the Continent of Europe was at short intervals the field of barbarous wars, which were almost as hostile to the growth of capital and of highly organised industry as the present ravages in Macedonia. Meanwhile England, blessed for two hundred years by peace at home, developed a steady enterprise, and a faculty for master inventions which have not deserted her now, though she is distanced by her great colony in the United States in fertility of minor advantages. She has turned to full account her natural advantages in waterways, in coal, and in iron, and even sixty years ago she had brought almost to their present perfection those broad principles of massive mechanical production which have now spread over the world."—Professor Marshall, *Journal of the Institute of Bankers*, Feb., 1904, p. 94.

of the limits of our powers than Mr. Whiteley's words at Bradford, quoted by Mr. John Morley: "If every man could buy an extra woollen vest for himself; if every woman could buy an extra blouse; if every child could wear an extra pair of stockings; why, the demand from all these millions of population, male and female, would be so enormous that the whole of your plant would not be able to meet it." This should remind us that a very moderate return of good trade would cause such a run on our capital and labour that, as in the early nineties, we should have more than enough to do at home, and should have to do as we did then—refuse foreign orders.

The other is that, as other nations grow, they naturally develop their own home trade as their most immediate and their most profitable interest. Under Free Trade they would have done exactly the same. The fact is, that we are still supplying many goods to other countries which they would long ago have manufactured for themselves, if they had not been intent on devoting so much of their capital and labour to industries where Protection gave them the hope of large profits without the stress of competition.

Circumstances, then, having so greatly altered, we might have expected that, when an opportunity was given, and a hope held out, every interest hurt or pressed by the change would find voice. I grant, in the fullest way, that we have to count the cost of Free Trade now as we had not to do before. In 1846 the cost was paid, for the most part, by the vested

interests, particularly the agricultural; and the advantages gained were immediate and obvious. It is not so now. As I said in the first chapter, it was all very well so long as each country had the natural Protection of distance, and exports accordingly were products for which the exporting country had obvious natural advantages—in days when France sent wines, and America maize, and Norway timber. But now when America sends wheat, and France woollens, and Norway butter, we begin to feel the hard side of the international struggle to serve, and to question whether the service is not outweighed by the hardships of the struggle.

In internal trade, all nations have, practically, agreed that, on the whole, the more liberty they allow to every man to make and sell what and where he thinks best for his own interests, the better will be the results to the community. And here they have counted the cost, and decided to pay it. The path of progress within every country is strewn with failures. Changes in demand and changes in method of supply have wiped out many once prosperous men and many once prosperous industries; have arrested the growth of some places, and overcrowded others. And the sad debris of change lies around us in men and women who have not been able to keep up with the course of modern industry—worse, who have not been able, from pressure of poverty, to bring up their children to take advantage of the new conditions. I need only instance one case: the women-workers in our large cities

who used to get a living by their needle at home, and who now find their occupation gone through the growth—the beneficent growth—of the large clothing factories.

But, heavy though the price is, no nation thinks of going back to Protection within its national boundaries. In this country, however, we have extended our freedom to the international field. However much we may concede to the circumstances, political and otherwise, of other countries, we claim for our island that this Free Trade allows us to make the most of our national resources, and permits us to call in other countries to make up what we lack. If it cannot give our workers brains, it at least sharpens the brains they have, makes them resourceful, compels them to adapt themselves to changes: putting them in competition with the whole world, it makes them able to compete with the whole world, relying, not on weak props and crutches of government, but on themselves.

In the professions, we have not the slightest jealousy of foreign methods and discoveries; we count it treachery to ourselves and to our clients if we do not adopt them and build on them. So, in industry also, we copy the methods of our rivals, although we, often enough, persist in our old courses till some of our neutral markets are captured and our own home market is invaded. If we were late in recognising electricity as the light and force of the future, no one can say that we are not making up for lost time now. If we allowed France to get a con-

siderable start of us in the making of motor cars, it is perhaps not altogether bad that we start now from the level which she has attained, and apply all our experience and advantages to making British cars which shall have a field of their own. If, in footwear, we endured the agony of but few sizes and only one width for many a year, the welcome we gave to the American boot woke up our manufacturers, and our adoption of American processes, methods, and machinery, is easily stemming the tide of the invasion and regaining the ground we had lost in exports. And those who ride cycles must be grateful that, some years ago, the American wheel was seen in every shop, and drove our makers to the methods which have ended in its disappearance.

In all this, just as in internal trade, there must be many who suffer. Some industries must decline if they are industries for which other countries are better fitted than our own, just as power-loom weaving in Glasgow has gone down before Lancashire competition; and, the freer trade we get with other countries, the more quickly will this come about.

Even where industries are entirely suitable for our country, our employers must recognise, more seriously and conscientiously than they have done, what their responsibility is. Their function in the industrial organism is to organise the capital and regiment the labour of the nation, and "bear the brunt" of change; their "profits" are the payment for this work. It is indeed a very

honourable position to fill. In a Socialistic State, it would be entrusted only to men possessing high qualifications, both natural and acquired. It is a far finer thing to organise a thousand workers to earn good wages than to command a brigade. For its due performance it requires no less than professional zeal, and sometimes employers must be content with little else than the knowledge that they have kept the labour world employed. There was a time when every one who could scrape together capital enough counted himself fit to take this function on himself. But, with the phenomenal advance of science and its applications, the superannuation of fixed capital tends to be very rapid, the necessity of quick and expensive adaptation to new conditions and methods is more marked, and the place of the employer becomes more and more difficult to fill. If, in these circumstances, men still rashly assume the position, it cannot be said that they are fit objects for compassion if they fail; certainly they have little claim on state subsidy through a protective system. It is to be feared that employers have not yet got it burned into them that, if they cannot organise the nation, they have no business to undertake the work. They themselves cry loudly enough against any Trade Union interference with their liberty of paying off workers who are not worth a wage; they ought to realise that no wrong is done them, if the competition of employer with employer remorselessly eliminates those who are not worth a profit.

Happily, the industries which we may expect to decline under international competition are fewer than one would think. So long as we are allowed to bring in food, materials, and machinery free, we are in almost as good an economic situation as any other country. It is not as if we were an inland kingdom, and had to carry our imports over hundreds of miles of railway. All around us is the path of the deep waters—the cheapest means of conveyance. Ours is a little island, but its economic position is enormously strong, so long as we retain the freedom of drawing on all the world for everything we require. But if one would see how a country, more favoured by nature than ourselves in many, perhaps in most, respects, can throw away her chances by not preserving this freedom, it is enough to look at shipping in America.¹

Finally, I would very earnestly ask my countrymen to consider the political position which Free Trade has given us, and us alone, among nations.

¹ In 1835 De Tocqueville said, in his *Democracy in America*: "Ever since the Declaration of Independence the shipping of the Union has increased almost as rapidly as the number of its inhabitants. The Americans themselves now transport to their own shores nine-tenths of the European produce which they consume. And they also bring three-quarters of the exports of the New World to the European consumer. The ships of the United States fill the docks of Havre and of Liverpool, whilst the number of English and French vessels at New York is comparatively small." The words may well give thought to an American when he notices that the oversea tonnage of his country now is less than it was in 1840, and is not a tenth part of ours.

France, Germany, ourselves, even of late the United States, are accused of thrusting our civilisation on backward countries at the point of the bayonet. It is not missionary zeal that makes us take such interest in the welfare of our fellow men. It may be mere ambition; it may be a deliberate policy of preparing an outlet for growing population; it may be the last resort of governments whose peoples will adventure too far and get into difficulties; it may be for recovery of debts; it may be "for purposes of trade." Anyhow none of the great nations has many scruples about its own expansion. Opinions will differ as to whether this is a good thing or a bad. Personally, I do not count it a bad thing for Egypt that the bondholders were influential enough to rouse two great nations to take over the administration: and I do count it a bad thing that political jealousies are as yet too strong to prevent France thrusting her civilisation on Morocco.

But, whatever the motive and intention of other countries may be, as regards ourselves it is generally the commercial interest we have in foreign markets that first makes us cognisant of the universal interest in honest and settled government. And here one thing is clear: that the first thing we do, after running up the Union Jack over a new country, is to throw its ports open to every nation under heaven. We at least do not count it a preserve to be shot over only by the owner and his friends.

Were it not for this, the growth of our Empire

would probably have been more vehemently resented by other nations than it has been ; and, under a protective system, its further expansion would certainly not be considered, as it is now, a commercial gain to the whole world.

APPENDIX.¹

THE ABUSE OF SHIPPING STATISTICS.

SHIPPING is one of our greatest industries. Its services, as "invisible exports," play a large part in explaining the Balance of Trade. It is, moreover, an industry on which much, politically, depends. It is of importance, then, to ascertain how our shipping stands, and whether it is gaining or losing in comparison with that of other nations. But the comparison is so beset with technical and statistical difficulties that it may be advisable to set forth these in some detail.

As preliminary, it seems desirable to show, in untechnical language, the difference between gross and net tonnage, and their relation to cargo-carrying capacity.

Lloyd's Register gives the gross tonnage, and, according to it, the Merchant Navy of Great Britain appears as over 16,000,000 tons, or about half the gross tonnage of the world. Statistical statements, however (*e.g.* the Statistical Abstract and the recent Board of Trade Memoranda), give the net tonnage, and this appears as 10,000,000 tons. What constitutes the difference between the two?

When a vessel is put into the water, her weight is, of course, the number of tons of water she displaces. As she loads and sinks deeper, she displaces so many more tons,

¹ See above, p. 176.

and, if nothing but cargo were stowed within the shell, the additional tons over her own weight would represent her cargo-carrying capacity. The tons of water displaced outside would correspond with the tons of cargo she could hold inside. (It must be noted, however, that the correspondence is only approximate. The vessel's internal capacity is calculated into weight at the ratio of 40 cubic feet of average cargo to the ton, while 40 cubic feet of water weighs something like one and a tenth tons.) But there is a good deal of space which cannot carry cargo. In all ships there is the space under the floor of the hold, the bulkheads, etc. Other spaces, again, are required for the navigation of the vessel—seamen's quarters, chart-rooms, stores, etc.; and, in the case of a steamer, there is also the space occupied by the propelling power. When these are calculated into tons and deducted, we get the "net tonnage," and it is on this net tonnage as, presumably, representing the productive capacity, that harbour and other dues are paid. The gross tonnage, of course, is the net, plus the deductions just mentioned.

But, on looking into the actual carrying capacity, as shown by facts, we find that, far from being represented by the registered net tonnage, it is usually, in modern ships, something like one and a half times the *gross* tonnage. Taking a steamer whose gross registered tonnage at Lloyd's is 4926 tons, and her net 3147, I find that her "deadweight" (or actual lifting) capacity is 7580 tons.

The explanation is that statutory allowances are made for propelling space, for certain closed-in spaces, for seamen's quarters, etc., and that the ingenuity of shipowners and shipbuilders is taxed to get as much as possible counted in for deduction. Engines and boilers, too, are packed as closely as practicable, and are steadily being made more powerful for the space they occupy. And I am told that it is not an uncommon practice for open spaces on steamers in certain trades to be temporarily boarded up for the reception of cargo or as bunkers.

The foregoing brings out the first difficulty in making

accurate comparisons between different merchant navies. The true test is one that compares actual carrying capacity. But if ships are simply compared either by their gross or net tonnage, the more modern fleet will, ton for ton, have a greater actual carrying capacity than an older fleet. Now, it is well known that we are constantly selling our old ships, and replacing them with new, thus getting greater carrying capacity relative to the net tonnage, and paying lighter dues. In fact, our fleet has been to a large extent rebuilt within the last 20 years, while foreign fleets embrace old and less productive vessels bought from us. To compare British tonnage *e.g.* with Norwegian, is obviously misleading.

A second difficulty is that, in comparing rival fleets simply by tonnage, sailing vessels rank equally with steamers. But, according to the usual calculation, steamers—presumably as doing the same work in a third of the time—are three times more effective in carrying power than sailers.

While, then, Great Britain owns only half the tonnage of the world, she owns far more than half the carrying capacity. Not only do sailers form an insignificant portion of our total fleet, but we have for years been “going out of sailers,” while foreign fleets—particularly the French—are largely composed of them. And, again, foreign fleets consist, to a considerable extent, of wooden and composite vessels, of which we have comparatively few.

Taking these two difficulties together, it seems obvious that, to compare the British fleet with foreign fleets simply by tonnage, is to put efficient and non-efficient as equal weights in the balance. It is like lumping skilled and unskilled workers together per man as “labour,” the true comparison being labour power.

A third difficulty is that Lloyd's Register takes account only of steamers over 100 tons gross, and of sailers over 50 tons net. But Russia registers anything over 25 tons net; Germany, 17½ tons; Norway and Denmark, 4 tons; France and Italy, 2 tons. Again, therefore, on an equal

comparison the British fleet would be much larger than it appears to be.

A fourth difficulty is that, in the case of passenger liners, tonnage is no indication of cargo-carrying capacity. That Germany has some 20 "leviathans" of over 10,000 tons, as against our 40 or 50—a much smaller proportion of our total—tells *pro tanto* against Germany.

A fifth difficulty is that, while the true international comparison should relate solely to ocean-going vessels, other registers than Lloyd's, as we have seen, count in quite small vessels whose influence on the ocean carrying trade is negligible. And the American register includes the large but purely local traffic of ships plying on the great lakes.

These difficulties are enough to show how carefully shipping statistics must be handled, and enable us to estimate the accuracy of Mr. Chamberlain's Liverpool speech. In it he made much of the fact that British shipping between 1890 and 1901 increased only by 1,400,000 tons, while foreign tonnage had increased by 2,200,000. Now, this is simply a comparison by tonnage, and, if there is any truth in what has been said, it raises all the questions just suggested.

Independently of this, surely the only thing that concerns us in such comparisons is the increase in shipping that does or may compete with us. Now, as a fact, over 1,500,000 tons out of the 2,200,000 are accounted for by American "enrolled and licensed," including lake and river steamers, coasting vessels (whose trade is reserved for American owners), and cod and mackerel fishing boats. The absurdity of such a comparison requires no comment. Again, when we examine the individual increases and decreases, what strikes one at once is that, while most fleets show an increase, Norway shows a decline from 1,705,699 tons to 1,467,089, and American over-sea tonnage a decline from 946,695 to 889,129 tons. The only figures which may give us pause is the German increase from 1,433,413 tons to 2,093,033. As to this, we should require to know what kind of tons

these are; but, even if they represent equal efficiency with our tons, a percentage comparison between a fleet of 10,000,000 tons and one of 2,000,000 tons is quite fallacious. We, for instance, could not double our tonnage without driving every other fleet from the sea. France could double hers without becoming an appreciably stronger competitor.

Further, the comparison is very much invalidated by the imperfection of the statistical returns referred to. Japan, *e.g.* in the Board of Trade Memoranda, shows no return for 1890, and the 917,879 tons of 1901 are consequently counted as all increase, while other nations give no returns for 1901.

But, if I am not mistaken, there is another fallacy still in the comparison. Mr. Chamberlain is suggesting a decline in British shipping, and he proves it by showing that the tonnage of the "whole British Empire" has increased only by 1,400,000 tons, as compared with a total increase in foreign tonnage of 2,200,000. But what we find from the returns is that British tonnage has increased by 1,629,882, and that it is a decline of 197,582 tons in the shipping of the Colonies and British possessions that brings the increase down to the lower figure. It need scarcely be said that the only question at issue is the shipping of Great Britain.

As to evidence given by statistics of clearances and of building of ships abroad, only a word need be said here. The difficulty of any comparison by clearances may be suggested by the fact that liners which cross the Atlantic or Pacific will enter and clear once only in one to four weeks, while vessels trading in and with the Baltic may enter and clear every few days. And, when we are told that more "tonnage" is being built abroad than is being built here, all the difficulties of comparison dealt with above are again suggested. So long as we can build cargo ships at about £5 10s. per ton, it does not seem probable that the competition is very serious, from the shipbuilder's point of view at least.

Looking at the number of neglected elements which are concealed in Mr. Chamberlain's apparently simple comparison by tonnage, I think one may use his own words, with another reference: "Serious people ought to give serious consideration to what at anyrate are signs"—of the abuse of statistics.

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This book is based on a series of lectures delivered to popular audiences in Glasgow and Edinburgh during February and March of the present year. I had no thought or intention of publishing them, and I have done so only in deference to the many friends and hearers who urged it on me. Those—if there are any—who read this in future years, may be reminded that it was written during the universal discussion which accompanied and followed Mr. Chamberlain's propagandist of Preferential Tariffs, and Mr. Balfour's advocacy of Retaliation. It seemed to me that both these proposals led back to the system discarded in 1846, and that any adequate discussion of them must begin with some consideration of the theory of international trade and of the principles which underlie the rival policies.

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