

PROTECTIVE TARIFF.

Is it Justifiable in Canada To-day?—Arguments for and Against Protection—Results of Protective Tariff Where Adopted—The Beginning of Protection in Canada.

By G. W. Morley, B.A.

The protectionist's theory has acquired a somewhat historical meaning. Protection denotes the policy of encouraging native industries by the imposition of higher duties on foreign productions. In its essence, it is the same as the earlier mercantile system, but has been altered to suit the conditions of modern times, and to meet the criticisms passed on mercantilism by Adam Smith's school. They lay less weight on the advantage of retaining precious metals and more emphasis on the benefits of production derived from their policy. Protectionists attach a higher value to future development than to the present gain, the object being to build up great national industries even by the sacrifice of utility on the part of consumers.

The protectionist system, like many other systems, has been powerfully aided by continued warfare, and underneath the whole idea is the feeling of nationality. The object is to exalt a particular country without considering the interests of other countries. It is the "national system" in contrast to the cosmopolitanism of the Physiocrats and Adam Smith. Thus, the promotion of home industries is just as urgent to the loyal citizen as the defence of the national territory.

Keystone of Whole System, Nationality.

There is also a great need on the part of certain governments for revenue; and this revenue can be brought in by means of a customs tariff with a protectionist element approved of by the people. The keystone of the whole system is "nationality," and the two outstanding economists who favor it are List of Germany, and Carey of the United States.

It would be correct to say that protective tariff is a necessary stage of industrial development through which every country must pass, and to agree with List who says there are three stages in the economic development of countries—(1) The state of barbarism when it is better to adopt free trade so that agriculture could be improved, and higher culture maintained by coming into contact with more civilized nations; (2) when impulse is given to manufacturers by means of restriction—the protective tariff stage; (3) a gradual return to the principle of free trade when manufacturers attain the necessary supremacy. There is no doubt that Canada is in the second stage of industrial development, and nationality, which is the watchword of the protective system, must be maintained.

Arguments for Protection.

One of the strongest arguments in favor of protection is that "in a young and rising country, a duty on the imported foreign goods will allow the infant industries to gain maturity." Otherwise if reciprocity with a country, say like the United States, were adopted, they would be crushed out of existence by the competition of foreign manufacturers. They cannot at once manufacture goods as cheaply as old, well-established plants of other nations, and accordingly require the legislature to step in and save them from death.

Senator Melvin-Jones says that with free trade in Canada the majority of the large manufacturing concerns of the east would be forced to move their factories into the United States in order to compete on an equal basis with the manufacturers across the line. With free trade in Canada the American companies with their factories and head offices right at the base of supply would have an advantage which we could not overcome. He has no hesitation in stating that within thirty days after the duty on farm implements was taken off, the Massey-Harris Company would erect a factory either in Chicago or Pittsburg, and actively compete with the American companies. Protection is sure to foster a few weak industries that have no chance of living, and no right to exist. It also hampers industries which might thrive independently. In these ways it is a costly instrument of industrial competition.

Protection prevents the "dumping" process in connection with the selling of commodities. If Canada did not have protective tariff, United States manufacturers in order to compete in the market might be tempted to cut down prices and so sell their goods at slaughter prices in Canada thereby causing an unnecessary "dumping of goods" for which there are no consumers.

Protection encourages immigration of labor and capital. To sell certain goods in a country like Canada which has a protective tariff, foreign manufacturers are compelled to

establish factories in order to save customs' duties, that is, provided they have a large sale for their goods here. The United States firms have done this frequently, and this is undoubtedly of great benefit to Canada.

Protective tariff secures a near and a steady market, the cost of carriage being diminished. There are exceptions where this does not always hold true. For example, the cost of carriage between Chicago and New York is as much as between New York and Liverpool.

Protection affords a means of revenue, and is not a direct tax on the nation. In some cases the additional cost is borne by the consumer, and in others by the foreign manufacturer.

Some of the Evils of Protection.

In spite of these advantages it is well to look at one or two of the evils of protective tariff. (1) There is an increased cost of articles by excluding the most effective producers, the general cost of production is raised, and the market is narrowed. Every duty on the transfer of commodities is more or less a tax on individuals. (2) There is an inducement to people to commit fraud as to the statement of the value of goods. Goods are undervalued, and the difficulties of fiscal administration are made greater; and the loss through encouragement of smuggling is noticed. (3) It has a dangerous tendency to bind politics and industry together, and this is one of the greatest evils which Canada will have to guard against to-day. When immense concerns depend on legislation, the temptation to corruption in political life is made greater, the producers always looking to their own interests when measures relative to this question are introduced.

Results of Protective Tariff Where Adopted.

Germany.—Between 1841 and 1850 there was a great struggle between the rival policies of free trade and protection, the north being in favor of the former, and the south, of the latter. Free trade was finally adopted, but the re-action came in 1873. There was a rapid fall in prices owing to depression, and bad harvests in Great Britain turned the tide. The result was the demand for protection, especially in the textile and iron industries. Protection was also advocated by Bismarck and the historical school, and in 1902 the principle of the new tariff was the increased protection of agriculture and industry alike.

A heavy tariff is particularly needed to enable Germany to offset the extreme protectionist policy of Russia and the United States, but this has serious dangers, inasmuch as when one country increases duties others retaliate, and a decline in trade is caused as in 1880-1890, when Bismarck increased the agricultural duties and the trade with Russia began to decline.

The development in Germany has probably been too one-sided, and the entire neglect of agriculture has become a source of weakness to the empire. Agriculture has not held its own in spite of protection. From Germany's experience we might infer that changes in the tariff policy have been only one amongst the many causes of her economic progress.

Protection Outcome of Particular Conditions.

France.—Glancing at the economic policy of France from 1814-1830, it is not the policy of protection itself that is to be condemned, for it was the outcome of particular conditions of France and Europe stirred up by the dictation of private interests. The basis of the minimum tariff in 1892 was declared not to be protection, but simply an attempt to enable the French industries to meet foreign competition on equal terms. This tariff was also intended to benefit agriculture.

Since 1872 France has had part in the economic development of the world, but compared with Great Britain, Germany, or the United States, her part has been small, especially in the last decade. The French are not naturally a business people, and the protective tariff has not had a good effect on the initiative and energy of the manufacturers.

Protection in the United States does not seem to have had the same effect, the reasons being probably the national character and the extent of the home market. In short, the French tariff legislation has caused little good and in many respects much harm to industry and commerce.

(To be Continued.)

Mr. George B. Gerrard, manager of the Bank of British North America, will be succeeded by Mr. H. F. Skey, of Toronto.

The double liability contributions of the shareholders of the Ontario Bank fall due this week, and the indications are that the great bulk of the \$1,425,000 which should be paid up, will be paid without the necessity of the added cost of issuing executions to collect it.