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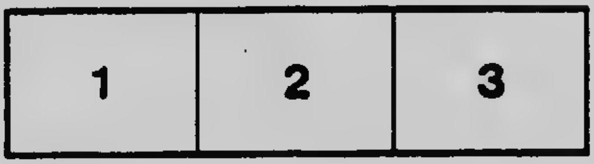

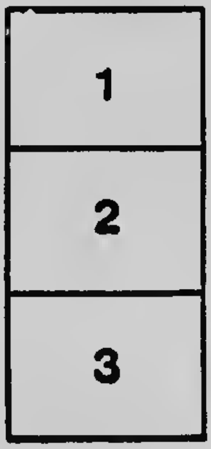

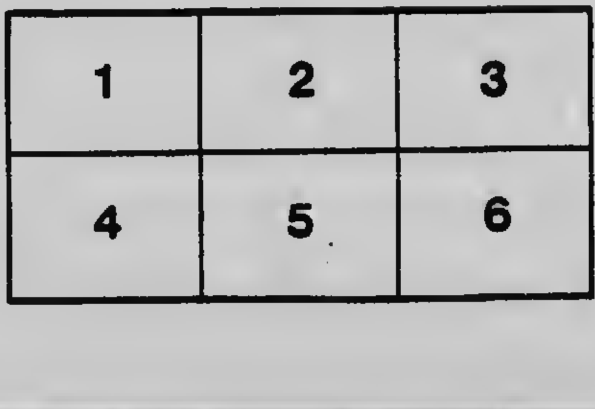

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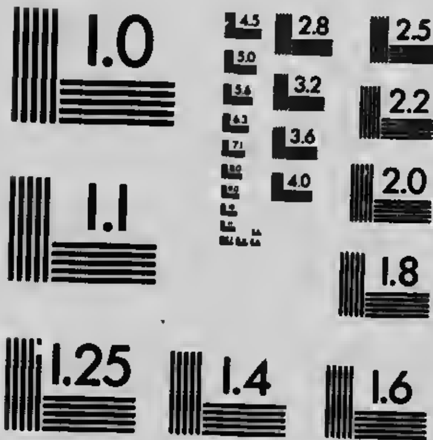

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ECONOMICS

LESSON 10

By

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ECONOMICS

LESSON X.

International Trade—Free Trade and Protection.

THE latter part of this lesson deals with a highly controversial topic. The writer has tried to state, fairly and impartially, the case for both sides, so far as is possible in so brief a treatment. He disclaims any attempt at proselytizing, while believing that it is well for both Protectionists and Free Traders to know what is to be said on the other side of the question.

Definition of International Trade.

In dealing with this subject, as indeed with most others, one must begin by a definition. What do we mean by "International Trade?" What is the economic definition of a nation? Bagehot says that a nation, in the economic sense, is a group of producers, within which labor and capital freely circulate, and adds the corollary that labor and capital will not, as a rule, migrate beyond the boundaries of the nation. Hence, the essential characteristics of a nation, from our point of view, are: (1) Free circulation of labor and capital within that particular group of producers; (2) more or less complete immobility of all the agents of production as regards transfer to other groups.

Causes of Immobility of Labor and Capital.

The next question is: What creates this immobility? Many things help to do so. First, there is always the cost of transportation from country to country. Second, there is usually the difference of language, which puts very great difficulties in the way of trade between two countries. (For instance, there is very little trade between ourselves and Russia. We should do much less trading than we do with the United States if the Americans spoke Russian.) Next, there is generally a difference of currency, which necessitates processes of calculation when trade is carried on with another country. Again, there is in one country a very general ignorance of the trade opportunities of another. Lastly, there are artificial obstacles to international trade in the form of tariffs.

Now, on the other hand, it is obvious that this immobility is not complete, else we should have no International Trade at all. In fact, the present age is peculiarly characterized by the great and increasing freedom of movement possessed by capital. Yet there is a degree of difficulty in effecting the transference of commodities which interferes substantially and generally with their exchange over the whole range of industrial competition.

Reasons for International Trade.

Why should there be any international trade at all? Why should not each nation produce all it wants for itself? Simply because certain commodities can be produced more cheaply in some nations than in others. Wheat, for example, can be produced more cheaply in Canada than in England; woollen goods can be produced more cheaply in England than in Canada. So, from the economist's point of view, Canada should specialize on wheat and import her woollen goods from England. England should specialize on woollen goods and import her wheat from Canada. In order to understand international trade from the simplest possible example, let us suppose we have only the two countries, England and Canada, trading in only the two commodities, wheat and woollen goods.

International Trade: First Case.

Now suppose it costs 10 units of effort (i.e. labor and capital) to produce a unit quantity of wheat in Canada, and 20 units of effort to produce the same unit quantity of wheat in England, and suppose it costs 15 units of effort to produce a unit quantity of woolen goods in England

and 20 units to produce the same in Canada. Suppose Canada want 1 unit of wheat and 1 unit of woollen goods. It will cost her 30 units of effort to obtain them if she produces them for herself. Similarly, it will cost England 35 units of effort to obtain these same quantities of wheat and woollen goods. This makes a total of 65 units of effort expended if each of the two countries produces for itself.

Now, let Canada produce all the wheat and England all the woollen goods. Canada can produce the 2 units of wheat for 20 units of effort, and England the 2 units of woollen goods for 30 units of effort—a total of 50 units of effort.

Thus, then, 15 units of effort are saved when each country produces that commodity for which it is best fitted. From these 15 units of effort the cost of transportation—the cost of transporting the unit of wheat from Canada to England and the unit of woollen goods from England to Canada—must be deducted. The gain accruing from the saving of effort will be divided between the two countries concerned.

The division of labor between countries is, then, economically profitable, just as is the division of labor between individuals.

International Trade: Second Case.

Now, the foregoing case, where each country has an absolute advantage over the other in one of the two commodities interchanged, is the most general case where international trade occurs. Cairnes has stated the law of comparative cost so as to include another important case. He says: "The one condition at once essential to and sufficient for the existence of international trade, is a difference in the comparative as contradistinguished from the absolute cost of producing the commodities exchanged."

In order to explain this more clearly, let us first take a parallel case from the life of individuals. Suppose that two men can both make shoes and hats, and that one is more skilful than the other in both employments. He is able to make a hat with 2 units of effort, his rival with 3 units of effort. He is able to make a pair of shoes with 1 unit of effort, his rival with 3 units of effort. Thus, his advantage in the case of shoes is greater than in the case of hats. Supposing each of them needs a hat and a pair of shoes, it will be profitable that the first man hand over to the second the making of hats, in which his advantage is less, and confine himself to the making of shoes, in which it is greater. The abler man can make his hat and his pair of shoes by himself with 3 units of effort, the other with 6 units. Altogether, the expenditure of effort will be 9 units. But if the better man makes shoes only, he will be able to make 2 pairs with 2 units of effort, and the poorer man will make 2 hats with 6 units of effort—a total of 8 units. There will be a saving of 1 unit of effort—less the cost of transportation.

Now, suppose we take the case of two nations in a similar position—one superior to the other in producing both the commodities under consideration. Suppose that the cost of producing a unit quantity of wheat in Australia is 10 units of effort, in New Zealand 40, and that the cost of producing a unit quantity of wool is 30 units of effort in Australia and 60 in New Zealand. Suppose that each nation produces just for itself, and that New Zealand needs 1 unit of wool and 3 of wheat, and Australia 1 unit of wool and 1 of wheat. Then New Zealand will have to expend 180 units of effort to produce by itself what it needs and Australia 40 units of effort to produce what it needs—altogether 220 units of effort. After awhile Australia begins to concentrate on the commodity in which it has the greatest proportional advantage—wheat—and produces enough of that for both countries, and New Zealand devotes itself to the production of wool, and they exchange surplus products. Then the 4 units of wheat required cost Australia 40 units of effort, and the 2 units of wool required cost New Zealand 120 units of effort. Thus we have the same goods produced for 160 units of effort, which cost previously 220 units of effort —a saving of 60 units of effort. Here, again, the cost of transportation must be taken into account as a partial set-off against the gain due to international trade.*

So, in 1849, Australia specialized on the production and export of gold and imported dairy produce all the way from Ireland. Although dairy produce could be produced in Australia at absolutely lower cost than it could be imported from Ireland, yet the comparative advantage of investing labor in gold was far greater. So the costs to be compared are costs of comparative production in the countries concerned. Ireland received in exchange for her butter gold more cheaply than she could have produced it herself, for her deposits of gold are small and mining very expensive.

This, however, is an exceptional case. In the great majority of cases, international trade arises because of an **absolute** difference in the cost of production of two commodities in two nations.

Economic Advantages of International Trade.

Looking at the subject in a more concrete way, we may say that a nation derives the following advantages from foreign trade:

1. It is able to procure commodities which it is absolutely unable to produce itself. This, as will be seen from the next point, is a comparatively rare case.

2. A nation obtains commodities which it could not produce without a tremendous cost of production. Adam Smith says, "By means of glasses, hot-beds, and hot walls, very good grapes can be raised in Scotland, and very good wine, too, can be made of them at about thirty times the expense for which at least equally good can be brought

*These proofs are in both cases given for only two nations trading in only two commodities. They are, nevertheless, applicable to all nations and to all commodities, though international trade is in practice ever so much more complicated than in our examples.

from foreign countries.'' Many commodities could not be produced cheaply enough to attract consumers except through international trade.

3. The productive force of each community is set free for application to those natural agents and materials which offer the best chance of high returns, so that the efficiency of each productive unit is much increased.

4. The concentration of special branches of production in one place leads to further gain, as is implied by the law of increasing returns so generally applicable to manufactures.

We have now seen the advantages of international trade. The next question to be considered is what determines exchange values in trade between nations? What proportion of the economic advantage goes to each of the nations concerned?''

Distribution of Gain from International Trade.

First, it is evident that no country will exchange with another unless she derives some profit fro[illegible] doing. Now, reverting to our first example, we find that the gain by international trade in that case was 15 units of effort. If this gain went all to one party in the exchange, the other party would refuse to exchange at all. Hence, the 15 units must be divided. Both countries will get the goods exchanged somewhat cheaper than if they produced them themselves, but somewhat dearer than the country actually producing them.

Within these two limits, then, the actual cost of production in the one country, and what it would have cost to produce the article in the other country, exchange-values will fluctuate, but naturally that country will get the best of the bargain whose desire for the product of other countries is least, and for whose commodities there is in the other countries the greatest demand. For example, take the case of United States cotton. England, as at the time of the American Civil War, has to have this cotton to keep her cotton mills going. So Englishmen have for some time been experimenting to produce cotton in their own tropical possessions; but so far no very great quantity has been raised—not such as to render them independent of the United States. Consequently, England must pay dearly for United States cotton; but there are other commodities which England can sell dearly to other countries.

Therefore, a country desiring few foreign commodities, and having a great demand for those which it produces, gets its imports cheaply. Also, the more markets a country has for her exports, the more cheaply will she obtain her imports. This is true, even if some of the countries which take her exports have none of the commodities which she desires to be sent to her in return.

International Trade in Barter.

International trade is fundamentally an exchange of commodities—barter, since no government can make its coined money circulate outside its own dominions. That coined money—if indeed it is "standard" money—money whose commodity value is equal to its face value—may circulate throughout the world at its commodity value. But this is not at all on account of the Government's stamp upon it. Uncoined gold and silver—especially the former—in the form of ingots or bars, will do the same. In this form it is generally known as bullion, and some economists call it money-material, because it can easily be melted and coined into whatever currency is required.

This gold, whether in coin or bullion, is, in international just as in local trade, a universally desirable commodity, and whenever it is necessary to pay off international balances, they are liable to be paid off in bullion, just as the balances between the debtor and the creditor banks at the clearing-house are paid in money. Standard gold coin or bullion is what we may call international money.

Foreign Exchange.

We do not, however, desire to send gold coin or bullion across the sea unless it is absolutely necessary. There are several expenses in so doing: first, the freight charge; second, the insurance, or charge for risk; third, the interest on the money for the time it is in transit; fourth, the loss by abrasion; fifth, the expenses of packing and unpacking, cartage, etc. Just as banks find it cheaper to have clearing-houses than to discharge all their debts to each other in coin, so New York people, let us say, who have debts to pay in England, prefer to send a slip of paper—a bill of exchange—across the sea, rather than be compelled to ship coin.

Thus if A., of New York, has sold $500 worth of goods to B., of Liverpool, A. has a right to expect from B. a remittance of money to the amount of $500, or the honoring of a Bill of Exchange for $500. To explain the last-mentioned plan of his getting paid for his goods, we will understand that while A. is in the position of having money coming to him from Liverpool, there are in New York other men who are in exactly the opposite position. That is, they owe money in Liverpool. The Bill of Exchange would simply represent an order of A. on his customer in Liverpool, directing him to pay the amount to someone in Liverpool. Now, this someone in Liverpool may easily be a person to whom the other New Yorker is indebted. A. can, therefore, realize on his sale to B. by selling to this other New Yorker this Bill of Exchange on B., and thus the debts are cancelled by the payment of money in Liverpool instead of having the money come from Liverpool to New York and go back from New York to Liverpool.

Bills of exchange are defined in Pratt's "Work of Wall Street" as "written orders drawn by one person on another who owes him money, generally for merchandise purchased from him, directing him to pay a specified sum at a specified time to a specified person. Bills of exchange are negotiable, being transferable by indorsement the same as drafts and cheques." They become articles of merchandise like the products whose sale produced them, and are thus bought and sold like wheat or cotton or stock. Exporters have bills of exchange on their foreign debtors for sale; importers buy bills of exchange in order to be able to pay their debts to their foreign creditors.

There is, therefore, in a city like New York a regular market in bills of exchange. If importations and exportations are about equal, as well as the other items of the international balance, then the rate of exchange will be about par—a bill will be bought or sold at about \$4.86 2-3 per £1—the value, measured in American money, of the gold in the sovereign. If, however, importers are buying more freely than exporters are selling, there will be fewer bills of exchange on London for sale, and they will command a high price because importers will be struggling to secure these in order to meet their London obligations. They will accordingly offer more than \$4.86 2-3 per £1 for a bill of exchange; they will offer up to the point at which they may as well send the gold across to Europe. They will be ready to pay up as high as \$4.8875, since the total cost of sending bullion across the ocean is about two cents per £ sterling.

At other times exporters are selling goods in England more freely than importers are buying. As a result, there are more bills of exchange on London for sale than the purchasers want. The exporters, however, prefer to get even \$4.85 per £1 for these bills rather than to get the gold due them in London, and have to bring it back at their own expense. If they have to do so, they are just a trifle worse off than if they had accepted \$4.85 for their bills, since the amount due in London is calculated in £'s—\$4.86 2-3 to the £1—and they have to pay about two cents per £1 for bringing their gold across the water.

The Equation of Indebtedness.

The rate of exchange is decided not merely by the imports and exports, but by what may be called the **equation of indebtedness**, the whole financial relationship of one nation with another. Some of our modern Protectionists have thought that the balance of trade was favor-able or unfavorable, according as the exports exceeded or fell short of the imports. But in this they have ignored the enormous mass of other financial transactions. For instance, a storekeeper's books may show an enormous credit balance if he has lent money during the year, or a large debtor balance if he has borrowed it. But this gives no adequate information about his financial standing. So it is with nations.

The Case of England.

We are told that the imports of the United Kingdom during the past few years have been from 150 to 200 millions sterling more than its exports. Does this necessarily mean that England is running into debt; that she is spending more than her income? By no means. She receives annually over £100,000,000 as interest on her foreign investments, and about £70,000,000 as freight charges on foreign goods carried in British ships. These balance up her accounts, and we see that Great Britain is not going behind after all.

The Case of the United States.

On the other hand, the exports of the United States are something like $500,000,000 greater than their imports. Does this necessarily mean that the United States is becoming a great creditor country? Not at all. We must consider (1) that she pays England an enormous sum in freight charges for the carriage of her bulky products across the sea. (2) The United States is still a debtor country, and a large part of her surplus exports go to pay the interest on her debts. (3) The lavish expenditure of the many Americans who travel in Europe every summer and the remittances which they receive from home, absorb a very considerable part of the surplus exports. (4) The remittances made to countries like Italy and Ireland by Italians and Irish who have settled in the United States, are quite an appreciable factor when we come to draw up the national balance sheet.

Then, too, when a country is actually borrowing from another, as we borrow from England, the amount of the loan will figure among our imports, while its interest and the repayment of the principal when that falls due, will be included among our exports.*

It is, then, impossible to decide merely from looking at the amount of the imports and the exports of a country that it is prosperous or the reverse. A country may have a large excess of imports over exports, and be very prosperous, or a country may have a large excess of exports over imports and be very prosperous. A country, however, which has a balance of indebtedness against it, will have sometime or other to settle up by surplus of exports, unless its imports are in payment of the principal or interest of some debt already due to it.

The Case of Canada.

Now to glance for a moment at our own position, we notice that our imports average quite $150,000,000 or $200,000,000 a year greater than our exports. Canada is not, like Great Britain, a creditor country: on the contrary it is a debtor nation. It has no interest coming in from other countries, but rather pays to them interest on loans. How, then, are other countries repaid for this enormous excess in imports? The truth is that they are not paid at all at the present time. They consent to wait for their money, receiving interest on it for the period of waiting. Our promises to pay are our securities, whether government, municipal or corporation. The securities we issue in London markets represent future exports of commodities.

To put the statement in another way, we may say that "**a country can create an immaterial export by means of its securities, the value of which it has at a future date to**

*The ratio of foreign exchange is, of course, affected by all these other items of the international balance, just as much as by the balance of trade.

meet by sending out an actual export of equal value—interest, of course, being met by exports in the meantime."

Class Interests in Different Nations.

The influence of foreign trade on the fortunes of different classes in the nations of the world is worthy of our serious consideration.

It is evident that imported commodities are obtained at a cheaper rate by means of foreign trade, and thus the consumers of such commodities are benefited. The imports of food, especially as in the case of England, have supplied the labourers with cheap food. By thus increasing the supply of food stuffs, they have lowered the price of home-grown food, and as a result the rent of land has declined. Consequently owners of land in all old and long-settled countries have advocated protection, as the general tendency of freedom in foreign trade in such countries is to lower the value of land. On the other hand, in new countries, landowners are generally inclined toward freedom of exchange, as in Canada and the United States, because, on the whole, tariffs are moulded in the interest of the manufacturers. The prices of what the farmers of a new country have to sell are fixed on purely economic grounds by the world-markets of Liverpool and London, while the prices of what they have to buy are artificially increased by the protection accorded to the manufacturers.

With regard to manufactures the case is somewhat different. Here the principal argument for freedom of foreign trade is that under such conditions capital would be invested only in the industries for which the country was most fitted, and would thus earn a higher natural return without taking its artificial dividends out of the pockets of the consumers as it does now in protected countries.

General Rule of Free Trade.

So, then, from what has been said one deduces a practical rule of "free trade" from the strictly economic reasoning. This means the removal of all artificial restrictions on or encouragements to any particular industry; the levying of duties for revenue only; the levying of internal or excise duties on home-produced commodities whenever those commodities when imported are subject to customs duties; the abandonment of any effort to force commerce into any other than its natural channels.

The Different Schools of Free Traders.

Some Free Traders of the older school, like Bastiat, objected to State interference with any exchange, on the ground that every man had a right to exchange his products as he pleased. Protection was to such men only a new kind of theft; and consequently smuggling was, according to them, a species of resistance to tyranny. This, however, is an extreme position.

Other more practical men justify their support of freedom of exch nge by appeals to specific experience. The Anti-Corn-Law lecturers dwelt on the actual distress of the English people and particularly on the miserable condition of the agricultural labourers. Only the specific evils of protective tariffs were considered, and indeed it was the failure of the harvest of 1845 which finally decided Peel to abolish the Corn Laws. There can be no doubt that this reasoning is most effective in actual political life, but on must remember that it is impossible to apply this experi mental method strictly to social phenomena, because when the free trader points to certain losses as due to protection, the protectionist will reply that they are due to something else, and neither one can establish his case with any certainty. Hence the theoretical argument is necessary.

Some modern free traders are content to say that free trade is the outcome of social development, that the most highly organized country is the free trade country. They admit that protection has been and may be now necessary as a temporary expedient in backward and undeveloped countries. For an advanced system of industry, however, free exchange is beneficial and should be the ultimate object to be attained.

Economic Argument for Free Trade.

The general line of theoretical reasoning in defence of free trade is simply this: in every particular international exchange there is necessarily a gain to each party concerned; therefore in the sum total of international exchanges there must be an enormous gain to each party concerned. Protective duties as diminishing or hindering this gain are necessarily injurious, as all impediments to transfer reduce the gain from exchange. The loss which results from protective duties exactly resembles that from difficulty of transport, and brings back no compensating advantage. So, they say, protection is foolishness. They point out that strenuous efforts are made to remove natural obstacles to exchange, and then people immediately set to work to establish artificial obstacles in order to "protect" national industry. So we are told that after the St. Gothard tunnel had been built through the Alps, the people of South Germany petitioned the Government to lay higher taxes on Italian products so as to offset the cheap freight rates which the tunnel had made possible. Indeed it is quite clear that the cheapening of transport in late years has had a great deal of influence in producing the protectionist tendencies of the day.

Economic Argument Against Protection.

In conclusion, one must point out in detail the evil results of protection, from the free traders' point of view.

The wealth of each of the communities prevented from trading freely with each other is reduced, or at least is rendered smaller than it might have been, as a consequence of the restrictions placed upon trade. These restrictions are imposed for the benefit of the producer, and they usually increase the price to the consumer by approximately the amount of the duty. Some American protectionists contend that there is no increase in price, but any price-list proves the contrary. And even if what they claim were true, it would only show that as American manufacturers could produce as cheaply as European, protective duties were not needed. Besides increasing the cost to the consumer, protection leads to an artificial and less economic distribution of the productive forces of the nation. It is beyond question that a great saving of productive power would accrue to the world at large by the concentration of manufacturing industries at those places which are favoured by technical and economic conditions.

The Case For Protection.

In a purely agricultural nation, according to List, the great German economist, a part of its productive strength lies unused. This is due to the fact that many of the people have no aptitude for agriculture, but have to turn to it or leave the country. Therefore, such a nation must attempt to develop its own manufactures, first for its home market and then for export. This will lead to the formation of a considerable mercantile marine for the purpose of handling these goods, and the acquisition of colonies as markets for them. So a many-sided culture is built up and the nation becomes self-sufficient.

Trade, he says, is war. For a commercially undeveloped nation like the Germany of his time to wage this war with a highly developed nation like the England of his time, was like a boy challenging a grown man to fight.* The economically inferior nation must first strengthen its energies by protection and the upbuilding of its industries, before it can compete on equal terms with the economically superior. List, however, favoured free trade between people of the same language and blood. To his doctrines was due, in some degree, the foundation of the Zollverein or Customs Union of Germany, which has led to the establishment of the German Empire. The Zollverein is important to us, inasmuch as it is regarded by English Tariff Reformers as the model on which a united British Empire

*List's great book, The National System of Political Economy, appeared in 1841, when England enjoyed an almost undisputed predominance in industry The student would do well to refer to an encyclopædia for an account of this remarkable man.

may be built up by inter-imperial free trade, combined with protection against the outside world.

Results of Protection in Canada.

Taking our own experience of a Zollverein in Canada, there is no doubt that protection has resulted in drawing our provinces closer together, and in keeping among us many who would otherwise have gone to the large cities of the United States. But it is highly probable that our agricultural population would have been larger if agricultural machinery and supplies were allowed to come in from the United States duty free, and if our farmers had free access to the American market.

The idea of a Zollverein is at first sight very attractive, and the institution seems in some cases to have justified itself. But it has serious drawbacks. It implies the existence in a country of a government that is wise enough to know just what industries need development and courageous enough to refuse protection to those who do not need it. Hence, while the protective system works well in Germany, where there is a strong, non-partisan government, it does not work nearly so well in a democratic country like the United States or Canada, where the tariff is framed rather in accordance with the relative strength of various conflicting interests, than with a view to the broad lines of national development. "All the difficulties of representative institutions," says Mr. Bastable, "are increased by the adoption of protection, which diverts attention from the main issue of good government to the impossible task of pleasing the conflicting interests which seek encouragement and support."

In Bolles' "Financial History of the United States" the following passage occurs: "The history of tariff-making has not been particularly honourable, in all its details, to any party or interest, and has too often become a personal fight by manufacturers against the public and each other. The manufacturers of woollen goods want free wool and dye-stuffs, while those who produce these articles demand protection. The manufacturers of ironware desire that ore should be brought in free, while the ore producers desire a protective tariff." So our tariffs, as they exist to-day, are not ideal tariffs wisely aiming at developing a many-sided civilization in our country, but are largely the resultant of the conflict of organized groups of individuals, each bent upon his own ends. There is only too much reason to fear that many of those who shout for Preferential Trade, both here and in Great Britain, do so only in the hope of serving their own individual and class interests, rather than those of Canada, Great Britain and the Empire at large.

The Alleged Ultimate Economic Gain.

List admits, as he must, an immediate economic loss resulting from protection, but asserts that if protection is wisely applied the ultimate economic gain much more than counterbalances the immediate economic loss. We might compare his argument to the following: If a family compelled its children to get out and work at the minimum legal age of fourteen, there would be an immediate economic gain in the wages earned by those children. But there is no certainty that in the long run the economic position of the family would not be improved if it allowed the children to remain at school, develop their energies and train themselves for a higher class of work. In the same way there is no certainty that the ultimate economic position of the State as a whole will not be better if it develops all its energies under a wise protective system, than if it seizes the more obvious and immediate advantages of the free trade system.

Ultimate Economic Gain From Protection Uncertain.

On the whole, if we look at the question of protection and free trade from the purely economic point of view, it seems that the free trader has the advantage on his side.*

There is no doubt that interference with trade means a certain inevitable economic loss, while the economic gain is always more or less uncertain, speculative and problematical. Theoretical cases may easily be taken which will show a balance of net gain from protection, but it is an immensely difficult undertaking for the careful scientist to show that a certain duty im d to aid home manufacturers and continu d—as it must be if it is to have any considerable effect—over a period of years, perhaps a generation, has resulted or is likely to result in a net gain to the community. There are too many varying factors to be taken into account. Perhaps the best economic argument for protection in Canada is the fact that protection has enabled us to secure capital from abroad for the development of our industries which could not have been secured under free trade. Thus our industries may have got into operation at an earlier period of our history than would have been the case under a free trade policy, and may have retained in the country many people with a taste for manufacturing who would otherwise have e to the United States.

The Political Argument For Protection.

While this is the case, there is another and a stronger side to the argument—the political side: if a man came to me and said, "I don't admit that protection involves an ultimate economic loss, but even if it did I should still vote

*Free trade is, for all practical purposes, synonymous with a purely revenue tariff. Such a tariff either imposes duties on goods which are not produced within the country, and so confers no special favors upon home manufacturers, or, as in the case of our tobacco and liquor duties, it imposes the same rate of tax upon the home-produced as upon the imported commodity. Thus the home-producer gets no protection—no special favor as compared with the foreign producer. Practically all the so-called free-trade countries raise money by revenue tariffs, and the Dominion of Canada would in all probability have to do likewise on account of our tacit agreement that the product of direct taxes shall go to the Provinces.

for it, because it is a great uniting force in the country and has made us economically independent of the United States," I should not be in the least disposed to consider him an unintelligent, prejudiced person. He may or may not be ready to admit the probability of ultimate economic loss from protection, but whether he does or not he is perfectly entitled to give the preference to political as against economic considerations. We do not usually call a man a fool for choosing an occupation for himself on other than merely pecuniary grounds, and we certainly have no right to disparage his intelligence if he casts his vote on political rather than on economic grounds. There has been too much denunciation of protectionists as transgressors of economic laws. If they are, then every man who accepts a less highly paid in preference to a more highly paid position is a transgressor of economic laws. Economic "laws" should rather be called "rules" for our guidance in deciding on economic questions; they are not moral mandates. Some of the older economists and some of our modern publicists who have read only the older economists, are disposed to argue as if these economic laws were immutable and their observance as obligatory upon us as that of the Ten Commandments This is simply ridiculous. A man has a perfect right to say that the political dangers of a certain course of action are, in his opinion, greater than the possible economic advantages, and to vote accordingly. Of course, he may or may not be right in his contention.

The Ethical Argument Against Protection.

The ethical argument that it is wrong for the state indirectly by means of a protective tariff to take one man's property and give it to another, is very difficult to meet, if one is arguing with extreme individualists of the school of John Bright, in whose opinion the State existed merely to do police duty for the citizens, ensuring the safety of their lives and property and securing for them freedom to pursue their occupations as they will. The expenses of the State are to be met, according to this school, by certain charges levied upon the citizens in proportion to the incomes or the capital which they enjoy under the protection of the State, and the State has no right to take from any citizen a greater amount in proportion to his income or capital than it takes from any other citizen. If we adopt this view of the State, then protection is unethical; but so are succession duties and all other taxation graduated so as to fall proportionately more heavily on the rich than on the poor. The liberal free traders of England with their great programme of social reform, are as unmoral as the Conservative Tariff Reformers, since both policies involve taking the property of one class to give it to another.

Summary.

The fact is that practically no one to-day consistently clings to this antiquated point of view, though many people accept it on occasion. Our economic and sociological studies, not to mention our religion, tell us that we are all "members one of another," that an unhealthy condition in one part of society is an injury to all, and that the State is justified in placing special burdens on certain sections of the population if the result contributes to the general welfare economic, social, or political of the whole society. By that criterion—the greatest good of the greatest number—protection, as well as the whole social legislation of the modern State, must stand or fall.

EXAMINATION QUESTIONS

ECONOMICS.

LESSON X.

1. What is the economic definition of a "nation?" What are the causes of the immobility of capital and labour as between nations?

2. Prove that there is an economic gain to two nations when each devotes itself to those branches of production in which it is most efficient, and barters its surplus products for those of the other.

3. Show that this economic gain exists even when one nation is superior to the other in all kinds of products.

4. What are the chief economic advantages resulting to the trading nations from international trade, and how are these advantages likely to be distributed between the nations concerned?

5. How are balances settled in international trade? What are Bills of Exchange, and how is the rate of exchange determined?

6. What do we mean by the "equation of indebtedness?" Explain the great excess of imports in the case of England, of exports in the case of the United States, of imports in the case of Canada.

7. Explain the agitation for free trade among our Western farmers and compare their position with that of farmers in England.

8. What are the main arguments of the various schools of Free Traders? What is the general economic argument for Free Trade versus Protection?

9. What are List's arguments in favour of protection for undeveloped countries? What is the Zollverein, and why is an Imperial Zollverein advocated by persons who desire a "United Empire"?

10. Is there an economic case for Protection? Which is the stronger—the economic or the political case for Protection?

11. "The free trader is a cosmopolitan in his sympathies; the protectionist is a nationalist." Discuss.