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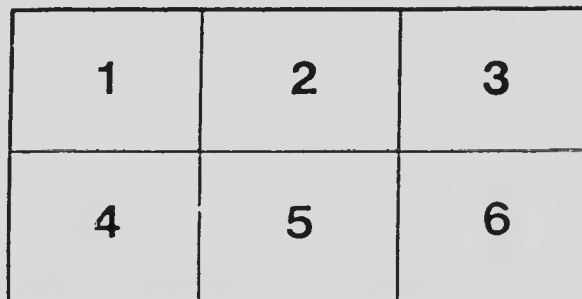
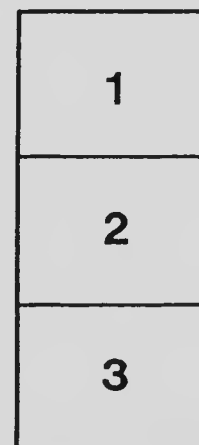
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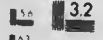
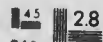
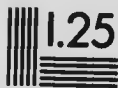
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Why British and Universal Free-Traders  
Should oppose  
American Reciprocity.

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Paper read before the Political Economy Club  
of Montreal, 9th February 1911

BY

Archibald McGoun, K.C.



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# THE RECIPROCITY AGREEMENT

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*Political Economy Club of Montreal, Thursday, February 9th, 1911.*

At a moment when the whole of the Canadian people are interested in the fate of the agreement for reciprocal tariff concessions, our chairman has deemed it fitting that the members of this Club should have an opportunity of considering it together, and he invited me to open the discussion.

Many Canadian journals seem to think we should not discuss these matters freely, because any arguments we use to show that it is a danger to the British Empire, will be used in the United States to secure its adoption. This is the pusillanimous spirit that Demosthenes used to denounce in his Athenian fellow-country-men, who always shaped their policy by the consideration of what Philip would think or do, and he rightly pointed out that to a degenerate nation showing such an absence of spirit, if Philip did not already exist, a Philip would arise to take advantage of the occasion.

The feature that most struck me in considering the general effect likely to be produced if the agreement goes through, was the amount of revenue which, it is stated, will be lost by reason of the large addition to the free list, and of reductions on dutiable articles from the United States. In the blue-book just issued, this loss of revenue is put down at \$2,500,000 a year, on the basis of our present trade, which would naturally increase. The revenue lost will, no doubt, have to be made up by an increase in the amount levied upon all our other trade, for I do not think it likely that the Government is prepared to avail themselves of the offer made by the western farmers to submit to direct taxation to make up any loss of revenue occasioned by granting their demand for reciprocity, and for what they called an increase of the British preference. If the Government were prepared to adopt that alternative, boldly, fully and fearlessly, it would go a long way to removing the objections that suggest themselves to me to its ratification, but as this is improbable, it is fair to consider the matter from the other point of view. **And for many reasons, a few of which are touched on below, I do not favour such a change in our fiscal Policy.**

Our tariff already very heavily discriminates in favour of the United States and against British trade, or, to put it otherwise, as against sea-borne traffic.

Taking the single year 1910, the average rate on imports from the United States was 13.21 per cent, on imports from the United Kingdom 18.9 per cent; from the whole British Empire 18.06 per cent; from all foreign countries 15.31

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per cent; from foreign countries exclusive of the United States 26.9 per cent; and from all other countries except the United States 20.72 per cent. This is a discrimination against trade with the United Kingdom of 43.07 per cent, calculated on the lowest rate, namely, the rate on American imports. It is a discrimination against all the rest of our foreign trade of considerably more than 100 per cent, and assuming that the United States imports are also overland, it is a discrimination in favour of overland and against sea-borne traffic to the extent of 56.8 per cent.

It is quite true that we profess to give a preference to British trade, but the facts do not bear out the pretention that the discrimination is a reality. Before adopting the British preference, we took good care to raise the general tariff rate on everything likely to come from England so high that we effectually excluded a great part of what otherwise might have been imported. Then, when we found that, notwithstanding this precaution, British woollen goods were actually coming into the market, we very promptly raised the rate on woollen goods so as to keep them out. In like manner, when Canadian butter was coming back, after being shipped to England, we killed off that trade, regardless of the interest of merchants and shippers, by collecting duty whenever the butter had changed ownership.

The reason why the American rate is so much lower than the British is because we have already such a tremendously large free list of imports from that country. In 1910, \$106,000,000 came in free of duty, while from Great Britain only \$23,000,000 came in free, and from the whole British Empire \$30,000,000.

Surprise is sometimes expressed that our imports from the United States are so much larger than from the United Kingdom in view of the British preference. The reason is quite obvious from what has been shown, namely, that the discrimination is really against British trade. When we send exports to Great Britain (amounting in 1910 to \$139,000,000), we are quite certain to spend the money due us for these exports, not where we sell and deliver the goods, but in a country from which we are able to purchase \$106,000,000 worth which can be imported into Canada free of duty, instead of in a country towards which our free list is only \$23,000,000, and the money coming to us from England will not be spent in England, but will go to pay some debt due in England to some other country, and our ships will consequently come back with light and unprofitable cargoes. Our people will also be discouraged from buying things which are British in style and taste, and encouraged to use the money coming to us from Britain in buying things of a foreign style and character.



We have never yet tried the effect of putting duties on British imports as low as on American. If we did, I think it quite probable that the proportions of our trade would be reversed.

The explanation usually given of this disproportion is that raw materials come from the United States, and manufactured or finished products come from the United Kingdom. This explanation has no solid basis on the principles of free trade or of a revenue tariff. The distinction is purely protectionist. It means that the raw materials should be partly paid for out of the public chest, in order to give the manufacturer a bounty on his industry. If revenues were the sole object in view, it would make no difference whether the imports were raw materials or finished. To exempt the merchant dealing in raw materials from any contribution to national revenues necessarily throws further burdens on merchants dealing in order classes of goods, and the consumer is injured by capitalists being encouraged to invest their money in things that could be better produced and more cheaply purchased if the industry did not exist in the country.

This argument does not apply to the United Kingdom. There is a reason there for excepting raw materials, other than food products, from any duty, even if a tariff were adopted. It is that they manufacture imported raw materials largely for re-export.

In Canada manufacture is for home consumption, and the case of export could be met by a drawback or refund of duties paid on raw materials.

Now, it is tolerably clear that if we lose two and a half millions of revenue under the new reciprocity agreement, this must be made up by increased revenue derived from the rest of our trade; and of this, \$1,555,000 will be levied on goods coming from the United Kingdom; \$1,844,000 on goods coming from within the British Empire, if the loss is divided proportionately upon the whole of our non-American trade. There is therefore a tendency to very greatly aggravate the unjust discrimination that takes place against this branch of our trade.

But further, the Government have made repeated promises that the British preference would not be injuriously affected, and the very least that they are bound to do to fulfil this promise is, not only to refrain from increasing the revenue derived from British imports, but to decrease it to an amount equal to the decrease in revenue they propose to collect on American imports. Even this would not fully meet this objection, because, in fairness and justice to British trade, something should have been done to redress the adverse balance which now exists against British and in favour of American trade, and the opportunity of doing anything in this direction is seriously impaired if the agreement goes through.

On the other hand, if we do make reductions on our British trade equal to the reductions we propose to make on American, this will involve a loss of \$5.-

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000,000 annual revenue, and in view of the debt we have incurred for our trans-continental railways, and expenditure still to be made on these and on the Georgian Bay Canal and the Hudson's Bay Railway, we cannot afford to forego this revenue, and it would be necessary to adopt the alternative of taxing the farmers' land. It may be pretended that the revenue will not be entirely lost, but will be partly made up by an increase in the volume of trade. But while that may affect the absolute amount of our loss, it will not remove the inequality to which I have adverted. The volume of our trade will increase on the American side, but will decrease proportionately and certainly cannot increase relatively on the British or sea-borne.

And while it is possible that the railway interests may make up what they lose in carrying Canadian goods to the seaboard, by the increase in the quantity of American goods they carry, they will lose on their west-bound traffic, unless Canadian manufacturers can fully compete with American, and unless imports at Canadian sea-ports are increased. Under this agreement, the total volume of exports from Canadian sea-ports is not likely to increase on the whole. The injury will be felt by Canadian Railways, but it will be less striking upon the railways than upon the shipping. Already, we have secured a fair proportion of the outward cargoes for our Canadian sea-ports; but the great difficulty the shipping interest has had to contend with is not to find outward cargoes; it is to find inward cargoes; and instead of these increasing as a result of this agreement, there is everything to show that they will decrease, for if we levy two million and a half of duties more than at present upon our imports by sea, that is so much of an additional obstacle to the prosperity of those engaged in shipping. It will also be a serious handicap to the probable success of the Hudson's Bay route. If the railway is built, it may find outward cargoes, but it will be at a serious disadvantage, if we levy heavier tolls on imports from Europe than on goods bought in Chicago, Minneapolis and other southern cities.

Now, these results may not be immediately apparent, because the actual volume of exports and imports by sea may not diminish; but the result will be equally disastrous if they fail to increase in proportion to the growth of our population and wealth, and in a growing country like Canada, it is the future and not the present that is of importance.

Turning now to the list of dutiable articles, the only one I would comment upon is agricultural implements. This is to be 15 per cent under the new duty, which certainly should be ample; and if the British preference is maintained, the duty on these things will be ten per cent coming from the United Kingdom. If the British preference is increased to 50 per cent, as the farmers demanded, the British rate should 7 1-2 per cent.

But this does not represent any honest advantage to British imports, because the particular goods that are known as agricultural implements come almost entirely from the United States, and this is likely to continue. Even if the Government intends to lower the duties on spades and shovels, and a few other items that we import from British countries, this would be a microscopic benefit to that trade.

But while this item in the agreement is less objectionable than the expansion of the free list, it is not fair play that, when everybody else has to pay 25, 30 and 35 per cent upon what he imports and consumes, the farmer should be relieved of his proper share of the burden of taxation, and allowed to import things consumed by him either free or at a lower rate of duty than is charged to other people. The western farmer has received his full share of the benefit of the works constructed out of the taxes of our people, and it is wrong to relieve him beyond his fellow-citizens of his proper share of taxation.

There is no more subtle poison to introduce into a community than the doctrine that any class should be allowed to shirk the payment of its proper share of national burdens. Where exemptions and preferences are given to certain classes, they ought, in justice to the whole community, to be deprived of some share of their right to representation. Taxes and voting power should go together, and it is dangerous to exempt any class, and especially the largest class in any community from their proper responsibility. Such a measure as this would simply whet the appetite of the farming class for shifting their burdens unto other people's shoulders, which is not a whit more justifiable in their case than the claims of the manufacturing classes to have special privileges at the expense of the farmers or of the rest of the people of Canada.

And it is not desirable that Government expenditure should be cut down, if it means that Government enterprises are to be abandoned or starved or crippled. The revenue we are sacrificing immediately would easily meet the cost of the Georgian Bay Canal; and the prospective revenue we might expect from the natural increase in our trade would soon pay for the Hudson's Bay Railway and the Edmondton Canal and other pressing eastern and western enterprises.

Nor will it be a real benefit to the farmer if he is saved something on his American trade, and has to pay that much more for everything he buys that is brought from across the seas. The saving will be on the same kind of things as are produced in Canada, because his immediate neighbours with whom he will trade produce mostly similar things to those Canadians themselves can produce, while things that come from over the sea are things that he must buy outside, and the price of these will be increased by the additional revenue duties levied on them.

Thus, he will lose on his blankets and clothing what he saves on his agricultural implements.

But this is not all. The farmers have more to lose if this agreement goes through than any other class. If we begin by exempting the great bulk of our American trade from all taxation, we cannot long continued to raise revenue on the rest of our commerce. It would be too gross an injustice. The rest of our citizens would simply refuse to submit to it. The consequence would be that the Government, whether they like it or not, would be forced to fall back on land taxation for national revenues. Such taxes would fall most heavily on the farmers. The same effects would follow that have followed in England, where the land-owner gets a smaller return on his capital investment than any other capitalist, having to be content with an average return of between two and three per cent, while the manufacturer and large merchant makes four, ten and even twenty per cent; and agricultural labourers are paid less than in any other line, getting not much more than half what is paid in the great manufacturing industries. The Canadian farmer should know when he is well off, and head off a new system of taxation will fall most heavily on him. The only just system is to make every class pay its own share; and this is done under customs duties with as few exemptions and as little discrimination as possible. Already land bears the bulk of municipal taxation. It is not wise or fair to reduce taxes on commerce and to add to the taxes on land. If the custom house and the custom officer are withdrawn along the boundary line, they must be replaced by the tax-gatherer in every village, parish and township in Canada, an infinitely more vexatious system, while the cost of collection in proportion to revenue collected will be greatly increased.

As to our fishermen, they will be naturally disappointed if the agreement fails. The proper policy to pursue to meet their case is for the Government to provide generous and ample aid for the encouragement of the most scientific method of cold-storage transportation on ships and railways, so as to enable fish to be sent to England, France, Bermuda and the West Indies, from the Maritime Provinces. This will also build up our mercantile marine, which will be the best way in which we can help Britannia to rule the waves.

It is frequently contended that under a policy of reciprocity the effect will be to allow trade to flow in its natural channel, and that anything tending to remove obstacles to the course of nature must, in the long run, be beneficial to the countries interested.

This argument does not in any way apply to the case before us. If we were asked to approve of the adoption of free trade all round, this would be a legitimate contention; but when we are asked to increase the list of free goods coming from the United States alone, and so impose additional burdens on trade with

other countries, this is not allowing trade to take its natural course. It is forcing it into an unnatural channel, because obstacles to the course of nature are imposed or retained in one direction, while they are removed in another. Let us, for a moment, leave out of sight the question of trade with the rest of the British Empire, and look on the effect of our trade with foreign countries: say, France, at the one end and Japan at the other. The present rate of duty on imports from foreign countries other than the United States is 26.9 per cent, compared with 13.21 per cent on trade with the United States: more than double. It cannot be pretended that to free the greater part of our trade with the United States from all obligation to contribute to our revenue, and to leave even 26.9 per cent on the trade with other foreign countries, is allowing business to take its natural course; much more, if we further reduce the amount collected on American goods and further increase the amount collected as revenue on other foreign trade: this is the most violent interference with the natural course of trade in one direction, in order to divert it unnaturally and unfairly into another channel.

It is for this reason that genuine free-traders have always been opposed to discriminating or differential duties. It is impossible to give a preference to one country, without inflicting an injury on our trade with other countries. And the whole object of the stipulation known as the most-favoured-nation clause is altogether defeated, if we adopt a system of giving preferences. For no preference can be given without a corresponding injury to all who do not receive the preference, and I do not know of any foreign country that deserves such unfair treatment at our hands. Something may be said in favour of a preference being granted to other countries owing common allegiance with ourselves. We are under a moral obligation to help one another to bear the burdens necessary for the common protection of our united interests. But to extend the system of preference to foreign countries is a totally different thing. Instead of leading to peace and goodwill among nations, it tends to produce a feeling of resentment at the injustice we commit, subjecting traffic with other countries to an unfair discrimination, which our national allegiance in no way calls for. It does not matter whether other nations object or not; they may make no protest, because we are exercising a legal right; but what I assert is that it is making an immoral and improper use of our right, to treat other nations unfairly in order to give a benefit to any single nation.

And any preference given to the United States, whether by adding to the free list, or by diminishing the dutiable rates below what are charged on our other trade, is an entire reversal of the policy of our British preference. No man can serve two masters, and if we were sincere in adopting the principle of the British preference, this is an abnegation of that principle, and a reversal of that policy. And it can hardly be viewed in any other light than that of placing ourselves under

the suzerainty of the United States, with a view to ultimate absorption.

But what is the noble role that the Montreal Herald expects the Dominion of Canada to assume? It is that of a nation having the mission of keeping the peace between the British Government on the one side, and the United States on the other. Such a role every self-respecting Canadian ought to indignantly repudiate. We have had too much of the doctrine that our rights should be sacrificed in order to appease the good will of the United States, or to save England from trouble. If England is not able to secure justice in international dealings for every country under the British flag, the sooner the control of imperial affairs is taken away from England the better. I, for one, have no patience with a policy that would allow Canada to be used as a doormat for the convenience of England or the United States or any other country. Canada's relationship to England must be that of a full partner, with equality in every national right and prerogative, and the British Empire must be organized in such a way that every British country shall be entitled to demand justice and fair play, and no part made use of as a make-weight to be played off in order to subserve the heavier interests of other parts. We demand government in our international affairs based upon the principles of eternal justice, and we must refuse to accept the role of an intermediary between two outside greater powers.

I do not put forward these views in any spirit of hostility to the Government. I am quite ready to admit that they have accomplished many acts of statesmanship of a most beneficial character, some of which entitle them to be ranked among the best constructive statesmen of the time. Not to mention others, there are three acts for which the present ministry deserve credit for enlightened statesmanship. The first of these was the adoption of the British preference itself, which, with all the drawbacks already mentioned (introduced to satisfy the narrowness, jealousy or greed of certain classes of our own people, and for which the Government is perhaps not much more responsible than the other members of the House of Commons in committee), notwithstanding these drawbacks, it was still a most important innovation upon the history of economic government. It was a reversal of the anti-national doctrine of the Cobden school, a clear and intelligent recognition of national duty and national allegiance, which has always been distasteful to the cosmopolitanism of Cobden and his followers. In adopting the British preference, the Government recognized that the claims of political consolidation were of greater force than the mere claims of economy and of purely commercial interests. It was the dethronement of Economy from her mistress's seat, which she had long usurped, and putting her back in her proper place, as simply a useful handmaid to Enlightened Policy, the true ruler of the Commonwealth.

And while dissenting from the extreme position of the Cobden school, and

while recognizing the propriety of a government making its fiscal policy subordinate to the general interests of the state, this does not prevent concurrence in the general arguments of the free trade school, which denies that the method of taxation should be such as to give any private interest, or any particular class, an undue advantage at the expense of the general community. It is consistent with my view to repudiate industrial protection as a proper object of policy, but to maintain that any legitimate political object is not open to the same condemnation. Many advocates of free trade fail to recognize this distinction, as they also fail to recognize the incompatibility of preferential duties with the fair and equal treatment to which all nations are entitled.

The second act of high statesmanship was the undertaking to build the Grand Trunk Pacific Railway, and especially the section from Quebec to Winnipeg. This was a stroke of genius, and of greater moment to the sound political development of our Dominion than any other single undertaking, except the fulfilment of our agreement with British Columbia to build a transcontinental line.

The third act of statesmanship was the manly assumption of a share in the naval defence of the Empire, which may fairly be regarded as an act of high courage, and a noble conception of public duty. For these full credit should be given to our present rulers. But while thus recognizing the useful services they have performed, it is the more important that they should be warned by a friendly voice against the consequences of a policy that must neutralize the good effects of the policy already adopted, and must paralyze the British side of the future growth of our trade, and also the independent growth of our trade with all other foreign nations.

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