

Protection of Free Trade.



HIS question has come very prominently before us during the past seven or eight years, on account of the serious depression in all branches of trade. To determine the most beneficial trade policy for any country is always a very delicate problem, and it is by no means simplified, when considered in connection with a depression in the business world such as we have been experiencing of late.

The aim of this paper is to present some of the chief advantages of the different trade systems in general, and to briefly touch on the trade question in Canada from an agricultural standpoint. Let us consider the subject under three heads,—first, Free Trade, second, a Tariff for Revenue, and third, Protection. The divisions are more or less arbitrary, but that is perhaps pardonable on the ground of simplicity.

Free Trade in its entirety is not found anywhere, except between Provinces or States within the one political unit. It is only possible where a revenue is raised by direct taxation. Now, we always dislike paying taxes. Many of us are inclined to look on taxation as a form of legal robbery. The chief reason for this is that the payment is direct, while the benefits are in a sense indirect. If the taxation is indirect, in the form of an enhanced price for commodities, we do not feel it so much, and therefore indirect taxation is generally more acceptable than is direct. It is generally admitted that indirect taxes take more from the people than direct do, because the cost of collection in the former case is greater. Thus absolute Free Trade, with direct taxation, would be more economical than a Revenue Tariff. But man's prejudices cannot be overcome by mere argument, and so Free Trade, in its more limited meaning, is removed from practical politics.

Turn now to the second division, a Tariff for Revenue only. It is a mean between Protection and Free Trade, and is often known by the latter name. In fact it is really what is meant by the term in practical politics. Its supporters claim that under a Revenue Tariff there are no restrictions on trade; that the state of nature is once more established; that none of the unnatural barriers characteristic to Protection are present; that no class of citizens are favored; that all the people are on an equal footing; and that commodities are cheaper to the consumer, and prices more advantageous to the producer, because he has a wider market, that is, provided the foreign countries impose no duties.

Let us look into the system and see what it really is. By it, a revenue is raised to defray the expenses of government. Taxes are placed on certain commodities imported into the country. The commodities chosen are usually those that will prove the most productive of revenue. These are usually commodities in general use. Now it is a law in Political Economy, that the consumer of the commodity taxed usually pays the increased price. In other words, that the manufacturer and middlemen are able to shift the tax to the shoulders of the one who uses the commodity. Hence the people pay the tax on a commodity, which is in general use. In the same way any particular class may be taxed, by placing a duty on a commodity used more or less exclusively by it. But in imposing these duties, care

must be taken not to tax any commodity that the country is itself producing. This is giving a measure of protection that a Revenue Tariff system is designed to do away with, wherever established. From this it is evident that the commodities to be taxed vary in the case of each country. The commodities suitable for production in any country depend on her natural resources, the habits and number of her inhabitants, and her situation as to the different markets. On the other hand the imports of a given country depend largely on the habits, manners, customs and peculiarities of the people. Take England for example. She derives a vast revenue from the duties imposed on wines, teas and tobaccos. The people are peculiarly thrifty and fond of pleasure of one kind and another. All indulge in luxuries to a greater or less extent. But there is no other country to-day that could raise such a large revenue by taxing so few commodities. In fact most countries find that in establishing a Revenue Tariff the number of commodities that must be taxed to raise the necessary revenue is so large that a certain degree of Protection is imposed. This is certainly a weak point, that the advocates of a Revenue Tariff System carefully conceal.

Let us now consider Protection. The main difference between it and a Revenue Tariff is that the end aimed at is different. The one is to give protection, the other to raise a revenue. Now, in raising a revenue, as was noticed above, a certain degree of protection is afforded in some cases. In Protection, of course commodities are taxed regardless as to whether they yield any revenue or not, while under a Revenue Tariff, many commodities are untaxed because no revenue would be derived, after the expenses of collection were paid. Protection is usually advocated as a means to an end, namely, the encouragement and early establishment of manufactures. Very few advise Protection as a perpetual system. It is true the time set for its abolishment is very indefinite. So much so that many are inclined to consider it a perpetual system. It is generally admitted that new and sparsely settled countries are greatly handicapped, when competing in the markets of the world with old and well settled countries. Wages are high and capital is scarce in new countries, on account of the limited amount of labor and capital available for employment. Thus in the case of young countries the protectionist has many good arguments to present in favor of his system. Adam Smith, the father of most of the economists of this century, says in his "Wealth of Nations": "That this monopoly of the home market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns towards that employment a greater share of both the labor and stock of the society than would otherwise have gone to it, cannot be doubted." So it is generally admitted that Protection gives material aid to young industries in a country to which they are naturally adapted. It gives an industry a chance to establish itself, and become able to compete with older establishments. By encouraging industries we get a greater diversity of employment, each individual is more likely to find the occupation to which he is adapted. And the whole country is also benefited in that a depression in any single branch of industry will have very little effect in the country generally. If a district depends solely on one or two lines of trade, a depression in that industry will seriously affect the whole country. But besides giving a start to manufactures, it increases the